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ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS
MESTRADO EXECUTIVO EM GESTÃO EMPRESARIAL**

**THE CHALLENGES FACED BY THE EXTERNAL
AUDIT INDUSTRY IN BRAZIL: AN EXPLORATORY
STUDY**

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Advisor: Professor Dr. Carmen Pires Migueles

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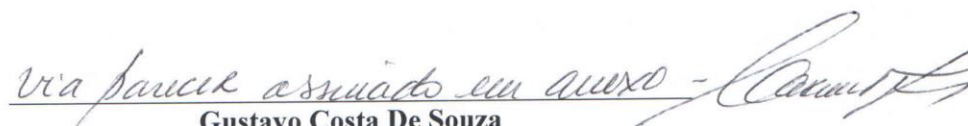
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“Always bear in mind that your own resolution to succeed is more important than any other.”
Abraham Lincoln

“Continuous effort - not strength or intelligence - is the key to unlocking our potential.”
Winston Churchill

ABSTRACT

DA SILVA, Elton Roberto. The Challenges Faced by the External Audit Industry in Brazil: An Exploratory Study. Master's thesis presented to Corporate International Master's program, Escola Brasileira de Administração Pública e de Empresas, Fundação Getúlio Vargas, as a requirement for obtaining the title of Master, Rio de Janeiro, 2015.

The auditing role in the contemporaneous business environment, and increasing interest in and demand for governance and transparency, has become an element even more important to the society, as a whole, in order to build solid basis to the development of businesses and generation of wealth through technical knowledge, independence, transparency, credibility, and ethics. Nevertheless, the external financial audit industry in the world and also particularly in Brazil has faced several challenges which threaten its success and evolution.

In this sense, since the external audit industry in Brazil has been immersed in a deep crisis with features that are explored through this study, allow me to create an analogy over this study saying that the external financial audit industry is like a sick person with a chronic disease, but the disease has not yet been diagnosed and the person has been dealing with the isolated symptoms. This person, the external audit industry, has struggled with this disease for many years and it is getting worse.

It is fundamental to highlight that the challenges faced by the external audit industry in Brazil, ultimately, have not harmed the industry only, but they also materialize themselves as chronic issues for the corporate governance and the capital markets since they harm every interested party. In my point of view, the hardest affected are the investors or shareholders whose interest the independent auditor's work seeks to preserve.

Therefore, the purpose of this study is to have a picture of the challenges faced by the external audit industry in Brazil and understand those challenges as a requirement to analyze the potential alternatives to solve them or, analogically, to diagnose this disease. The research purpose is to map and identify the challenges faced by the external audit industry in Brazil based on the understanding of professionals seasoned in the area.

Those challenges are mapped and understood through a methodological approach, a questionnaire answered by auditors with experience in the Brazilian auditing market. The challenges were preliminarily listed based on over 16 years of experience of the author in the area of auditing and financial and accounting services, discussions and interviews about the topic with seasoned professionals, and analyses of pieces of news, publications and academic studies. The questionnaire was used in order to validate the challenges, observations, perspectives, and perceptions gathered through those resources.

Despite of the fact that the study is highly relevant, it was not found, through my research, other analyses on this topic with a similar approach which is intended by this study. It looks like the external audit industry in Brazil has walked through these new age dealing with problems on a daily basis and the real challenges of the industry may be concealed by the economic conditions in Brazil and other explanations. As in any problematic scenario, in which a critical analysis is needed, having an accurate picture and understanding of the challenges is a crucial step to start exploring alternatives to address them.

Keywords: External Audit, Independent Auditors, Brazilian Auditing Market, Governance, Capital Markets, Regulation.

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LIST OF ABBREVIATIONS AND ACRONYMS

AICPA - American Institute of Certified Public Accountants

BACEN – Banco Central do Brasil

CFC – Conselho Federal de Contabilidade

CVM – Comissão de Valores Mobiliários

DTT - Deloitte Touche Tohmatsu (one of the BIG4 companies)

EY – Ernst & Young (one of the BIG4 companies)

GAAP - General Accepted Accounting Principles

GDP – Gross Domestic Product

IBRACON – Instituto dos Auditores Independentes do Brasil

ICAEW - Institute of Chartered Accountants in England & Wales

IFAC - International Federation of Accountants

IFC – International Financial Corporation – World Bank Group

IFRS - International Financial Reporting Standards

ISA – International Standard on Auditing

KPMG – (one of the BIG4 companies)

OECD - Organization for Economic Cooperation and Development

PwC – PricewaterhouseCoopers (one of the BIG4 companies)

SEC – Security and Exchange Commission

USP – Universidade de São Paulo

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1. INTRODUCTION

Manuel Castells already in the 1990's points to an increasing complexity of the organizations and the information and communication technologies as key resources for the information society and the knowledge economy. In a paper for the United Nations Organization, CASTELLS (1999) [1] characterizes this new worldwide context:

“(p. 2) In the last quarter of this century, a new form of socio-economic organization has emerged. After the collapse of statism, in the Soviet Union and throughout the world, it is certainly a capitalist system. Indeed, for the first time in history the entire planet is capitalist, since even the few remaining command economies are surviving or developing through their linkages to global, capitalist markets. Yet this is a brand of capitalism that is at the same time very old and fundamentally new. It is old because it appeals to relentless competition in the pursuit of profit, and individual satisfaction (deferred or immediate) is its driving engine. But it is fundamentally new because it is tooled by new information and communication technologies that are at the roots of new productivity sources, of new organizational forms, and of the formation of a global economy.

...The entire realm of human activity depends on the power of information, in a sequence of technological innovation that accelerates its pace by month.

(p. 4) In sum, information and communication technology is the essential tool for economic development and material well-being in our age; it conditions power, knowledge and creativity; it is, for the time being, unevenly distributed within countries and between countries; and it requires, for the full realization of its developmental value, an inter-related system of flexible organizations and information-oriented institutions.”

Peter Drucker and other classics also analyze this new age of knowledge and information and points out that this trend has accelerated since the decade of 1980. Particularly, DRUCKER (1993) [2] presents:

“(p. 1) We are currently living through just such a transformation. It is creating the post-capitalist society...

(p. 3) We are clearly still in the middle of this transformation; indeed, if history is any guide, it will not be completed until 2010 or 2020. But already it has changed the political, economic, social, and moral landscape of the world.

(p. 8) The basic economic resource – “the means of production,” to use economist’s term – is no longer capital or natural resources (the economist’s “land”), nor “labor.” It is and will be knowledge...Value is now created by “productivity” and “innovation,” both applications of knowledge to work. The leading social groups of the knowledge society will be “knowledge workers”...The economic challenge of the post-capitalist society will therefore be the productivity of knowledge work and the knowledge worker.”

Indeed, one of the main features of our age is that the world has become more and more complex and, consequently, challenging. The business environment where

organizations operate with intense competitiveness, pressure for results, management of huge volume of information, and highly-elaborated products offered by financial institutions have given even more emphasis to the role of external financial audit as an element of assurance for providing credibility and useful information to the general public and, particularly, investors. As observed by Williamson, that increasing complexity in the business environment brings forth increasing difficulties to the corporate governance, and this fact, theoretically, increases the demand for audit services. Concerning this scenario, WILLIAMSON (1996, p. 12) [3] claims:

“Intuition tell us that simple governance structures should mediate simple transactions and that complex governance structures should be reserved for complex transactions. Using a complex structure to govern a simple transaction incurs unneeded costs, and using a simple structure to govern a complex transaction invites strain.”

Furthermore, in accordance with ZANINI (2007) [4] the necessary confidence to the performance of economies only can be built in complex and unpredictable scenarios, as the current we live, through reliability of information, and this reliability demands the technical expertise and independence that the auditors should be able to confer.

Nevertheless, in this environment, not only technical expertise but also transparency is vital. Countries and companies develop their business, attract more investments through stocks offerings, debt issuance, or public and private sector resources, and provide all of their stakeholders with credibility. Transparency objectively provides the capital markets' stakeholders with conditions to understand a corporation's performance and make informed decisions.

Therefore, in order to reach transparency, three elements are critical for countries and companies' economic health and growth: corporate governance, audited financial statements, and the independent auditor.

In the next paragraphs, it will be discussed how some of the most important worldwide institutions for development and economic growth underline these elements: corporate governance, audited financial statements, and independent auditor.

The International Financial Corporation (IFC) – World Bank Group [5] define corporate governance as an instrument of development and economic growth:

“Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to legitimate stakeholder concerns such as sustainable environmental and social development. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities.”

The Organization for Economic Cooperation and Development (OECD) [6] highlights the importance of audited financial statements:

“Audited financial statements showing the financial performance and the financial situation of the company (most typically including the balance sheet, the profit and loss statement, the cash flow statement and notes to the financial statements) are the most widely used source of information on companies. In their current form, the two principal goals of financial statements are to enable appropriate monitoring to take place and to provide the basis to value securities.”

Last but not least, Independent Auditors. In accordance with [7], the concept of Independent Auditors is

“A certified public accountant who examines the financial records and business transactions of a company that he/she is not affiliated with. An independent auditor is typically used to avoid conflicts of interest and to ensure the integrity of the auditing process. When an audit is performed, it is the financial auditor's job to make sure that records are examined in an honest and forthright manner. Independent auditors are sometimes called external auditors.

Independent auditors are often used - or even mandated - to protect shareholders and potential investors from the occasional fraudulent or unrepresentative financial claims made by public companies. The role of the independent auditor became especially relevant following the implosion of the dotcom bubble and the passage of the Sarbanes-Oxley Act (SOX) in 2002. The SOX enacted strict reforms, including the appointment of independent auditors, to improve the accounting and auditing procedures of public companies.”

The performance monitoring and assurance of management responsibility are essential ingredients for corporate governance, having vital importance in this process the role of the external audit in order to assure proper levels of corporate governance.

In this context of increasing responsibility of auditors and global financial crisis, including Brazil, the external auditors have been pressured to provide more efficient and intelligent approaches to address this fast-changing world properly and serve the public interest. We can observe this scenario in Brazil through the Appendix A – The Evolution of the Brazilian Gross Domestic Product (GDP) – 2011 to 2017, which shows a downtrend in the growth GDP rates since 2011 reaching 0.1% in 2014 and -1.3% in 2015, and provides forecasts for 2016 and 2017 that do not indicate an encouraging rebound of the economy,

After the Global Financial Crisis of 2008 and the Brazilian economic crisis in recent years, the audit companies operating in Brazil had to adjust down their prices and make intense efforts to retain clients and approach new ones as a response to those conditions. Besides, the financial audit industry has suffered with the loss of perception of value what has resulted in a commoditization of the “product” audit services.

Moreover, the external financial audit industry in the world and also particularly in Brazil has faced several challenges which threaten their success and evolution. Generally speaking, examples of these challenges are an erosive combination of pressure for lowering rates and decreasing the volume of hours, increasing regulation and documentation requirements, and lacking of knowledge people to perform the work.

In recent years, the external audit industry has dealt with a very particular phenomenon. On one hand, the external audit has become more important and relevant for society with increasing demand and regulation. On the other hand, the erosion of perceived value of those who contract audit services results in pressure for reduction of audit fees and volume of hours to perform an external audit work. In other words, it can be said that the audit “product” has been commoditized.

It is not uncommon that, in the normal course of business, and even in periods of crisis, mistakes are made and problems come out. Therefore, knowing precisely what the problems to be dealt with are and where to start are an essential part of solving problems. Companies and even an entire industry may know that they have been following through a struggling scenario, but, in fact, do they know what the issues are? Do they have the issues mapped and the relevance of them to the business or industry?

In this sense, since the external audit industry in Brazil has been immersed in a deep crisis with features that are explored through this study, allow me to create an analogy over this study saying that the external financial audit industry is like a person with a chronic disease, but the disease has not yet been diagnosed and the person has been dealing with isolated symptoms. This person, the external audit industry, has struggled with this disease for many years and it is getting worse.

It is fundamental to highlight that the challenges faced by the external audit industry in Brazil, ultimately, have not harmed the industry only, but they also materialize themselves as chronic issues for the corporate governance and the capital markets since they harm every interested party. In my point of view, the hardest affected are the investors or shareholders whose interest the independent auditor's work seeks to preserve.

Comprehensively, the purpose of this study is to understand the challenges faced by the external audit industry in Brazil or, analogically, to have a diagnostic of this disease.

2. OBJECTIVES, RELEVANCE, AND STRUCTURE

2.1 OBJECTIVES AND RELEVANCE

The objective of this study is to have a picture of the challenges faced by the external audit industry in Brazil and understand those challenges as a requirement to analyze the potential alternatives to solve them.

Putting it as a research purpose, the ultimate and bigger objective of this study is:

To map and identify the challenges faced by the external audit industry in Brazil.

One aspect about the definition of the topic to be further discussed is its geographic delimitation. In fact, the delimitation of the study in relation to approach a particular country is essential because this topic embraces a lot of variables such as culture, maturity of the capital markets, economic development, current economic and political scenarios, level of financial education of investors, and others that can influence the external financial audit industry and its environment. Although my perception is that the external financial industry has been facing challenges in many countries, since we have observed financial scandals being unveiled around the world and auditors being involved, ad hoc studies in each country should be developed in order to capture their distinctive features. Nevertheless, this study focuses on Brazil not only as a proper way to address the reasons presented above, but also because most of my professional experience in the external financial audit industry and financial and accounting services is concentrated and where the topic was observed originally.

Despite of the fact that the study is highly relevant, it was not found, through my research, other analyses on this topic with a similar approach which is intended by this study. It looks like the external audit industry in Brazil has walked through these new age dealing with problems on a daily basis and the real challenges of the industry may be concealed by the economic conditions in Brazil and other explanations. As in any problematic scenario, in which a critical analysis is needed, having an accurate picture and understanding of the challenges is a crucial step to start exploring alternatives to address them.

Furthermore, three other objectives come out in order to make this research reaches its full purpose:

- a) The topic can be very debatable. Hence, the study will look for concentration of answers and general lines of orientation through an academic approach in order to make this study an objective and reliable source of information for the industry;
- b) Provide external audit companies with insights about the challenges and problems of the industry and motivate actions. Single actions adopted by each company in the industry focusing on the same challenges can improve the industry as a whole;
- c) Develop a questionnaire that fulfills the objectives of the research providing knowledge and useful information for all of those interested in the issue.

2.2 STRUCTURE

This study is structured in eight chapters, as follows: Introduction; Objectives, Relevance, and Structure; Challenges Observed in the External Audit Industry in Brazil; Theoretical Reference; Research Methodology; Data Analysis and Discussion of the Results; Conclusions; and Limitations of the Study and Recommendations for Future Researches.

The first one is the Introduction of the study. It brings a general perspective about the external audit industry and the topic that will be discussed through this study.

Going over the second chapter, the reader will find the Objectives, Relevance, and Structure of the research, its importance, and how the study is structured.

Following, in the third chapter will outline the challenges observed in the external audit industry in Brazil based on over 16 years of experience of the author in the area of auditing and financial and accounting services, discussions and interviews about the topic with seasoned professionals, and analyses of pieces of news, publications and academic studies.

In the fourth chapter, the study will dive into the concepts and theoretical frameworks that are applicable for the research analyses and conclusions. Theoretical Reference will be presented and the topic will be discussed.

Next, in the fifth chapter, will be detailed the Research Methodology. It will describe the approach adopted to bring forth this study.

The Data Analysis and Discussion of the Results will be examined in the sixth chapter. It is in this chapter where the answers for the purpose of this study will be found.

The seventh chapter, Conclusions will compile the main conclusions drawn from the research and provide a whole picture of the study.

Last but not least, the eighth chapter, Limitations of the Study and Recommendations for Future Researches will discuss the limitations of the study, and provide recommendations of topics that will derive from this study and could be explored in the future through new researches.

3. CHALLENGES OBSERVED IN THE EXTERNAL AUDIT INDUSTRY IN BRAZIL

Eduardo Pocetti, former President of the Institute of Independent Auditors of Brazil (Instituto dos Auditores Independentes do Brasil - IBRACON) [9], exposed that Brazil has achieved great progress in relation to the development of auditing as a profession. However, Brazil is still inserted in an underdeveloped market. The number of listed companies is irrelevant when compared to the huge mass of companies in the country. This context requires that the Brazilian professionals think about how to foster the growth of small and medium-sized companies and, at the same time, demand and monitor the governance and compliance of large companies.

The thought presented above can be sliced in two big challenges of the external audit industry in Brazil acting in two different spheres. The first one, how to foster the growth of small and medium-sized companies, which is directly related to the economic scenario and, therefore, it belongs to a macro environment involving several aspects and complexities of the country; and the second one, to demand and monitor the governance and compliance of large companies, which is closely related to the micro environment of the audit industry and capital markets.

Nevertheless, the challenges that the audit industry has faced in Brazil, which have been leaking their potential and growth, can be much more specifically pointed out than presented above. Based on over 16 years of experience of the author in the area of auditing and financial and accounting services, discussions and interviews about the topic with seasoned professionals, and analyses of pieces of news, publications and academic studies, the main challenges or problems imposed to the audit industry in Brazil can be condensed as follows:

1. Consistent growth of the regulation over the external financial audit activity;
2. Unlimited responsibility of independent auditors;
3. Rotation of auditors;
4. Cannibalization of the market and decrease of business margins;

5. Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process;
6. Loss of business intelligence and juniorization of teams;
7. Disequilibrium between professional and personal lives;
8. Decrease of the compensation package;
9. Drop-off of the attractiveness of the career plan;
10. Increase of the audit risk and decrease in the quality of the audit work;
11. Commoditization of the audit business.

As previously highlighted, it is important to bear in mind that the challenges faced by the external audit industry in Brazil, ultimately, have not harmed the industry only, but they also materialize themselves as chronic issues for the corporate governance and the capital markets since they harm every interested party. In my point of view, the most affected are the investors or shareholders whose interest the independent auditor's work seeks to preserve.

In order to understand better what those challenges embrace, the next subchapters will flesh out how they materialize for the audit industry.

3.1 CONSISTENT GROWTH OF THE REGULATION OVER THE EXTERNAL FINANCIAL AUDIT ACTIVITY

As an answer to the business environment and stakeholders around the world, the regulators of the capital markets and of the auditing activity have developed and released new and complex audit procedures and requirements aiming to mitigate the risk of errors and frauds on the financial statements of the companies around the world.

Those requirements have increased substantially the volume of work to be performed by and the responsibilities of the independent auditors. That increase in auditors' work and responsibilities with eventual increase on auditing costs – more hours to be allocated to the projects to perform the work, more costs -, many times, for commercial reasons, has not been charged to the audit clients, integrally or partially, as a result from client's pressure for reduction in the auditing fees and contract prices.

In other words, the auditor has been imputed with more work and responsibilities by regulators in order to increase the level of credibility and transparency on the financial statements and health of business. On the other hand, companies seem not to perceive this purpose and value it as a critical element for the evolution of the capital markets and corporate governance in Brazil. It seems that their eyes are more focused on reducing costs, than on other aspects.

3.2 UNLIMITED RESPONSIBILITY OF INDEPENDENT AUDITORS

The unlimited responsibility imposed on auditors by the market is another challenge from the Brazilian business environment both in terms of reputation and credibility and of financial obligation.

Focusing on the legal and financial aspects only, unlike most of countries, the auditors' financial responsibility in Brazil is not limited to the capital of the audit firm. According to the Brazilian Civil Code [10], in the article 1.039, which concerns to the type of partnership required for audit firms, only individuals can take part in a general partnership, being every partner, jointly and unlimitedly liable, for company's obligations.

Moreover, combined with this legal aspect, many times, stakeholders expect auditors to act as legal officers or policemen. This expectation is incompatible with the auditors' function and responsibility, since the primary responsible for corporate governance and its implementation is the Board of Directors (management) along with its audit committee (or equivalent body). Any financial issues or impropriety, such as frauds or material misstatements will therefore damage the auditors' reputation and the development of the auditing business, since stakeholders highly rely on the auditors to fulfill what is in fact management's responsibility.

There is a gap between the public expectations and the independent audit role. This expectation gap will be theoretically discussed in the subchapter 4.5.1 The Policeman Theory and The Expectation Gap.

3.3 ROTATION OF AUDITORS

It has been a while since the discussion about rotation of audit firms started around the world. Over the years the mandatory rotation of audit firms has been considered as an approach to raise the level of independence and other attributes associated with the audit work. It has even been aiming to propose changes in the structure of auditing as a profession.

QUEVEDO & PINTO (2013) [11], mentions that the rotation of auditors was introduced in Brazil by the Brazilian Central Bank (BACEN) due to a crisis rooted in the bankruptcy processes of two Brazilian banks, Econômico Bank and Nacional Bank, at that time audited by Ernst & Young e KPMG, respectively. After a process of extrajudicial liquidation mandated by the BACEN, both banks presented liabilities significantly higher than their assets, and those financial issues were not reported on auditors' reports resulting on losses for the investors of those banks. These events resulted in those audit firms having their credibility challenged by the involved parties and the general public, since these firms had kept a long-term relationship with the banks involved in the scandal. After these events, the Brazilian Securities Commission, Comissão de Valores Mobiliários (CVM), determined the mandatory rotation of auditors of public companies in Brazil.

The Brazilian Securities Commission (CVM), through the article 31 of CVM Instruction No. 308 of 1999 determined that the independent auditor must not serve a same client for a period longer than 5 (five) consecutive years, requiring a minimal interval of time of 3 (three) years for re-contracting this specific audit firm. According to the CVM, this regulation was created to avoid that long-term relationships between an auditor and their audited client that might impair the independence and objectivity of the auditing work.

In accordance with Idésio da Silva COELHO (2013) [12], current President of the Institute of Independent Auditors of Brazil (Instituto dos Auditores Independentes do Brasil - IBRACON) since January 2015, the rotation of audit firms has received more and more attention from regulators during the last years, as a way to reinforce the auditors' independence and raise professional skepticism.

Also according to COELHO (2013) [12], the proponents of the rotation suggest that it could serve to this purpose, impeding the development of excessively close relationships

between the auditor and the audited company's management, and limiting the auditors' economic dependence from the companies they audit. Some people believe that the rotation could help reducing the concentration of clients in the big audit companies creating additional business opportunities to the smaller audit firms.

On the other hand, based on COELHO (2013) [12], the opposites present several considerations about the mandatory rotation of audit firms, including that it would be harmful to the audit quality - as a result of the loss of knowledge of the client through the transition of auditors and learning curve-, impede the audit firms to become specialized in specific-knowledge industries – precisely in relation to regulated and complex industries-, and weaken the role of the board of directors and audit committees, increase the global costs to the financial statements preparers, and it would be very difficult to implement it in a complex global environment with global companies having to deal with different rotation periods, in different countries, and different auditors in the same group audits. For a global company operating in several countries and with different audit approaches, the rotation would increase the level of audit risk, what would be eventually negative for global investors. Besides, the mandatory rotation of audit firms can impact the audit profession negatively, increasing the challenges and the recruiting and retention costs of qualified professionals.

Finally, some analysis and studies have shown decrease of auditing fees as a result of the competition process for contracting a new auditor, as well as negative impacts over managing the audit business given the unpredictability of the clients' portfolio on the long-term run.

As examples of this context of this process of aggressive competitiveness for new auditing contracts, SALOMÃO (2004) [13] reports that the institution of the rotation of auditors every 5 years has resulted on a war of prices with discounts reaching 60% of the previous auditing fees. SALOMÃO (2004) describes specifically the case of Companhia Suzano which had as previous auditor KPMG until 2003 and paid annual fees of R\$700.000 (seven hundred thousand Brazilian Reais). In the beginning of the bidding Ernst & Young started confidently offering its services for R\$600.000 (six hundred thousand Brazilian Reais). Deloitte was bolder, in accordance with analysts, and offered its services for R\$350.000 (three hundred and fifty thousand Brazilian Reais). PwC offered its services for R\$500.000 (five hundred thousand Brazilian Reais). At the end of the bidding process Ernst

& Young reduced its offer for R\$450.000 (four hundred and fifty thousand Brazilian Reais) and won the contract. Also, in accordance with SALOMÃO (2004) this was not an isolated case and it was followed by several companies. For example, Aracruz and Klabin, former PwC's clients, contracted Deloitte for annual fees of around R\$300.000 (three hundred thousand Brazilian Reais) with discounts of approximately 60% when compared to the fees paid to the previous auditor.

3.4 CANNIBALIZATION OF THE MARKET AND DECREASE OF BUSINESS MARGINS

The decrease in the price of auditing contracts as a byproduct of pressuring for reduction of the volume of hours to perform the work and for lowering the rates charged by hour, combined with increasing competitiveness among audit firms have resulted on the cannibalization of the audit market.

Behind this constant quest for improving efficiencies and reduction of costs, there is a self-destructive attitude of the market coming from the BIG4¹ companies mainly, which offer contracts that, many times, will be performed at the break-even point or with negative margins in client pursuits doing “whatever it takes” to conquest this new account.

Consequently, the margins and profitability of the audit firms have been more and more pressured, what can hurt the development and the future of the auditing business as a whole.

In order to illustrate this point, in addition to the cases presented in the previous subchapter, the audit auction process for Banco do Brasil (“Bank of Brazil” in English) also became public and was highly criticized. In accordance with DA SILVA (2013) [14], the audit of the Banco do Brasil's 2011 financial statements had a fierce dispute and in his opinion, with which I agree, the winner was the loser. KPMG, Ernst & Young and PwC were enrolled in the auction. PwC gave up and the dispute continued between KPMG and Ernst & Young in a battle of bids dropping the price in 99.5%. KPMG won the auction for R\$95.000 (ninety five thousand Brazilian Reais) after reducing its starting bid of R\$19.5 million

¹ To make the definition of Big4 companies clear, as presented in [15] “*The Big Four are the four largest international professional services networks, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance, and legal services.*” They are Ernst & Young, Deloitte Touche Tohmatsu, KPMG, and PwC.

(nineteen million and five hundred thousand Brazilian Reais) and its previous contract of R\$6.5 million (six million and five hundred thousand Brazilian Reais). These fees are not even enough to recover the costs for enrolling in the auction process.

