

OFFSHORING OF AUDIT WORK IN AUSTRALIA

Insights from survey and interviews



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Partially funded by CPA Australia under a Global Research Perspectives Program grant. The views expressed in this report are those of the authors.

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EXECUTIVE SUMMARY

368 auditors from 224 firms participated in the survey

86% of participants are at partner level within their firm



12% of audit hours are performed offshore by those firms that utilise offshoring



25% of audit hours are expected to be performed offshore within the next 2 years



86% send work to India and 42% send work to the Philippines



82% are satisfied or somewhat satisfied with the quality of work performed offshore



Big Four firms are more satisfied with offshore work than mid-tier firms



Risk assessment is the least likely task to be offshored



85% send senior personnel abroad to train offshore staff



61% send offshore personnel to their Australian office



49% of those who don't offshore have a negative perception of offshore work quality



43% of those who do not offshore said it is because the personal relationship with the client is their competitive advantage

ABOUT THE PROJECT

The objective of this research project is to understand the extent of audit offshoring, the perceived benefits and why firms are offshoring audit work, the auditor perception of work quality delivered from offshore workers, and how this may impact audit quality.

We used a two-stage approach in this project. In the first stage we interviewed 10 auditors across Big Four, mid-tier and small firms. The goal of these interviews was to understand the landscape and identify key issues. Based on these interviews we wrote a working paper titled "Offshoring of Audit Work in Australia: Preliminary Insights from Literature and Interviews".

In the second stage we used our insights from the interviews to develop a survey to gather broad evidence on the issue of audit offshoring in Australia. We distributed this survey to registered company auditors and other senior audit staff in Australia. We had 368 auditors participate in our survey. Based on the results in the survey we wrote a working paper titled "Offshoring of Audit Work in Australia: Survey Evidence".

This report primarily focuses on the results of the survey together with some quotes from the interviews in the first stage. Please note that this research project is partially funded by CPA Australia under a Global Research Perspectives Program grant. The views expressed in this report are those of the authors.

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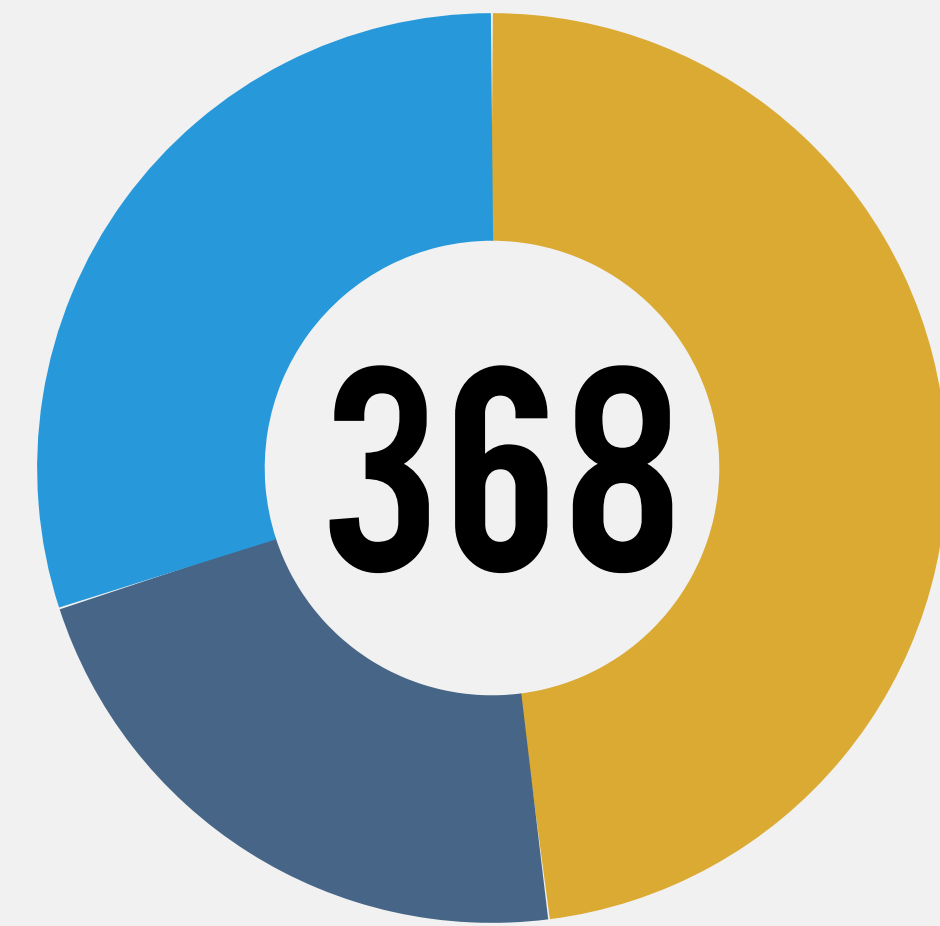
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Acknowledgements

We would like to thank Anuj Deuba, Ray Johnson, Kim Kercher, Mitchell Petrie, and Jordan Thompson for their help during the project. We would also like to thank all our industry participants, both in the interview stage and those who participated in the survey.

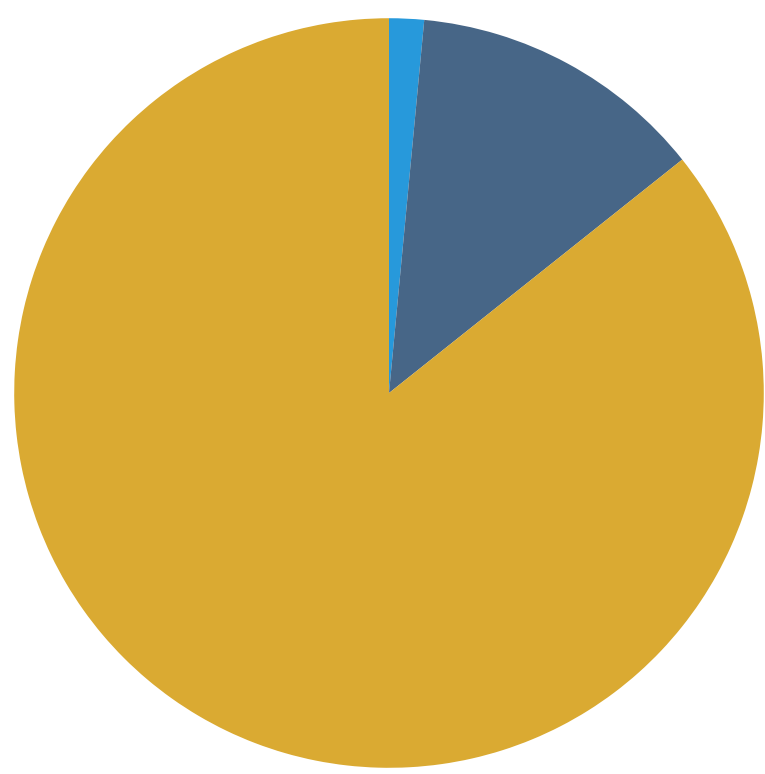
SURVEY PARTICIPANTS

368 auditors participated in the survey, the vast majority being registered company auditors. 48 percent work for small firms, 22 percent work for mid-tier firms and 30 percent work the Big Four firms.



Q: "What type of firm do you work for?" 368 valid responses. 178 responses from small firms, 81 responses from mid-tier firms, and 109 responses from Big Four firms.

■ Small firms (48%) ■ Mid-tier (22%) ■ Big Four (30%)



Q: "What is your position?" 328 valid responses. 178 responses from small firms, 79 responses from mid-tier firms, and 71 responses from Big Four firms.

■ Manager (1.50%) ■ Senior Manager/Director (12.80%)
■ Partner (85.70%)

POSITION

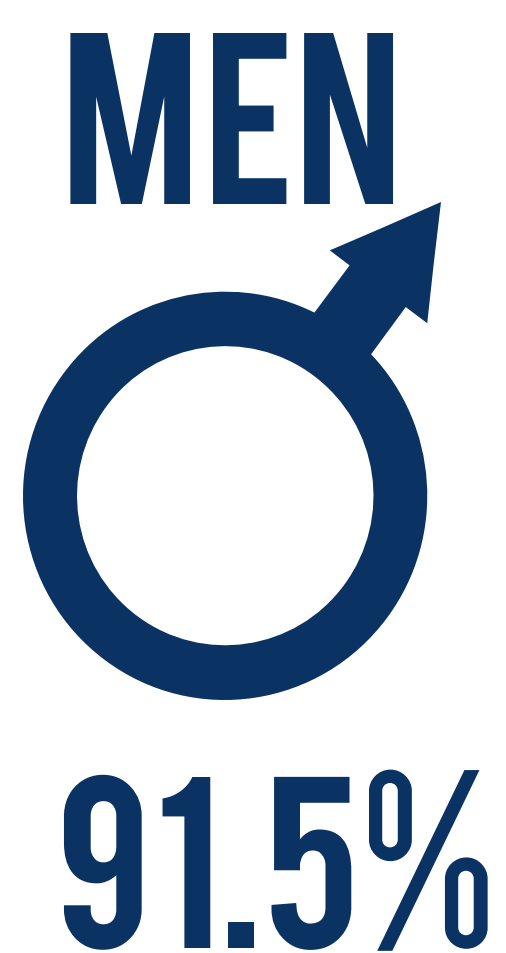
Our participants hold senior positions in their firms with the vast majority, 85.7 percent being at partner level. The remainder of participants were either Senior Managers/Directors, 12.8 percent, or Managers, 1.5 percent. The seniority and experience of the participants means they have insight into audit offshoring activities of their respective firms and thus have the knowledge to answer our questions.

YEARS OF EXPERIENCE

As our sample was primarily comprised of partner level staff the average amount of experience in auditing is 28 years.



Q: "How many years of experience do you have in auditing?" 323 valid responses. 178 responses from small firms, 78 responses from mid-tier firms, and 67 responses from Big Four firms.



GENDER

Our sample is predominantly male (91.5 percent) reflecting the seniority and long tenure of the respondents. This is a fair representation of the gender balance of the underlying population of auditors based on our analysis of first names of individuals registered as company auditors with ASIC.

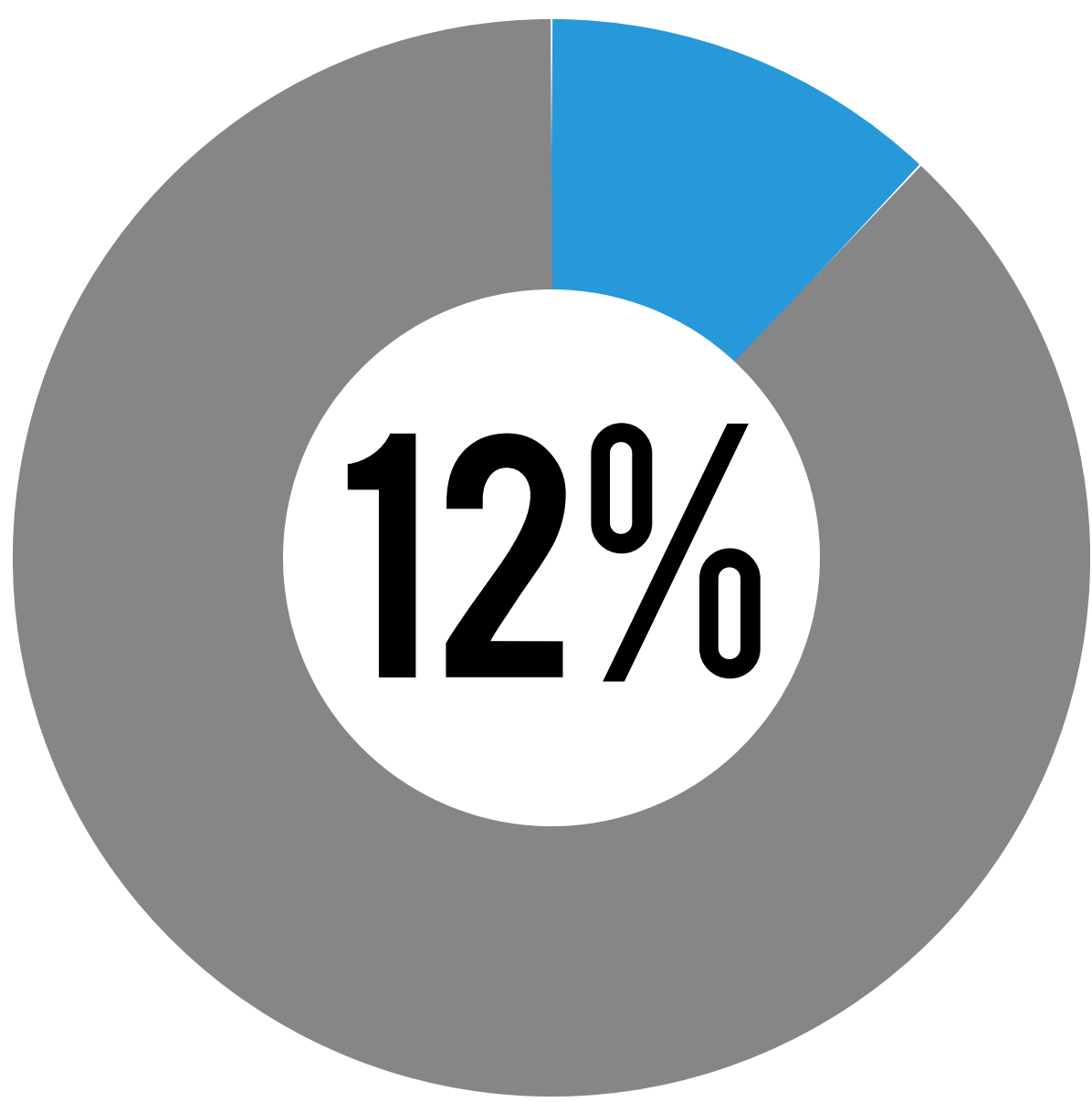
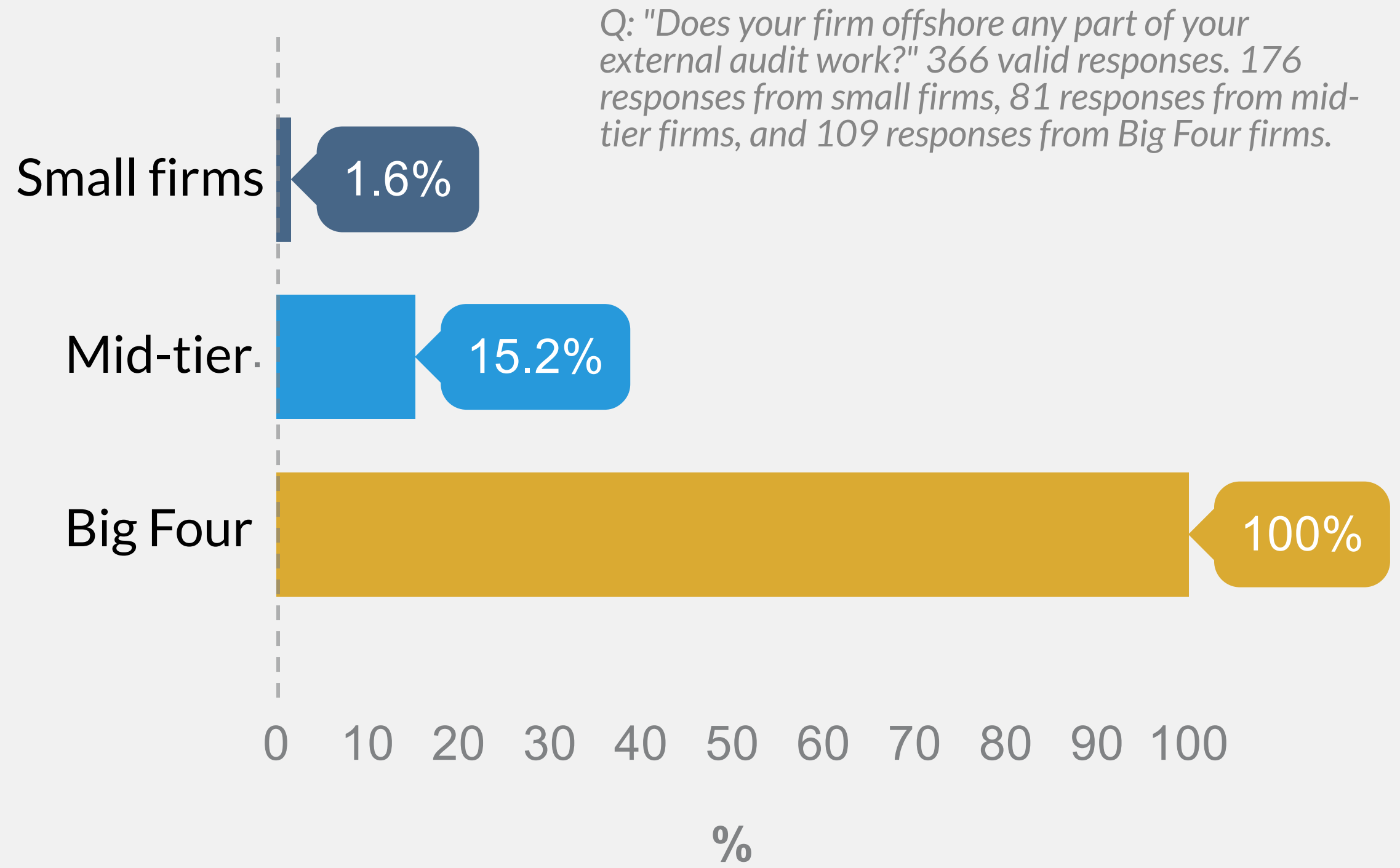
Q: "What is your gender?" 328 valid responses. 176 responses from small firms, 79 responses from mid-tier firms, and 73 responses from Big Four firms.

