

From Intuitive to Constructive Audit Risk Assessment: A Complementary Approach to CAATTs Adoption

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Abstract : The use of the audit risk model in auditing has faced limitations and difficulties, leading auditors to rely on a conceptual level of its application. The qualitative approach to assessing risks has resulted in different risk assessments, affecting the quality of audits and decision-making on the adoption of CAATTs. This study aims to investigate risk factors impacting the implementation of the audit risk model and propose a complementary risk-based instrument (KRIs) to form substance risk judgments and mitigate against heightened risk of material misstatement (RMM). The study addresses the question of how risk factors impact the implementation of the audit risk model, improve risk judgments, and aid in the adoption of CAATTs. The study uses a three-stage scale development procedure involving a pretest and subsequent study with two independent samples. The pretest involves an exploratory factor analysis, while the subsequent study employs confirmatory factor analysis for construct validation. Additionally, the authors test the ability of the KRIs to predict audit efforts needed to mitigate against heightened RMM. Data was collected through two independent samples involving 767 participants. The collected data was analyzed using exploratory factor analysis and confirmatory factor analysis to assess scale validity and construct validation. The suggested KRIs, comprising two risk components and seventeen risk items, are found to have high predictive power in determining audit efforts needed to reduce RMM. The study validates the suggested KRIs as an effective instrument for risk assessment and decision-making on the adoption of CAATTs. This study contributes to the existing literature by implementing a holistic approach to risk assessment and providing a quantitative expression of assessed risks. It bridges the gap between intuitive risk evaluation and the theoretical domain, clarifying the mechanism of risk assessments. It also helps improve the uniformity and quality of risk assessments, aiding audit standard-setters in issuing updated guidelines on CAATT adoption. A few limitations and recommendations for future research should be mentioned. First, the process of developing the scale was conducted in the Israeli auditing market, which follows the International Standards on Auditing (ISAs). Although ISAs are adopted in European countries, for greater generalization, future studies could focus on other countries that adopt additional or local auditing standards. Second, this study revealed risk factors that have a material impact on the assessed risk. However, there could be additional risk factors that influence the assessment of the RMM. Therefore, future research could investigate other risk segments, such as operational and financial risks, to bring a broader generalizability to our results. Third, although the sample size in this study fits acceptable scale development procedures and enables drawing conclusions from the body of research, future research may develop standardized measures based on larger samples to reduce the generation of equivocal results and suggest an extended risk model.

Keywords : audit risk model, audit efforts, CAATTs adoption, key risk indicators, sustainability

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