3.5 COMPLEXITY OF THE BUSINESS ENVIRONMENT AND INCREASING DEMAND FOR INVOLVEMENT OF OTHER SPECIALISTS IN THE AUDITING PROCESS

The current highly technological world, with a huge volume and massive flow of information, including the structuration of new transactions, business combinations, and financial products, changing significantly the business environment in Brazil, and in the world, has made the management of knowledge and the auditing process and its regulation even more complex.

Therewith, it is no longer possible for a single professional to accumulate all the necessary knowledge to provide clients with quality services and address the audit risk properly. In this sense, it is imperative the involvement of specialists to assure the auditing work quality. In the opposite direction, it is the limitation of resources, qualified specialist professionals, as critical as to the core audit team or more. It is obvious that this context impacts the component audit risk.

3.6 LOSS OF BUSINESS INTELLIGENCE AND JUNIORIZATION OF TEAMS

Historically, one of the greatest appeals to attract newly graduated students to start their careers as independent auditors is the accelerated and intense learning.

That accelerated and intense learning is mainly resulting of training in the field driven by those more experienced professionals who coach, review, and correct the entire audit work, disseminating the technical and specific-industry knowledge and applying them to real life conditions. In addition, the new professionals learn how to develop and lead projects from seasoned professionals.

The fact is the career has lost its attractiveness. The more experienced professionals are leaving the audit firms to work in different industries and with the significant turnover, the formation of the new hires does not follow the same pace, bringing on loss of business intelligence. The lack of experienced independent auditors and the fact that professionals

have not lasted working in the external financial audit industry in Brazil for longer periods and building their careers following through this industry were validated by AMORIM's (2012) study. The observations are discussed ahead with more details.

The loss of business intelligence, thereupon, impacts not only the business strategic development, but also, impairs the training and formation of the less experienced professionals, which impacts negatively the retention of professionals. It is clear that the resources to develop professionals are critical for people hang on to audit firms.

The final product of this context is the juniorization of teams and, once again, it results on increased audit risk. In other words, the audit teams have been more frequently composed by less experienced professionals who take over senior and managing positions in the projects. Such fact, also influences negatively the clients' perception on the auditor and, consequently, the perception of value in relation to the auditing work culminating on the predisposition to pay less for auditing services.

Regarding issues with people, AMORIM (2012) [16] reports that 73% of the audit firms in Brazil covered in their study understand that there is a lack of independent auditors in Brazil. One of the main consequences of this scenario is the short period of permanence of the professionals in the audit firms, generating costs with training, as a result of the high turnover. Also, in accordance with this study, 42% of professionals worked for the audit firms for 1 to 2 years, and 39% worked for 3 to 4 years. Only 19% surpassed the average period of 5 years, but no case above 10 years of permanence was found in that sample. Looking at this study, it is reasonable to understand why the business has lost intelligence and why teams have become less experienced.

3.7 DISEQUILIBRIUM BETWEEN PROFESSIONAL AND PERSONAL LIVES

The external audit career is admittedly one that requires a lot of commitment from those who decide to start and develop their professional life through it.

Staying in the career can be very challenging. It requires a lot of professional commitment and, equally or more, personal commitment because it limits significantly the

presence and participation of the professional in the family and friends atmosphere and social events, among other aspects of the personal life.

This factor combined with increasing volume of work, responsibility, and audit risk, as mentioned before, make the continuance in the career more challenging and the management of the auditing business more complex.

3.8 DECREASE OF THE COMPENSATION PACKAGE

Another important element is the decrease of the compensation package (salaries plus benefits). As a consequence of the consistent decrease of the audit business' profitability, the audit firms have been pressured to decrease the total compensation offered to their employees, what impacts directly the attractiveness of the career in a negative way.

As a result, professionals might tend to start or develop their careers through other industries, what configures one more challenge to be faced by the audit firms. That is a very interesting and important aspect because, on one side of the scale, the audit firms try to balance the compensation package to be somehow attractive and competitive, what cause a significant impact on costs – as professional services firms, payroll is the main element of costs, and on the other side of the scale, the decrease of revenues resulting of pressure for decreasing fees coming from clients.

3.9 DROP-OFF OF THE ATTRACTIVENESS OF THE CAREER PLAN

Another important challenge faced by the external audit industry in Brazil is the fact that the career plan may no longer be an effective attribute of great attractiveness and retention of professionals as it was in the past.

Over the years, the audit firms have been highlighting the idea that someone could start the career as a trainee and year after year going through the hierarchy and he/she could reach a partner position as an element of attraction and motivation of professionals, in such a way that professionals accepted to receive salaries lower than those offered by companies in

other industries aiming to climb the career plan and reach elevated compensations. That seemed to work for Generation X².

What has been observed in practice is that professionals from the new generation, Generation Y³, are eager for immediate results. They do not see they work for one company only for most of their lives or even for many years as an important factor for their careers. Also, this new generation deals with the issue of disequilibrium between professional and personal lives in a more sensible way than Generation X. Last, those professionals expect to receive higher compensation already in the first stages of the career.

In this sense, the career plan is an asset of the audit firms that may have its value impaired as a result of this scenario.

Talking about attractiveness and retention of professionals, as previously mentioned, AMORIM (2012) [16] relates that 73% of the audit firms in Brazil covered in their study understands that there is a lack of independent auditors in Brazil. This study also questioned about open positions for auditors in the involved audit firms and only 19% of them reported that they did not have open positions at that time. Going ahead, in order to understand the reasons that could explain the lack of independent auditors, the study questioned the respondents and the main answers were lack of qualified professionals (19%), low compensation (15%), and lack of interest of qualified professionals (12%). Nevertheless, the reasons why professionals leave audit companies are even more interesting being 14% were fired, 29% moved to an opportunity in a different audit firm, 8% moved to a career as government workers, and 49% moved to a position in a different industry. This shows how the audit firms have struggled with the lack of professionals facing difficulties to attract and retain talents.

² Based on [17] “Generation X, commonly abbreviated to Gen X, is the generation born after the Western Post–World War II baby boom. Demographers, historians, and commentators use birth dates ranging from the early 1960s to the early 1980s.”

³ Based on [18] “Millennials (also known as the Millennial Generation or Generation Y) are the demographic cohort following Generation X. There are no precise dates when the generation starts and ends. Researchers and commentators use birth years ranging from the early 1980s to the early 2000s.”

3.10 INCREASE OF THE AUDIT RISK AND DECREASE IN THE QUALITY OF THE AUDIT WORK

As side effects of the combination of all the challenges presented so far, but that by themselves can be configured as challenges, emerge the increase of the audit risk and decrease in the quality of the audit work.

All the stakeholders involved in the auditing process exert pressure in that direction: the clients want more efficient work with lower volume of hours and lower rates; the audit teams are composed by less experienced professionals and newly-graduated professionals seems to have chosen other careers more frequently – besides, the independent audit career might not be able to attract the best students from the best universities; the independent audit⁷ and capital markets' regulators due to the issues faced since the Case Enron, which caused the extinction of the famous audit firm Arthur Andersen⁴, have issued even more requirements to the auditing practice resulting on significant increase of complexity and volume of audit procedures.

⁴ To understand the Enron Case which caused the destruction of Arthur Andersen as presented in [19]: *"Following the 2001 scandal in which \$100bn in revenue from energy giant Enron was found to have sustained itself by means of institutional and systematic accounting fraud, Andersen's performance and alleged complicity as an auditor came under intense scrutiny. The Powers Committee (appointed by Enron's board to look into the firm's accounting in October 2001) came to the following assessment: "The evidence available to us suggests that Andersen did not fulfill its professional responsibilities in connection with its audits of Enron's financial statements, or its obligation to bring to the attention of Enron's Board (or the Audit and Compliance Committee) concerns about Enron's internal contracts over the related-party transactions".*

On June 15, 2002, Andersen was convicted of obstruction of justice for shredding documents related to its audit of Enron, resulting in the Enron scandal. Although the conviction was later reversed by the Supreme Court, the impact of the scandal combined with the findings of criminal complicity ultimately destroyed the firm. Nancy Temple (Andersen Legal Dept.) and David Duncan (Lead Partner for the Enron account) were cited as the responsible managers in this scandal as they had given the order to shred relevant documents. Since the U.S. Securities and Exchange Commission cannot accept audits from convicted felons, the firm agreed to surrender its CPA licenses and its right to practice before the SEC on August 31, 2002—effectively putting the firm out of business. It had already started winding down its American operations after the indictment, and many of its accountants joined other firms. The firm sold most of its American operations to KPMG, Deloitte & Touche, Ernst & Young and Grant Thornton LLP. The damage to Andersen's reputation also destroyed the viability of the firm's international practices. Most of them were taken over by the local firms of the other major international accounting firms.

On May 31, 2005, in the case Arthur Andersen LLP v. United States, the Supreme Court of the United States unanimously reversed Andersen's conviction due to what it saw as serious flaws in the jury instructions. In the court's view, the instructions were far too vague to allow a jury to find obstruction of justice had really occurred. The court found that the instructions were worded in such a way that Andersen could have been convicted without any proof that the firm knew it had broken the law or that there had been a link to any official proceeding that prohibited the destruction of documents. The opinion, written by Chief Justice William Rehnquist, was also highly skeptical of the government's concept of "corrupt persuasion"—persuading someone to engage in an act with an improper purpose even without knowing an act is unlawful."

In this context, a latent destructive combination of the business has developed. This destructive combination increases the audit risk and, obviously, impairs the quality of the audit work.

With no intention of being repetitive, as previously mentioned, it is fundamental to bear in mind that the challenges faced by the external audit industry in Brazil, ultimately, have not harmed the industry only, but they also materialize themselves as chronic issues for the corporate governance and the capital markets since they harm every interested party. In my point of view, the hardest affected are the investors or shareholders whose interest the independent auditor's work seeks to preserve.

3.11 COMMODITIZATION OF THE AUDIT BUSINESS

DA SILVA (2013) [14], in relation to accounting fees, states: *“The value attributed to the product or service has to be fair, coherent and profitable, because the perpetuation of the company is based on the return generated.”* He still says that an “accounting fees war” does not contribute to the quality of services and much less to the appreciation of the accounting industry. Those thoughts demand a deep reflection about what has been seen in the external financial audit industry in Brazil.

The external financial audit business in Brazil has become more and more comparable to a standard product with no important differentiation for which price is the main attribute; the cheaper, the better.

Some people argue that the relationship among partners or audit executives with their clients is a kind of differentiation. However, in times when the decisions are made more and more based on board approvals and not individually, and the increase of the value of the business for shareholders is usually one of the main key performance indicators, the cost factor gains even more importance.

Maybe the differentiation is connected with the attribute quality of the “product” between services offered by a BIG4 company and other audit firm than a BIG4; the difference or appeal here is the higher level of credibility perceived by stakeholders, when a company is audited by a BIG4 firm.

The point here is that the “product” independent audit has been commoditized and as any commodity the price is the main decision-making indicator. In other words, even among BIG4 companies, the audit firms have been pressured to decrease their fees in order to be able to keep their positions as players in this high-competitive industry. This scenario has to be changed because it can threaten the future of the audit industry in Brazil and, ultimately, in the world.

4. THEORETICAL REFERENCE

The objective of this chapter is to provide the object of study with theoretical grounds.

Objectively, it delivers to the reader a clear understanding about the auditing environment in the world and particularly in Brazil. Through the chapter is discussed what audit is, how it works, its fundamentals and mission, the responsibilities of the independent auditor, what audit is under a regulatory perspective, the history of the auditing activities in Brazil, the audit industry in Brazil, the importance of the external audit.

Additionally, it is discussed the theories where the pillars of the independent audit were built. They are related to the demand for and supply of auditing services, such as: the Policeman Theory, the Lending Credibility Theory, The Theory of Inspired Confidence, and the agency Theory.

Finally, some other relevant ingredients are included in the discussion of those theories as the expectation gap and the information asymmetry.

All this content offers to the reader a background to visualize and understand in what environment the external financial audit operates and how the challenges faced by the external financial audit impact the industry in Brazil.

4.1 AUDIT

4.1.1 INTRODUCTION

For the purpose of this study, the terms independent auditor, external auditor, and simply auditor, will be used interchangeably. Similarly, it is valid for independent audit, external audit, external financial audit or simply audit or auditing.

CORDEIRO (2012, p. 17) [20] presents that, as the main objective, an audit will be contracted by a person, or group of people, to perform the exam and verification of documents and accounting and administrative records, in such a way, the auditor, after

critical analysis of that material, has conditions to issue an opinion about the validity of those documents and records which will be useful for decision making in the organizations.

KUMAR AND SHARMA (2015, p. 3) [21], outline the essential characteristics of auditing:

1. *Audit is an independent, scientific, intelligent, and critical examination of the books of account or accounting records of a business.*
2. *Such examination enables the auditor to satisfy himself that the financial statements have been properly drawn up, and exhibit a true and fair view of the financial state of affairs of the business for the accounting period.*
3. *Detection of errors and frauds is an integral part of auditing.*
4. *The job of auditing is performed by an independent person or body of persons qualified for the job.*
5. *In order to report on the financial health of the business, the auditor has to go through vouchers and other related documentary evidence (both internal as well as external).*
6. *The auditor has to satisfy himself about the correctness, authenticity, and reliability of accounting information and submit his report accordingly.*

Therefore, the audit has its foundations in confidence and independence in relation to those who contracted the audit services in order to give the auditor conditions to, through their experience and knowledge, report how the work was performed and what the conclusions are.

4.1.2 DEFINITION

It is very difficult to define audit with a single explanation. Going over the literature it is possible to find several definitions about audit. Based on the well-known authors listed herein, audit can be defined as follows:

SPICER (1904, p. 4) [22] present the concept as:

“An audit may then be said to be such an examination of the books, accounts and vouchers of a business, as shall enable the Auditor to satisfy himself whether or not that the Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of affairs of the business, according to the best of his information and the explanations given to him and as shown by the books; and if not, in what respects it is untrue or incorrect.”

In a convergent way, MONTGOMERY (as cited in KUMAR & SHARMA, 2015, p. 2) [21] defines auditing as *“A systematic examination of the books and records of a business or other organization in order to ascertain or verify and report upon the facts regarding the financial operations and the results thereof.”*

Another important definition of auditing was proposed by J.R. BATLIBOI (as cited in SHARMA, 2011, p. 5) in [23]:

“Auditing may be defined as an intelligent and critical scrutiny of the books of accounts of a business, with the documents and vouchers from which they are written up, for the purpose of ascertaining whether the working result for a particular period, as shown by the Profit and Loss Account, as also the exact financial condition of that business, as reflected in the Balance Sheet, are truly determined and presented by those responsible for their compilation.”

4.1.3 AUDIT UNDER A REGULATORY PERSPECTIVE

In general, the purpose of a financial reporting audit or financial statements audit is that the auditor express an opinion on the financial statements that determines if they were prepared and presented fairly in all material respects in accordance with a given financial reporting framework.

There are many approaches about audit and their objective. Next some of them will be examined through pertinent literature.

In accordance with the International Federation of Accountants (IFAC) [24], *“the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.”* The standard still outlines how this objective is consummated: *“This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.”*

Another relevant approach is how the American Institute of Certified Public Accountants (AICPA) [25] presents audit: *“The objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with*

which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles.”

Brazil has adopted the International Auditing Standards since January 1, 2010 through translation of those standards from English into Portuguese, after entering into an agreement with the International Federation of Accountants (IFAC), entity responsible for the issuance of the International Standards on Auditing through the International Auditing and Assurance Standards Board (IAASB).

As a result of this process of adoption of the International Auditing Standards, the Brazilian Accounting Federal Council, Conselho Federal de Contabilidade (CFC), issued the Resolution 1.202 [26]. The Resolution, in its paragraph 7th, defines auditing or assurance as a work in which the independent auditor express a conclusion in order to increase the degree of reliance, for other users than the responsible part, on the results of the assessment or measurement of determined object in accordance with applicable criteria.

4.2 HISTORY OF AUDITING ACTIVITIES IN BRAZIL

According to ATTIE (1992, p.34) [27], the development of auditing in Brazil was influenced mainly by the following elements:

- Subsidiaries of international companies;
- Debt agreements firmed among Brazilian companies and international entities;
- Growth of Brazilian companies and decentralization and diversification of their activities;
- Evolution of the capital markets;
- Release of auditing standards by the Brazilian Central Bank in 1972.

In accordance with RICARDINO & CARVALHO (2004) [28], it is hard to determine with precision the date when the first audit work was performed in Brazil. However, the first concrete evidence of the activity in the country can be observed through the Decree 2.935, dated from June 18, 1862, which approved the reorganization of Cia. de Navegação por Vapor – Bahiana – Anonyma. Still, based on RICARDINO & CARVALHO (2004) [28], there is no record available about the work performed or the report issued on the accounts of

the company. At that time, both the company and its statute had to be approved by law. The statute of the company determined in its chapter XVIII, named “The Auditors”, that the auditors had to be designated every year, in the first general shareholders’ meeting, to examine the accounts of the company.

The audit introduction in Brazil is a gray area subject. RICARDINO & CARVALHO (2004) [28] points out that the first Independent Audit company to set up in Brazil was Deloitte Touch Tohmatsu with its first office in Rio de Janeiro, in 1911, and the second in Recife, in 1917. On the other hand, in accordance MILLS (1994) [29], based on Price Waterhouse & Peat Marwick’s records (current PwC), it was the first audit company to set up in Brazil in 1915, when its first office was inaugurated in Rio de Janeiro.

In addition, based on RICARDINO & CARVALHO (2004) [28], the first known auditor’s report on financial statements issued in Brazil dates from April 9, 1903, as presented in Figure 1. On this date the balance sheet of the São Paulo Tramway Light & Power Co. for the period comprised between June 1899 and December 31, 1902 was certified by the Canadian audit firm Clarkson & Cross, current Ernst & Young (EY).

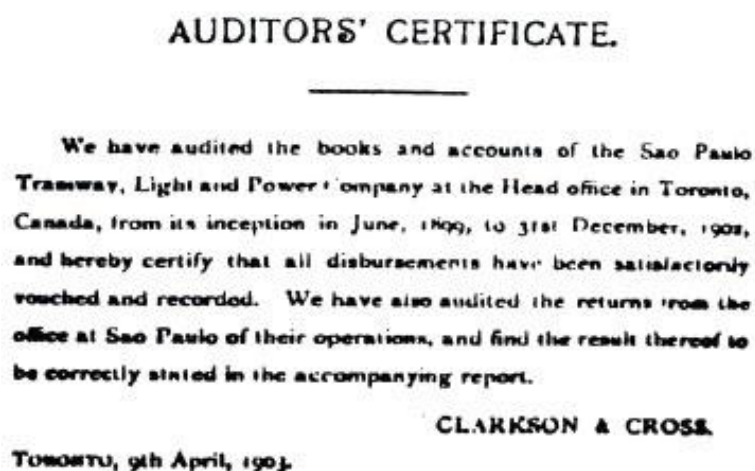


Figure 1 – First known auditor’s report on financial statements issued in Brazil – 4-9-1903

Source: Revista Contabilidade & Finanças - USP, maio/agosto 2004 [28]

Furthermore, according to RICARDINO & CARVALHO (2004) [28], these are some of the relevant events in the history of the audit in Brazil:

- One of the first publications about the topic was released in 1928 by the magazine *Revista Paulista de Contabilidade* entitled “Contabilidade na Grã-Bretanha” - “Accounting in the Great-Britain” in English;
- The first book about audit was published in 1957 named “Curso de Auditoria” - “Audit Course” in English – authored by the Professor Antônio Lopes de Sá;
- Auditing concepts and technics were formally introduced to the higher education in Brazil by the Decree-Law 7.988, dated from December 22, 1945, which regulated the higher education programs in Economy, Accounting, and Actuarial Sciences;
- The figure of Independent Auditor was first introduced in a legal text only in 1965. This event was a turning point for the profession and accounting practices development in the country because Brazil had not had a legal structure regulating the capital markets activities until 1964.

CORDEIRO (2012, p. 15) [20], describes that, likewise in Europe, as the capital market’s activities started being expanded in Brazil, the local investors started demanding audit work in order to confer assurance and reliability on the figures presented by companies.

Nonetheless, it was only in 1976 that auditing was effectively strengthened as a result of the enactment of the following laws:

- Corporate Law or “Lei das Sociedades por Ações”, Federal Law 6.404/76 [30]. This law regulates the Brazilian corporations which are similar to the US subchapter C corps. In 2007, it was amended by the Federal Law 11,638/07, which introduced the International Financial Reporting Standards (IFRS) in Brazil.
- Federal Law 6.385/76 [31]. This law created the Brazilian securities market authority, Comissão de Valores Mobiliários (CVM), which is equivalent to the Security and Exchange Commission (SEC) in the USA. It also disciplined the securities markets in Brazil.

Subsequently, auditing, through both auditing practices and academic teaching, has been consolidated in the country serving its purpose of opining on the adequacy of the financial statements, in all material respects.

4.3 THE AUDIT INDUSTRY IN BRAZIL

In connection with the previous subchapter AMORIM (2012) [16], provides a detailed summary of facts about the evolution of auditing in Brazil and in the world. In addition, other facts considered relevant by the author of this thesis were included in that summary aiming to update and enrich the information. See Appendix B – The Evolution of the Auditing in Brazil and in the World.

AMORIM (2012) [16] points out that until December 31, 2011 there were 357 audit firms and 68 professionals, working as individual auditors, registered in the Brazilian Securities Commission, Comissão de Valores Mobiliários (CVM). Besides, the audit firms were geographically spread over the country, as follows: 196 firms in the Southeastern region, 94 firms in the Southern region, 43 firms in the Northeastern region, 19 firms in the Midwestern region, and 5 firms in the Northern region.

This analysis was roll-forwarded to July 27, 2015 by the author of this study with information obtained from the CVM Website [37], which shows the following aspects:

- Increase of the total number of auditors registered at the Brazilian Securities Commission - CVM as of 12/31/2011 and 07/27/2015, previously 425 auditors and now 577 auditors.

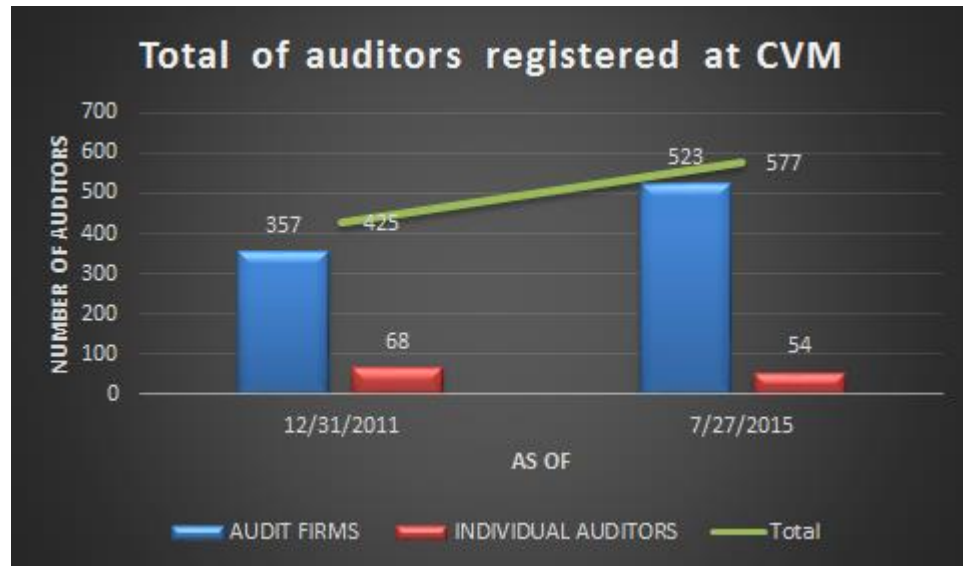


Figure 2 – Evolution of the total of auditors registered at CVM

Source: CVM Data as of July 27, 2015 analyzed by the author of the thesis & Amorim (2012)

Based on this chart, it is possible to interpret that the audit industry has grown in Brazil around 36%. That can be explained mainly by professionalization of the capital markets and organic growth through increase of the number of companies being audited.

- Increase of the number of audit firms registered at the Brazilian Securities Commission - CVM by geographic region as of 12/31/2011 and 07/27/2015, previously 343 audit firms and now 523.

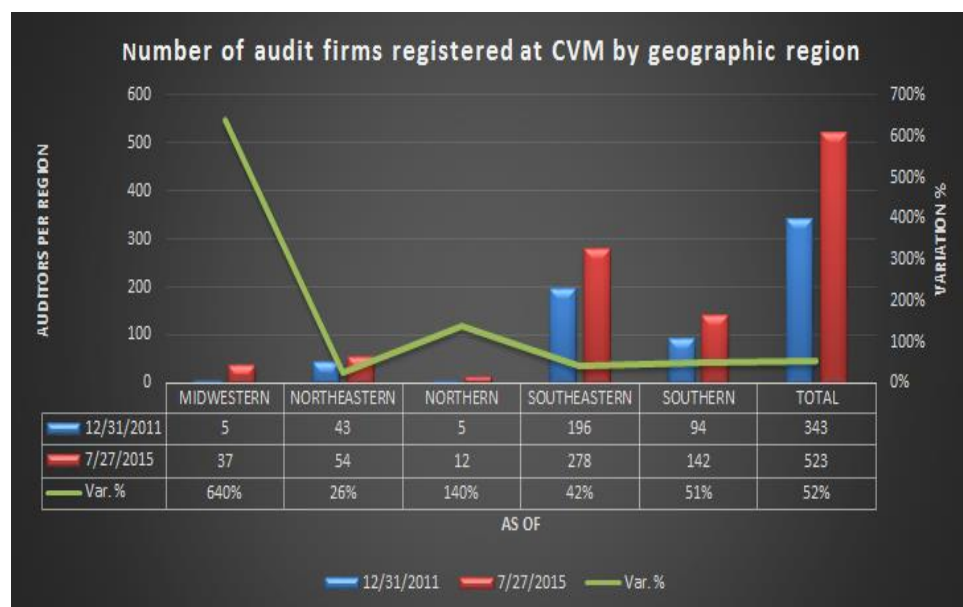


Figure 3 – Evolution of the number of audit firms registered at CVM by geographic region

Source: CVM Data as of July 27, 2015 analyzed by the author of the thesis & Amorim (2012)

- Next, in Figure 4, there is a picture about Concentration (%) of audit firms registered at CVM by geographic region. Taking into account that the Southeastern region, which comprises the states of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo, is the richest and more developed region in Brazil, it makes absolute sense that most of audit firms are located there; actually 53.2% of them. On the other hand, the Northern region, which is the area less developed in Brazil, where the famous Amazon Forest is located and occupies most of the region, presents a smallest concentration of audit firms in the country with 2.3%. In the middle of these two extreme positions are the Southern, Northeastern, and Midwestern regions with concentration of audit firms reaching 27.2%, 10.3%, and 7.1%, respectively.