EXTENT OF ACTIVITY

PROPENSITY TO OFFSHORE

Offshoring is to a large extent explained by firm size. We find that while all Big Four firms use offshoring, only 15 percent of mid-tier firms and 2 percent of small firms engage in this activity.

Please note that there are only 3 small firms in our sample that offshore and while we report averages for this category throughout the report these averages should be considered with caution given the low number of small firms that offshore.



AUDIT HOURS OFFSHORED

On average firms that offshore audit work tend to offshore 12 percent of their audit hours. Big Four firms are offshoring 13 percent of all audit hours on average, mid-tier firms are currently offshoring 6 percent of their audit hours on average, whereas small firms are offshoring 20 percent of their audit hours on average.

Q: "What percentage of your firm's external audit work is currently performed offshore?" 97 valid responses. 3 responses from small firms, 19 responses from mid-tier firms, and 75 responses from Big Four firms.

2 YEAR TARGET

Almost every firm that is currently offshoring audit work is planning on increasing the amount they offshore within the next 2 years. This can be explained by firms becoming more comfortable with the practice.

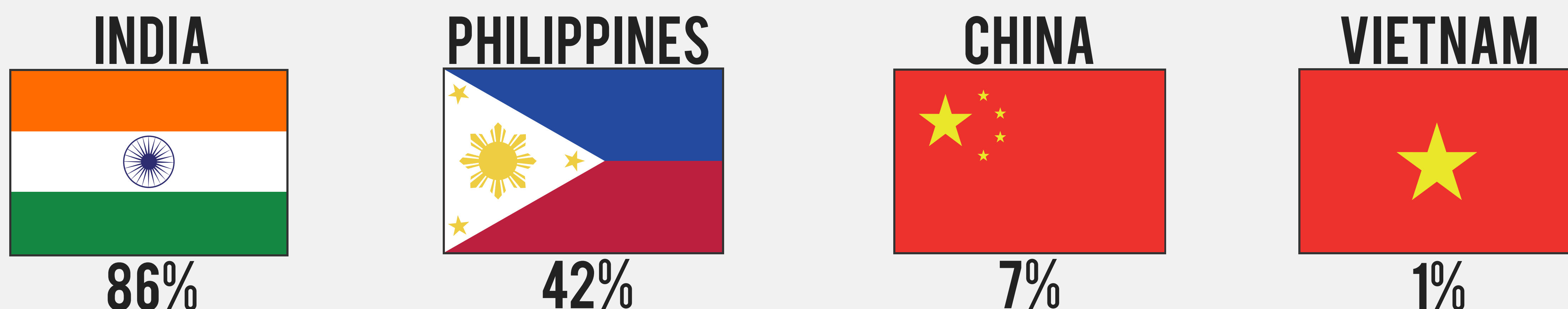
We find that Big Four firms are planning to increase offshoring to 22 percent, mid-tier firms to 15 percent and small firms to 43 percent. While not a lot of small firms offshore it appears those who do are confident in their ability to manage the process and to use this as a source of competitive advantage.



Q: "What is the desired target for the percentage of total external audit work to be performed offshore in the next 2 years?" 56 valid responses. 3 responses from small firms, 14 responses from mid-tier firms, and 39 responses from Big Four firms.

*“Offshoring hasn't been without its challenges - but there is a definite benefit to all in this program.”
[Partner, Big Four firm]*

OFFSHORE LOCATIONS



COUNTRY OF CHOICE

It is common to offshore to multiple locations rather than to just one particular country. The most common offshore location is India, with 86 percent of respondents sending work there. Furthermore, 42 percent of participant send work to the Philippines. Other locations include China, 7 percent, and Vietnam at 1 percent. We also asked participants about the degree of reliance on particular locations, 55 percent indicated that they send the majority of their work to India, whereas 24 percent send majority of their work to the Philippines, and only 1 percent send the majority of their work to China.

Q: "Which countries do you offshore your external audit work to?" 84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

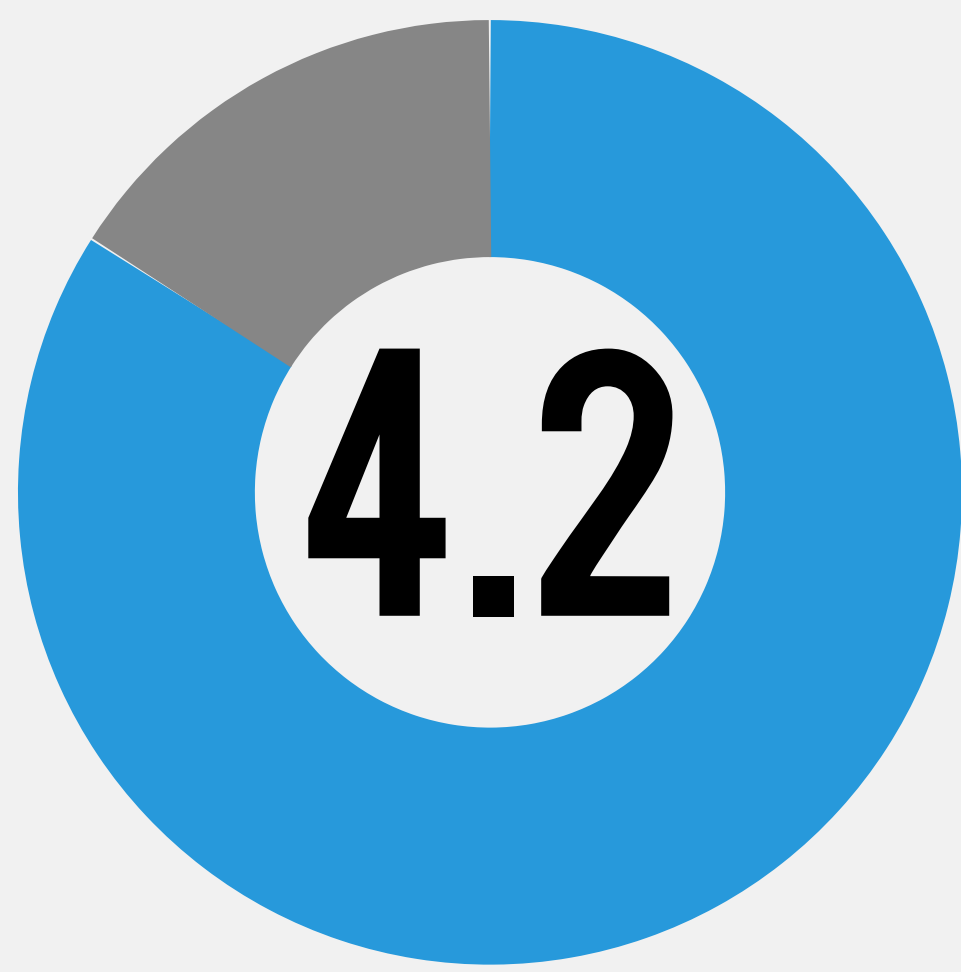
"We have our own facilities in India and the Philippines. The bulk of our work is sent to India, but we have recently increased our reliance on the team in the Philippines"
[Senior Manager, Big Four firm]

INDIA VERSUS PHILIPPINES

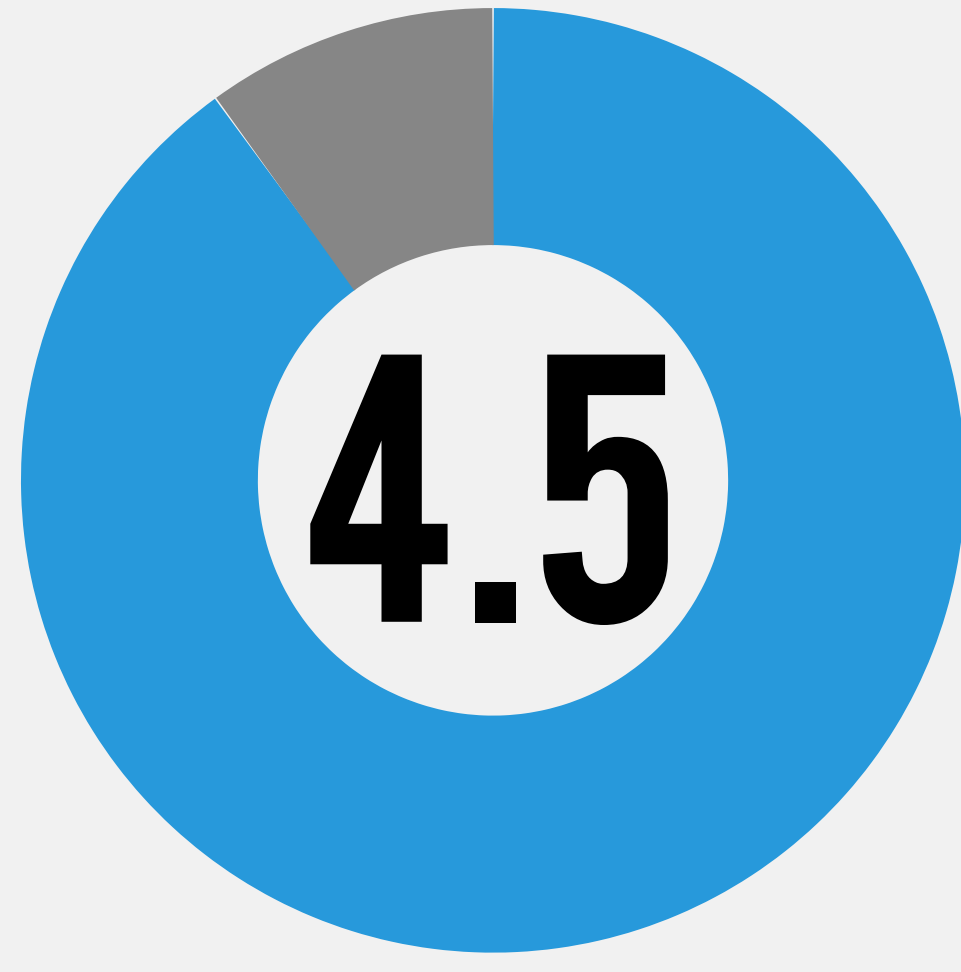
We found that there was a strong focus on the use of both India and Philippines, some firms primarily use one or the other whereas others have offices in both locations. In our interviews we learned that some firms are increasing the reliance on the Philippines as they have found the work quality to be better than work done in their Indian offices. Our survey data also supports this view as we found that participants that sent work to the Philippines generally showed a higher level of satisfaction when it came to the work quality.

