

Audit Firm Technology and Financial Statement Audits

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Abstract

This study examines the association between audit firm technology and audit quality and efficiency. Despite recurring discussions about the potential of information technologies to improve financial statement auditing, little is known about their effect on audit outcomes. Using data from German audit firms, where the acquisition value of software used in the firm practice is available, we find that clients of more technology-intensive audit firms have lower absolute discretionary accruals. We find no effect on audit report lag. Our results are robust to including client and audit firm fixed effects, alternative accrual estimations, and using a first-difference estimator. Cross-sectional analyses suggest that the effect is weaker when firms introduce a new audit methodology but stronger when firms have more employee training or use more external experts. In sum, our results are consistent with an increase in audit firm technology yielding more effective audits.

Key Words: Audit Data Analytics, Audit Information Systems, Audit Support Systems, Audit Technology, Audit Quality, Audit Report Lag