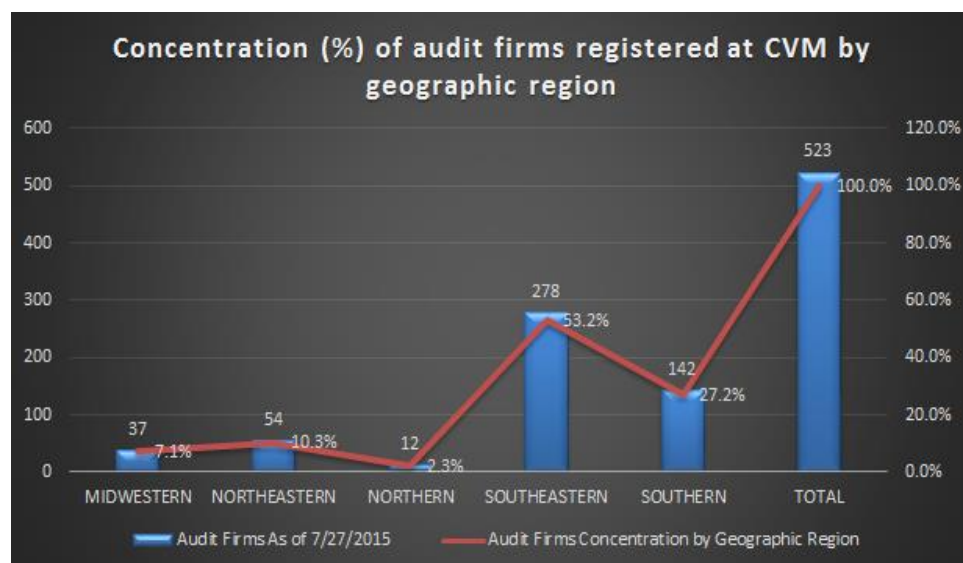


Figure 4 – Concentration (%) of audit firms registered at CVM by geographic region

Source: CVM Data as of July 27, 2015 analyzed by the author of the thesis

4.4 THE IMPORTANCE OF THE EXTERNAL AUDIT

The modern capitalist world where many investors do not run their business directly and, consequently, increasing demand for transparent and impartial information, is where the independent audit establishes its foundation and relevance. Besides, on one side, as a result of the evolution of the world as a whole, it is developed an increasing demand for financial resources in order to grow businesses. On the other side, are those who have the means but

are not interested in take part of the management of the enterprises, however, they are interested in invest their money in exchange for higher rates of return.

In this context, it is important to highlight the relevance of the independent audit which, through assurance services, brings transparency and credibility to the financial statements prepared by companies in Brazil and in the world, and also aiming to provide investors and users with proper and trustful financial information.

In accordance with QUEVEDO & PINTO (2013) [11], the financial statements are one of the main sources of communication between companies and the internal or external users. In this way, the independent audit significantly influences the preparation of the financial statements, since it attests through the auditor's report on the financial statements the trustworthiness of the information made available and released.

PAULO (2007, p. 34-35) [38] outlines that the economic benefits of the accounting information increase when those financial statements are audited since it is believed that, they are less exposed to distortions than those which were not examined by auditors.

In accordance with BECKER (as cited in MARTINEZ & REIS, 2010, p. 3) [39], auditing reduces information asymmetry between managers and the market, providing more credibility to companies' financial statements.

BOYNTON, JOHNSON, & KELL (2002, p. 73) [40] say that the shareholders resort to audited financial statements in order to be assured that the management is exercising properly their responsibility in the conduct of the business.

Therefore, the independence of the auditors has the role of assuring credibility and reliability of the financial statements, and conveys to the users higher confidence and comfort on the published financial statements.

HEALY & PALEPU (2001) [41] point out that the demand for financial reporting and disclosures comes from the information asymmetry and the agency conflicts that arise between management and shareholders. Hence, the auditors, as other capital markets players, are responsible for reinforcing the credibility on the disclosures provided by the management.

BRAUNBECK (2010, p. 14) [42] affirms that independence is a relevant attribute within the audit quality. The loss of independence damages the quality of the audit services, which, as its main objective, should provide assurance over the veracity of the information.

4.5 THEORIES ON THE DEMAND FOR AND SUPPLY OF AUDITING SERVICES

ITTONEN (2010, p. 2) [43] affirm “*Theories on the demand for auditing provide a general framework for auditing, or at least for understanding it.*” In this sense, it is very important to this study shed light on some of the pertinent theories in order to provide the reader with concepts and stimulate awareness about the topic.

Still talking about the importance and usefulness of theories, ITTONEN (2010, p. 2) [43] complements:

“For example, auditing theory helps explain why auditing is needed in the first place. What is the role or purpose the audit process is having in the communication between a company and its environment? Furthermore, auditing theory attempts to explain why some of the postulates and key concepts of auditing are so important (see Mautz and Sharaf 1961; Flint 1988). Auditing theory also uncovers some of the laws that govern the audit process and its activities. Finally, it provides us with a framework for understanding the relationships and interrelationships between different parties of a firm.”

According to HAYES AT AL. (2005, p. 44) [44], several different theories may explain the demand for audit services. Theories like the Inspired Confidence Theory and the Agency Theory have been well researched. Other are based on perceptions and are more a reference than a scientific construct like Policeman Theory and the Lending Credibility Theory.

Next, in Figure 5, the definitions of those four theories are presented based on HAYES AT AL. (2005, p. 45) [44]. Besides, despite of the fact that they are approached separately, after going over those definitions, it will be clear that they overlap and are closely related.

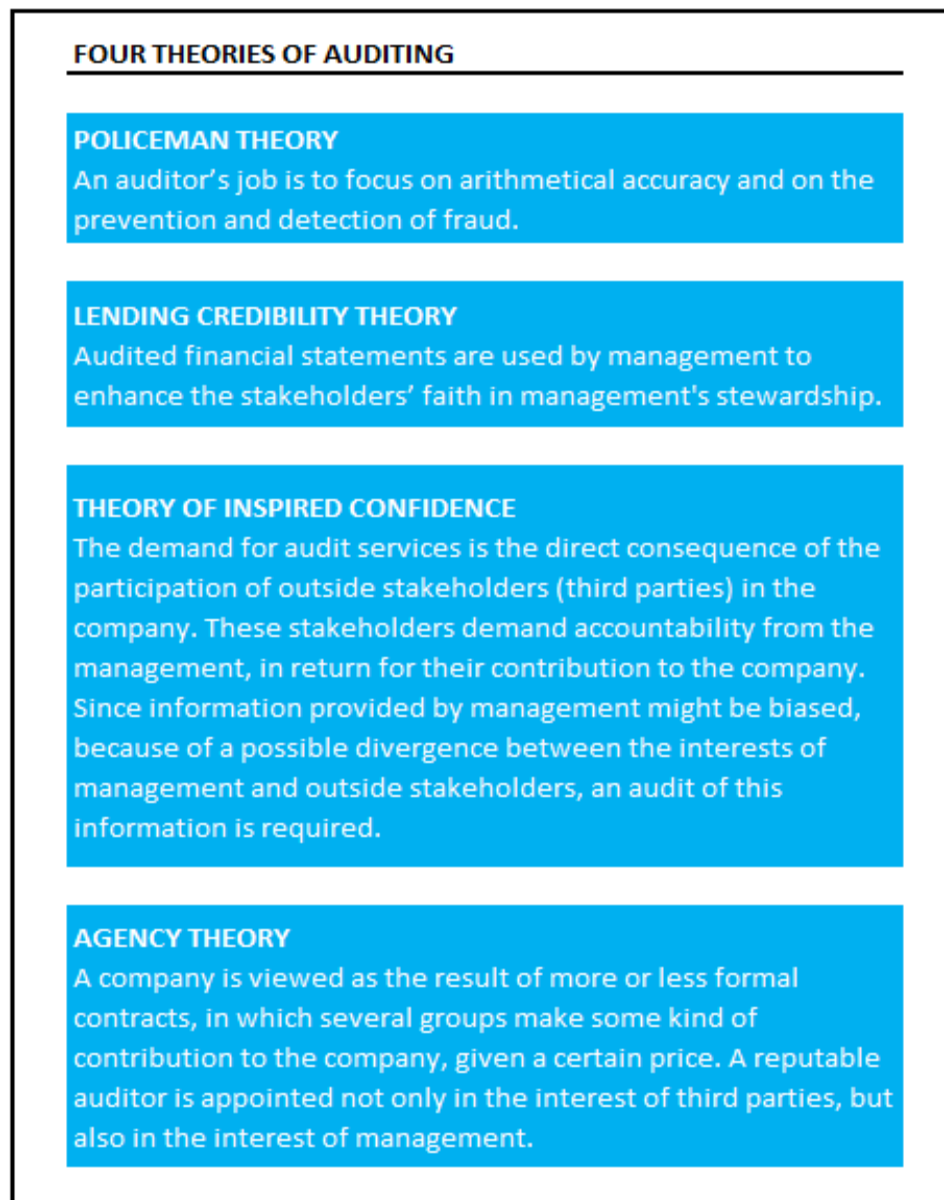


Figure 5 – Four theories of auditing

Source: Adapted from Hayes at al. (2005, p. 45) [44]

4.5.1 THE POLICEMAN THEORY AND THE EXPECTATION GAP

The Policeman Theory suggests that the independent auditor is responsible for looking for, discovering, and preventing of fraud as if the auditor was a policeman. HAYES AT AL. (2005, p. 44-45) [44] argue that this perception was very common until 1940's, when the auditor's job was considered to focus on arithmetical accuracy and on prevention and detection of fraud. Later, between 1940 and the turn of the century, auditing got the meaning of verification of trust and fairness of the financial statements. However, the recent financial

frauds and accounting scandals, involving companies like Enron and Xerox, called for reconsidering this theory. This re-approach of the Policeman Theory has generated a lot of discussion about the auditor's responsibility for detection and disclosure of frauds taking the meaning again to the origin of the theory based on public perceptions.

In connection with the Policeman Theory discussion, it is important to bring forth an important element which results from the distance between what the auditor's responsibility really is and what is expected from the independent auditors' work by the general public.

Regarding the issue, SALEHI (2011, p. 8380) [45] explains the idea of the expectation gap as follows:

"The term 'expectation gap' is commonly used to describe the situation whereby a difference in expectation exists between a group with a certain expertise and a group, which relies upon that expertise. The public perception of an auditor's responsibility differs from that of the profession and this difference is referred to as the expectation gap.

Various studies have confirmed the existence of the audit expectation gap. Prior literature in audit expectation gap evinces that the expectations gap between auditors and financial statement users has existed for the past hundred years.

The widespread criticism of and litigation against auditors indicates that there is a gap between society's expectations of auditors and auditor's performance as perceived by society. The majority of research studies indicate that the audit expectation gap is mainly due to users' reasonable expectations of audits as well their as unrealistic perceptions of the audit profession's performance."

The main aspect to be pointed out here is that there is a misconception about the auditor's responsibility. This misconception has caused damages to the reputation of the independent auditors through public exposure, pressure exerted by regulators, litigations, and, even, culminated on destruction of a traditional audit firm, as it happened to Arthur Andersen.

Possibly - since it is not sure to be affirmed and other explanations may be arisen -, this misconception emerges as a result of the fact that this responsibility is not clear for the general public and the auditor has been expected to fulfill third parties' responsibilities, mainly those that are pertinent to management.

Concerning this segregation of duties and responsibilities between independent auditors and management, the American Institute of Certified Public Accountants (AICPA) states [25]:

“Distinction Between Responsibilities of Auditor and Management

02. The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected.

03. The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. The auditor's knowledge of these matters and internal control is limited to that acquired through the audit. Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility. The independent auditor may make suggestions about the form or content of the financial statements or draft them, in whole or in part, based on information from management during the performance of the audit. However, the auditor's responsibility for the financial statements he or she has audited is confined to the expression of his or her opinion on them.”

4.5.2 THE LENDING CREDIBILITY THEORY AND THE INFORMATION ASYMMETRY

The Lending Credibility Theory propounds that the auditors' main role is to provide the financial statements with credibility. Audited financial statements are more trustworthy than those not audited. It is another theory based on the public's perception. HAYES AT AL. (2005, p. 45-46) [44] argue that this theory should be thought from a perspective that independent auditors lend their credibility to the financial statements when they perform auditing work and issue an audit report.

In accordance with HAYES AT AL. (2005, 45-46) [44], audited financial statements generate benefits that serve the purpose of both stakeholders and management. Stakeholders

in general, including government, investors, and creditors deposit confidence on audited financial statements because they believe they represent a fair picture of the economic value of the company. On the other side, the management uses audited financial statements in order to be proof of and increase their reliability. Users perceive audited financial statements with increased confidence, relying on the financial information provided by the management. Also, audited financial statements mitigate the risk associated with what is called information asymmetry or asymmetric information.⁵

Regarding the relationship between company's management and stakeholders, the information asymmetry⁶ issue emerges when one side, the management, has better and complete information than the other side, the company's shareholders or any other stakeholders. In other words, stockholders would not be in position to make informed decisions about a company, since who has full access to the information about the company, and is in control of what will or will not be made public, it is the management.

Coming back to the Lending Credibility Theory, it is believed that the auditors lend their credibility to the financial statements through their report. They communicate to the financial statement users whether or not relevant financial reporting information about a company was disclosed properly in accordance with a specific Accounting Framework (GAAP). This would help to reestablish a balance of access to "full" financial reporting information, at least, concerning the financial statements.

4.5.3 THE THEORY OF INSPIRED CONFIDENCE

HAYES AT AL. (2005, p. 46) [44] describe that the Theory of Inspired Confidence was developed by the Dutch Professor Theodore Limperg. While, the Policeman Theory and the Lending Credibility Theory which come from public's perceptions and, therefore, are

⁵ Based on [46], in Economics, *"The theory of asymmetric information was developed in the 1970s and 1980s as a plausible explanation for common phenomena that mainstream general equilibrium economics couldn't explain. In simple terms, the theory proposes that an imbalance of information between buyers and sellers can lead to inefficient outcomes in certain markets. Three economists were particularly influential in developing and writing about the theory of asymmetric information: George Akerlof, Michael Spence and Joseph Stiglitz. All three shared the Nobel Prize in economics in 2001 for their earlier contributions."*

⁶ According to [47], information asymmetry is commonly understood as: *"A situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge."*

closely related to the demand of auditing services, the Theory of Inspired Confidence cover both sides, the demand for and supply of auditing services. Professor LIMPERG (as cited in HAYES AT AL., 2005) outlines that the demand for auditing services is directly related to the participation of stakeholders in a business. Consequently, the stakeholders require accountability from management in exchange for the investments made in the company. In this context, the stakeholders have their access to financial information, particularly to financial statements, which is typically limited by what and how it is intended to be furnished by the management. Since this information can be distorted as a result of potential conflicts of interests between stakeholders and management, audited financial statements are required. On the supply of auditing services side, taking into account the level of assurance that the auditor should deliver, the independent auditor has to do it best efforts to meet the public's expectations.

Concerning the inspired confidence in the auditors' work (demand for auditing services) and the function of the auditor (supply of auditing services), Professor LIMPERG (1932, p. 16) [48] describes the social responsibility of the independent audit. He highlights that the confidence inspired is the reason why the independent auditor exists, its mission, and the importance of meeting expectations:

"The auditor-confidential agent derives his general function in society from the need for expert and independent examination and the need for an expert and independent opinion based on that examination. The function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant. This confidence is therefore a condition for the existence of that function; if the confidence is betrayed, the function, too, is destroyed, since it becomes useless."

4.5.4 THE AGENCY THEORY

HAYES AT AL. (2005, p. 46-47) [44] affirm that based on the Agency Theory, developed by Watts and Zimmerman, independent auditors, those who meet expectations and, consequently, are reputable, are indicated to represent both the interests of the stakeholders and the interests of the management. A company is seen as a set of contracts, where several players (shareholders, employees, creditors, suppliers, clients, and etc.) exchange their contribution for an agreed price. The responsibility of the company's management is to coordinate and optimize those contributions as follows: maximize the value

of the company to the shareholder, reduce the cost of capital, lower compensation to employees, lower purchase prices, and higher sales prices.

Therefore, through these relationships the management acts as an “agent” in the process getting and managing the contributions from the “principals” (shareholders, employees, creditors, suppliers, clients, and etc.).

Just like the Theory of Inspired Confidence, the Agency Theory embraces not only the demand for auditing services, but also the supply of auditing services. The issue of information asymmetry is present in this relationship, as well. It is evident that the management has plain knowledge of the real financial condition of the company better than their creditors, suppliers, clients or employees, and the management has more information and details about the profitability and the future of the company than their shareholders. On the other side, the management cannot work alone and it demands the contributions from principals.

In this context, according to HAYES AT AL. (2005, p. 46-47) [44], looking from the demand for auditing services side, the stakeholders or principals have to rely on the management, and the management or the agent has to be trustworthy. Hence, both the principals and the agent have motives to hire an independent auditor.

HAYES AT AL. (2005, p. 46-47) [44], also explains why the Agency Theory addresses the supply of auditing services side. The independent auditor contributes to this process detecting misstatements, whether caused by error or fraud, and reporting them in the auditor’s report. The costs for not meeting these objectives, as well as, expectations are harmful to the auditor’s reputation. The classical example for that is the destruction of Arthur Andersen for having been accused of failing in the Enron audit.

The Britannica Encyclopedia offers its contribution to the topic explaining the financial agency theory [49], as follows:

“While consistent with the concept of agency traditionally advanced by legal scholars and attorneys, the economic variants of agency theory emphasize the costs and benefits of the principal-agent relationship. While a beneficial agency cost is one that increases a shareholder’s value, an

unwanted agency cost occurs when management actions conflict with shareholder interests. Such would be the case when managers put their own interests ahead of an owner's interests (e.g., manipulating short-term earnings at the expense of long-term performance in order to receive a bonus). Ongoing analyses of agency costs are a common managerial tool, especially in corporations that are managed by nonowners, because they serve to indicate whether - or how well - a manager (agent) is fulfilling his fiduciary obligation to an owner (principal)."

In addition, according to a paper released by the Institute of Chartered Accountants in England & Wales (2005, p. 6) [50], there is no ground for principals to deposit trust in their agents and for this reason they will engage resources to mitigate the risks connected with information asymmetry and opportunistic behavior.

Yet, in the Institute of Chartered Accountants in England & Wales (2005, p. 7) [50], it is debated that the simplest agency model works with the assumption that agents are not reliable; if they have the opportunity to take advantage of a situation even if it will harm their principals, they will. Consequently, principals should not rely on information provided by their agents. In this context, the independent auditor is an essential resource to analyze the financial information prepared by the agents and provided to the principals, which is useful to increase the level of confidence and trust on the financial statements.

5. RESEARCH METHODOLOGY

5.1 INTRODUCTION

5.1.1 WHAT IS AN EMPIRICAL RESEARCH?

According to PATTEN (2010, p. 3) [51], “The term empiricism refers to making observations to obtain knowledge.” All of us make informal observations daily of the surrounding people and circumstances and we take those observations as a basis for our decisions.

Moreover, PATTEN (2010, p. 3) [51] defines the empirical research as “*The term empirical research refers to making planned observations. By following careful plans for making observations, we engage in a systematic, thoughtful process that deserves to be called research.*”

Based on PATTEN (2010, p. 3) [51], this systematic process of planned observations embraces the following steps:

- Plan what to observe;
- Plan whom to observe;
- Plan how to observe;
- Plan how to analyze the data and interpret them.

As explained above, a methodological approach to a topic is what confers to a study the conditions to be qualified as a research. Through this chapter, it is presented the elements that build the systematic process of planned observations for this study. In other words, it is discussed the research methodology adopted for this study.

5.1.2 THE RESEARCH

As presented through this study, our society has walked across an age of increasing demand for auditing services for several reasons. Most of those reasons can be concentrated on limited or lack of access to reliable information for proper informed decision-making.

That demands technical knowledge, independence, transparency, credibility, and ethics; characteristics pertinent to independent auditors and their mission. However, the external audit industry not only in Brazil, but also in the world, has faced several challenges which threaten their success and evolution.

The preliminary research which gave origin to this study had as its main objective performing an assessment of the author's observations, perspectives, and perceptions about the challenges faced by the financial external audit industry in Brazil. Therefore, this study is exploratory in nature and its first motivation was the author's empirical observation of the external audit industry in Brazil as an experienced professional acting in this segment. After bibliographic research, it was not observed other analyses on this topic with a similar approach which is intended by this study. In this sense, it was considered relevant for this study, verify reports and studies through secondary sources if the author's observations, perspectives, and perceptions about the challenges faced by the financial external audit industry in Brazil could be confirmed as well-founded. In other words, preliminary research was performed in order to pave the topic and its approach, and also to analyze if other members of the segment could share the same observations, perspectives, and perceptions about the industry as proposed by the author for what the answers were positive as presented through this study.

As previously described, this exploratory study aims to map and identify the challenges faced by the external audit industry in Brazil based on the observations, experience, analyses and understanding of audit professionals seasoned in the area. Being an exploratory study, the research aims to provide external audit companies with insights about the challenges of the industry and motivate actions.

This study gathers knowledge coming from diverse sources of information, primary and secondary ones, and puts them on the table, through a scientific approach, for appreciation and assessment of experienced audit professionals who will be part in this research. The research that supports this exploratory study is based on information gathered through over 16 years of experience of the author studying and working in the area of auditing and financial and accounting services, discussions and interviews about the topic with seasoned professionals, and analyses of pieces of news, publications and academic studies as referred to throughout this thesis. Furthermore, as presented above, a preliminary

research was performed in order to validate the topic and its approach, and also to analyze if other members of the segment would share the same observations, perspectives, and perceptions about the industry as proposed by the author for what the answers were positive as presented through this study.

Finally, the result of this long information gathering process, the author determined that the main challenges faced by the external audit industry in Brazil can be condensed as follows:

- Consistent growth of the regulation over the external financial audit activity;
- Unlimited responsibility of independent auditors;
- Rotation of auditors;
- Cannibalization of the market and decrease of business margins;
- Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process;
- Loss of business intelligence and juniorization of teams;
- Disequilibrium between professional and personal lives;
- Decrease of the compensation package;
- Drop-off of the attractiveness of the career plan;
- Increase of the audit risk and decrease in the quality of the audit work;
- Commoditization of the audit business.

Despite of the fact that the challenges listed above are an important and comprehensive starting point for this study, they will be used to determine how relevant they are based on the researched professionals' perspectives. The research responses will be analyzed individually and will also be correlated based on the responses to the several questions within the questionnaire. The different experiences (BIG4 and non-BIG4) will also be considered in the analysis to identify trends or distortions that result from those different perspectives. Further, the challenges presented by the author will not limit the analyses of the participants because the research questionnaire allows respondents to provide their own perspectives and include challenges they observe and consider relevant for the study other than those listed by the author. As a result, other challenges may be raised and described as discussed in the subchapter 5.3 Presentation of the Questionnaire.

5.2 APPROACH AND SCOPE

5.2.1 GENERAL APPROACH

The research is supported by primary (books, journals, research papers, and documents in general issued by experts in the topic external audit) and secondary (questionnaire) sources of information.

The research was made through a questionnaire with multiple-choice and open questions, since the approach is both quantitative and qualitative. The quantitative approach was used aiming to identify patterns of knowledge and thoughts about the issue through structured (multiple-choice) questions. The qualitative approach was used aiming to obtain different and particular perspectives and analysis on the issue researched through some unstructured (open) questions. Some of the questions combine both approaches.

5.2.2 UNIVERSE AND SAMPLE GROUP

In order to assure the quality and plain understanding of the research objectives and scope, the questionnaire was applied to professionals experienced in the Brazilian auditing market who currently serve in manager to partner positions only.

The questionnaire was sent to 60 (sixty) auditors experienced in the Brazilian auditing market being 30 (thirty) working at BIG4 companies and 30 (thirty) working in companies other than BIG4. The objective of this approach is also an effort to identify if BIG4 auditors have different perceptions about what the challenges are and about how critical or important they are as compared to the perceptions of other audit professionals working for non-BIG4 firms.

5.2.3 DEVELOPMENT OF THE QUESTIONNAIRE, REVIEW, AND PILOT TESTS

The questionnaire is a critical element for the success of any research. This was not different in this case. One of the main challenges pointed out in the very beginning of this research project was related to developing a questionnaire model that could facilitate the

answers of the participants and fulfills the objectives of the research providing knowledge and useful information for those interested in the issue.

Therefore, some measures were taken to assure the quality and plain understanding of the research objectives and scope by the respondents. Those measures are described herein after:

- A draft of the questionnaire was carefully prepared by the author in July 2015;
- With a draft available, preliminary reviews of the questionnaire were performed by 3 (three) experienced audit professionals during July 2015. Those reviewers provided valuable comments and notes to improve the questionnaire as follows: clarify the wording of some of the questions and potential issues in the interpretation of them, insights in relation to the description of the challenges presented, sufficiency of the multiple-choice answers available, and adequacy of the sequence of the challenges and questions.
- Pilot tests also were performed after alterations in the questionnaire. The pilot tests were applied during the last week of July 2015 to the same 3 (three) experienced audit professionals who provided comments to the preliminary questionnaire. Those tests were mainly useful to verify the total time for response and further refine the presentation of the questions.