SATISFACTION

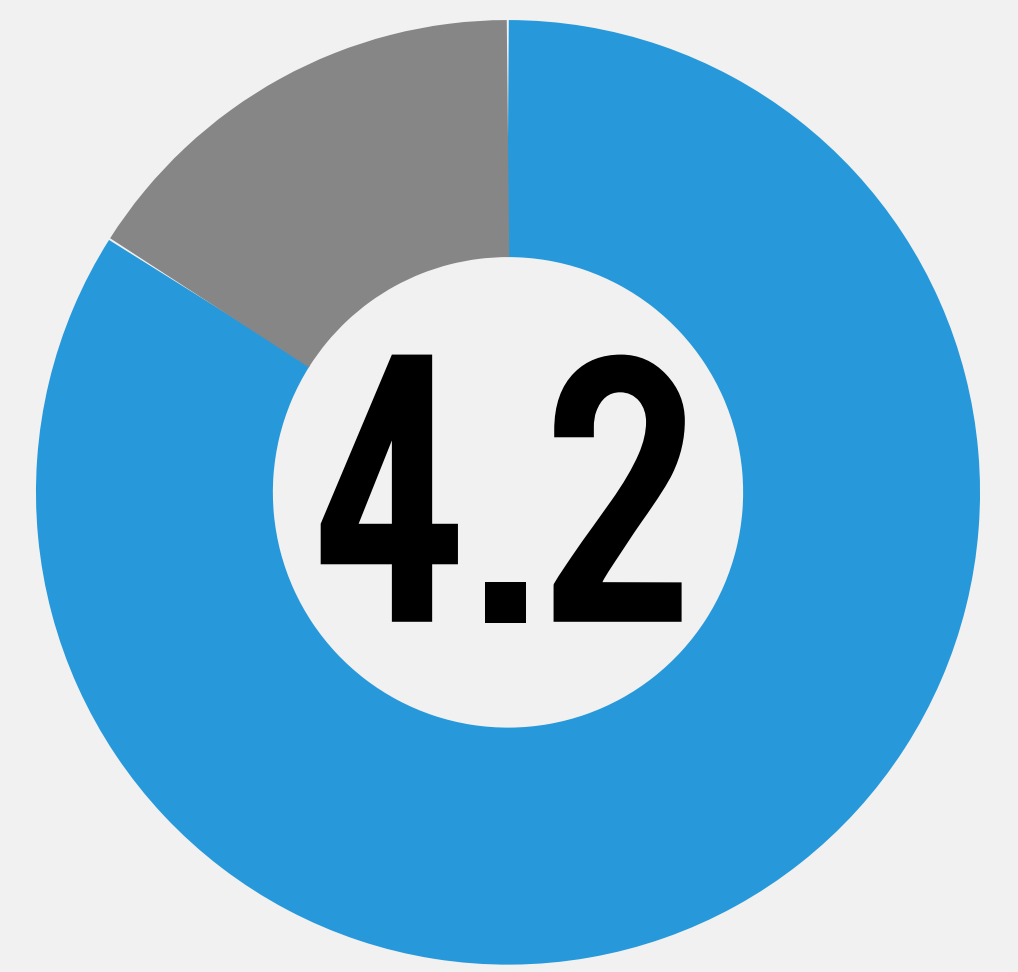
TEAMWORK



MEETING DEADLINES



QUALITY OF WORK



LEVEL OF SATISFACTION

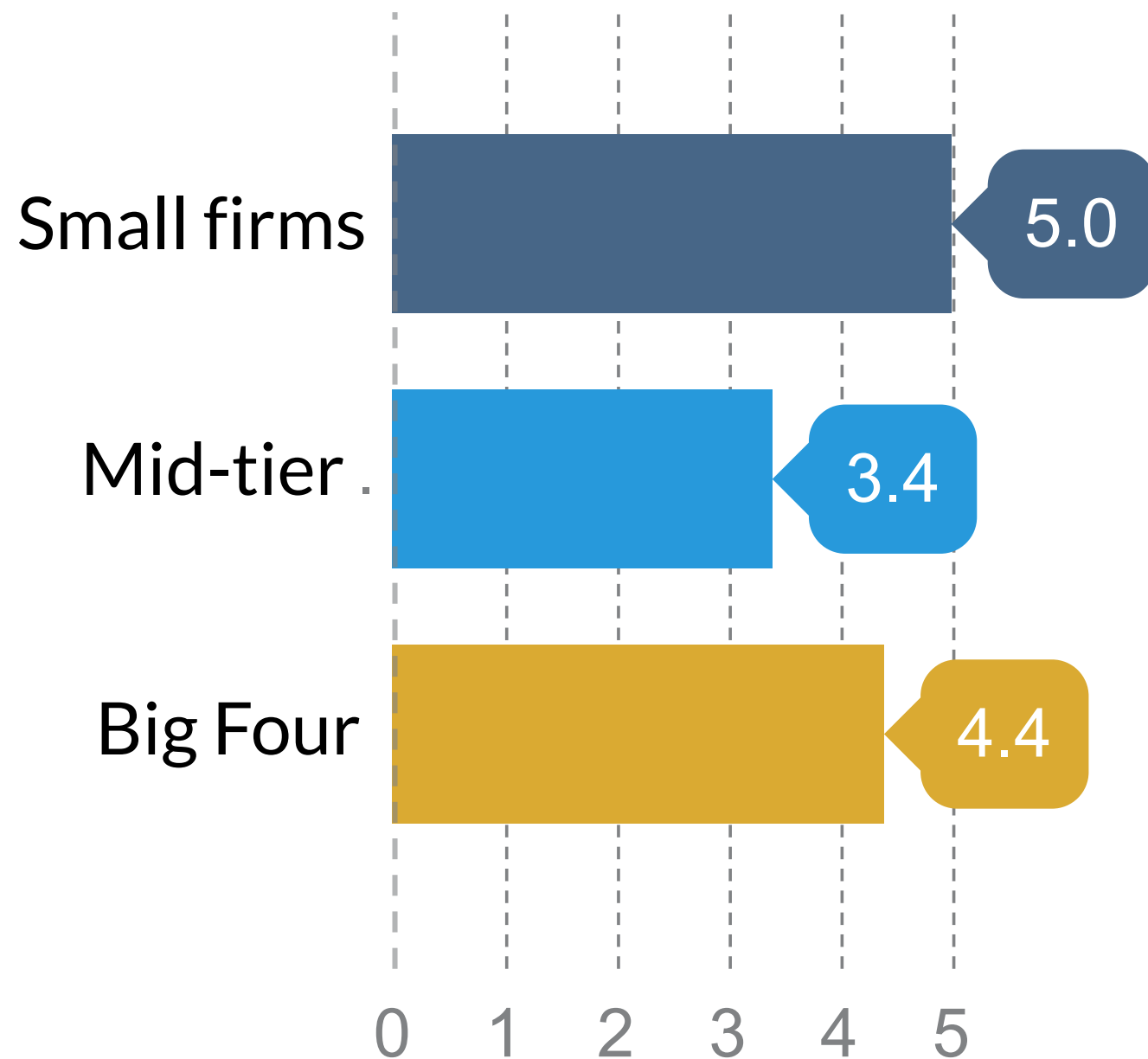
We find that on average participants are fairly satisfied with all three attributes of work, the highest satisfaction rating being associated with the offshore personnel’s ability to meet deadlines which is rated as 4.5 out of 5, whereas teamwork with offshore personnel and the quality of work they deliver is rated as 4.2 out of 5.

Q: "How do you rate the following attributes related to your experience with offshoring external audit work?" 84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

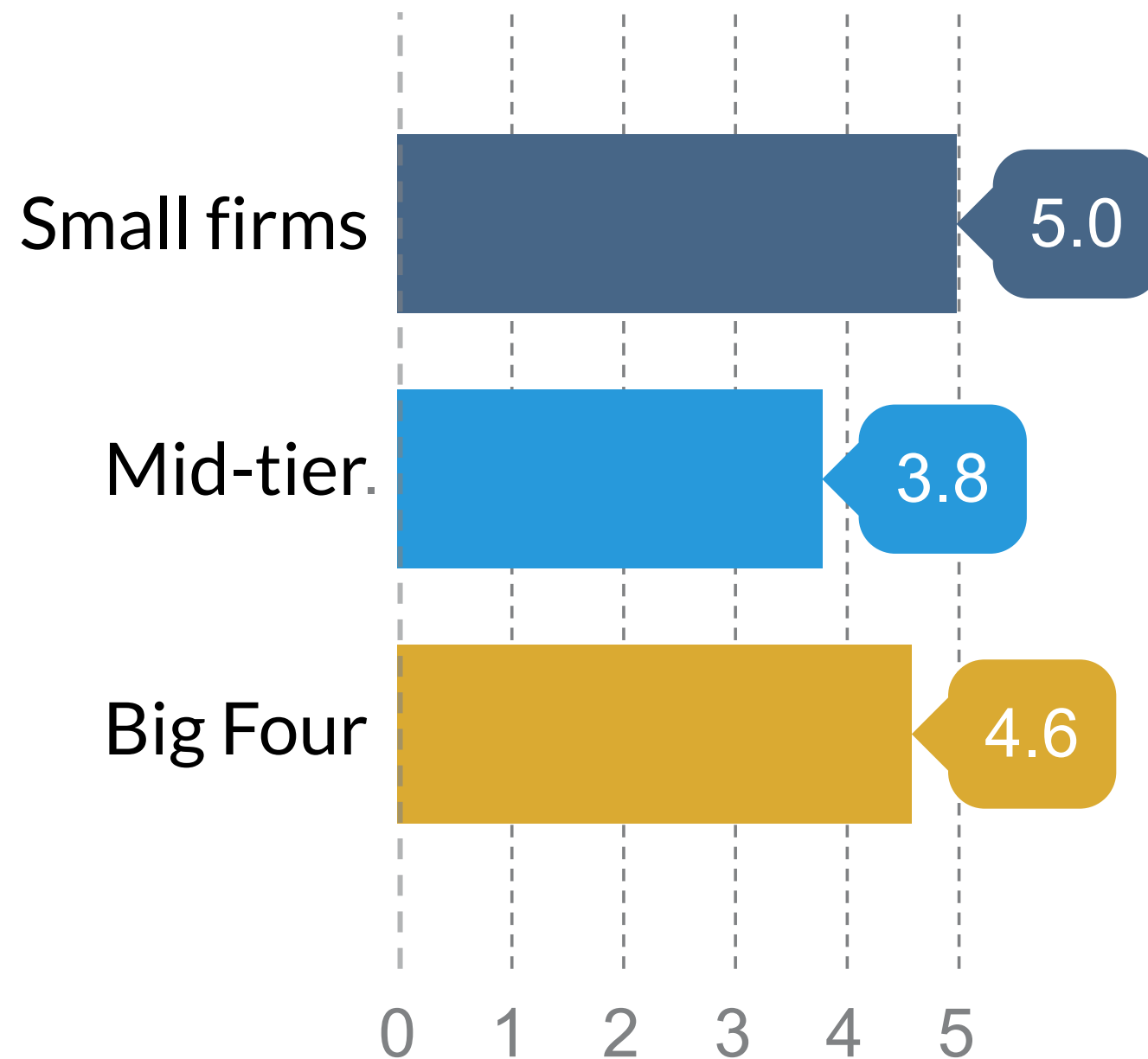
LEVEL OF SATISFACTION BY AUDIT FIRM SIZE

The level of satisfaction differs significantly across firm sizes with small firms having the highest satisfaction levels, followed by the Big Four, and lastly mid-tier firms. Based on our interviews we found that the Big Four firms have a long experience with multinational audits and relying on affiliates in other countries to perform part of the audit, so sending domestic work offshore is not such a large step for these firms as they have amassed expertise in this process. We posit that mid-tier firms may not have such extensive experience with such endeavors and this may explain the lower satisfaction. While small firms have not had experience in this area it appears managing offshore work may be quite manageable at a small scale and the high satisfaction may also be a result of the type of work being sent offshore by small firms.

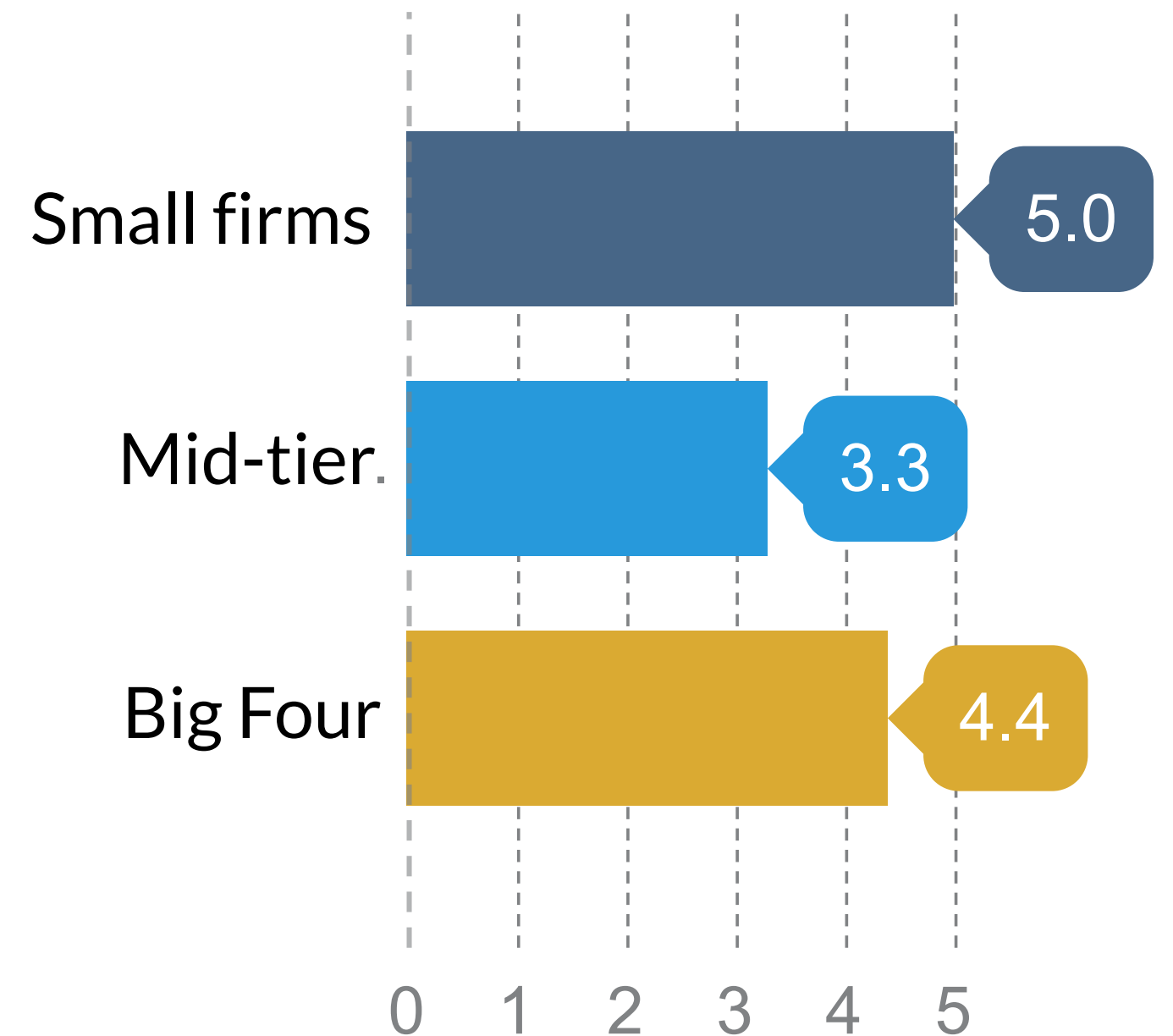
TEAMWORK



MEETING DEADLINES



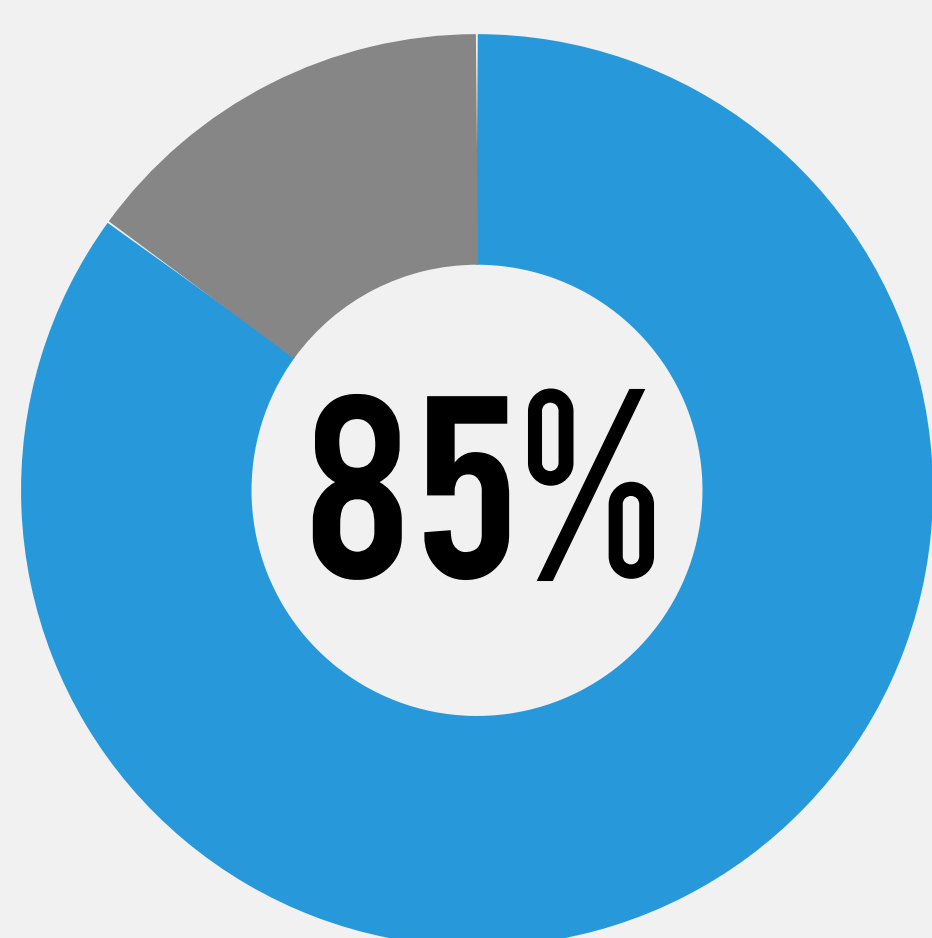
QUALITY OF WORK



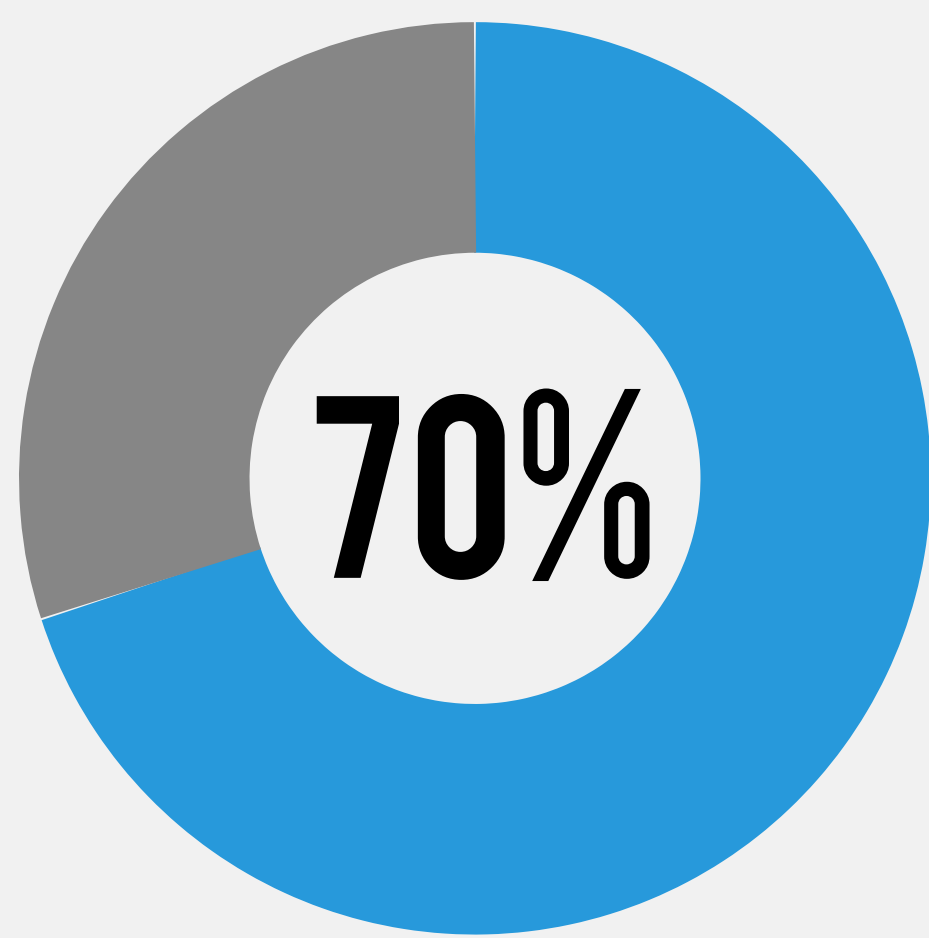
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TRAINING & SECONDMENT

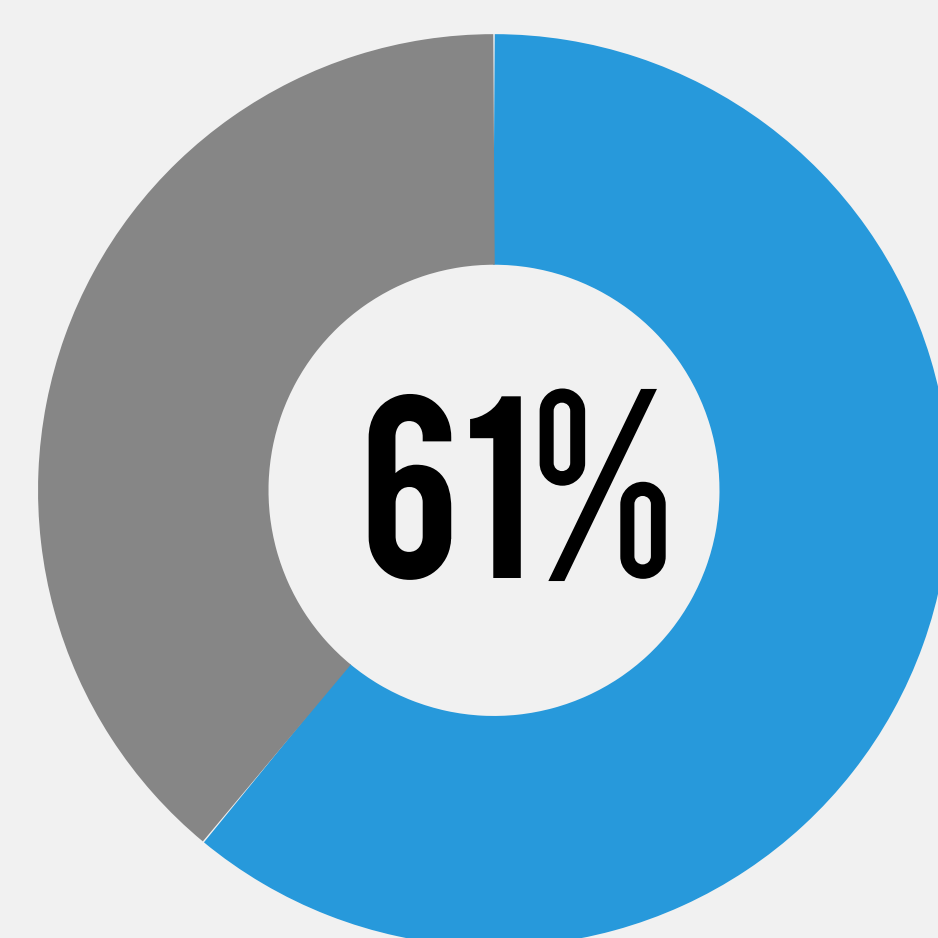
OFFSHORE TRAINING



ONSHORE TRAINING



SECONDMENT



TRAINING & SECONDMENT

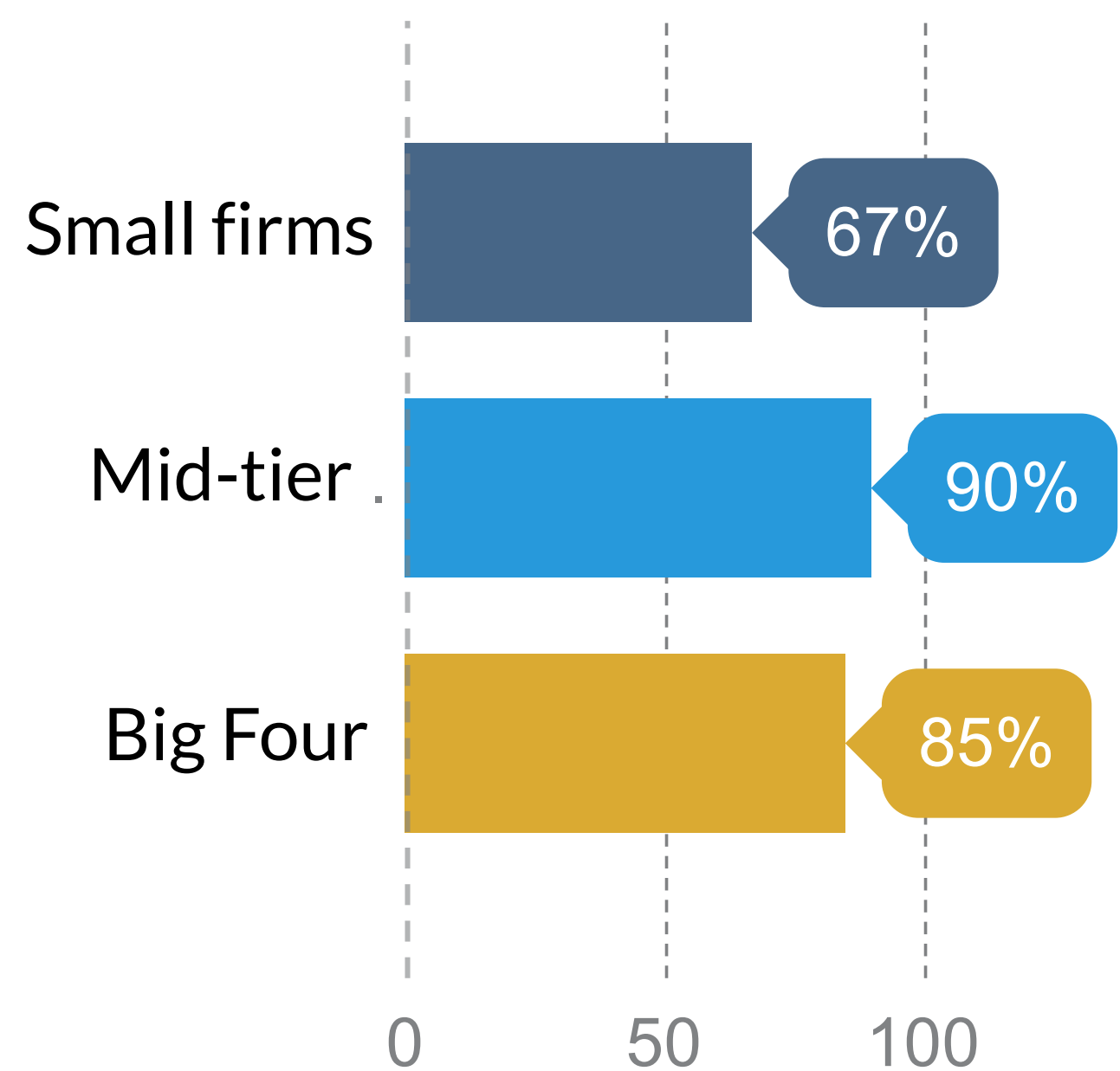
When it comes to the level of integration between the onshore and offshore personnel, we find that 85 percent of participants indicated that senior staff travel to their offshore entity to provide training, while 70 percent said that they transfer offshore personnel to their Australian offices to provide training and 61 percent stated that they second offshore personnel to Australia to work alongside with the onshore audit team.

Q: "Do in-house auditors, partners or managers travel to the offshore entity to provide training?", "Do you transfer offshore personnel to your Australian office to train them on the work required to be performed offshore?", and "Do you second offshore personnel to your Australian office to work with the onshore audit team?" 84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

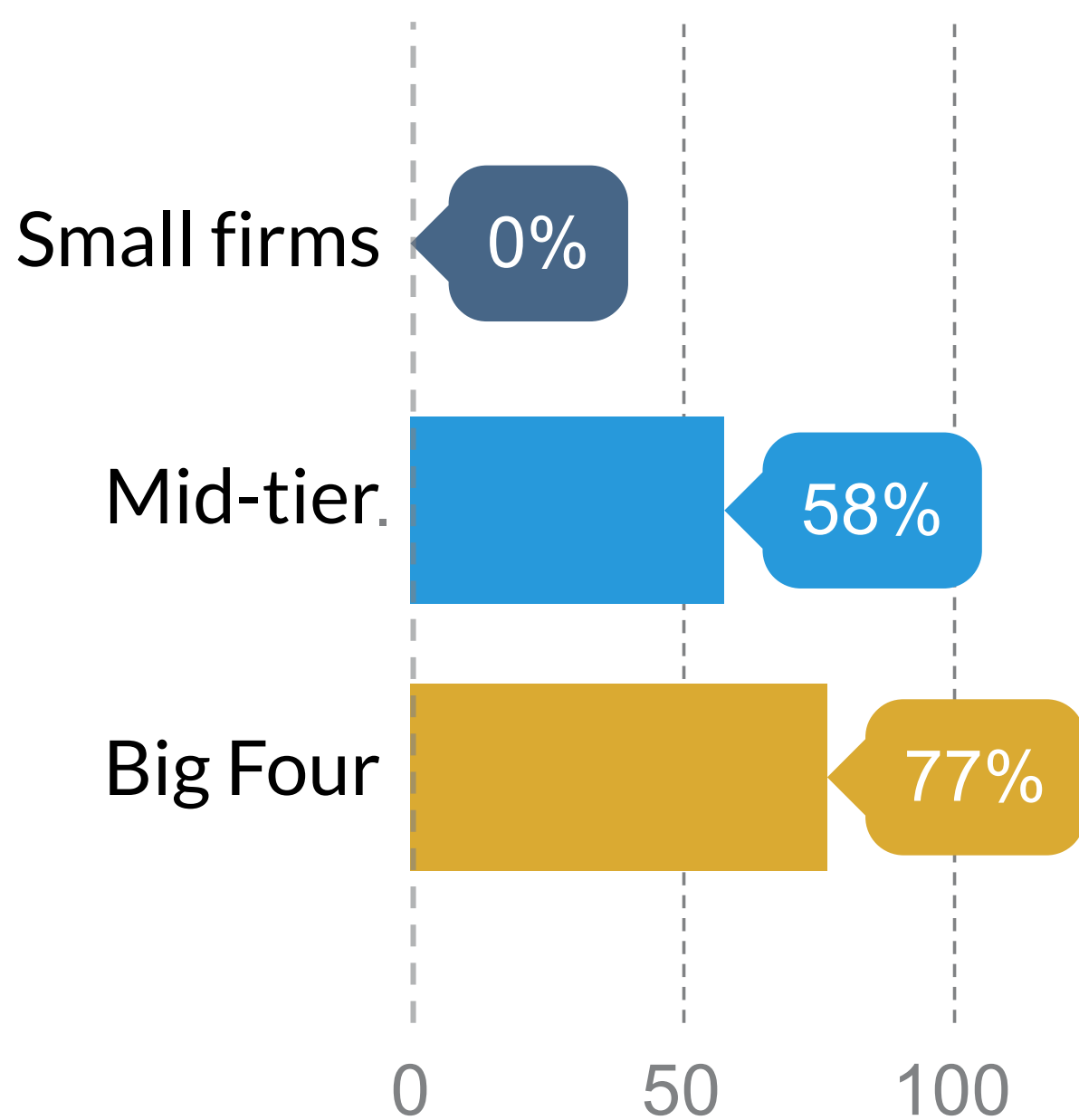
TRAINING & SECONDMENT BY AUDIT FIRM SIZE

These answers are highly dependent on firm size as only 67 percent of small firms send senior staff to train offshore personnel, and no small firms transfer offshore personnel to Australia either for training or secondment. Mid-tier firms are very likely to send senior staff to train offshore personnel (90 percent), and also send the offshore staff to Australia for training (58 percent), and secondment (42 percent). Finally Big Four firms are very likely to send senior staff to train offshore personnel (85 percent), and the majority indicate that they transfer offshore personnel to Australia for training (77 percent) and secondment (69 percent).