5.2.4 DISTRIBUTION OF THE QUESTIONNAIRE

The distribution of the questionnaire was realized on July 31, 2015 after the author has completed the processes of preparation, review, and pilot tests of the questionnaire involving the assessment of experienced professionals in the Brazilian external financial audit industry, as previously described.

The questionnaire was available to the participants for responses for 22 days, during the period from July 31 to August 21, 2015. Friendly reminders were sent on a weekly basis

to all participants in order to obtain the questionnaire responses needed to perform the analyses.

The questionnaire was distributed through email in order to allow the author to interact directly with the respondents and assure the quality of the answers mainly concerning the open questions.

5.3 PRESENTATION OF THE QUESTIONNAIRE

The questionnaire is composed by 11 (eleven) questions. Since the research is interested in understanding the challenges faced by the external audit industry in Brazil, the questionnaire was prepared and applied in Portuguese, official language of the country, Brazil.

The questionnaire was prepared in an “Excel” spreadsheet with 2 (two) sheets. The first sheet contains the research purpose, the title of the study, and a description of each one of the challenges faced by the external audit industry in Brazil as discussed in the chapter 3. Challenges Observed in the External Audit Industry in Brazil. The second sheet brings the questionnaire per se. A complete version of the questionnaire as it was sent to the participants is presented in the Appendix C – Questionnaire – Master’s Thesis Survey.

In Figure 6 – Questionnaire – Master’s Thesis, a brief description of the content and objective of each question is presented.

Finally, the questionnaire was answered by 36 (thirty six) auditors within the response period. The number of participants and the author’s ability to interact with the participants to clarify their responses provide the study with a solid basis of data for analysis. The results are discussed in the next chapter of this document, chapter 6. Data Analysis and Discussion of the Results.

An aspect of the answers which configures a methodological limitation is connected to the distribution of the respondents because 28 or approximately 78% of the respondents work at BIG4 companies, while 8 or approximately 22% of them work at non-BIG4 companies. As it will be discussed through chapter 6. Data Analysis and Discussion of the Results, the study suggests that those two groups can have different points of view about the

external audit industry in Brazil. Moreover, among the BIG4 respondents 26 out of 28 or approximately 93% of them work at the same single BIG4 audit firm. Hence, more BIG4 inputs might bring diversified ideas to the study.

Questionnaire - Master Thesis
QUESTION NUMBER 1 Undergraduation programs completed by the respondent (academic background).
QUESTION NUMBER 2 Respondent's years of experience in the external financial audit area.
QUESTION NUMBER 3 Hierarchical level of the respondent in the audit firm that he or she works.
QUESTION NUMBER 4 Size/Number of employees in the external financial audit department at the company the respondent works.
QUESTION NUMBER 5 Concentration of the experience of the professional acting in a BIG4 company or in other audit firm non-Big4. The objective of this question is try to identify if BIG4 auditors have different perceptions about what the challenges are and how critical or important they are.
QUESTION NUMBER 6 In this question the challenges faced by the external audit industry are enumerated and the respondent is asked to assess them using a scale of agreement with them from "1" maximum disagreement to "5" maximum agreement. Besides, the question allows participants to provide their own perspectives and raise other challenges they consider relevant.
QUESTION NUMBER 7 This question asks for participants to assess the nature of the challenges faced by the external audit industry in Brazil concerning factors as leadership, regulation, marketing, human resources, or business environment, and attribute importance to those factors based on a scale. This scale ranges from "1" No importance to "5" High importance.
QUESTION NUMBER 8 This is an open question. Respondents are required to indicate the three main success critical factors for the business external audit in Brazil from those challenges enumerated in the question number 6. Also, respondents are asked for to list them in order of importance, from the more critical to the less critical one.
QUESTION NUMBER 9 The respondents are required to respond whether they understand that the challenges listed in the question number 6 can be solved. It is a multiple-choice question with the following answers available: "Yes", "No", or "Partially".
QUESTION NUMBER 10 In case of the respondents have answered "Yes" or "Partially" in the question 9, they are required to assess the intervention capacity of the audit firms and/or their representatives, meaning capacity of working to address the issues, in relation to the challenges analyzed in the question number 6. This assessment is made using the following scale: "1" No intervention capacity, "2" Moderate intervention capacity, or "3" Plain intervention capacity.
QUESTION NUMBER 11 This question asks if the respondents have observed actions, discussions, or proposals for addressing the challenges. If so, to describe the most relevant initiative they have noted.

Figure 6 – Questionnaire – Master's Thesis

6. DATA ANALYSIS AND DISCUSSION OF THE RESULTS

6.1 INTRODUCTION

This chapter of the study presents the responses obtained from the respondents of the questionnaire and a discussion of the results, including the author's analysis of each response in light of the objectives of the questions asked.

The process of data gathering was very collaborative and insightful, with close interactions between the author and respondents in order to avoid misinterpretations. The author reached out to the respondents by email as part of the questionnaire submission. As responses were received, the author dedicated time to detail review the respondents' responses on a timely manner and follow up discussions occurred by email, telephone or live conversations in order to clarify certain responses to open questions, which provided the study with a solid basis of data for analysis.

Once responses were obtained and further clarified by the author, the data were compiled and the analysis process began. The author focused on obtaining a clear understanding of each participant's point of view in order to co-relate the responses to the questions within the questionnaire and also to other responses to open questions within the population. The data analysis and discussion of the results follow the order of the questions in the questionnaire. Each question is analyzed within the subchapter sections below using resources such as charts and tables to facilitate the interpretation of the data and to clearly present the data stratification used in the analysis, as appropriate.

6.2 KEY FINDINGS AND DISCUSSION OF THE RESULTS

The following subchapters will present the results of the survey, stratified in order to provide detailed discussions about the data gathered through the questions researched and the inter-relations among them. Questions number 1 through number 5 relate to demographics and other relevant information concerning the profile of the participants and questions number 6 through number 11 relate to the actual areas of focus of the research. The objective of the questions and results obtained are further discussed herein.

6.2.1 ACADEMIC BACKGROUND

The first question the author included in the questionnaire relates to the academic background of the participants. As a multiple choice question, the author included 5 areas of major that relate to the audit profession, but provided the opportunity for respondents to include other areas, if that was the case. Please refer to the figure below for the results obtained:

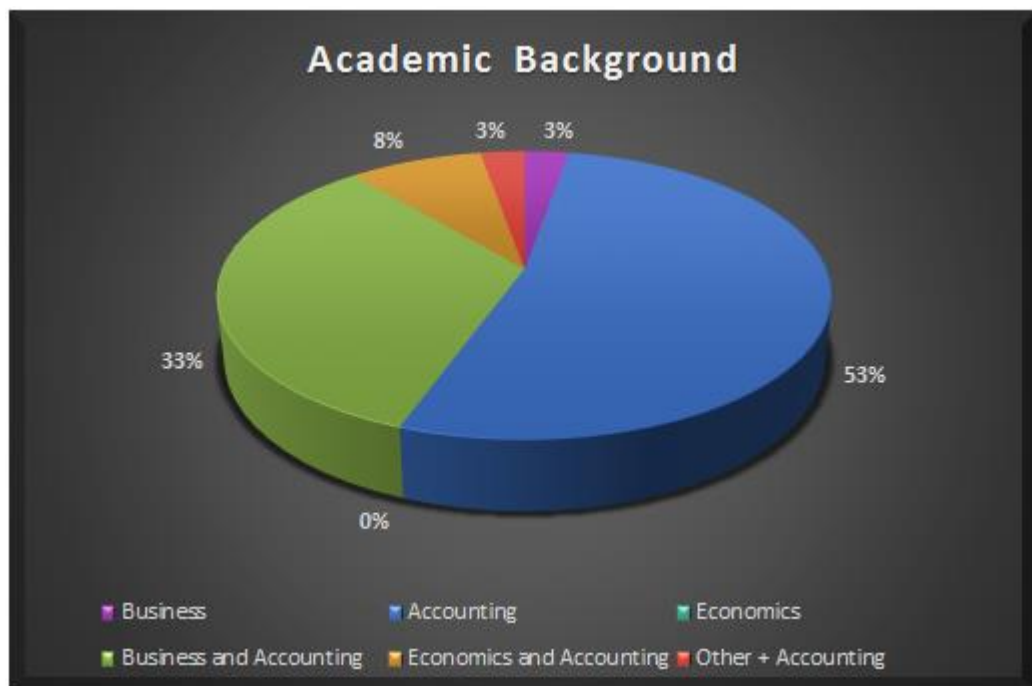


Figure 7 – Questionnaire Results Chart - Academic Background

The researched audit professionals all have an academic background in accounting or business related areas, which was expected by based on the background and experience required by this profession. No other unrelated graduate courses alone were provided in response to the inquiry. One respondent included a different major formation combined with accounting graduate studies. As presented in the chart, the vast majority of the population interviewed (97%) has a major in accounting. Accounting only represents 53%, business and accounting 33%, economics and accounting 8% and other combined with accounting 3%. Consistent with the author's initial expectation, the population can be considered homogenous from an academic background perspective.

6.2.2 YEARS OF EXPERIENCE IN THE EXTERNAL AUDIT AREA

The second information requested in the questionnaire related to the level of experience of the respondents. The author's intention was to perform this research and gather the perspectives of experienced professionals only, as those professionals have experienced the challenges of the audit profession in Brazil over the past years and are expected to provide valuable inputs to the research. As such, the research was submitted to professionals that were deemed experienced and the response regarding the years of experience was obtained to confirm this assumption. Figure 8 below presents a breakdown of the years of experience of the respondents.

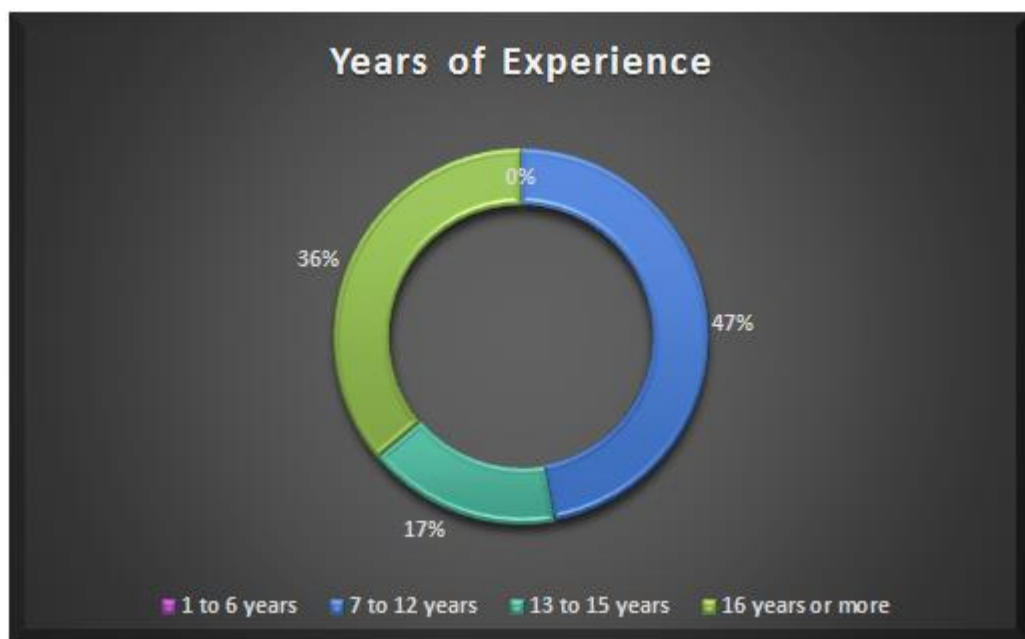


Figure 8 – Questionnaire Results Chart – Years of Experience

As part of the statistics, all professionals surveyed have more than 7 years of experience, of which professionals with experience from 7 to 12 years represent 47%, professionals with experience from 13 to 15 years represent 17%, and professionals with 16 years or more represent 36%. Besides, it is possible to observe that most professionals have more than 13 years of experience totaling 53%. In line with the discussions in the methodology chapter 5. Research Methodology, the questionnaire was sent to audit managers and above, which are positions typically of those with more than 6 years of experience; therefore consistent with the results obtained in terms of researching experienced professionals only.

6.2.3 HIERARCHICAL LEVEL

Similar to the years of experience question, the author intended to obtain the inputs of experienced professionals from managerial to partner positions. The reason behind this was that besides providing with a more mature view of the industry, already factored into the previous question, the higher hierarchical levels within the audit firms provide different perspectives as a result of more strategic roles played by the respondents as they evolve in the audit career. The managerial to partner level positions typically involve greater knowledge of the market and regulations, business development and client pursuits, fees negotiations and more responsibilities regarding the retention of younger professionals and leadership as a whole, which all fit well with the purpose of the research.

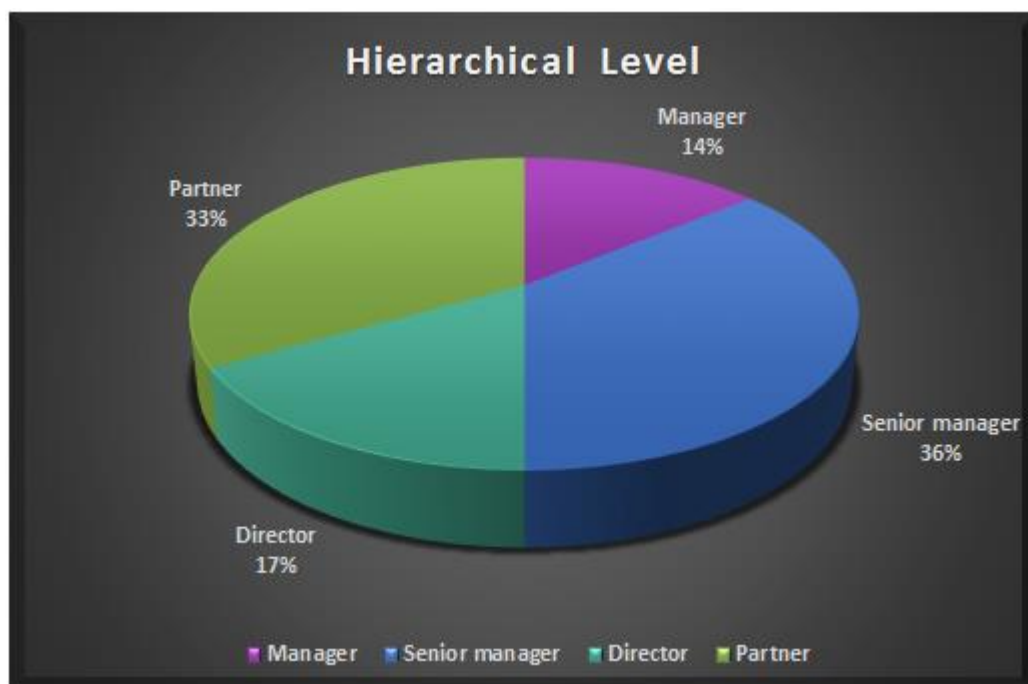


Figure 9 – Questionnaire Results Chart – Hierarchical Level

As presented in the chart above, the questionnaire was responded by experienced professionals holding the position of a manager or above as intended by the author being managers 14%, senior managers representing 36%, directors representing 17%, and partners representing 33%. In stratifying the population, no respondents serve at positions lower than manager and only 14% of the respondents serve in managerial positions. Besides, 50% of the professionals serve as directors or partners. When associated with the years of experience, the

figure above clearly confirms that the survey was performed with highly experienced and mature audit professionals.

6.2.4 SIZE OF THE AUDIT COMPANIES IN NUMBER OF EMPLOYEES

Still within the demographics section and analysis of the population, the question related to the size of the audit firms meant to evaluate the homogeneity of the population and further cross analyze the respondent's perspectives in regard to challenges faced by those in BIG4 vs. non-BIG4 audit firms, as well as any potential distortions caused by the views of those participants exposed to these categories.

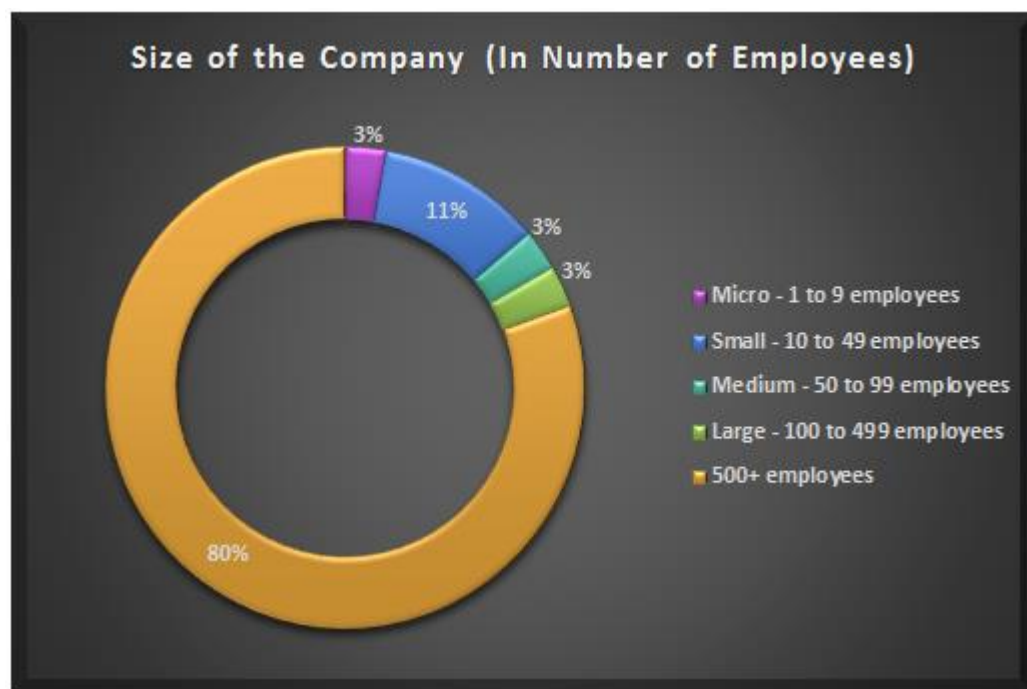


Figure 10 – Questionnaire Results Chart – Size of the Company (In number of Employees)

The chart above shows that 80% of the population is employed by very large audit firms with 500+ employees. The remaining 20% of the population is divided among micro, small, medium and large firms, of which micro and small audit firm respondents represent 3% and 11%, respectively, medium represents 3%, and large also 3%. Therefore, the population is largely concentrated in medium, large or very large audit firms (86%), with vast preponderance of very large audit firms (80%), with only 14% representing small and micro sized audit companies.

6.2.5 CONCENTRATION OF EXPERIENCE

The concentration of experience was included in the research to corroborate and expand the analysis resulting from the size of the audit firms where the respondents have or have had experience. This subchapter presents data related to both current and past experience. The rationale behind these pieces of data serves as a point of reference to determine if the respondents have similar perspectives and responses are somewhat homogenous or to provide with a basis for conclusions on any potential distortions resulting from the responses provided in the following subchapters.

The experience concentration question brings into perspective the longevity of the respondents experience in the very large audit firms, also known as BIG4 firms. The figure below presents the stratification of the experience concentration of respondents.

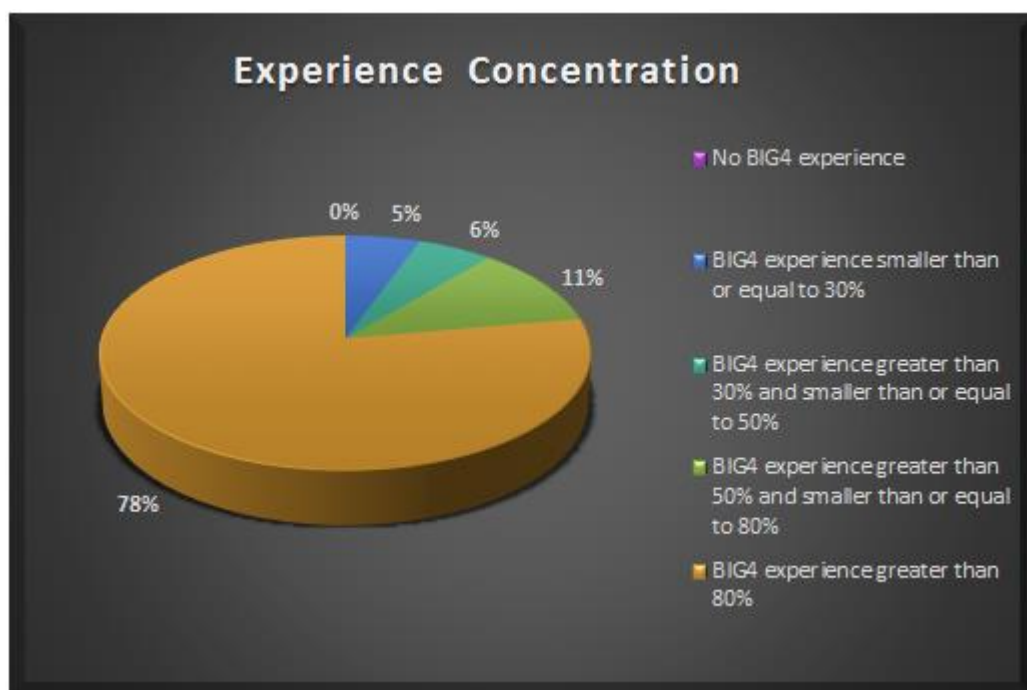


Figure 11 – Questionnaire Results Chart – Experience Concentration

In line with the responses presented in the previous subchapter, where the majority of the respondents have experience in very large firms, the chart above shows that 78% of the respondents have experience in a BIG4 firm for over 80% of their professional lives. None of the respondents have no BIG4 experience, and thus, all respondents have or have had exposure to certain extent to a very large audit firm. This is a very important factor to

consider when analyzing the respondents answers regarding challenges faced and their perspectives of the audit environment as a whole, since BIG4 audit firms are typically exposed to a more intense pressure imposed by the general public and regulators. In this context, the challenges can stand out with different faces for BIG4 and non-BIG4 audit firms.

In order to further assess this information and cross analyze the responses from the previous question related to the size of the audit company where respondents have experience, an analysis regarding current employment was also prepared by the author.

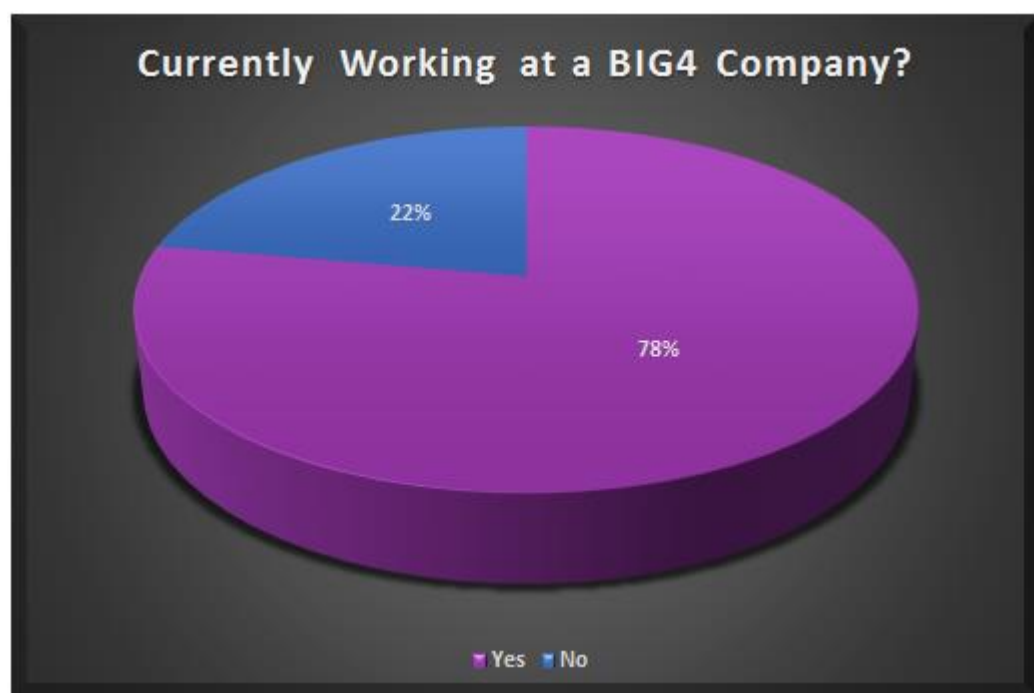


Figure 12 – Questionnaire Results Chart – Currently Working at a BIG4 Company?

Figure 12 presents the percentage of respondents currently working at a BIG4 Company. Consistent with the previous question on the size of the company they work for and the concentration of their experience throughout their careers, the vast majority of the researched professionals currently work at a BIG4 audit firm (78%). This information provides additional support and leads to the conclusion that the population is homogenous. It is appropriate to then assume that the respondents have or have had exposure to similar issues during their professional lives, which should therefore provide with some level of consistency in the responses to the questionnaire further discussed in the following subchapters of this research.

6.2.6 LEVEL OF AGREEMENT WITH THE CHALLENGES

In question number 6, the author provided the participants with a list of challenges to the audit environment, based on over author's 16 years of experience studying and working in the area of auditing and financial and accounting services, discussions and interviews about the topic with seasoned professionals, and analyses of pieces of news, publications and academic studies, as discussed through this study. A total of 11 challenges were presented to participants, who had the opportunity to agree or disagree with those challenges presented in the question and to provide their own perspectives on challenges they consider relevant to the study other than those listed in the question.