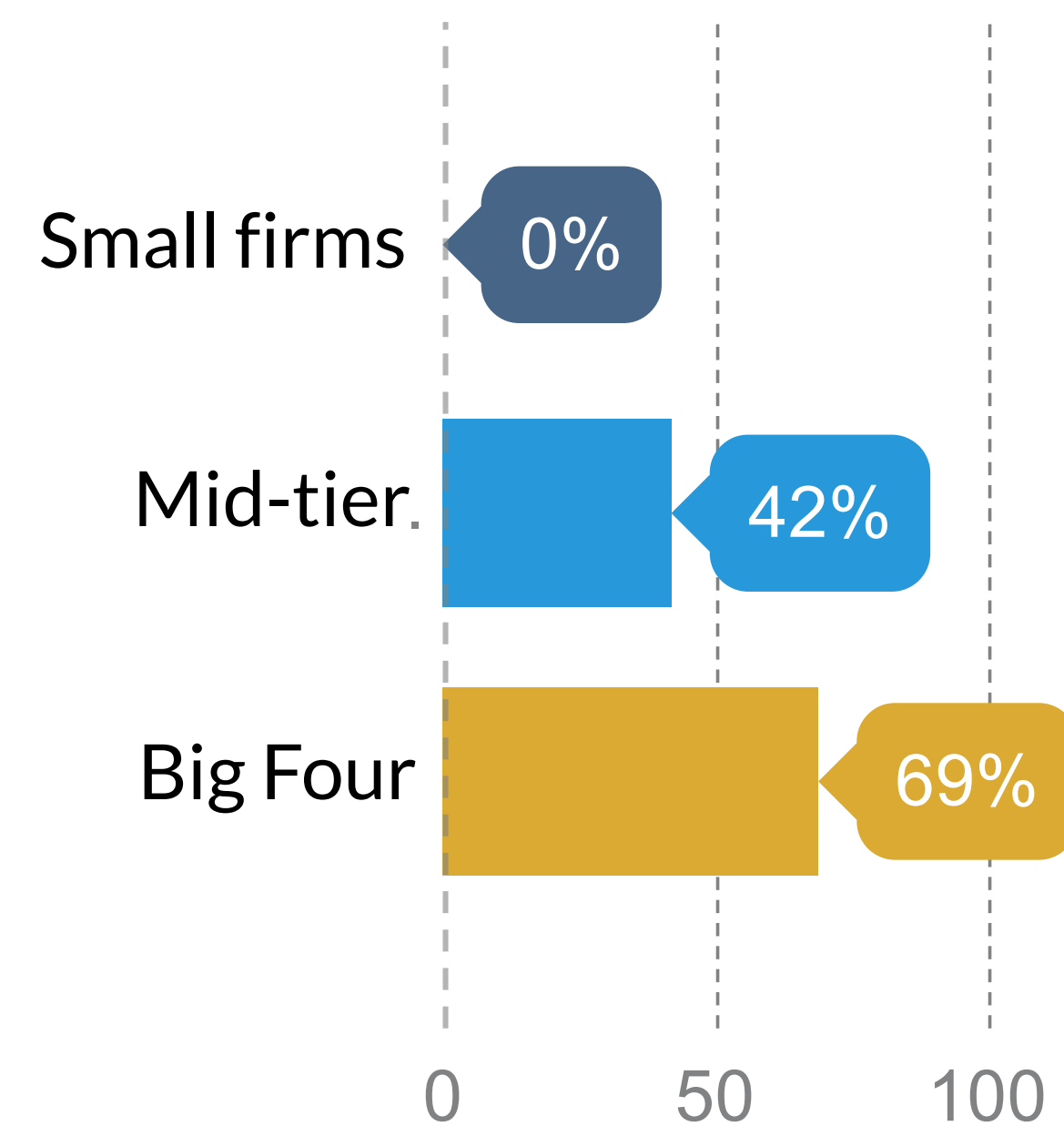
OFFSHORE TRAINING



ONSHORE TRAINING



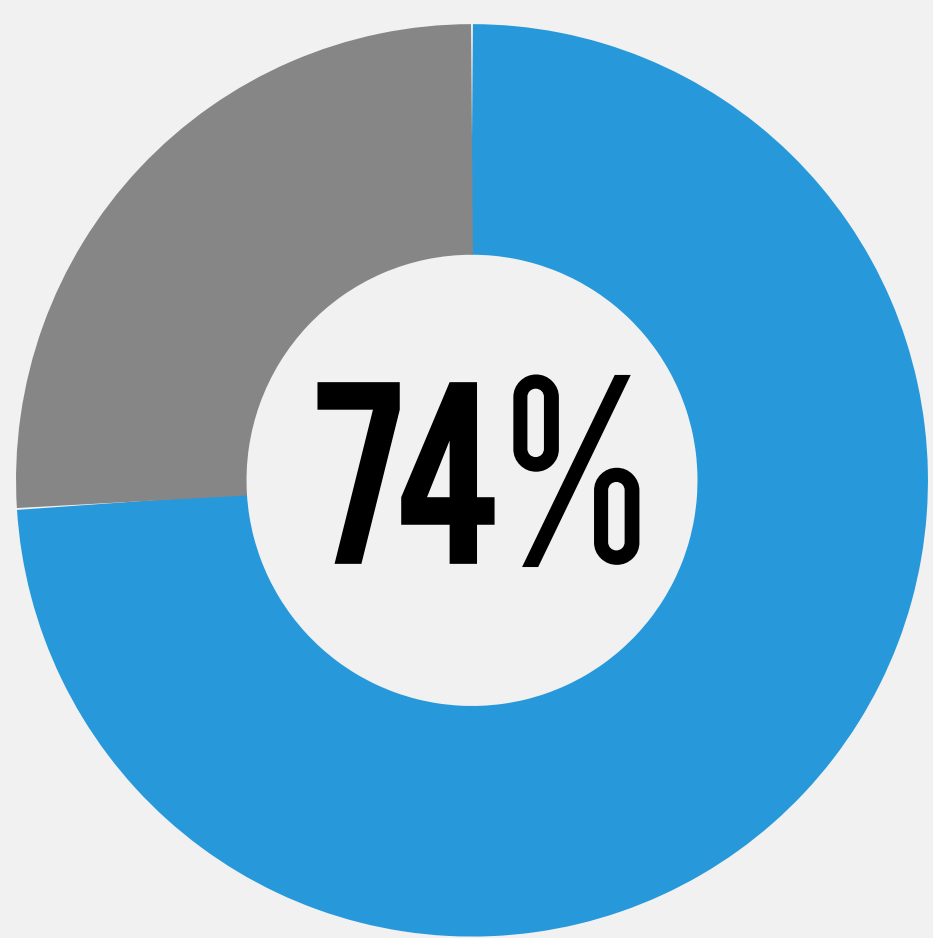
SECONDMENT



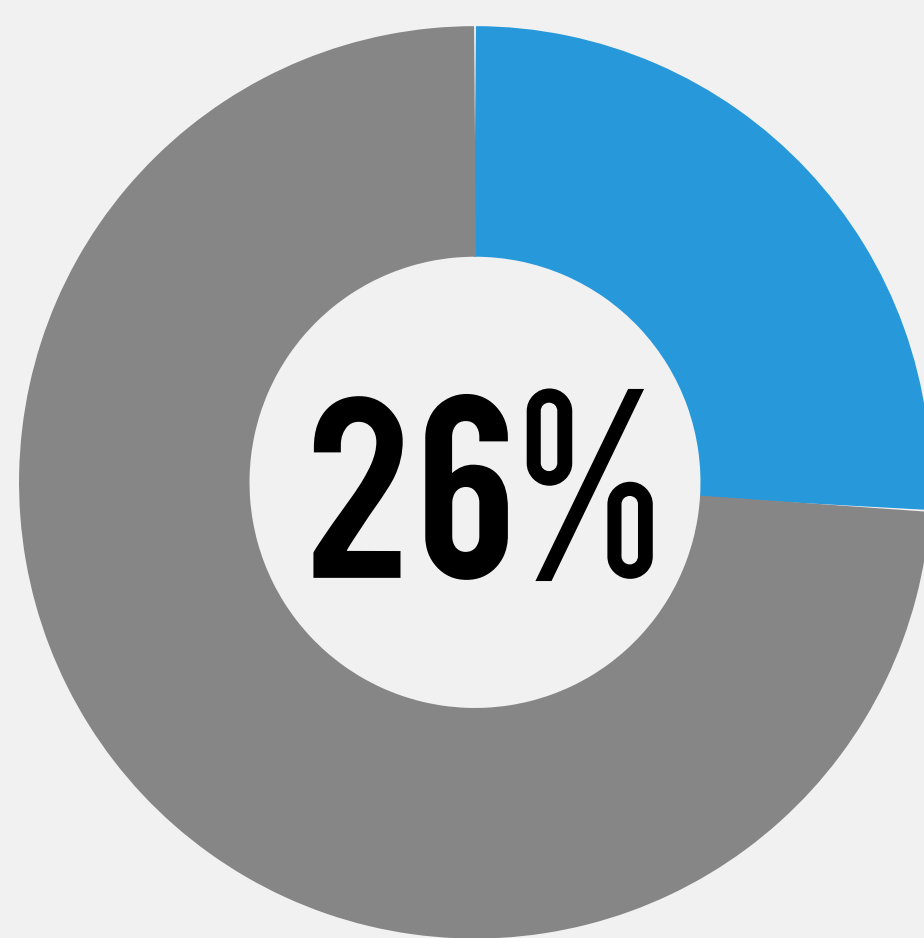
84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

AUDIT PLANNING

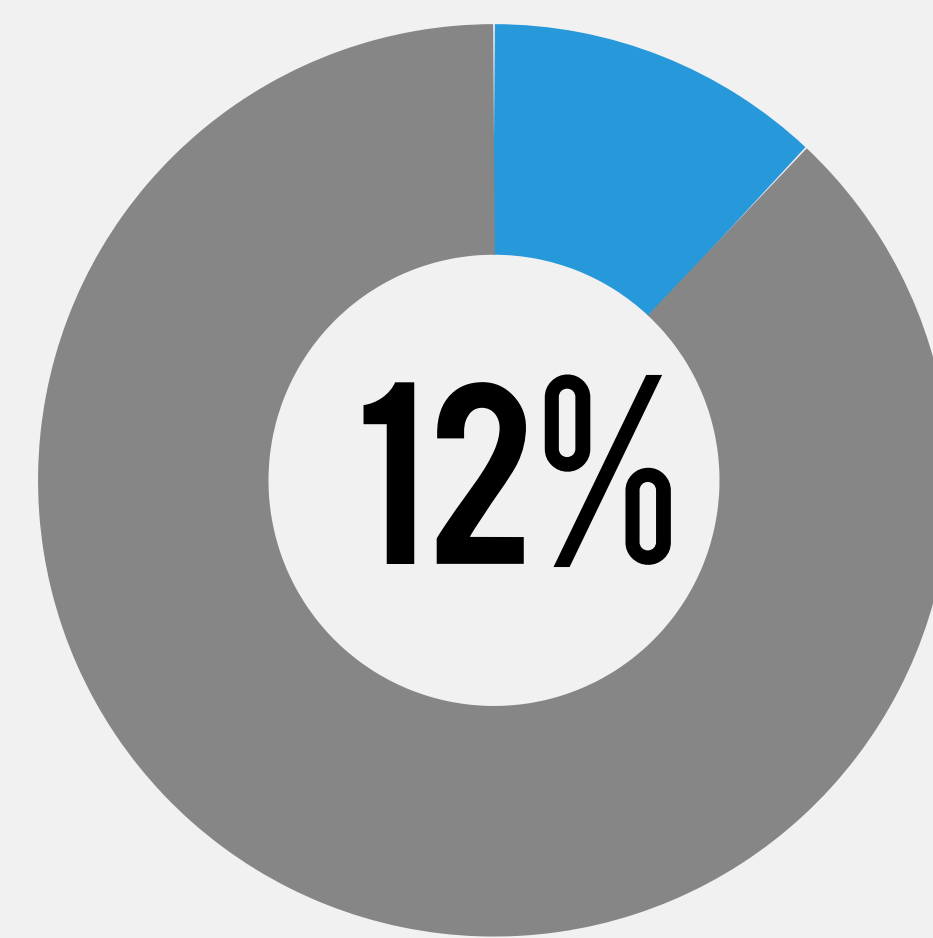
PREPARE DOCUMENTATION



DEVELOP PROGRAM



IDENTIFY RISKS



AUDIT PLANNING INVOLVEMENT

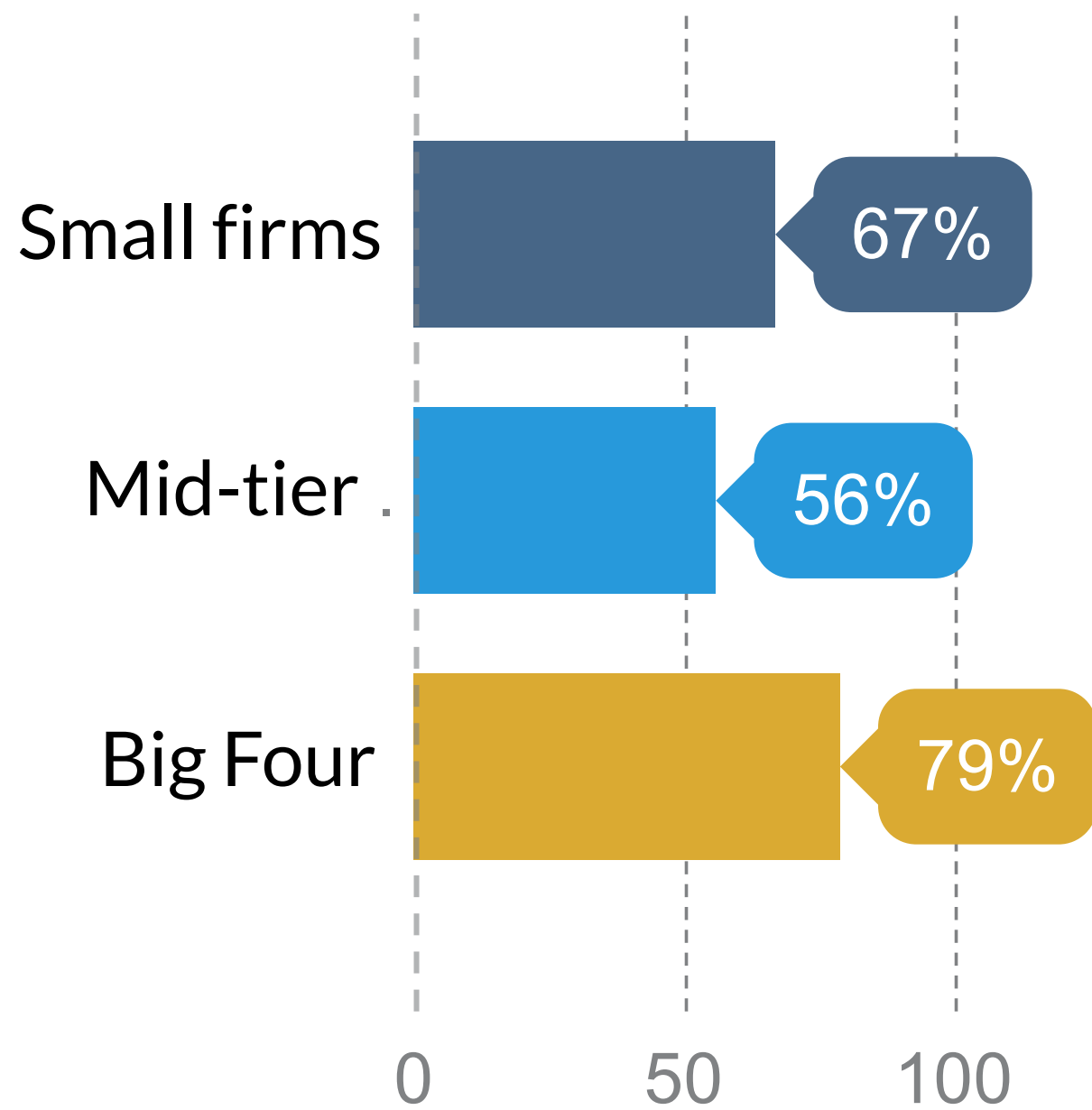
When it comes to the involvement of the offshore team in the audit planning process we find that 74 percent of participants use offshore personnel to prepare documentation, 26 percent utilize them in the development of the audit program, whereas only 12 percent use offshore personnel to identify audit risks.

Q: "How do the offshore personnel participate in the audit planning process?" 84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

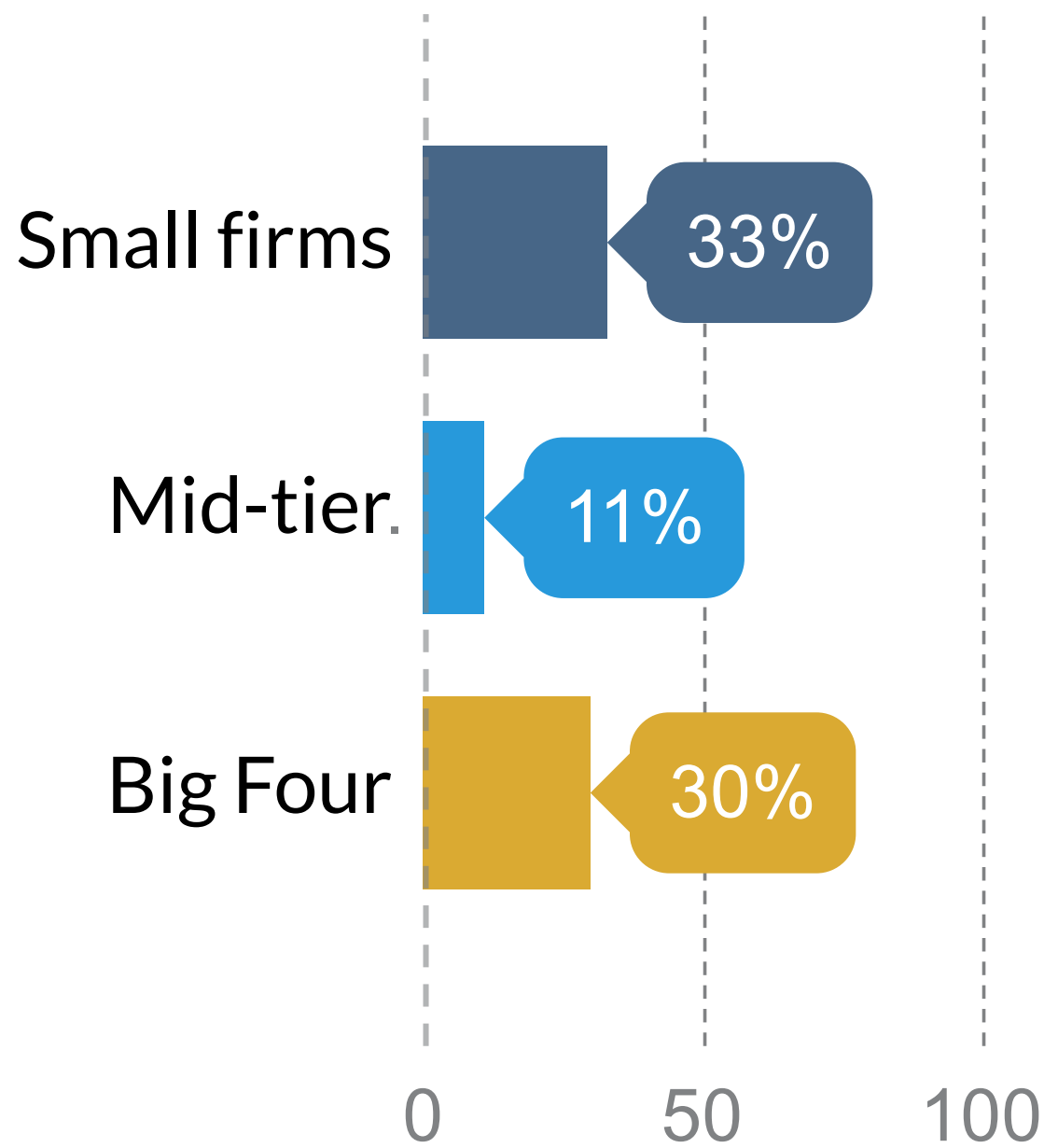
AUDIT PLANNING INVOLVEMENT BY AUDIT FIRM SIZE

Interestingly, small firms appear to be involving the offshore personnel in the audit planning process to a larger extent than their larger counterparts. While all of them are fairly open to using the offshore team to prepare the documentation, about 67% of small firm participants use the offshore personnel in identification of audit risks, whereas only 17% of mid-tier participants and 8% of Big Four participants involve offshore personnel in this process.

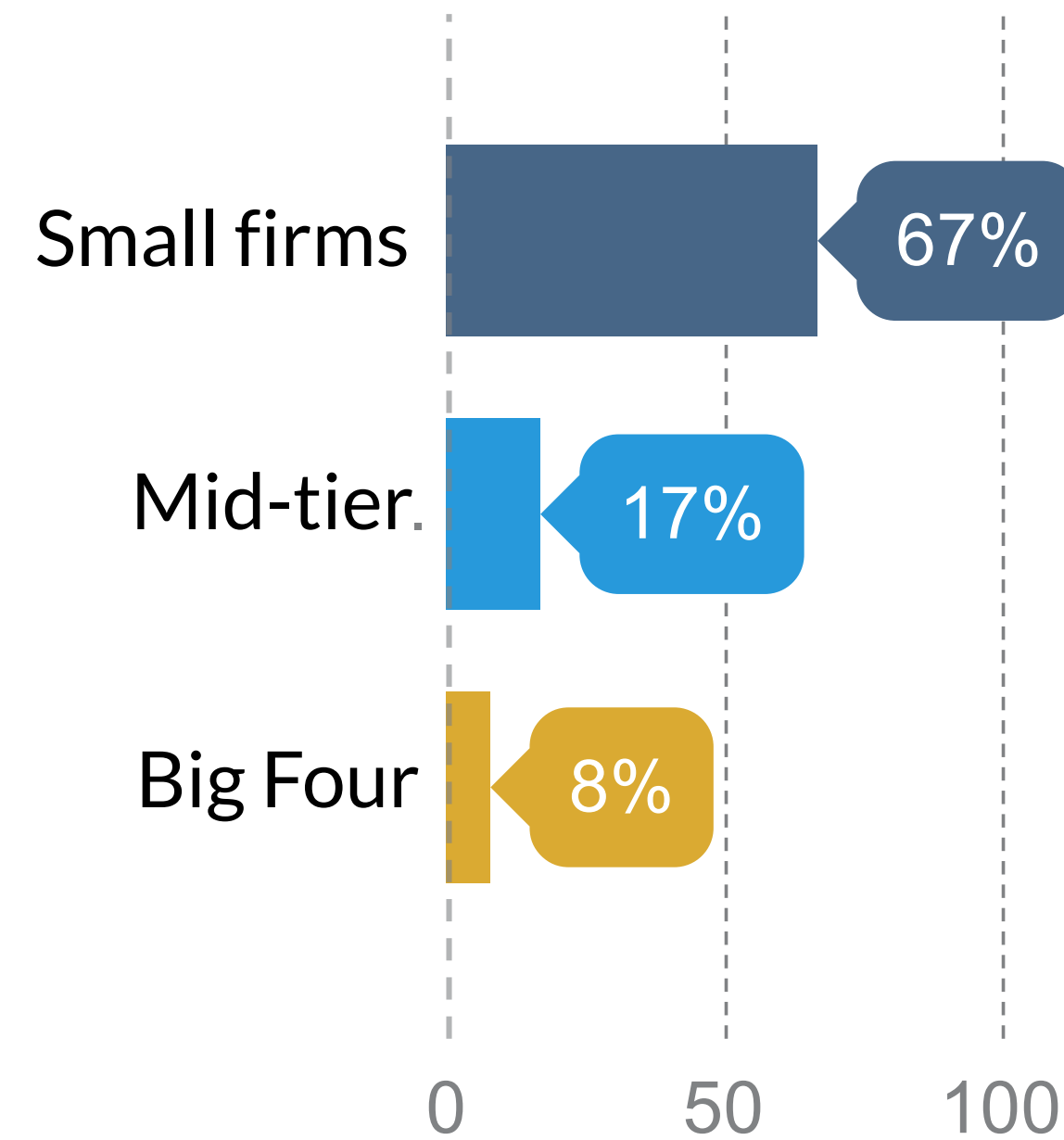
PREPARE DOCUMENTATION



DEVELOP PROGRAM



IDENTIFY RISKS

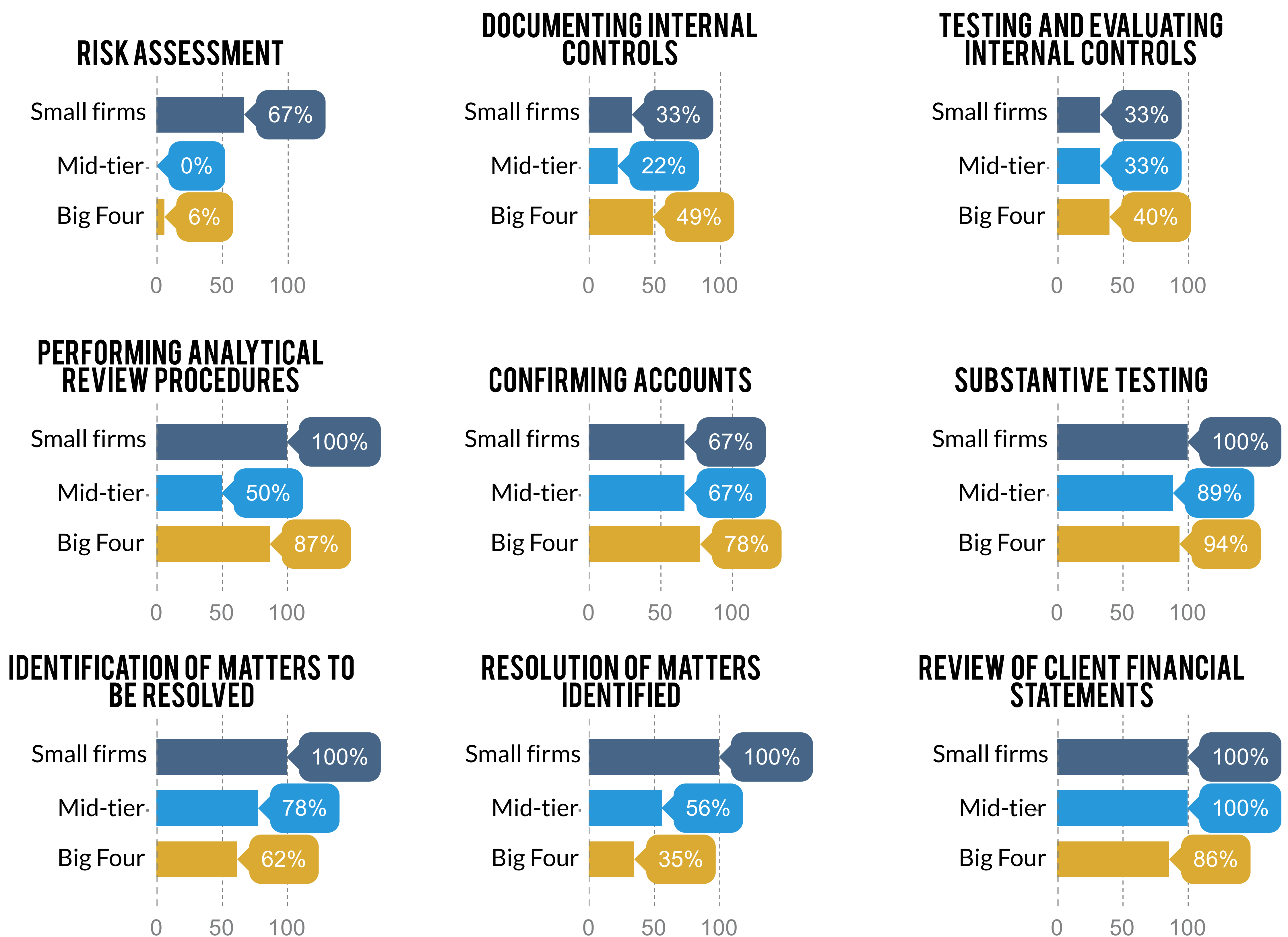


84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

OFFSHORED TASKS

TYPES OF TASKS OFFSHORED

We find that most audit tasks are being offshored, however the propensity of offshoring differs greatly both between firms and even within some of the Big Four firms. Generally speaking, most low judgement tasks are commonly sent offshore, however tasks involving judgement are increasingly being sent offshore as well.