The objective of this question was to obtain information on how each respondent analyzes and assesses the audit environment and the challenges faced by audit firms in Brazil. Nevertheless, the respondents were asked to attribute the level of agreement with those challenges from 1 to 5 (1 being maximum disagreement and 5 being maximum agreement) and to also provide with additional challenges they considered important, if not already listed in the question. Those additional challenges were marked as agreed by the respondent, which can also be interpreted as high level of importance attributed to the challenge by the respondent. This exercise resulted in 405 data points; 11 challenges responded by the 36 respondents and additional 9 challenges provided by 6 of the respondents. For the purpose of this analysis the 11 challenges originally enumerated are presented in the table below:

Table 1 – Original Challenges' List

#	Challenge
1	Consistent growth of the regulation over the external financial audit activity
2	Unlimited responsibility of independent auditors
3	Rotation of auditors
4	Cannibalization of the market and decrease of business margins
5	Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process
6	Loss of business intelligence and juniorization of teams
7	Disequilibrium between professional and personal lives
8	Decrease of the compensation package
9	Drop-off of the attractiveness of the career plan
10	Increase of the audit risk and decrease in the quality of the audit work
11	Commoditization of the audit business

Furthermore, 6 of the respondents provided the challenges in addition to those pre-populated by the author. The following challenges were deemed relevant by those respondents:

Table 2 – Additional Challenges’ List

#	Challenge
Other	Low level of governance of the Brazilian companies
Other	Low incentive for companies become listed companies
Other	Lack of inspirational leaders
Other	Lack of legal obligation to accountants and business managers to keep their technical accounting knowledge updated
Other	The regulator should be the one to indicate the new auditor, as a consequence of the rotation of auditors obligation for public companies
Other	Preservation of profession's credibility
Other	Complex and constant changing taxes laws
Other	Deficient and outdated academic formation concerning accounting and audit standards
Other	Small number of women in executive positions in the audit firms

As mentioned above, the level of agreement can be interpreted as the importance attributed to the challenges presented. As such, the additional challenges provided by respondents were not always classified as “5” (maximum level), but also as “4” (moderate level). These additional challenges were incorporated to the totals analyzed. The table below presents a summary of the responses obtained, which will be further discussed in this chapter.

Table 3 - Level of Agreement with the Challenges Presented

Level of agreement	%
Maximum or moderate disagreement	6
Neither agree nor disagree	19
Moderate or maximum agreement	75
Total	100

Overall, it is important to mention that only 6% of the data points were not assessed as critical challenges to the audits in Brazil, where respondents either classified as maximum or moderate disagreement regarding the challenges presented in the question. Out of these 6%, only 4 or 1% of the responses were assessed with maximum disagreement. The author analyzed these disagreements and the background of the respondents based on the statistics

presented in questions number 1 through number 5 to assess whether this was due to background characteristics or any other isolated factor. When analyzing the respondents who presented maximum disagreement, these were generally part of the majority groups, highly experienced professionals, at a senior manager or partner position who have worked and are currently working at a BIG4. Therefore, the author concludes that the disagreements are not distortions related to a minority group of respondents, but rather individual perceptions that might have been influenced by specific experiences.

Moving to the other extreme, 303 responses or 75% of the data points were assessed as challenges and agreed with by the respondents. Only 1.5% of the 75% represent challenges presented by the respondents, resulting in 9 responses and 294 or 73.5% of the data points were assessed as maximum or moderate agreement with those challenges presented by the author. The chart below presents the percentage (%) of responses obtained for each of the challenges presented and the level of agreement (maximum or moderate). For this purpose the 9 challenges presented by the respondents were grouped as “Others” in the chart.

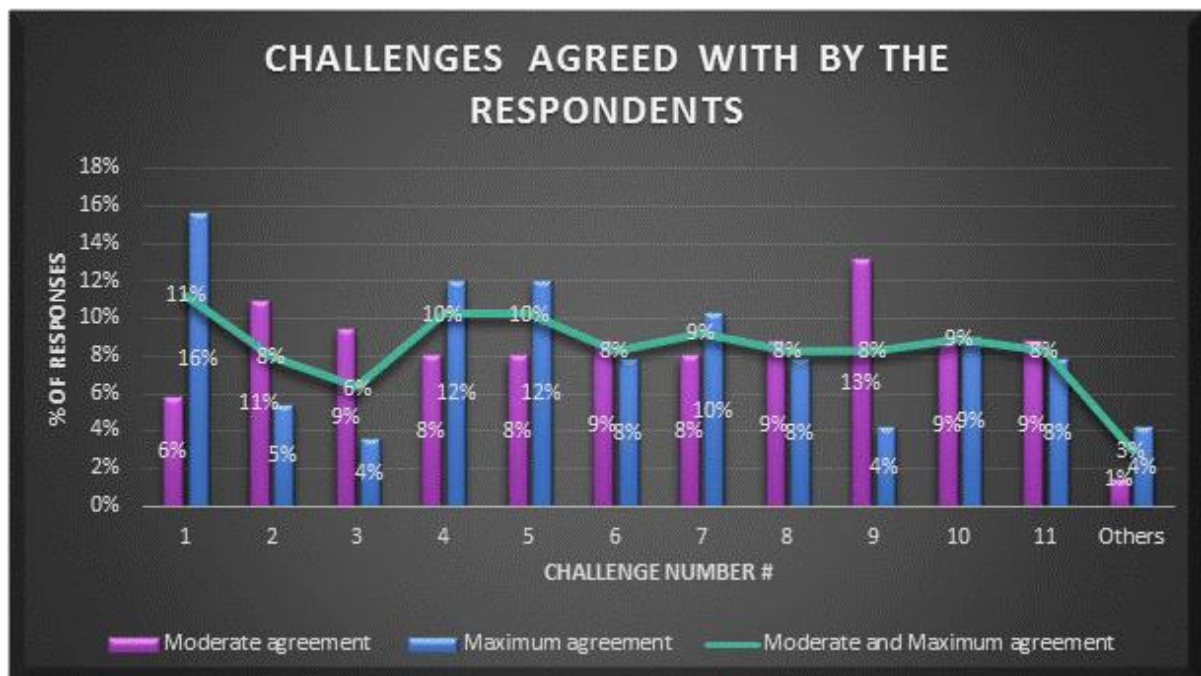


Figure 13 – Questionnaire Results Chart – Challenges Agreed With By The Respondents

In order to assess which challenges represent the most critical based on the participants' responses, the author first aggregated the moderate and maximum agreement

responses. As a result, the most critical challenges, as perceived by the respondents are presented in the table below.

Table 4 - Top 5 Challenges by Aggregating Maximum and Moderate Agreement Responses per Challenge

#	Challenge	Preponderant level of agreement	Number of mentions	%
1	Consistent growth of the regulation over the external financial audit activity	Maximum	34	11
4	Cannibalization of the market and decrease of business margins	Maximum	31	10
5	Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process	Maximum	31	10
7	Disequilibrium between professional and personal lives	Maximum	28	9
10	Increase of the audit risk and decrease in the quality of the audit work	Maximum	27	9

The author also disaggregated the answers to analyze which challenges were important and mentioned the highest number of times by participants, without considering the totals obtained by moderate and maximum agreement. This procedure is presented in the table below where the 5 most mentioned items are ranked.

Table 5 - Top 5 Challenges Agreed with by Disaggregating Maximum and Moderate Agreement Responses per Challenge

#	Challenge	Preponderant level of agreement	Number of mentions
1	Consistent growth of the regulation over the external financial audit activity	Maximum	26
4	Cannibalization of the market and decrease of business margins	Maximum	20
5	Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process	Maximum	20
9	Drop-off of the attractiveness of the career plan	Moderate	18
7	Disequilibrium between professional and personal lives	Maximum	17

The disaggregated analysis is still consistent with the aggregated data point information. The top 5 challenges when disaggregated, as perceived by the respondents are still represented by the aggregated data point analysis, except for challenge number 9, which has a moderate level of agreement mentioned in 18 responses. Although not a top five in total aggregated responses, as 7 data points were in with maximum level of agreement, it was assessed several times by the respondents as maximum or moderate agreement and would be challenge number 6 in terms of votes, representing 25 mentions of the 36 total population, or approximately 70%. In lieu of the challenge number 10, the fifth on the list in aggregate considerations, with 15 data points as maximum agreement and 12 data points as moderate agreement, both lower than the 18 data points as moderate agreement for the challenge number 9, the author determined that the disaggregated data point analysis is also relevant, as the moderate mentions bring the challenge number 9 to fourth in level of importance from a disaggregated point of view. Further, it was assessed as not critical by those who responded that they don't agree nor disagree (6 responses) and those who moderately disagree (5 responses) or approximately 30% of the total responses with no maximum level of disagreement (or no importance given).

6.2.7 IMPORTANCE OF THE FACTORS ASSOCIATED WITH THE NATURE OF THE CHALLENGES

The seventh question analyzes the nature of the challenges. That question asks for participants to assess the nature of the challenges faced by the external audit industry in Brazil concerning factors such as leadership, regulation, marketing, human resources, or business environment and to attribute importance to those factors based on a scale. This scale ranges from "1" (no importance) to "5" (high importance). The author's intention was to gather the views of the participants and try to identify trending areas which could be a focal point to audit firms in order to deal with the challenges discussed in question number 6 in a more effective way. The chart below shows a breakdown of the responses by the nature of the challenges, level of importance attributed to each factor, and the respective number of responses.

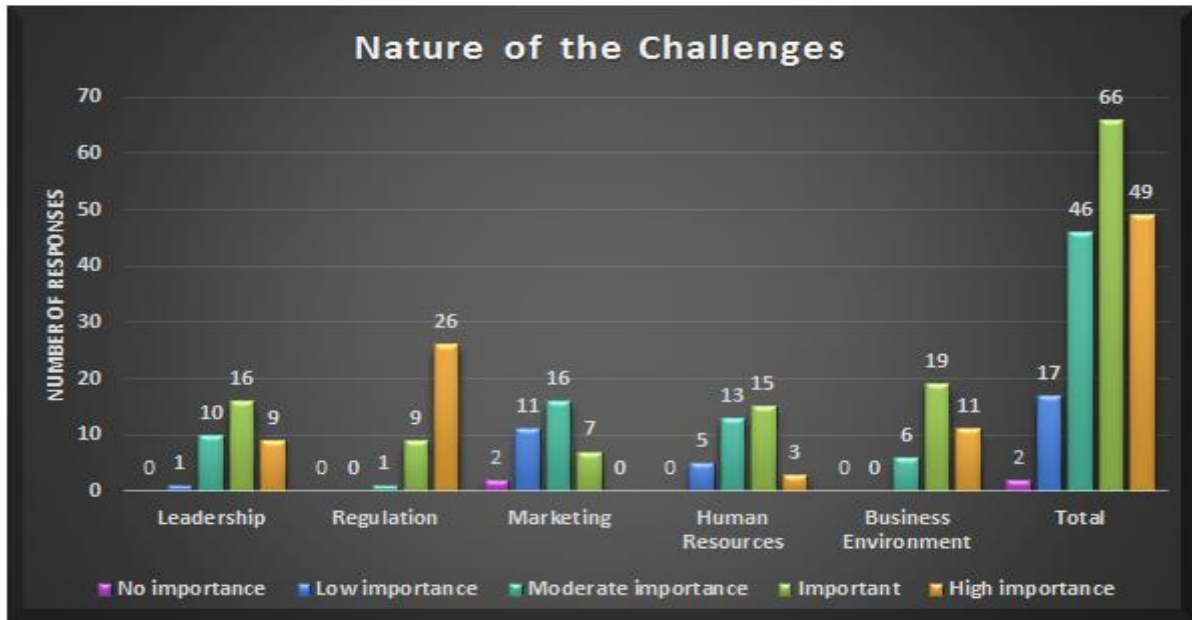


Figure 14 – Questionnaire Results Chart – The Nature of the Challenges

For this question the total of responses was 180 resulting from 36 respondents and 5 factors to be assessed. Table 6 below presents a grouping of the assessments based on the level of importance attributed to each factor by the respondents and number of responses. As shown in the table, only approximately 10% of the data points indicated some level of no importance or low importance regarding the factors presented in the question. Out of these 10%, only 2 or approximately 1% of the responses were assessed as no importance. Moreover, as presented in the table below, 161 data points or approximately 90% of the responses indicate that the participants assessed the factors as being of moderate or higher importance with a preponderance of 64% of important or high importance.

Table 6 – Level of importance of the factors (Nature of the Challenges)

Level of importance	Responses	%
No importance or low importance	19	10
Moderate importance	46	26
Important or high importance	115	64
Total	180	100

In order to assess which factors best represent the nature of the challenges based on the participants' responses, the author aggregated the responses in accordance with the concentration of data points in the categories "Important" and "High importance". As a

result, the factors that best represent the nature of the challenges faced by the external audit industry in Brazil, as considered by the respondents, are presented in the table below.

Table 7 – Factors that best represent the nature of the challenges faced by the external audit industry in Brazil

#	Factors	Number of responses (x out of 36)	Preponderant level of importance
1	Regulation	35 or 97%	High importance
2	Business Environment	30 or 83%	Important
3	Leadership	25 or 69%	Important
4	Human Resources	18 or 50%	Important
5	Marketing	7 or 19.5%	Important

As it can be observed in the table above, 35 responses or 97% of the respondents pointed the factor regulation as an element of highly important nature in relation to the challenges faced by the external audit industry in Brazil. Therefore, it can be concluded that regulation is the component which most represents the nature of the challenges faced by the external audit industry in Brazil, with high impact on the business, and the one that could help overcome the most critical challenges of the business.

Following the line of reasoning presented in the previous paragraph, and analyzing the factors that best represent the nature of the challenges discussed in this study, are the business environment, with 30 responses or 83% of the respondents qualifying it as the main factor that explains the nature of the challenges; the audit firms leadership with 25 responses or 69% of the respondents qualifying it as the main factor that explain the nature of the challenges; the audit firms human resources policies and initiatives with 18 responses or 50% of the respondents qualifying it as the main factor that explains the nature of the challenges; and the audit firms marketing policies and initiatives with only 7 responses or 19% of the respondents qualifying it as the main factor that explain the nature of the challenges.

To sum up, according to the analyses discussed above, regulation (97%), business environment (83%), leadership (69%), and human resources (50%) are factors that explain the nature of challenges faced by the external audit industry in Brazil assessed as highly important or important to the business. Marketing is in the fifth position on the list, with only 7 or 19.5% of the responses as an important factor (2 respondents from non-BIG4 and 5

respondents from BIG4 companies). The majority of the respondents attributed a moderate level of importance to marketing, contemplated in 44.5% of the moderate importance responses. An interesting point is the low level of importance attributed to the marketing factor. Moving to the opposite side of the statistics, 13 responses or 36% of the respondents understand that the nature of the challenges are not associated with the marketing factor, attributing low or no importance to this factor. Further, 29 or 80.5% of the responses attribute moderate, low or no importance to marketing in aggregate. When analyzing the respondents' profile, responses were spread out within the professionals of larger audit firms, such as BIG4 companies, and smaller firms and therefore the analysis could not be correlated to and is not directly impacted by the respondent's profiles gathered in questions number 1 through number 5, since the respondents presented similar distribution of assessments. This is intriguing because marketing is not seen as a potential area that could help the industry overcome those challenges, which involves factors such as market positioning, branding, both as a firm's differentiator and for the audit industry as a whole, and price definition.

6.2.8 MAIN CRITICAL SUCCESS FACTORS

In question number 8, respondents were required to indicate the three main critical success factors for the external financial audit industry in Brazil from those challenges enumerated in question number 6 and taking into account other challenges that could have been included by the respondents, as well. Additionally, respondents were asked to list them in order of importance, from more critical to less critical importance.

The objective of this question is to provide the reader with additional information about the areas that audit firms should focus if they want to strengthen the business both at the company level and also at the industry level.

Unlike the other questions which were answered by 36 participants, this question was answered by 33 participants resulting on 99 data points (3 responses by participant). Figure 15 below shows the bigger picture of the results gotten through this question.

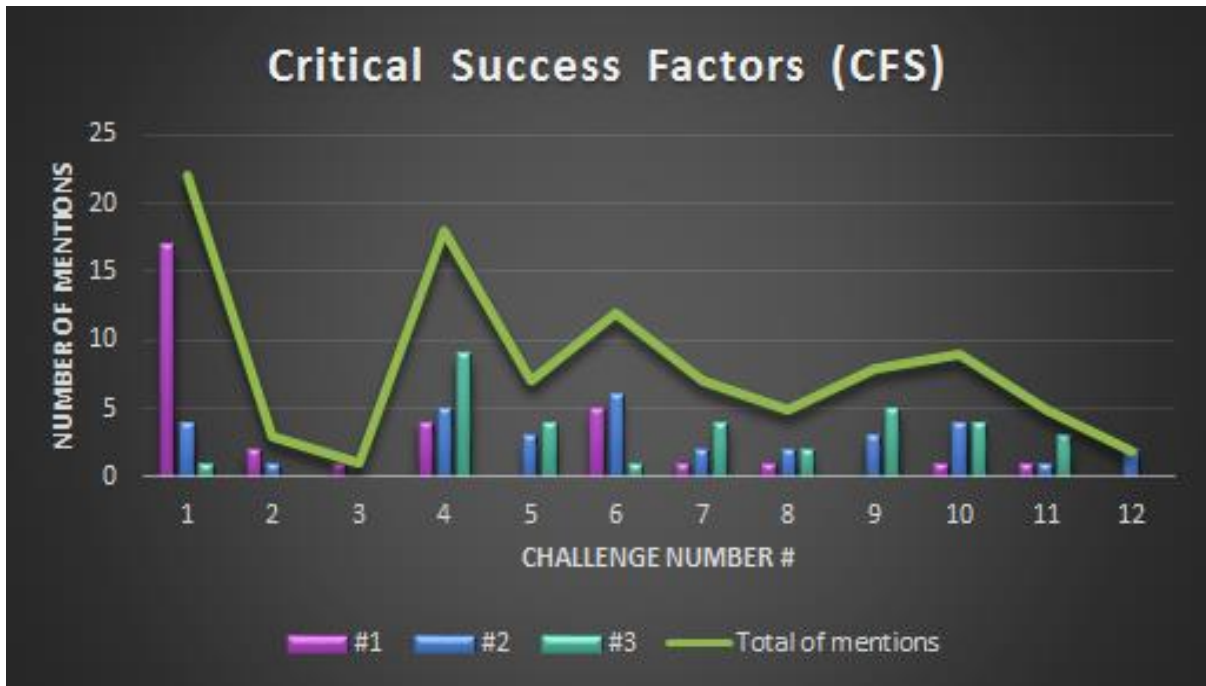


Figure 15 – Questionnaire Results Chart – Critical Success Factors

In order to assess which critical success factors represent the most critical based on the participants' responses, the author first aggregated the responses to identify the most mentioned challenges as critical success factors. Table 8 compiles the Top 3 Critical Success Factors (CSF) ordered by number of mentions and regardless of the level of impact on the business. In order to make it clear, the analysis “regardless of the level of impact on the business” means that the CSFs are listed only based on the number of mentions without taking into account if the respondent qualified them as the number one, number two, or number three more critical to the business. As a result, the most critical challenges, as perceived by the respondents are presented in the table below.

Table 8 – Top 3 Critical Success Factors (CSF) ordered by aggregated number of mentions and regardless of the level of impact on the business

#	Challenge	Aggregated number of mentions	%
1	Consistent growth of the regulation over the external financial audit activity	22	22.2
4	Cannibalization of the market and decrease of business margins	18	18.2
6	Loss of business intelligence and juniorization of teams	12	12.1
Total		52	52.5

As we can observe in the chart above, aligned with the most mentioned challenge in question number 6, the challenge number 1, “Consistent growth of the regulation over the external financial audit activity”, and the main factor that explains the nature of the challenges in question number 7, “Regulation”, the challenge number 1 was perceived by the respondents as the main critical success factor to the external audit industry in Brazil; this analysis also can be seen in the chart through the purple bars. Also, in connection with question number 6, the second more critical success factor elected by the respondents was the challenge number 4, “Cannibalization of the market and decrease of business margins”; this analysis also can be seen in the chart through the purple bars. Finally, the third more critical success factor revealed by this question was the challenge number 6, “Loss of business intelligence and juniorization of teams”. That is interesting because this challenge was not observed among the top 5 challenges most mentioned in the question 6 as moderate and maximum agreement with. However, it is absolutely reasonable to understand that the loss of business intelligence and juniorization of teams is a critical success factor to the external financial audit business in Brazil or in any country, since the main audit firms’ assets are their people because they hold the knowledge which is the essence of the “product” offered by the audit firms to the market.

The author also disaggregated the answers to analyze which critical success factors were mentioned the highest number of times by participants considering the totals obtained by the qualifications as number one, number two, and number three concerning the most critical they are to audit firms. The result of this procedure is presented in the table below where the 3 most mentioned items are ranked.

Table 9 – Top 3 Critical Success Factors (CSF) ordered by the number of mentions and taking into account the level of impact on the business

#	Challenge	Most mentioned as	Number of mentions
1	Consistent growth of the regulation over the external financial audit activity	Number one	17
6	Loss of business intelligence and juniorization of teams	Number two	6
4	Cannibalization of the market and decrease of business margins	Number three	9
Total			32

This stratification is still convergent with the aggregated analysis since the top 3 critical success factors are the same. However, the challenges number 4 and 6 switch their positions when the level of impact on the business is considered, the challenge number 6 was the most mentioned as the second more critical success factor, while the challenge number 4 was the most mentioned as the third most critical success factor.

6.2.9 CAN THE CHALLENGES BE OVERCOME?

In this question, participants were required to respond whether they understand that the challenges listed in question number 6 can be overcome. It is a multiple-choice question with the following answers available: "Yes", "No", or "Partially". The author's intention was to observe the trend of the participants' perspectives in relation to overcoming the challenges faced by the external financial industry in Brazil. Figure 16 below presents the results reached through this question.

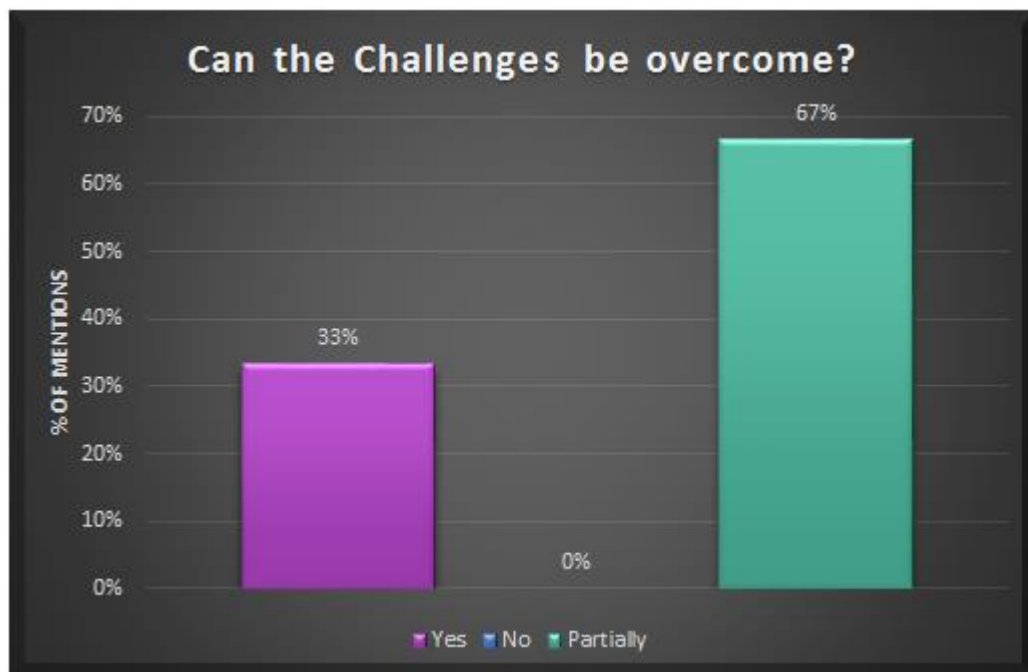


Figure 16 – Questionnaire Results Chart – Can the Challenges be overcome?

As part of the statistics, all respondents pointed out that the challenges can be overcome at least partially. No respondent understand that the challenges cannot be overcome. On the other hand, only one third or 33% of the respondents see that the

challenges can be fully overcome. Finally, 67% of the respondents consider that the challenges can be partially overcome.

The author further analyzed the responses by disaggregating the responses and compiling them by BIG4 and Non-BIG4 respondents as presented below:

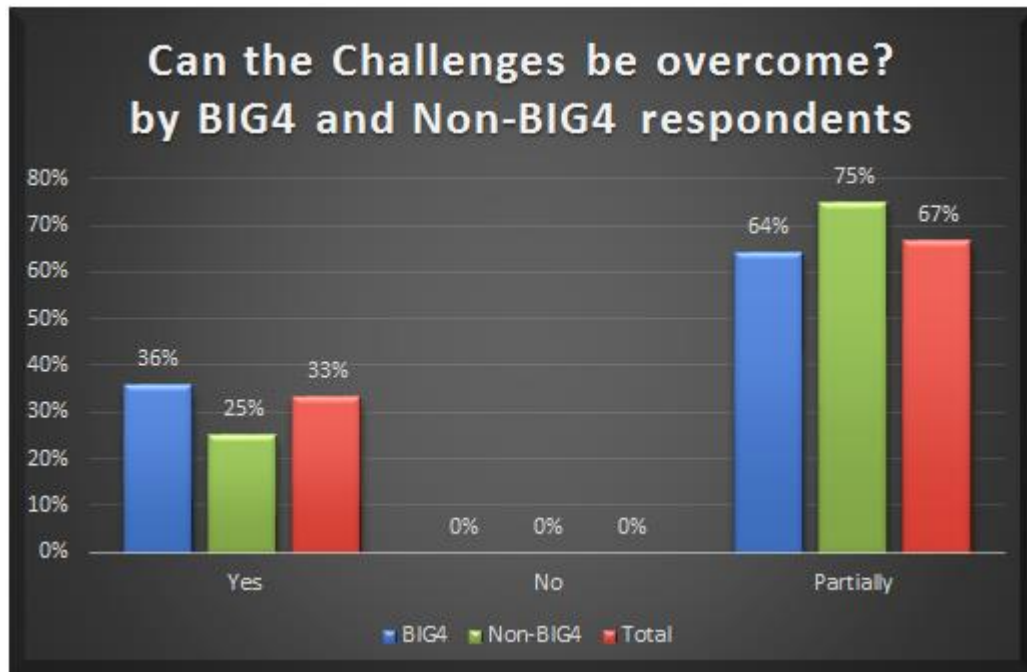


Figure 17 – Questionnaire Results Chart – Can the Challenges be overcome? by BIG4 and Non-BIG4 respondents

The figure above shows that responses were not characteristic of one group versus the other, and could be considered evenly spread, with minor concentrations, among BIG4 and Non-BIG4 firms respondents. Therefore, the size and type of firm is not an important factor to distinguish the respondent's perspectives on question number 9.