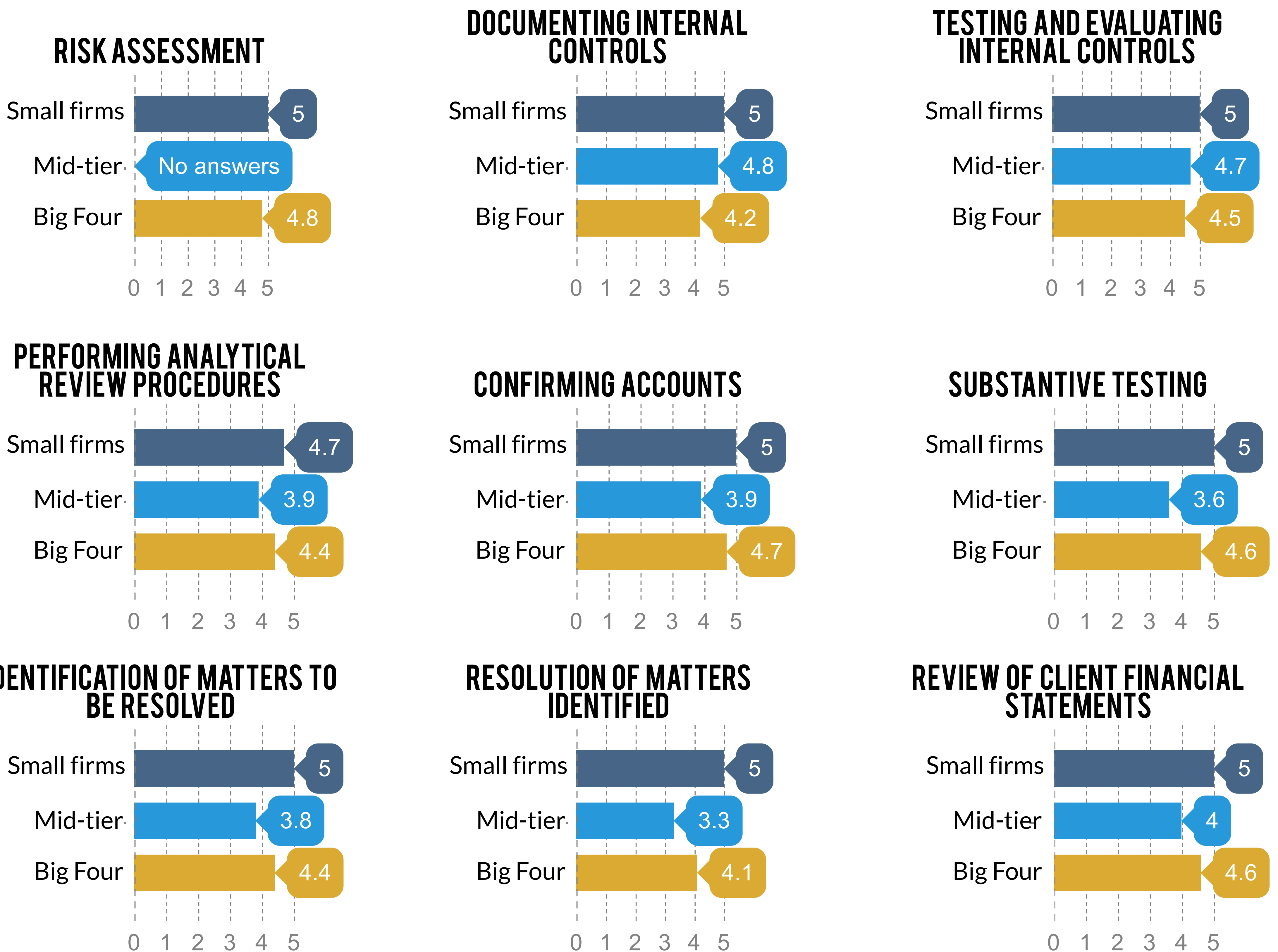
Q: "Which of these audit tasks does the offshore team perform for your firm and how satisfied are you with their work for each of these?" 84 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 63 responses from Big Four firms.

"The skill levels of offshore staff continue to improve and through access to more highly skilled staff (as compared to early stages of offshoring) there is now greater potential to offshore more challenging / technical tasks"
[Partner, Big Four firm]

OFFSHORED TASKS

SATISFACTION WITH SPECIFIC TASKS

We find that firms are generally satisfied with most audit tasks performed by the offshore personnel, however the satisfaction levels with specific tasks varies greatly and there are significant differences in satisfaction between Big Four, mid-tier, and small firms. We find that on average mid-tier firms are less satisfied than the Big Four and small firms.

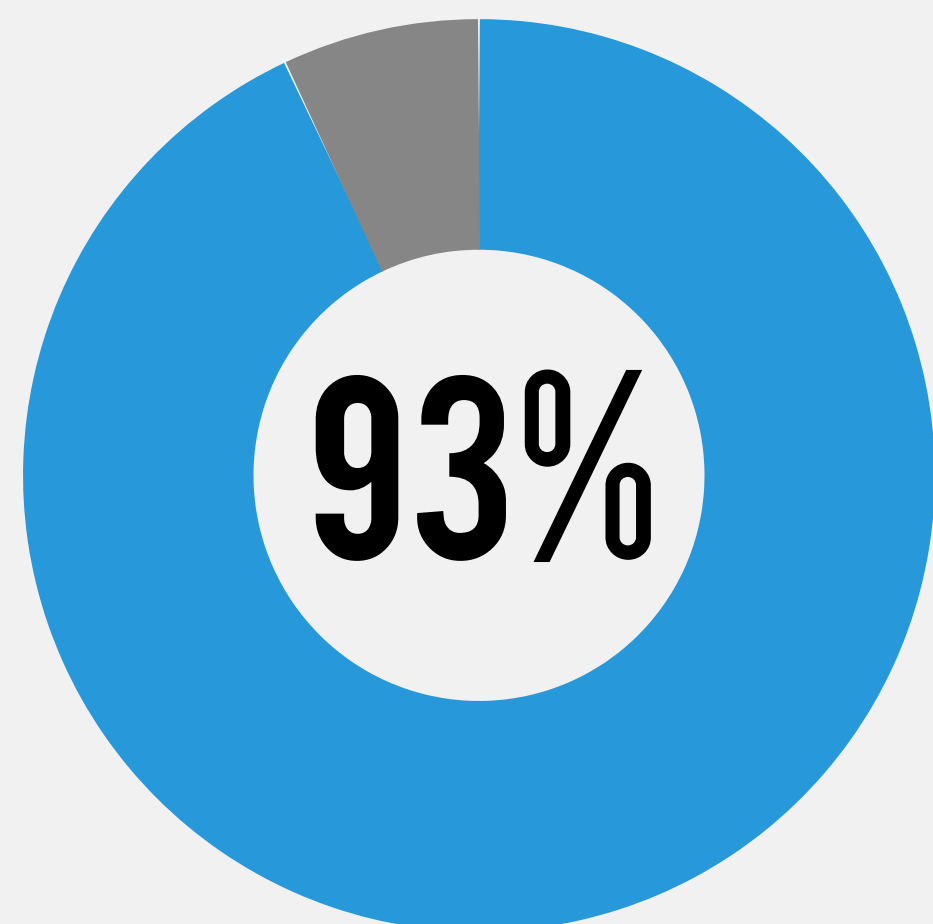


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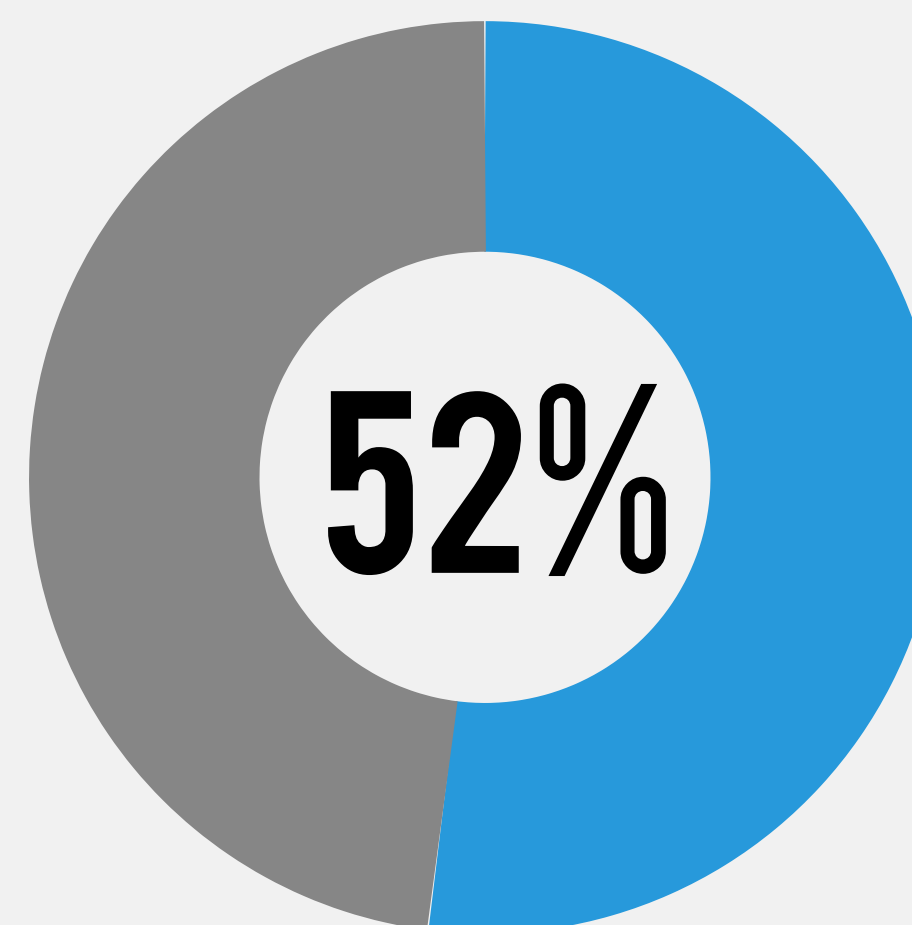
"I have been using offshore delivery centres for a number of years on my audits and have been very satisfied with the quality of the work performed - in many ways the offshore staff are over qualified for the type of work they often find themselves doing"
 [Partner, Big Four firm]

CLIENTS

DISCLOSURE OF OFFSHORING



CLIENT PRECLUSION



Q: "Do you disclose/inform clients that part of their external audit is performed offshore?" and "Has an audit client ever precluded your firm from offshoring work related to their audit?" 81 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 60 responses from Big Four firms.

CLIENT DISCLOSURE AND REACTION

We find that 93 percent of participants disclose to their clients that part of the audit work is performed offshore. Among Big Four firms this is always disclosed (100 percent), whereas mid-tier firms (72 percent) and small firms (67 percent) are somewhat less likely to disclose that part of the audit is performed offshore. We find that 52 percent have had a client preclude them from offshoring part of their audit and that this prevalence is similar across Big Four (55 percent) and mid-tier firms (50 percent), whereas none of the small firms in our sample had a client preclude them from offshoring work related to their audit.

DATA SECURITY

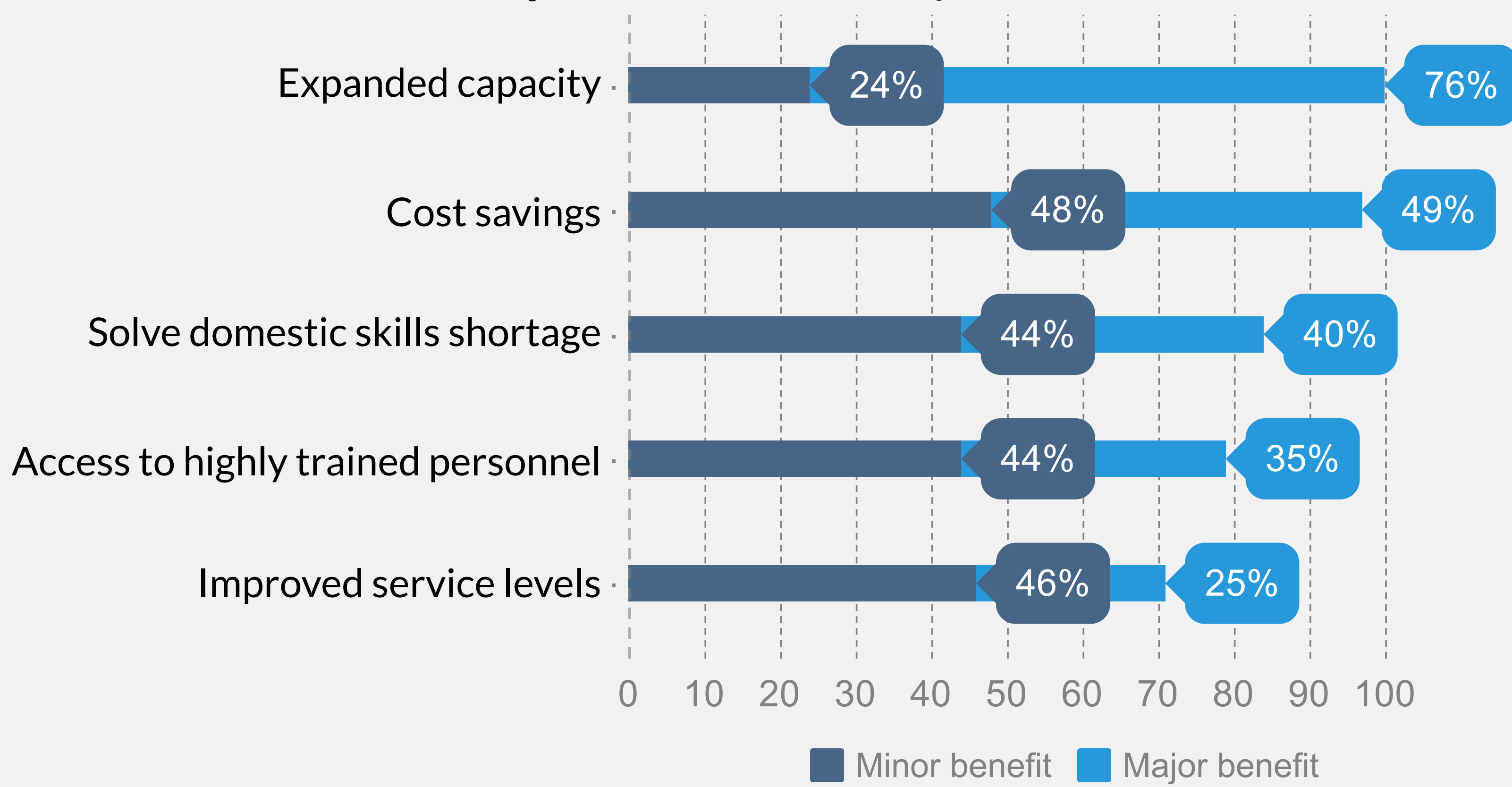
We found that several participants stated that audits of government organisations are very restrictive when it comes to the data security, and that often means that work has to be done in Australia. However, others noted that they are able to satisfy these requirements by keeping the data in Australia and allowing their offshore personnel to access the data through a remote desktop environment. Overall, while many of our participants noted that they have had a client preclude them from offshoring, this is somewhat rare in comparison to the amount of clients they have, and these clients tend to mainly be concerned with data security rather than with anything related to work quality.

*“All work for government organisations are restricted from being offshored.”
[Partner, mid-tier firm]*

BENEFITS & RISKS

BENEFITS

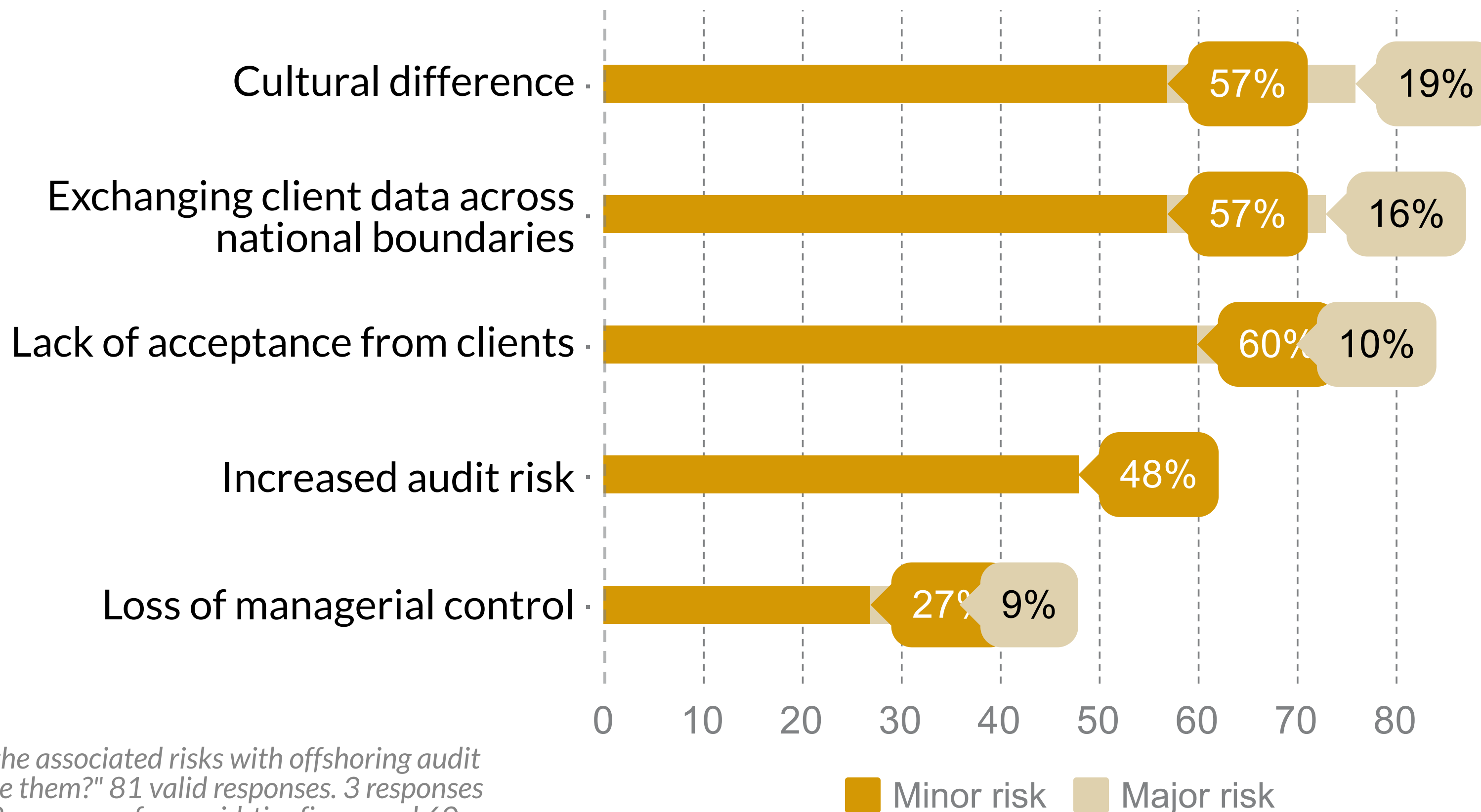
Expanded capacity is the most important realised benefit as 76 percent rate it as a major benefit, and 24 percent rate it as a minor benefit. 49 percent rate cost savings as a major benefit while 48 percent rate it as a minor benefit. 40 percent rate solving domestic skill shortage as a major benefit and 44 percent rate it as a minor benefit, 35 percent rate access to highly trained personnel as a major benefit and 44 percent rate it as a minor benefit. Only 25 percent rate improved service levels as a major benefit and 46 percent rate it as a minor benefit.



Q: "Could you rate the realised benefits from offshoring audit work as you perceive them?" 80 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 59 responses from Big Four firms.

RISKS

Cultural differences is the most significant risk as 19 percent of participants rate it as a major risk and 57 percent rate it as a minor risk. 16 percent rate exchanging client data across national boundaries as a major risk and 57 percent rate it as a minor risk. 10 percent rate lack of acceptance from clients as a major risk and 60 percent rate it as a minor risk. 48 percent rate increased audit risk as a minor risk. 9 percent rate loss of managerial control as a major risk and 27 percent considered it to be a minor risk.

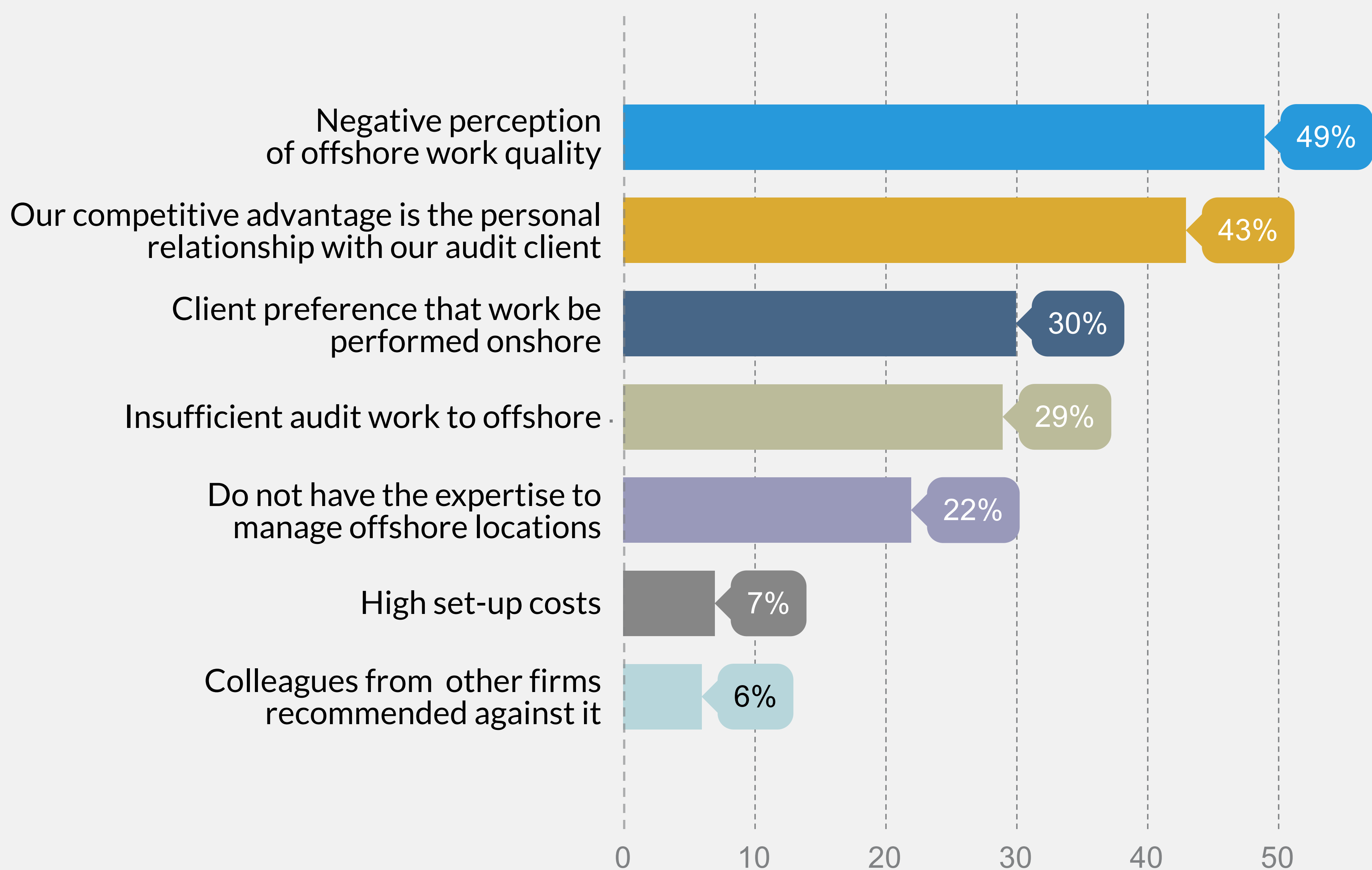


Q: "Could you rate the associated risks with offshoring audit work as you perceive them?" 81 valid responses. 3 responses from small firms, 18 responses from mid-tier firms, and 60 responses from Big Four firms.

WHY SOME DON'T OFFSHORE

REASONS

The vast majority of our participants are not offshoring any audit work, however a third of them indicated that they had considered offshoring in the past. We asked what the major reasons for not offshoring were. 49 percent have a negative view of offshore work quality, 43 percent are not offshoring because the client relationship is their competitive advantage, 30 percent state that their clients prefer that work is performed onshore, 29 percent state that they don't have sufficient amount of audit work to offshore, 22 percent do not have the expertise to manage offshore location, 7 percent say that the set-up costs are too high, and 6 percent say that colleagues from other firms recommended against it.



Q: "What were the main reasons for deciding against offshoring external audit work?" and "Why has your firm not considered offshoring external audit work? Please select all responses that are relevant." 224 valid responses. 161 responses from small firms, and 63 responses from mid-tier firms.

*"we believe that our clients would view this negatively, and while we would save money we may lose clients. Further we don't engage in advertising [of] our business [and] we rely on image and market presence, we felt doing this may tarnish our reputation. On an audit side, I like to know the persons performing the work it helps me assess the detection risk profile of each individual, in a sense it's whether I can trust their competency as well as integrity."
[Senior Manager/Director, mid-tier firm]*

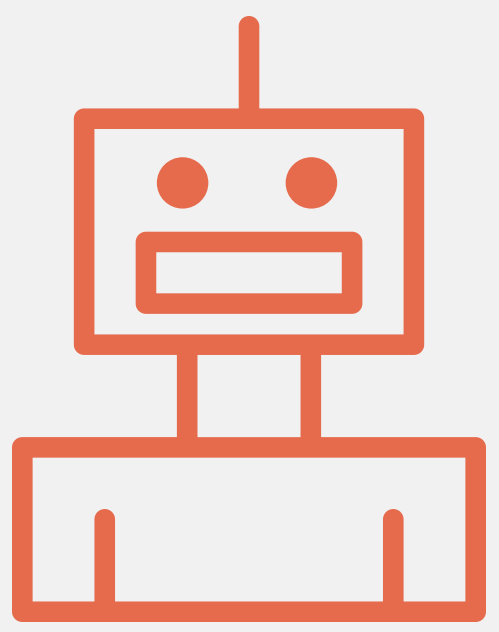
THE FUTURE

Training Future Auditors

Many participants noted that offshoring means that there are fewer opportunities for graduates in Australia to develop experience using the routine level work. While alternative paths may develop in the future to address this concern it is a considerable issue for the future.



“one of the disadvantages of offshoring is that it takes away the more routine lower level work which is used to train graduates/audit assistants. This in turn can impact on the graduate intake and the size of “the gene pool”
[Senior Manager/Director, mid-tier firm]



Opportunities of Automation

Automation is seen by some firms, especially small ones, as an approach to capture similar efficiencies to offshoring. They are very likely to seek automation and technology solutions for tasks that do not require auditor expertise and judgment. Furthermore, automation and digitization by clients can also assist the work hours of the auditor by removing some of the base work.

“if the audit task requires low skills we prefer to find a technology solution”
[Partner, small firm]

Centers of Excellence

An alternative strategy to offshoring or to complement offshoring is to develop centers of excellence where economies of scale are achieved through specialization. This is easier for firms with large networks but potentially possible if pooled across several small firms using a cooperative center of excellence.

“External audit offshoring was active 2-3 years ago. Currently [the Big Four are] focusing on center[s] of excellence [whereby the] central function in Australia does all the specific account audit (i.e. Cash, Receivable Inventory and so on), which can be standardised.”
[Partner, Big Four firm]

CONCLUSION

In this project we used interviews and a survey to understand the extent and nature of offshored audit work in Australia. We interviewed ten audit practitioners to understand the landscape and identify key issues, followed by a survey that captured the views of 368 senior audit practitioners, 86 percent of whom are partners of firms.

We find that the propensity to offshore is driven by size as all the Big Four engage in this activity, whereas only 15 percent of mid-tier firms and 2 percent of small firms offshore audit work. We also find that those firms that engage in this activity currently offshore an average of 12 percent of their audit hours and that this is expected to grow to 25 percent in the next two years. In doing so these firms primarily use India as their preferred offshore location, the Philippines is also rated highly, with other markets being negligible in comparison.

On average, respondents are quite satisfied with the work quality delivered by offshore personnel, however we found that the level of satisfaction was somewhat lower amongst mid-tier firms, whereas small firms and Big Four firms were significantly more satisfied with the work quality.

The level of satisfaction could be driven by the strong utilization of training, as 85 percent of respondents stated that senior staff travel to the offshore location to provide training, whereas 70 percent said that they transfer offshore personnel to Australia for training, and 61 percent stated that offshore personnel is sometimes seconded to Australia to work alongside the audit team.

When it comes to the kind of work performed we find that all tasks, as identified in the survey, are performed by offshore personnel. However, the propensity to use the offshore personnel for different tasks varies considerably. We find some evidence that offshore personnel perform lower level judgement tasks, whereas high level judgement tasks such as risk assessment are rarely performed by offshore personnel.

Given that a range of tasks is being performed offshore we find that expanded capacity is considered to be the major benefit of offshoring followed by cost savings. While risk associated with offshoring was acknowledged, these were primarily considered to be minor risks, with cultural differences and the exchange of data across national borders being the most significant. While 48 percent considered that increased audit risk is a minor risk. All participants that currently engage in offshoring believe that overall, there has been a net benefit through engaging in this activity. Consequently, it appears audit quality has not been impacted.

We also gathered a significant response by firms that have chosen not to offshore their audit work. The most frequently cited reason for not offshoring is a negative perception of offshore work quality as well as that the firm's competitive advantage lay with the personal relationship with the client. We also received almost seventy comments in our survey from these firms when we asked them about their general views on offshoring. The most prevalent issue raised in the comments section of the survey was protecting local jobs, the local economy and providing a staff development path. Both small and mid-tier partners and managers raised these issues.

Overall, we find that offshoring is used significantly among the Big Four firms in Australia, who are planning to increase the amount of work they send offshore in the next two years. We also find that while the practice is not as common among mid-tier and small firms, these firms are increasingly considering it on their agenda, and that the tasks offshored are increasingly becoming more complicated with higher levels of judgement involved.