6.2.10 CAPACITY OF INTERVENTION ON THE CHALLENGES

In question number 10, in case the respondents have answered "Yes" or "Partially" in question number 9, they are required to assess the intervention capacity of the audit firms and/or their representatives, meaning capacity of working or exerting some level of influence to address the issues, in relation to the same challenges analyzed in question number 6. This

assessment is made using a scale ranging from 1 to 3 being "1" No intervention capacity, "2" Moderate intervention capacity, or "3" Plain intervention capacity.

The objective of this question was to obtain information on how each respondent analyze and assesses the intervention capacity of the audit firms on the challenges faced by the external financial industry in Brazil, being this intervention either by themselves or through their representatives in CFC (Brazilian Accounting Federal Council) or IBRACON (Institute of Independent Auditors of Brazil). This exercise resulted in 403 data points; 11 challenges responded by the 36 participants and additional 7 challenges provided and assessed by five of the respondents. Two additional challenges were provided by one of the respondents in question number 6, but they were not assessed for the purposes of the analysis in question number 10. In the table below presents the distribution of the data points according to the number of mentions by level of intervention capacity.

Table 10 – Intervention capacity based on the number of mentions

Intervention capacity	Number of mentions	%
No intervention	87	21.6
Moderate intervention capacity	160	39.7
Plain intervention capacity	156	38.7
Total	403	100.0

As shown in the table above, only 21.6% of the responses indicate that the audit firms and/or their representatives do not have any intervention capacity on some of the challenges listed in question number 6. On the other hand, 78.4% of the data points support the idea that most of the respondents understand that the audit firms and/or their representatives have moderate intervention capacity (39.7%) or plain intervention capacity (38.7%) in relation to the challenges analyzed in question number 6.

6.2.10.1 Aggregated Data Analysis

Going deeper in the question results, in order to analyze which challenges received the highest number of mentions concerning moderate or plain intervention capacity by the audit firms and/or their representatives based on the participants' responses, the author first aggregated the responses that comprises challenges for which were attributed a moderate or

plain intervention capacity. Figure 18 shows the results obtained through this aggregated analysis.

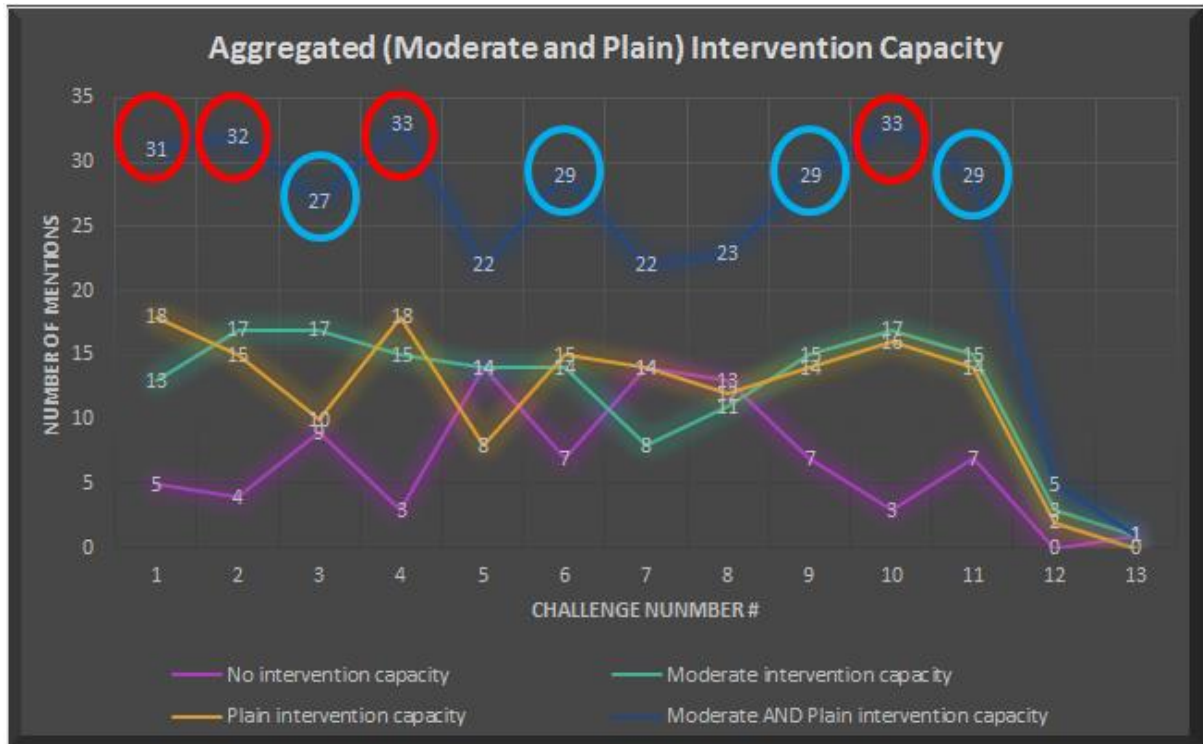


Figure 18 – Questionnaire Results Chart – Aggregated (Moderate and Plain) Intervention Capacity

As a result, based on the respondent's perceptions, the level of intervention capacity assessed as moderate or plain was attributed with the highest frequencies to the challenges presented in question number 6 are presented below. Four the top 4 challenges, please, see the points highlighted with red rings in Figure 18.

- Challenge number 4 – Cannibalization of the market and decrease of business margins - 33 mentions (18 as plain intervention capacity and 15 as moderate intervention capacity);
- Challenge number 10 – Increase of the audit risk and decrease in the quality of the audit work - 33 mentions (16 as plain intervention capacity and 17 as moderate intervention capacity);

- Challenge number 2 – Unlimited responsibility of independent auditors - 32 mentions (15 as plain intervention capacity and 17 as moderate intervention capacity);
- Challenge number 1 - Consistent growth of the regulation over the external financial audit activity – 31 mentions (18 as plain intervention capacity and 13 as moderate intervention capacity).

For a second set of challenges assessed the most as those having moderate or plain intervention capacity, please, see the points highlighted with blue rings in Figure 18. Those challenges are commented below:

- Challenge number 6 – Loss of business intelligence and juniorization of teams - 29 mentions (15 as plain intervention capacity and 14 as moderate intervention capacity);
- Challenge number 9 – Drop-off of the attractiveness of the career plan - 29 mentions (14 as plain intervention capacity and 15 as moderate intervention capacity);
- Challenge number 11 – Commoditization of the audit business - 29 mentions (14 as plain intervention capacity and 15 as moderate intervention capacity);
- Challenge number 3 - Rotation of auditors – 27 mentions (10 as plain intervention capacity and 17 as moderate intervention capacity).

6.2.10.2 Disaggregated Data Analysis

Aiming to provide the reader with different approaches to this question, the author isolated the levels of intervention capacity on the challenges faced by the external financial audit industry in Brazil and mapped the main challenges by level of intervention capacity, as considered by the respondents. The results of those analyses are discussed over the next pages.

6.2.10.2.1 Plain Intervention Capacity Analysis

At the top level of intervention capacity, Figure 19 highlights those challenges which received the highest number of mentions concerning plain intervention capacity only. Please, see the points highlighted with red rings.

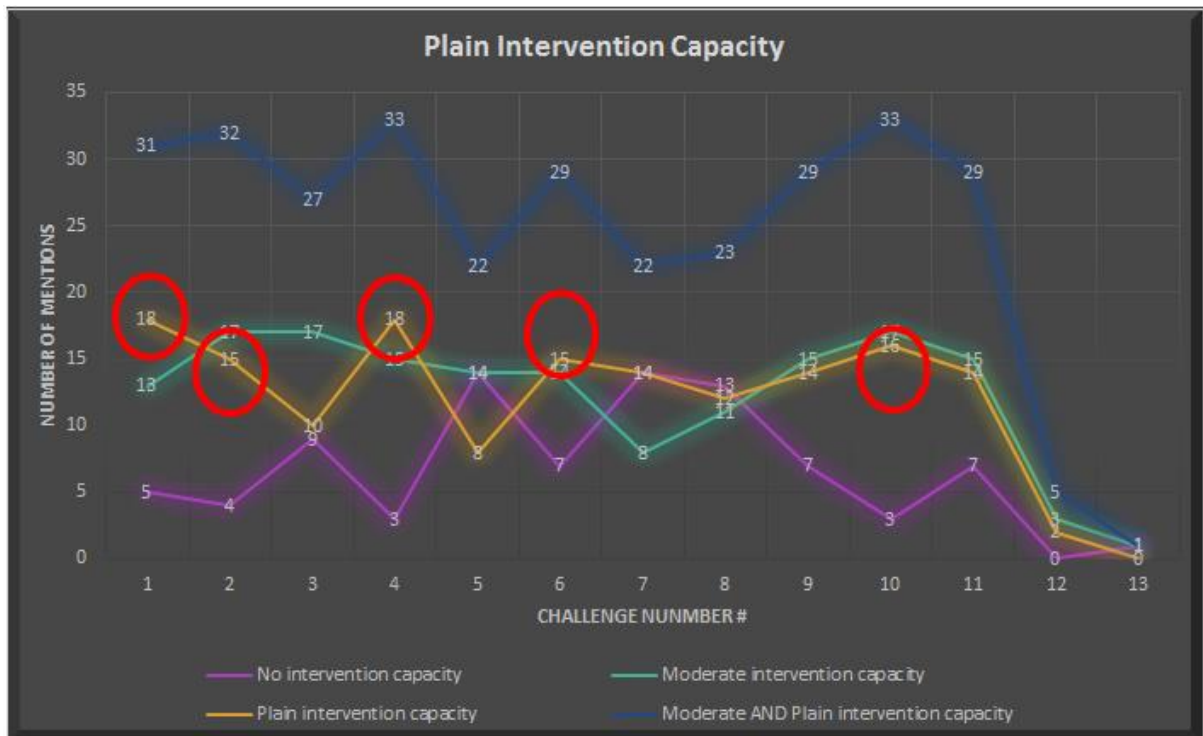


Figure 19 – Questionnaire Results Chart – Plain Intervention Capacity

As it can be observed in Figure 19, the top 5 challenges assessed as plain intervention capacity and, therefore, more susceptible to be addressed by initiatives coming directly from the audit firms and/or representatives are the challenges number 1, 4, 10, 2, and 6. Those challenges and respective number of mentions and relevance, when compared to the total of data points in the question, are presented in the table below:

Table 11 – Main challenges assessed as Plain Intervention Capacity based on the number of mentions

#	Challenge	Intervention capacity	Number of mentions	%
1	Consistent growth of the regulation over the external financial audit activity	Plain	18	4
4	Cannibalization of the market and decrease of business margins	Plain	18	4
10	Increase of the audit risk and decrease in the quality of the audit work	Plain	16	4
2	Unlimited responsibility of independent auditors	Plain	15	4
6	Loss of business intelligence and juniorization of teams	Plain	15	4
Total			82	20

6.2.10.2.2 Moderate Intervention Capacity Analysis

Next, at the intermediate level of intervention capacity, Figure 20 highlights those challenges which received the highest number of mentions regarding moderate intervention capacity only. Please, see the points highlighted with red rings.

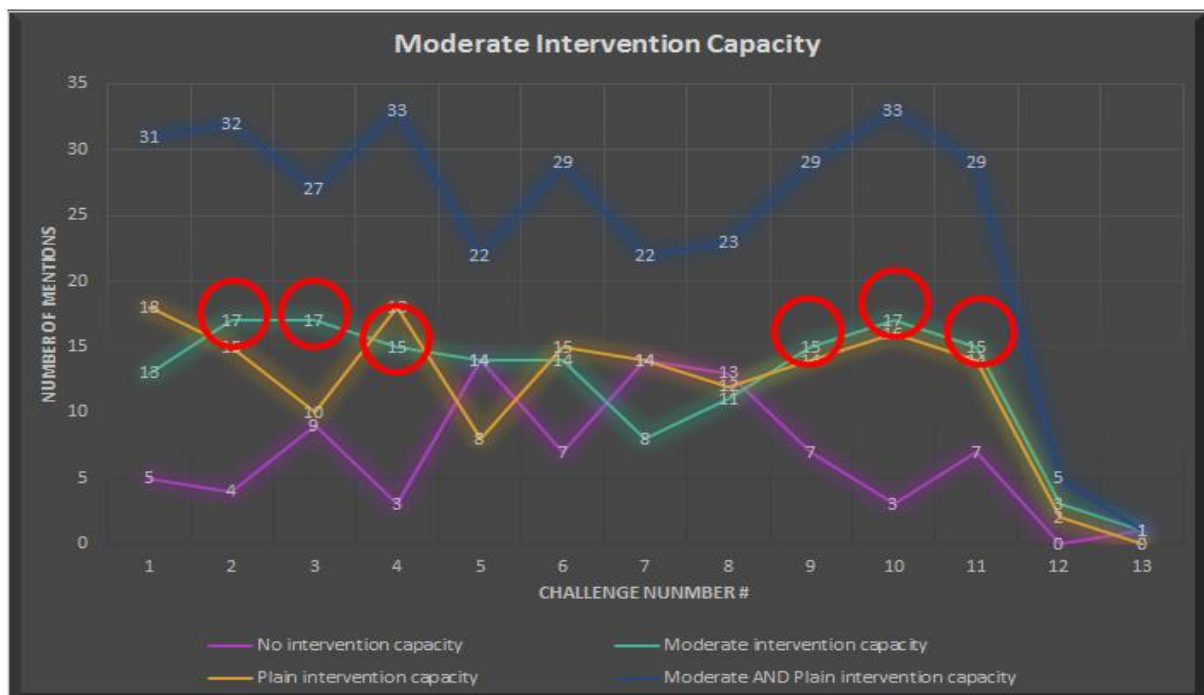


Figure 20 – Questionnaire Results Chart – Moderate Intervention Capacity

As shown in Figure 20, the top 6 challenges assessed as moderate intervention capacity and, therefore, being moderately susceptible to being addressed by initiatives coming directly from the audit firms and/or representatives are the challenges number 2, 3, 10, 4, 9, and 11. In this case, 6 challenges were mapped as moderate intervention capacity because all of the three challenges most cited as moderate intervention capacity received 17 mentions, and the next three challenges also drew a tie receiving 15 mentions. Those challenges and respective number of mentions and relevance, when compared to the total of data points in the question, are presented in Table 12 - Main challenges assessed as Moderate Intervention Capacity based on the number of mentions. Besides, note that the challenges number 2, 10, and 4 also were listed in the top 5 challenges assessed as plain intervention capacity with 15, 16, and 18 mentions, respectively. The number of mentions accumulated in each one of the two levels of intervention capacity could be qualified as a virtual tie since they are very closely distributed between both levels.

The virtual tie mentioned above suggests that in case audit firms intend to engage efforts to overcome the challenges by themselves and/or through their representatives, they definitely should start focusing on the top 4 challenges qualified as plain intervention capacity being the challenges number 1, 4, 10, and 2. Besides, in the aggregated analysis the challenges that were mentioned the highest number times were number 4, 10, 2, and 1 in order of occurrence from highest to lowest. The statistics shows that regardless of the stratification of the data points, challenges number 1, 2, 4 and 10 were reconfirmed through diversified analyses as the most susceptible of plain intervention capacity.

In a second wave, extending this reasoning of reconfirmation of challenges and their intervention capacity over the other top challenges qualified as moderate or plain intervention capacity come challenges number 6, 9, and 11 with 29 mentions each, followed by challenge number 3 with 27 mentions, as it can be observed through the blue rings in Figure 18. Besides, as presented in Table 11 – Main challenges assessed as Plain Intervention Capacity based on the number of mentions, challenge number 6 received 15 mentions; and, as presented in Table 12 – Main challenges assessed as Moderate Intervention Capacity based on the number of mentions, the challenges number 3, 9 and 11 were mentioned 17, 15, and 15 times, respectively. To summarize, taking a second look, the challenges to be worked using the approach of level of intervention capacity would be challenges number 6, 9, 11, and 3 in order of occurrence from highest to lowest.

Table 12 – Main challenges assessed as Moderate Intervention Capacity based on the number of mentions

#	Challenge	Intervention capacity	Number of mentions	%
2	Unlimited responsibility of independent auditors	Moderate	17	4
3	Rotation of auditors	Moderate	17	4
10	Increase of the audit risk and decrease in the quality of the audit work	Moderate	17	4
4	Cannibalization of the market and decrease of business margins	Moderate	15	4
9	Drop-off of the attractiveness of the career plan	Moderate	15	4
11	Commoditization of the audit business	Moderate	15	4
Total			96	24

6.2.10.2.3 No Intervention Capacity Analysis

Finally, at the bottom level of intervention capacity or no intervention capacity, Figure 21 highlights those challenges which received the highest number of mentions regarding no intervention capacity. Please, see the points highlighted with red rings.

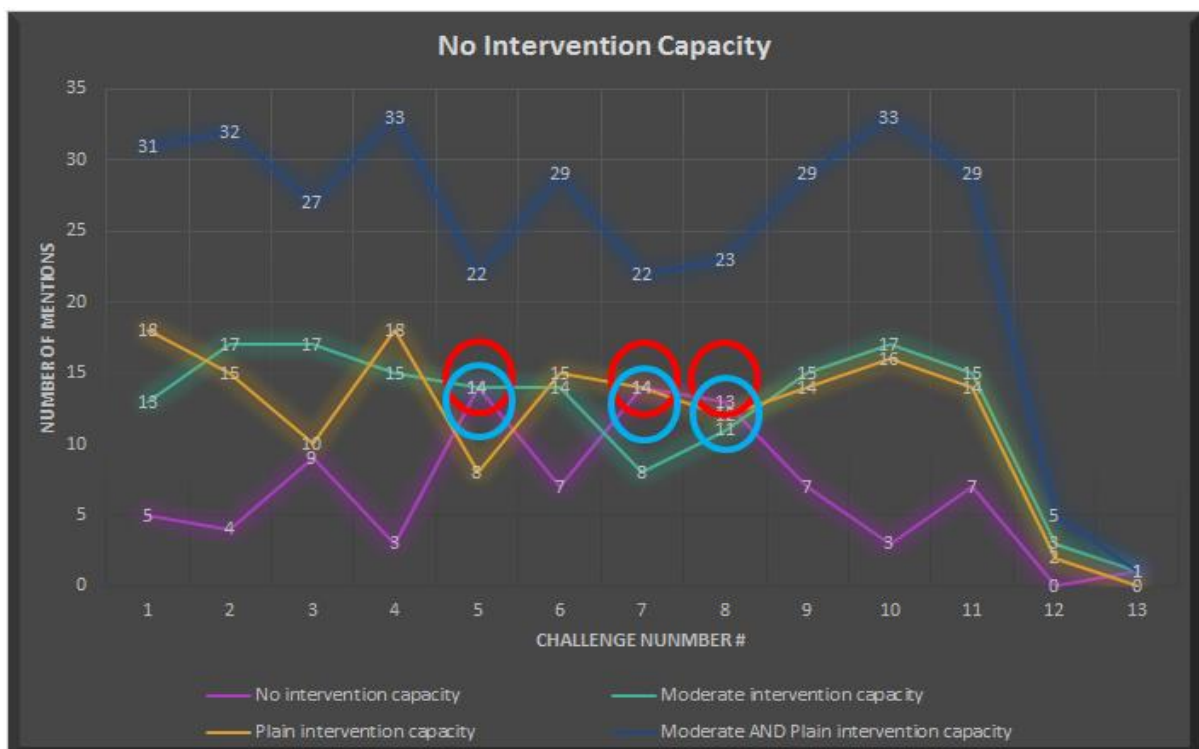


Figure 21 – Questionnaire Results Chart – No Intervention Capacity

As it can be observed in Figure 21, the top 3 challenges assessed as no intervention capacity and, therefore, do not being susceptible to be addressed by initiatives coming directly from the audit firms and/or representatives are challenges number 5, 7, and 8. Those challenges and respective number of mentions and relevance, when compared to the total of data points in the question, are presented in Table 13 – Main challenges assessed as No Intervention Capacity based on the number of mentions. Additionally, note that the challenges number 5, 7 and 8, as highlighted with blue rings in Figure 21, were mentioned in a combination of times that overlap or practically overlap at least two lines of level of intervention capacity. The challenge number 5 accumulates 14 mentions for each of the levels moderate or no intervention capacity, the challenge number 7 counts 14 mentions for each of the levels no or plain intervention capacity, and the challenge number 8 sums 13 mentions as no intervention capacity and 12 mentions as plain intervention capacity. Those assessments show strong division and doubt about if the audit firms and or their representatives really have some level of intervention capacity over these challenges. In this context, despite the fact that this is not the objective of this study, based on those assessments some hypotheses could be raised for investigation in future studies such as, do people really understand that the audit firms have no level of intervention capacity to deal with those challenges or do they not believe those challenges can be overcome taking into account all circumstances and facts.

Table 13 – Main challenges assessed as No Intervention Capacity based on the number of mentions

#	Challenge	Intervention capacity	Number of mentions	%
5	Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process	No	14	3
7	Disequilibrium between professional and personal lives	No	14	3
8	Decrease of the compensation package	No	13	3
Total			41	10

6.2.11 OBSERVED ACTIONS, DISCUSSIONS, OR PROPOSALS FOR ADDRESSING THE CHALLENGES

The eleventh and last question of the research asks if the respondents have observed actions, discussions, or proposals to address the challenges. If so, they were asked to describe the most relevant initiative they have observed. This question was responded by 36 participants. Please refer to Figure 22 below for the quantitative results obtained:

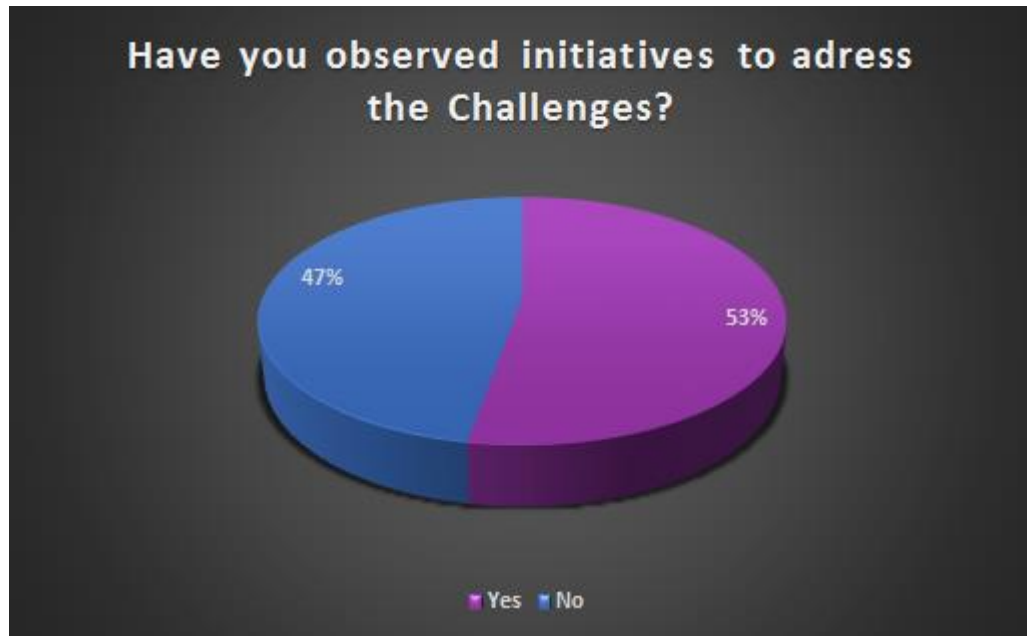


Figure 22 – Questionnaire Results Chart – Have you observed initiatives to address the Challenges?

6.2.11.1 Qualitative and Quantitative Analysis

The quantitative results show a slight advantage to the “Yesses” - 19 mentions or 53% against the “Nos” - 17 mentions or 47%, what communicates a clear equilibrium between points of view. Additionally, this question gave the opportunity to the respondents to include their comments providing conditions for a qualitative analysis of this question and insightful information to the reader. Despite the fact that the question asked the respondents to provide comments for the Yes responses, some of the respondents provided comments regardless of what their response was (“Yes” or “No”). The comments provided by the respondents of this question were transcribed in Table 14 – Question number 11 - Comments provided by the respondents about initiatives observed to address the challenges discussed in the study. Table

14 also relates the hierarchical level of the respondent and their respective answer for question number 11 as “Yes” or “No”.

Table 14 – Question number 11 - Comments provided by the respondents about initiatives observed to address the challenges discussed in the study – Part I of III

#	Hierarchical level	Answer	Initiatives observed
1	Partner	Yes	Establishment of a closer relationship between IBRACON and CFC as auditor's representatives and the regulators for alignment of the expectations.
2	Partner	Yes	IBRACON has worked on topics such as rotation of auditors, regulation of the profession, and unlimited responsibility of the auditors.
3	Partner	Yes	IBRACON has discussed a lot about the responsibility of the auditors' issue in frauds cases. This issue has been discussed in Brazil as a consequence of the corruption cases at Petrobrás and other government companies.
4	Partner	Yes	The continued professional education has been an instrument of improving formation and alert to auditors in Brazil. It includes topics needed to mitigate audit risks and assure independence and ethics.
5	Partner	No	My answer is "No" because I do not know any concrete movement which could bring results that I consider them as satisfactory.
6	Partner	Yes	IBRACON has been an important vehicle of interaction between the audit firms and the regulators. This relationship with the regulators is something that should generate synergies in the long run with respect to clarify the auditor's role. Concerning the people development aspect, the initiatives have been promoted by the BIG4 companies individually much more than a profession's organized movement. There are many efforts, but I cannot see a consolidated movement. Regarding the risk remuneration, I see the market with many imperfections mainly in relation to minimization of the risk associated with the acceptance of an audit work.
7	Partner	Yes	The respondent proposed solutions to address the challenges and not initiatives which have been observed.

Table 14 – Question number 11 - Comments provided by the respondents about initiatives observed to address the challenges discussed in the study – Part II of III

#	Hierarchical level	Answer	Initiatives observed
8	Partner	Yes	Regulation - With respect to regulation, every new regulation is discussed by auditors and accountants representatives. Despite of the fact that the results have not been relevant, the issues are discussed and challenged. Cannibalization of the market - The audit firms have perceived a significant reduction of their fees, what has occurred since the last rotation of auditors' cycle. At this point, the audit firms have struggled to reach the same level of fees charged to clients two years ago.
9	Director	No	There are movements which are not perceptive objectively.
10	Director	Yes	It was not reported an initiative.
11	Director	Yes	Regarding the regulation issue I have perceived BIG4 companies actions to work with the regulators looking for balancing the demand and the high investment in audit methodology changes to be in compliance with regulators' future inspections. In relation to the generational issue, I also have observed that the topic has been approached recurrently in the leadership meetings.
12	Director	Yes	It is possible to observe discussions about topics related to the career attractiveness and development and retention of professionals. There is no doubt that it is an initiative extremely important given that, in our industry, our main asset is our professionals.
13	Director	Yes	The respondent proposed solutions to address the challenges and not initiatives which have been observed.
14	Senior Manager	No	I have not observed a concrete movement to address such challenges so far. There are some isolated movements. However, they are not representative and strong enough to influence regulators or other stakeholders.
15	Senior Manager	Yes	The respondent proposed solutions to address the challenges and not initiatives which have been observed.
16	Senior Manager	No	I think that there is a movement which aims to change the audit firms' leadership image. However, it is necessary a change in the companies' culture and values not only to change the leadership image, but also to foster actions and profiles that promote a real change.
17	Senior Manager	Yes	Sincerely, I observe few actions, discussions, or proposes related to those challenges, mainly taking into account the size of the company I work (large company) and the market niche we serve which is focused on small and medium companies.

Table 14 – Question number 11 - Comments provided by the respondents about initiatives observed to address the challenges discussed in the study – Part III of III

#	Hierarchical level	Answer	Initiatives observed
18	Senior Manager	Yes	It was not reported an initiative.
19	Manager	Yes	There are internal movements approaching the relation between quality and profitability of the audit projects. Those movements look for reducing the volume of work and increasing efficiency through new computerized and friendlier tools, periodic review of the audit methodology, and a more active involvement of the field professionals in the hiring process of new professionals.
20	Manager	Yes	In my point of view, the set of challenges has become the external audit's daily routine more difficult. In crisis times, every challenge becomes bigger. I perceive company's actions trying to get it adapted to this competitive market oriented by prices and the new generations, and, at the same time, minimize the risk and maintain the quality.
21	Manager	Yes	I have perceived some movements to improve the work quality through the use of audit integrated tools which make the process of work documentation more objective and mitigating the risk of errors. I also have observed initiatives to gain efficiency including review of materiality criteria.
22	Manager	Yes	In the company where I work, there is a strong concern with the diversity issue. This includes how the company should approach and retain the generation Y professionals. One of the actions taken of the program flexibility for all aiming to address the issue of disequilibrium between professional and personal lives.

Although it is not the objective of the study, but in order to provide some insights about the comments described in Table 14 above, it is possible to develop some hypotheses about the topic, such as: the point of view about if the challenges have been addressed or have not seems more a matter of personal perception about isolated initiatives than a structured plan to address them because they are not consistent even among professionals working at the same company; in case there is a plan it seems that it has not been put in practice or communicated in such a way that most professionals could have similar perceptions; another intriguing point is about the “No” answers, some of the respondents can see that initiatives have been observed to address the challenges faced by the external audit

industry in Brazil, but they are not so effective as expected to be and do not fulfill their purposes.

6.2.11.2 Aggregating Other Variables to the Data Analysis

The picture shown in Figure 22 brings forth an important division of points of view which deserves further investigation. Therefore, trying to understand better what is behind those balanced assessments, their data points were crossed with data related to hierarchical level and BIG4 and non-BIG4 companies in order to map connections among these variables.

First, it is presented an analysis crossing responses in question number 11 with the responses gotten in question number 3 which was used to map the participants' hierarchical level. Figure 23 below brings the results reached through this analysis:

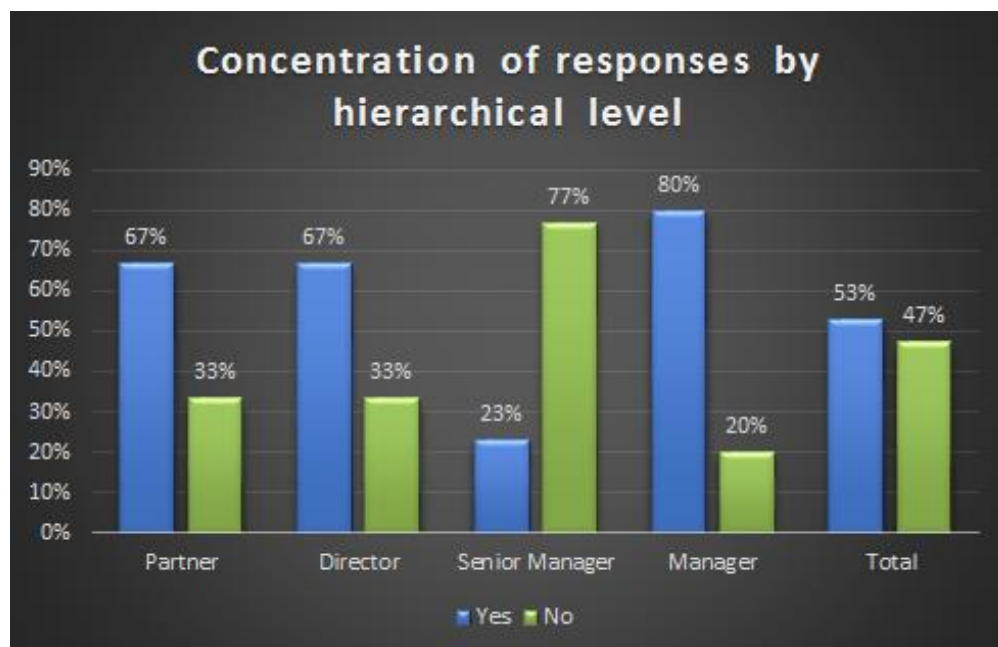


Figure 23 – Questionnaire Results Chart – Have you observed initiatives to address the Challenges? - Concentration of responses by hierarchical level

As we can observe in the chart above, the concentration of “Yesses” or “Nos” by hierarchical level shows that the vast majority of Partners (67%), Directors (67%) and Managers (80%) has observed initiatives to address the challenges faced by the external financial audit industry in Brazil. Nevertheless, on the opposite direction, the vast majority of

Senior Managers (77%) has not observed initiatives to address the challenges faced by external financial audit industry in Brazil. It is difficult to reach some conclusion using this isolated information, but looking at the quantitative information only, it could be said that Partners and Directors have communicated the same perception about the issue, while Senior Managers and Managers have shown clashing perceptions. Despite of the fact that it is not the objective of the study, but raising a hypothesis, this Senior Manager's perception could be one of the reasons why experienced professionals leave the external financial industry to develop their careers in other industries, they do not see that the audit firms have worked to improve the industry. But, this issue certainly could be a research object in other study.

Next, an analysis crossing responses from question number 11 with the concentration of the respondents with respect to the fact they work at either a BIG4 or a non-BIG4 company is presented. Figure 24 brings the results reached through this analysis:

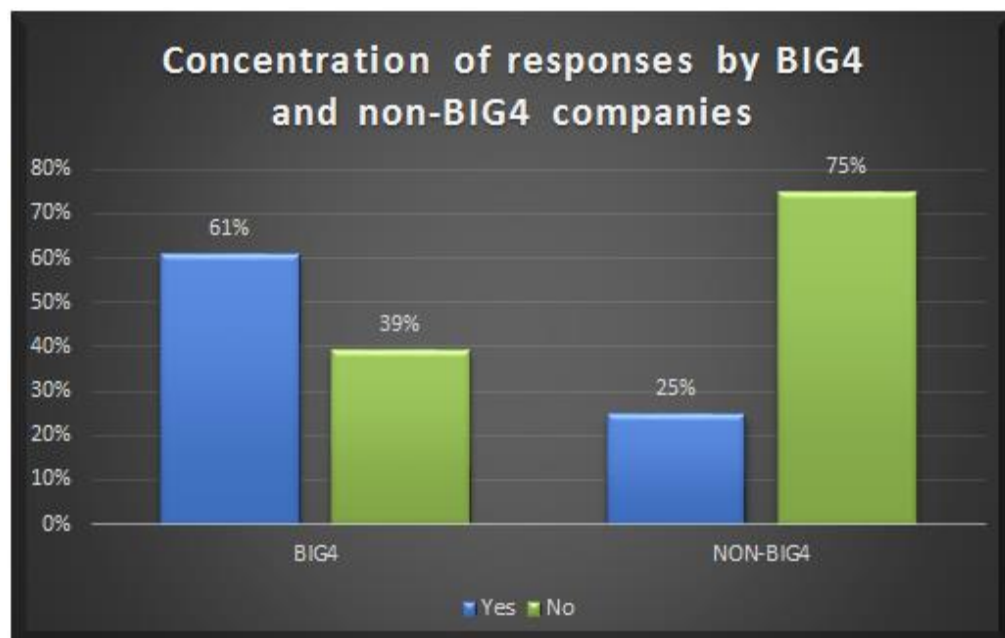


Figure 24 – Questionnaire Results Chart – Have you observed initiatives to address the Challenges? - Concentration of responses by BIG4 and non-BIG4 companies

The chart above shows that the concentration of “Yesses” or “Nos” by BIG4 and Non-BIG4 companies shows contrasting perceptions about the issue. While for BIG4 respondents, most of them (61%), have observed initiatives to address the challenges faced by the external financial audit industry in Brazil, Non-BIG4 respondents (75%) have not observed initiatives to address the challenges faced by external financial audit industry in Brazil. That could be

called a disruptive result since professionals working in the same industry have opposite points of view about the same marketplace, or more objectively, about their observations on initiatives to address the challenges faced by external financial audit industry in Brazil just because they work in companies with different sizes. It is somehow expected that those perceptions would differ, mainly due to the perceived influence capacity of BIG4 firms in the audit market and the perceived lack of influence capacity held by smaller firms. Definitely, this is a topic that could be further investigated and researched in a future study.

Going deeper in the question, next, it is presented an analysis crossing responses in question number 11 with the hierarchical level of the respondents and with the condition of the respondents with respect to the fact they work at either a BIG4 or a non-BIG4 company. Figure 25 brings the results reached through this aggregated analysis:

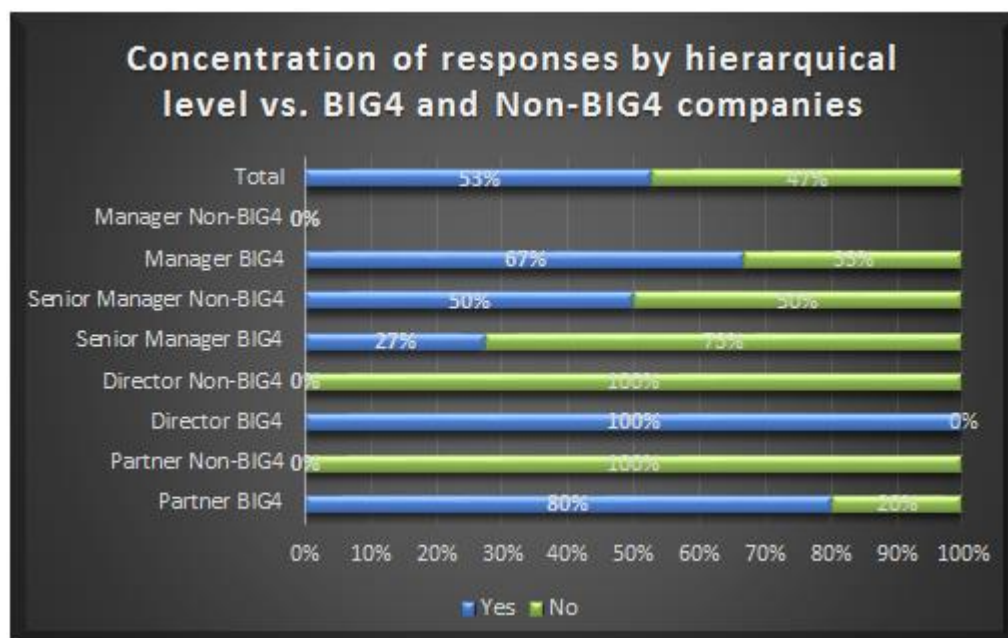


Figure 25 – Questionnaire Results Chart – Have you observed initiatives to address the Challenges? - Concentration of responses by hierarchical level vs. BIG4 and Non-BIG4 companies

As a result, the main observations are discussed as follows:

- Managers – 63% of the managers working at a BIG4 company has observed initiatives to address the challenges faced by the external financial audit industry in Brazil. There are not Non-BIG4 managers respondents;

- Senior Managers – The senior managers working at Non-BIG4 companies showed a perfect balance between Yesses and Nos, 50%-50%. However, most of the BIG4 senior managers (73%) confirmed they have not observed initiatives to address the challenges faced by the external financial industry in Brazil;
- Directors – Here it is presented a really conflicting result. While, 100% of the BIG4 respondents has observed initiatives to address the challenges faced by the external financial audit industry in Brazil, 100% of the Non-BIG4 respondents has not observed initiatives to address the challenges faced by external financial audit industry in Brazil. Such results are aligned with what was presented in Figure 24, since the majority of BIG4 respondents said Yes (61%), and, on the other hand, the vast majority of Non-BIG4 respondents said No (75%);
- Partners – In connection with what was discussed above concerning directors, partners' responses reinforce the same trend. While, the vast majority of the BIG4 partners (80%) has observed initiatives to address the challenges faced by the external financial audit industry in Brazil, the totality of Non-BIG4 partners (100%) has not observed initiatives to address the challenges faced by external financial audit industry in Brazil. The new fact here, is that BIG4 partners' response were not unanimous, and 20% of them answered the question with "No".

In summary, a point that must be highlighted is that the responses provided by partners and directors can support the idea that the companies in the same industry have been immersed in different experiences, and hence, the audit professionals have different perceptions about the same issue. Although, it is not the objective of this study, but rather a reflection point, such fact can be not only a consequence of the maturity stage of the external financial audit industry in Brazil, but also a byproduct of the Brazilian economic background, as a whole. To make this point clearer, the evolution and the facts and circumstances surrounding the Brazilian economic environment have influenced the evolution of the external financial audit industry in Brazil, since the capital markets in Brazil is substantially led by big public companies which are in most cases BIG4 clients. In this context, it is reasonable to think that there is a division of the external financial audit market in Brazil in

two parts, in BIG4 companies Brazilian market and Non-BIG4 companies Brazilian market, and both have following through different stages of evolution, since most efforts in the industry could have been engaged to support BIG4 companies because most of the audit risk is concentrated in BIG4 clients. Nevertheless, this is a preliminary analysis and a point to be studied and further investigated in a future research.

7. CONCLUSIONS

The external auditing role in the contemporaneous business environment, and the increasing interest in and demand for governance and transparency, has become an even more important element to the society as a whole, in order to build a solid basis to the development of businesses and generation of wealth through technical knowledge, independence, transparency, credibility, and ethics. Nevertheless, the external financial audit industry in the world and also particularly in Brazil has faced several challenges which threaten its success and evolution.

In this sense, since the external audit industry in Brazil has been immersed in a deep crisis with features that were explored through this study, it was created an analogy saying that the external financial audit industry is like a sick person with a chronic disease, but the disease has not yet been diagnosed and the person has been dealing with the isolated symptoms. This person, the external audit industry, has struggled with this disease for many years and it is getting worse.

In this context, as presented in the chapter 2. Objectives, Relevance, and Structure, the ultimate and bigger objective of this study was to map and identify the challenges faced by the external audit industry in Brazil. Therefore, in order to make it possible, several activities had to be planned and accomplished successfully, as summarized in the figure below:



Figure 26 – The Master's Thesis Process

Moreover, three other objectives were pointed out to make this research reach its full purpose:

- a) As observed in this study, the topic can be very debatable. In this context, the study looked for concentration of answers and general lines of orientation through an academic approach in order to make this study an objective and reliable source of information for the industry;
- b) Provide external audit companies with insights about the challenges and problems of the industry and motivate actions. Single actions adopted by each company in the industry focusing on the same challenges can improve the industry as a whole;
- c) Develop a questionnaire that fulfills the objectives of the research by providing knowledge and useful information for all of those interested in the issue.

Taking into account that the general and specific objectives presented above and all the relevant and unique knowledge gathered through this study, it can be affirmed that, free of any uncertainty, the objectives were fully accomplished and the results are highly satisfactory.

To sum up that relevant and unique knowledge, the main challenges faced by the external audit industry in Brazil, as perceived by the respondents, relate to factors that were also determined to be critical success factors for the audit business in Brazil. Subchapters 6.2.6 Level of Agreement with the Challenges and 6.2.7 Importance of the Factors Associated with the Nature of the Challenges present these challenges and their nature and rank them by those most voted. When aggregated, taking into account moderate and maximum level of agreement, challenges number 1, 4, 5, 7 and 10 were voted as the top five challenges faced by the external audit industry in Brazil. Furthermore, the disaggregated analysis is still consistent with the aggregated data point information. The top 5 challenges as perceived by the respondents, when disaggregated, are still represented by the aggregated data point analysis, except for challenge number 9 in lieu of challenge number 10. Challenge number 9 has a moderate level of agreement mentioned in 18 responses being individually relevant and other 7 responses with a maximum level of agreement. Although not part of the top five in total aggregated responses, it was assessed several times by the respondents as

maximum or moderate agreement and would be challenge number 6 in terms of votes, representing 25 mentions of the 36 total population, or approximately 70%. Those challenges are presented below:

1. Challenge number 1 – Consistent growth of the regulation over the external financial audit activity;
2. Challenge number 4 – Cannibalization of the market and decrease of business margins;
3. Challenge number 5 – Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process;
4. Challenge number 7 – Disequilibrium between personal and professional lives;
5. Challenge number 10 – Increase of the audit risk and decrease in the quality of the audit work;
6. Challenge number 9 – Drop off of the attractiveness of the career plan.

In mapping these challenges and obtaining the respondents perspectives of which of them were perceived as the most relevant, the main objective of this study was accomplished. Respondents gave importance to the factors above and determined that those are the main challenges currently affecting the audit environment. Further, subchapter 6.2.7 presents the nature of the challenges, such as regulation, the business environment, leadership, human resources and marketing, listed here in the order of nature given to the challenges, as provided by the respondents. Regulation was at the top of the list of votes, which is clearly and closely related to the main challenge identified – Challenge number 1, as presented above. Challenge number 4, cannibalization of the market was voted number 2 in terms of mostly voted as a significant challenge, while marketing was the least relevant item in terms of nature of the challenge. This specific response was very intriguing and potentially not assessed by participants taking into consideration the full definition and scope of “marketing”. All other items presented in terms of nature of challenges correlate to the main challenges voted in question number 6, which supports the objective of identifying and mapping the main issues faced by the audit industry in Brazil.

Further, question number 8 was an open question through which respondents were inquired to indicate which challenges represent the 3 main critical success factors in order of importance. The most voted factors of success (when aggregated) were associated with challenges number 1, 4 and 6:

1. Challenge number 1 – Consistent growth of the regulation over the external financial audit activity;
2. Challenge number 4 – Cannibalization of the market and decrease of business margins;
3. Challenge number 6 – Loss of business intelligence and juniorization of teams.

When evaluating these responses, challenges number 1 and 4 were again at the top of the list, which clearly confirmed these challenges need to be addressed as top priorities. Challenge number 6 was not at the top of the list in questions number 6 or 7, but it is closely related to challenges number 5, 7, 10 and 9 discussed above. It is also closely related to the business environment and leadership, rather than only to human resources, presented in question number 7. In other words, although the loss of business intelligence and juniorization of the teams was not at the top of the list of challenges faced by audit firms in Brazil and also not at the top when analyzed by nature of the challenge, it was pointed as an issue that is critical for the success of the audit business in Brazil, both at the company and the industry levels. Therefore, this challenge should also be mapped as one to be addressed as a top priority challenge, since it might help address the other top issues as it relates to so many other challenges, directly or indirectly.

Question number 9 brings into perspective the view of participants in regards to overcoming the challenges. The majority of the participants believe that they can be at least partially overcome with a 67% rate of response.

In question number 10, the author also asked about their perception of the intervention capacity of the audit firms to each of the challenges analyzed in question number 6. The top 6 challenges identified in the results of question number 6, complemented by a seventh key challenge resulting from the analysis of the critical success factors discussed in question number 8, and their level of intervention perception is summarized below:

1. Challenge number 1 - Consistent growth of the regulation over the external financial audit activity - 31 out of 36 respondents determined that there is plain or moderate level of intervention capacity;
2. Challenge number 4 - Cannibalization of the market and decrease of business margins - 33 out of 36 respondents determined that there is plain or moderate level of intervention capacity;
3. Challenge number 5 - Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process - 22 out of 36 respondents determined that there is plain or moderate intervention capacity;
4. Challenge number 7 - Disequilibrium between personal and professional lives - 22 out of 36 respondents determined that there is plain or moderate intervention capacity;
5. Challenge number 10 - Increase of the audit risk and decrease in the quality of the audit work - 33 out of 36 respondents determined that there is plain or moderate intervention capacity;
6. Challenge number 9 - Drop off of the attractiveness of the career plan - 29 out of 36 respondents determined that there is plain or moderate intervention capacity;
7. Challenge number 6 - Loss of business intelligence and juniorization of teams - 29 out of 36 respondents determined that there is plain or moderate intervention capacity.

The results of question number 10 corroborate the fact that the challenges can be overcome as the majority of the respondents perceive them to be somewhat under the audit firms' control or at least to be influenced by them, with either plain or moderate intervention capacity.

In order to finalize the analysis, in question number 11, the author inquired whether initiatives to address the challenges have been noted by respondents. As a result, 53% of the

participants responded “Yes” and 47% of the participants responded “No”, a divided population. Since the results showed a virtual tie, the responses were further stratified by the hierarchical position of participants and their BIG4 and Non-BIG4 background. While BIG4 respondents, most of them (61%), have observed initiatives to address the challenges faced by the external financial audit industry in Brazil, Non-BIG4 respondents (75%) have not observed initiatives to address the challenges faced by external financial audit industry in Brazil. That could be called a disruptive result since professionals working in the same industry have opposite points of view about the same marketplace, or more objectively, about their observations on initiatives to address the challenges faced by external financial audit industry in Brazil just because they work in companies with different sizes. It is somehow expected that those perceptions would differ, mainly due to the perceived influence capacity of BIG4 firms in the audit market and the possible perceived lack of influence capacity held by smaller firms. As discussed in subchapter 6.2.11 Observed Actions, Discussions, or Proposals for Addressing the Challenges, different hypothesis can be brought up and further analysis, not subject of this study could be performed in the future.

As summarized in this chapter and further discussed throughout the thesis, this study fulfilled its objective to identify and map the main challenges affecting the audit industry in Brazil. By analogizing the audit industry with a sick person, the study went further and also determined that the disease and its symptoms can be cured and also verified that some of those symptoms are already being treated. However, based on the results of question number 11, in which the responses were very close to a tie, it is reasonable to conclude that more measures are needed in order to overcome these challenges and to reestablish the health and assure the endurance of the audit industry Brazil in the future. Since, at this point the challenges have been identified and understood, those measures can be explored and developed through future researches.

8. LIMITATIONS OF THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCHES

8.1 LIMITATIONS OF THE STUDY

This study has two limitations which are distinct in nature, a methodological limitation and an environmental limitation.

The methodological limitation concerns two aspects, the number of respondents and the distribution of the respondents.

The first aspect related to the methodological limitation is that the study is supported by a limited number of respondents (36 professionals). That said, it is reasonable to assume that the results might have been more surgical and even more enlightening, if the number of professionals who responded the survey had been larger.

The other aspect of the methodological limitation is connected to the distribution of the respondents because 28 or approximately 78% of the respondents work at BIG4 companies, while 8 or approximately 22% of them work at non-BIG4 companies. The study suggests that those two groups can have different points of view about the external audit industry in Brazil. Moreover, among the BIG4 respondents 26 out of 28 or approximately 93% of them work at the same single BIG4 audit firm. Hence, more BIG4 inputs might bring diversified ideas to the study.

Concerning the environmental limitation, it is opportune to highlight that Brazil has followed through a critical period in its history, both economically and politically, as it had not been seen for years. The economy has become weak, resulting in a strong economic crisis, and, even more critical, the country has been immersed in an ethical crisis, as a consequence of several fraud cases unveiled in the political sphere and in governmental companies. This whole scenario certainly might bias the perceptions of the respondents. Therefore, it is plausible to think that, in a different economic and political context, the responses might lead to different conclusions.

8.2 RECOMMENDATIONS FOR FUTURE RESEARCHES

This study is a very rich stream of topics to be further investigated in future researches.

The starting point, or better said, starting points, is each one of the challenges presented and discussed in the chapter 3. Challenges Observed in the External Audit Industry in Brazil which are hereafter transcribed for inspirational purpose:

1. Consistent growth of the regulation over the external financial audit activity;
2. Unlimited responsibility of independent auditors;
3. Rotation of auditors;
4. Cannibalization of the market and decrease of business margins;
5. Complexity of the business environment and increasing demand for involvement of other specialists in the auditing process;
6. Loss of business intelligence and juniorization of teams;
7. Disequilibrium between professional and personal lives;
8. Decrease of the compensation package;
9. Drop-off of the attractiveness of the career plan;
10. Increase of the audit risk and decrease in the quality of the audit work;
11. Commoditization of the audit business.

On the same token, there are other challenges presented by the respondents in response to question number 6, as presented in the subchapter 6.2.6 Level of Agreement with the Challenges.

Finally, several of the subchapter sections in the chapter 6. Data Analysis and Discussion of the Results brought forth several hypothesis as a consequence of the data analysis and discussion of the results. Those hypothesis can be tuned up and unfolded in several intriguing and enlightening topics for future researches.

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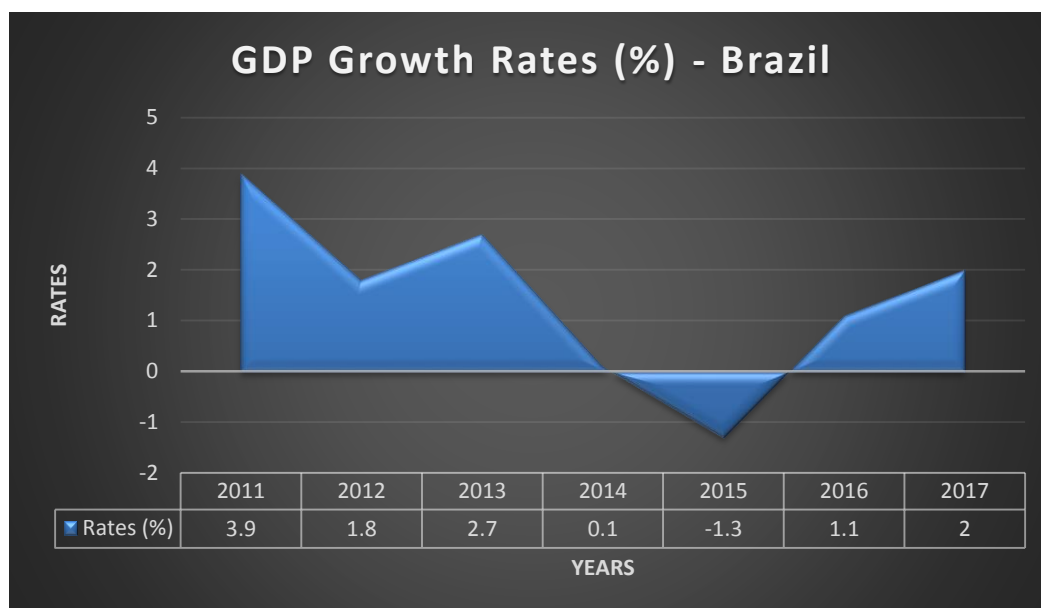
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APPENDICES

APPENDIX A – THE EVOLUTION OF THE BRAZILIAN GROSS DOMESTIC PRODUCT (GDP) – 2011 TO 2017



Source: Global Economic Prospects - The World Bank Website [8].

APPENDIX B – THE EVOLUTION OF THE AUDITING IN BRAZIL AND IN THE WORLD

Year	Facts
1756	Industrial Revolution in England and the expansion of the Capitalism, which propelled the audit profession as a result of the appearance of the first factories.
1880	Appearance of the Certified Public Accountants Association in England.
1887	Appearance of the Certified Public Accountants Association in the United States.
1894	Appearance of the Public Accountants Institute in the Netherlands.
Early 20th century	Birth of the first big American corporations and quick expansion of the capital markets.
1911 a 1915	First audit firms in Brazil - Deloitte Touche Tohmatsu e Price Waterhouse & Peat Marwick.
1916	Appearance of the American Institute of Certified Public Accountants succeeding the Certified Public Accountants Association founded in 1887 in the United States.
1922	First article published in Brazil about Audit named "The Accountancy in the Great Britain".
1929	Crisis of 1929 and, consequently, the crash of the stock market.
Early 1930's	The Institute of Public Accountants, which succeeded the Certified Public Accountants Association created in 1887 in the United States, regulates accounting standards for highly qualified professionals.
1934	Creation of the SEC (Security and Exchange Commission), in the United States, increasing the importance of the Auditor's profession as guardian of the transparency of the companies' accounting information and their disclosure to the capital markets.
1947	Declaration of the Internal Auditor's Responsibility.
1957	First book published about audit in Brazil authored by the Professor Doctor Antonio Lopes de Sá, named Curso de Auditoria, "Audit Course" in English.
1965	Law Nº 4.728/65, which discusses about the capital markets' functioning with the objective of offering higher security and protection to investors.
1971	Creation of the Institute of Independent Auditors of Brazil, Instituto dos Auditores Independentes do Brasil (IBRACON).
1972	Resolution Nº 220, of the Central Bank of Brazil, establishes the conditions for registration of independent auditors.
1972	Resolution Nº 321, of the Brazilian Accounting Federal Council, approves the auditing standards and procedures.
1973	Appearance of the Financial Accounting Standards Board (FASB), in the United States, with the objective of determining and improving the accounting procedures, concepts, and standards.
1976	Law Nº 6.404 – Lei das Sociedades por Ações, "Corporate Law" in English, with the objective of regulating the accounting practices and reports.
1976	Foundation of the Comissão de Valores Mobiliários (CVM), Brazilian Securities Commission, increasing the importance of the Auditor's profession as guardian of the transparency of the companies' accounting information and their disclosure to the Brazilian capital markets.
1977	Creation of the Internacional Federation of Accounting (IFAC), with the mission of issuing professional standards and recommendations guidances, seeking the international convergence of those standards.
1997	Resolution of the Brazilian Accounting Federal Council Nº 829 which approved the NBC T 11, providing Standards for Independent Audit of the Financial Statements.
2001	Creation of the Internacional Accounting Standards Board (IASB), in the Great Britain, which is responsible for studying the accounting standards aiming their international harmonization.
2002	Sarbanes-Oxley Act enacted in the United States, establishing severe requirements concerning the analysis and disclosure of the financial information for public companies.
2002	Resolution of the Brazilian Accounting Federal Council Nº. 945, which discuss about the continued professional education for independent auditors.
2007 * [32]	Law Nº 11.638 alters and revokes articles of the Law Nº 6.404, Brazilian Corporate Law, of December 15, 1976, and of the Law Nº 6.385, of December 7, 1976,. It also expands its scope over the big size companies regarding the preparation and disclosure of the financial statements.
2007 * [33]	Instruction CVM Nº 457 which is about the preparation and disclosure of the consolidated financial statements, based on the accounting standards issued by the International Accounting Standards Board - IASB.
2008	Deliberation CVM Nº 549 which is about the rotation of independent auditors rendering financial statements audit services for a same client under the stock market.
2009 * [34]	Revision of the Brazilian Auditing Standards in accordance with the International Standards on Auditing (ISAs) to be adopted in 2010 through the Brazilian Accounting Standards - Audit Techniques (NBC TAs) Framework and Nº 200 to 810, and the Accounting Federal Council's (CFC) Resolutions Nº 1.202 to 1.238, respectively.
2010 * [35]	Instruction CVM Nº 485, alters the Instruction Nº 457/07, which is about the preparation and disclosure of the consolidated financial statements, based on the accounting standards issued by the International Accounting Standards Board - IASB.
2011 * [36]	Instruction CVM Nº 509 adds articles to the Instruction nº 308, of May 14, 1999, and alters articles and the appendice of the Instruction CVM Nº 480, of December 7, 2009. Particularly regarding the Instruction CVM nº 308 it extends the period for adopting the rotation of independent auditors.

Source: Adapted from Amorim et al (2012) [16].

(*) Facts included by the author of this thesis. For those information in the picture, please see the respective reference [#] in the Bibliography section.

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY

Research Purpose	Mapear e validar os desafios enfrentados pela auditoria financeira externa no Brasil	
Title	The Challenges Faced by the Financial External Audit Industry in Brazil: An Exploratory Study	
Desafios da indústria de auditoria financeira externa no Brasil		
#	Desafios	Detalhamento
1	Crescimento consistente da regulamentação sobre a atividade de auditoria financeira externa	Como resposta ao ambiente de negócios e aos stakeholders em todo o mundo, os reguladores do mercado de capitais e da atividade de auditoria externa têm desenvolvido e emitido novos e complexos procedimentos de auditoria e requerimentos com o objetivo de mitigar o risco de erros e fraudes nas demonstrações financeiras das empresas. Esses elementos têm aumentado substancialmente o volume de trabalho e a responsabilidade dos auditores externos. Esse aumento no trabalho e na responsabilidade do auditor, com o consequente aumento dos custos de auditoria (mais horas a serem alocadas aos projetos para a execução do trabalho, maiores custos), muitas vezes, por razões comerciais, não tem sido repassado para os clientes, integralmente ou parcialmente, devido à pressão por redução dos preços dos contratos de auditoria. Em outras palavras, o auditor tem sido imputado com mais trabalho e responsabilidade pelos reguladores a fim de aumentar o nível de credibilidade e transparência sobre as demonstrações financeiras e saúde dos negócios. Por outro lado, as empresas parecem não entender esse propósito e valorizá-lo, não em termos de remuneração dos auditores, como um elemento crítico para a evolução do mercado de capitais e governança corporativa no Brasil.
2	Responsabilidade ilimitada dos auditores independentes	A responsabilidade ilimitada imposta aos auditores pelo mercado é outro desafio da auditoria financeira no mercado brasileiro tanto em termos de reputação e credibilidade quanto em termos financeiros. Para falar somente dos aspectos legais e financeiros, no Brasil, diferente da maioria dos outros países, a responsabilidade financeira do auditor não fica limitada ao capital da empresa de auditoria, alcançando a pessoa física do sócio. Isso aliado ao fato de que muitas vezes a expectativa do mercado é de que o auditor exerça papel de fiscal ou até mesmo de polícia, o que é incompatível com a responsabilidade e função do auditor, visto que a responsabilidade primária pela governança corporativa e seus instrumentos é da Administração das próprias empresas, podem prejudicar o desenvolvimento do negócio auditoria.
3	Rodízio de Auditores	O rodízio de firmas de auditoria adotado pela CVM e pelo BACEN no Brasil tem sido um tema bastante controverso entre os agentes do mercado de capitais e mesmo entre os auditores. Entre as vantagens apontadas estão aumento do nível de independência, cetismo profissional, e qualidade do trabalho de auditoria. Por outro lado, entre as desvantagens está também a qualidade da auditoria, más em relação à perda de qualidade resultante da perda de histórico e acúmulo de conhecimento técnico específico resultante do processo de substituição de auditores. Outras desvantagens apontadas são aumento dos possíveis custos globais de auditoria para companhias que têm necessidade de auditoria para reporte internacional e estatutária, as quais em muitos casos têm que lidar com duas firmas de auditoria com diferentes metodologias de trabalho, além da dificuldade operacional e de gestão de risco para empresas globais que estariam obrigadas a lidar com diferentes períodos de rodízio, em diferentes países, e diferentes auditores no mesmo grupo. Do lado dos auditores, o que alguns estudos têm mostrado sobre o rodízio é uma redução dos honorários resultante dos processos de concorrência para a contratação de um novo auditor, além do prejuízo à gestão do negócio auditoria pela imprevisibilidade da sua carteira de clientes.
4	Canibalização do mercado e redução das margens do negócio	A queda dos valores dos contratos de auditoria como um subproduto da pressão por redução do volume de horas e por redução das taxas horárias, combinado com o crescente aumento da competitividade entre as empresas de auditoria têm resultado em uma espécie de canibalização do mercado. Além dessa procura constante do mercado em busca de incremento de eficiências e redução de custos, há uma postura canibalizadora do mercado por parte principalmente das empresas BIG4 ofertando trabalhos muitas vezes no ponto de equilíbrio ou com margens negativas com o objetivo único de ganhar o cliente. Como consequência da canibalização do mercado, as margens e a lucratividade ficam cada vez mais pressionadas o que prejudica o desenvolvimento e o futuro do negócio como um todo.

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY – Continued

Research Purpose	Mapear e validar os desafios enfrentados pela auditoria financeira externa no Brasil	
Title	The Challenges Faced by the Financial External Audit Industry in Brazil: An Exploratory Study	
Desafios da indústria de auditoria financeira externa no Brasil		
#	Desafios	Detalhamento
5	Complexidade do ambiente de negócios e necessidade crescente de envolvimento de outros especialistas no processo de auditoria	O mundo atual altamente tecnológico, com grande volume e fluxo de informações, incluindo a estruturação de novas transações e produtos financeiros, e modificando significativamente o ambiente de negócios no Brasil e no mundo, têm tornado a gestão do conhecimento e o processo de auditoria e regulamentação do mesmo cada vez mais complexos. Com isso, já não é possível para um único profissional acumular todo o conhecimento necessário para atender os clientes com qualidade e endereçar o risco de auditoria apropriadamente. Nesse sentido, o envolvimento de especialistas tem-se tornado imprescindível para a qualidade da auditoria. No sentido oposto, está a limitação de recursos em relação a esses especialistas na mesma ou em maior proporção que para o time principal de auditoria. É óbvio que esse elemento aumenta o risco de auditoria.
6	Perda de inteligência do negócio e juniorização das equipes	Historicamente um dos grandes apelos aos recém-formados para iniciarem suas carreiras na auditoria financeira externa é o aprendizado intenso e acelerado. Esse aprendizado acelerado é em muito resultante do treinamento em campo com a presença de profissionais mais experientes orientando, revisando, e corrigindo o trabalho como um todo, e disseminando o conhecimento das indústrias e como desenvolver projetos. O fato é que a carreira tem perdido sua atratividade, pois, os profissionais mais experientes têm deixado a auditoria para trabalhar em diferentes indústrias ocasionando perda de inteligência do negócio. A perda de inteligência do negócio, por sua vez, impacta não só o desenvolvimento estratégico do negócio, como também prejudica o treinamento e a formação dos profissionais menos experientes impactando negativamente na retenção de profissionais. O produto final desse contexto é a juniorização das equipes e, mais uma vez, resulta no aumento do risco de auditoria. Em outras palavras, os times de auditoria tem sido mais frequentemente compostos por profissionais menos experientes os quais têm assumido posições de sênior e de gerência nos projetos. Tal fato, também influencia negativamente a percepção do cliente em relação ao trabalho do auditor e, consequentemente, a percepção de valor em relação ao auditor culminando na predisposição a pagar cada vez menos pelos serviços de auditoria.
7	Desequilíbrio entre vida profissional e pessoal	A carreira em auditoria financeira externa é reconhecidamente uma que exige muito comprometimento daqueles que decidem por iniciar e desenvolver sua vida profissional nela. Permanecer na carreira exige muita dedicação profissional e, na mesma medida ou mais, dedicação pessoal, pois, limita em muito o convívio familiar, com amigos, e horas dedicadas à vida pessoal como um todo. Esse fator combinado ao aumento consistente do volume de trabalho, responsabilidade, e risco de auditoria, faz da continuidade na carreira um desafio ainda maior e torna a gestão do negócio auditoria externa ainda mais complexa.
8	Redução do pacote de remuneração (salário e benefícios)	Outro aspecto importante é a redução do valor total de remuneração (salários mais benefícios). Com a consistente redução da lucratividade dos negócios, as empresas de auditoria são pressionadas a reduzir a remuneração oferecida a seus funcionários o que impacta diretamente a atratividade da carreira de forma negativa. Como resultado, os profissionais podem tender a iniciar ou a desenvolver suas carreiras em outras indústrias, o que é mais um desafio a ser enfrentado pelas empresas de auditoria. Esse é um ponto bastante interessante e crítico porque, de um lado, as empresas tentam balancear o pacote de remuneração para que seja de alguma forma atrativo e competitivo, o que tem um impacto relevante sobre os custos já que são empresas de serviços profissionais e, do outro lado, a queda das receitas por conta de pressão por redução de honorários exercida pelos clientes.

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY – Continued

Research Purpose	Mapear e validar os desafios enfrentados pela auditoria financeira externa no Brasil	
Title	The Challenges Faced by the Financial External Audit Industry in Brazil: An Exploratory Study	
Desafios da indústria de auditoria financeira externa no Brasil		
#	Desafios	Detalhamento
9	Queda da atratividade do plano de carreira	Outro elemento importante é o fato que o plano de carreira pode não ser mais um atributo efetivo de grande atratividade e retenção de profissionais como era no passado. Ao longo dos anos, as empresas de auditoria vinham destacando a ideia de alguém iniciar a carreira como trainee e ao longo dos anos subir na hierarquia podendo chegar a sócio como um elemento de atração e motivação de profissionais, de forma que os profissionais aceitavam receber salários abaixo da média do mercado objetivando subir no plano de carreira e alcançar remunerações elevadas, o que parecia funcionar bem até a geração X. O que tem sido observado na prática é que os profissionais da nova geração, geração Y, são mais ávidos por resultados imediatos. Eles não vêem como um fator importante para sua carreira trabalhar numa única empresa por toda a sua vida ou mesmo por muitos anos. Além disso, essa nova geração lida com a questão de desequilíbrio entre vida pessoal e profissional com mais sensibilidade do que a geração X e esses profissionais esperam receber remunerações mais altas já nos primeiros estágios da carreira. Dessa forma, o plano de carreira é um ativo das empresas de auditoria externa com valor de mercado ameaçado por esse novo cenário.
10	Aumento do risco de auditoria e queda da qualidade dos trabalhos de auditoria	Como efeitos colaterais da combinação de todos os desafios apresentados até aqui, mas que por si só se configura como desafios, surgem a queda da qualidade e aumento do risco dos trabalhos de auditoria financeira externa. Todos os stakeholders do processo de auditoria exercem pressão nessa direção: clientes querem trabalhos mais eficientes com menor volume de horas e menor preço; os times de auditoria são formados por profissionais menos experientes e profissionais recém-formados têm optado por outras indústrias mais frequentemente - além disso, a auditoria financeira externa pode já não ser capaz de atrair os melhores estudantes das melhores universidades; os reguladores da atividade auditoria e do mercado de capitais face aos problemas enfrentados desde o Caso Enron, que causou a extinção da famosa empresa de auditoria Arthur Andersen, têm emitido cada vez mais requerimentos para a prática de auditoria resultando em significativo aumento na complexidade e volume dos procedimentos de auditoria. Nesse contexto desenvolve-se uma latente combinação destrutiva do negócio a qual aumenta o risco da auditoria e, obviamente, prejudica a qualidade dos trabalhos de auditoria.
11	Commoditização do negócio auditoria	O negócio de auditoria financeira externa no Brasil tem se tornado cada vez mais comparável a um produto padrão sem nenhuma diferenciação importante no qual o principal atributo é o preço; quanto mais barato, melhor. Algumas pessoas argumentam que o relacionamento entre os sócios de auditoria e seus clientes é um tipo de diferenciação. No entanto, em tempos em que decisões são tomadas com base em aprovação de conselhos e não individualmente, e o aumento do valor do negócio para os investidores é usualmente um dos principais indicadores chave de desempenho, o fator custo ganha ainda mais importância. Talvez a única diferença esteja associada ao atributo qualidade do “produto” entre os serviços oferecidos por uma empresa BIG4 e outra empresa de auditoria não Big4; a diferença ou apelo está no nível de credibilidade mais alto percebido pelo mercado quando a empresa de auditoria contratada é uma BIG4. O ponto é que o “produto” auditoria independente tem sido commoditizado e, como qualquer commodity, o preço é o principal indicador para a tomada de decisão. Ainda, mesmo entre as empresas BIG4, as empresas de auditoria têm sido pressionadas a reduzir seus honorários a fim de que possam manter suas posições nessa indústria altamente competitiva.

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY – Continued

Os Desafios enfrentados pela Auditoria Externa no Brasil: Um Estudo Exploratório

APRESENTAÇÃO

O papel da auditoria externa no atual ambiente de negócios, com crescente demanda por governança corporativa e transparência, tem se tornado um elemento ainda mais importante para a sociedade como um todo. O auditor externo contribui para a construção de bases sólidas para o desenvolvimento de negócios e geração de riqueza através de conhecimento técnico, independência, transparência, credibilidade, e ética. Todavia, o negócio auditoria externa no mundo, e também no Brasil, tem enfrentado vários desafios que têm ameaçado seu sucesso e evolução.

Nesse sentido, o propósito dessa pesquisa é mapear e validar os desafios enfrentados pela auditoria externa no Brasil com base na experiência e entendimento de profissionais especializados na área.

Cabe ressaltar que, os dados e informações dessa pesquisa serão tratados de forma sigilosa e consolidada e nenhuma resposta será associada ao nome de qualquer profissional individualmente.

QUESTIONÁRIO

Questão

1 Formação universitária

- A ☐ Administração
 B ☐ Ciências Contábeis
 C ☐ Economia
 D ☐ Administração e Ciências Contábeis
 E ☐ Economia e Ciências Contábeis
 F ☐ Outra(s) - Qual(is)?

2 Anos de experiência na área de auditoria financeira externa.

- A ☐ 1 a 6 anos
 B ☐ 7 a 12 anos
 C ☐ 13 a 15 anos
 D ☐ 16 anos ou mais

3 Qual o seu nível hierárquico?

- A ☐ Gerente
 B ☐ Gerente Sênior
 C ☐ Diretor
 D ☐ Sócio

4 Qual o tamanho da área de auditoria financeira externa na organização em que você trabalha, de trainees a sócios:

- A ☐ Micro: até 9 empregados
 B ☐ Pequena: de 10 a 49 empregados
 C ☐ Média: de 50 a 99 empregados
 D ☐ Grande: mais de 100 empregados
 E ☐ Acima de 500 empregados

5 Divisão da carreira entre experiência em empresas BIG4 e outras empresas de auditoria financeira externa não BIG4

- A ☐ Nenhuma experiência em BIG4
 B ☐ Experiência em BIG4 menor ou igual a 30%
 C ☐ Experiência em BIG4 maior que 30% e menor ou igual 50%
 D ☐ Experiência em BIG4 maior que 50% e menor ou igual a 80%
 E ☐ Experiência em BIG4 maior que 80%

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY – Continued

- 6 No quadro abaixo são apresentados os desafios correntes enfrentados pelas empresas de auditoria financeira externa no Brasil.
Qual o nível de concordância que você atribui a cada um deles?

- 1 Discordo plenamente
- 2 Discordo moderadamente
- 3 Não concordo nem discordo
- 4 Concordo moderadamente
- 5 Concordo plenamente

Desafio

- 1 Crescimento consistente da regulamentação sobre a atividade de auditoria financeira externa
- 2 Responsabilidade ilimitada dos auditores independentes
- 3 Rodízio de Auditores
- 4 Canibalização do mercado e redução das margens do negócio
- 5 Complexidade do ambiente de negócios e necessidade crescente de envolvimento de outros especialistas no processo de auditoria
- 6 Perda de inteligência do negócio e juniorização das equipes
- 7 Desequilíbrio entre vida profissional e pessoal
- 8 Redução do pacote de remuneração (salário e benefícios)
- 9 Queda da atratividade do plano de carreira
- 10 Aumento do risco de auditoria e queda da qualidade dos trabalhos de auditoria
- 11 Commoditização do negócio auditoria
- 12
- 13

Detalhamento

	1	2	3	4	5
Vide detalhamento na "sheet" Desafios.					

Observações

Na escala quanto maior o número maior o seu nível de concordância, sendo "1" discordância máxima e "5" concordância máxima.

Você pode incluir outros desafios, nas posições 12 e 13, aos quais também atribua importância e que não estejam apresentados no quadro.

Caso inclua desafios nas posições 12 e 13, por favor, inclua uma explicação abaixo.

- 7 A natureza dos desafios correntes enfrentados pelas empresas de auditoria financeira externa no Brasil podem ser atribuídos com mais intensidade a quais dos fatores abaixo?

- 1 Nenhuma importância
- 2 Baixa importância
- 3 Importância moderada
- 4 Importante
- 5 Alta importância

Fatores

- A Liderança
- B Regulamentares - Regulamentação da profissão e do mercado de capitais
- C Marketing
- D Recursos Humanos
- E Ambiente de negócios

	1	2	3	4	5

Observações

Na escala quanto maior o número, maior o nível de importância, sendo "1" nenhuma importância e "5" alta importância.

APPENDIX C – QUESTIONNAIRE – MASTER’S THESIS SURVEY – Continued

- 8 Considerando os desafios relacionados na questão 6 aponte os 3 principais Fatores Críticos de Sucesso para o negócio em ordem de impacto, do mais impactante para o menos impactante.

Desafio

- 9 Considerando os desafios relacionados na questão 6 você entende que os mesmos possam ser superados?

- A ☐ Sim
B ☐ Não
C ☐ Parcialmente

- 10 Caso sua resposta para a questão 9 seja "Sim" ou "Parcialmente" qual o nível de capacidade de intervenção você atribui às empresas de auditoria financeira externa e seus representantes (IBRACON ou Conselho Federal e Conselhos Regionais de Contabilidade, por exemplo)?

- 1 Nenhuma capacidade de intervenção
2 Intervenção moderada
3 Plena capacidade de intervenção

Desafio

- 1 Crescimento consistente da regulamentação sobre a atividade de auditoria financeira externa
2 Responsabilidade ilimitada dos auditores independentes
3 Rodízio de Auditores
4 Canibalização do mercado e redução das margens do negócio
5 Complexidade do ambiente de negócios e necessidade crescente de envolvimento de outros especialistas no processo de auditoria
6 Perda de inteligência do negócio e juniorização das equipes
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8 Redução do pacote de remuneração (salário e benefícios)
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10 Aumento do risco de auditoria e queda da qualidade dos trabalhos de auditoria
11 Commoditização do negócio auditoria
12
13

Detalhamento 1 2 3

Vide detalhamento na "sheet" Desafios.			

Observações

Na escala quanto maior o número, maior o seu nível de capacidade de intervenção, sendo "1" nenhuma capacidade e "3" plena capacidade.
Você deve incluir e avaliar também aqueles desafios que tenham sido incluídos na questão 6.

- 11 Você tem observado ações, discussões e propostas para abordar e endereçar esses desafios? Descreva de forma objetiva aquela que você aponta como mais relevante e o por quê.

- A ☐ Sim
B ☐ Não

Descrição: