The quality of accounting audit, the factors determining the perception of the Registered Accountants Experts

Elsa Tanushi
Unviversity of Tirana

Abstract

The purpose of this study is to provide knowledge on factors that are perceived as influencing the quality of audit in Albania. The study focuses on the point of view of individual active auditors, those auditors who exercise their profession, according to data from the Register of Registered Accountants Experts. This group has been selected to be surveyed by considering its professionals as a party in the audit market that possesses the information and technical knowledge appropriate for the proper assessment of the determining factors of the audit quality. This research is based on an interpretive research approach using research methods such as document analysis and questionnaires. The analysis method used for the obtained responses from auditors is statistical analysis, through descriptive analysis, correlation analysis and regression analysis. The survey confirms the raised hypothesis, on the primary importance of input factors in building the perception of the quality of the audit. In general, the findings of the survey can be considered important for the stakeholders for audit engagements and for academic researchers that wants to develop a deeper understanding of this contribution.

Keywords: quality of audit, influencing factor, perception, social and cultural context.

Introduction

Choosing to handle a topic in the field of external audit comes from the belief that the profession of auditor plays a crucial role in the dynamics of financial markets. In particular, it is emphasized the importance of providing an audit opinion with a high level of quality, which as a result provides the interested parties with more reliable information. There are different actors involved in the audit process, auditors, audit committee members, audited company management, investors and regulators. Each of these groups may affect the auditor's decisions, and each of them may have different opinions on what constitutes a qualitative audit. My contribution to the relevant literature in Albania is the analysis of the perceived factors as the most important for the quality of the audit, from the point of view of active accountants.

2. Purpose of the study

This study is intended to determine the factors that most affect the quality of the audit. The concept of audit quality has been widely reviewed in international literature, especially by looking at the links between the auditor's quality factors (such as the size of the audit firm or specialization in the industry) and financial reporting quality indicators (such as modified audit reports, quality of reported income, Francis JR, 2004; Watkins AL et al, 2004). In these studies, the concept of audit quality is defined by reference to specific characteristics or decisions (Humphrey C. et al., 2007) and the

ISSN 2519-1284
Acces online at www.iipccl.org

European Journal of Economics, Law and Social Sciences
IIPCCL Publishing, Graz-Austria

Vol. 3 No. 1
January, 2019

quality of audit indicators is more limited in the observed aspects of financial reports than in the content of the audit process itself.

3. Research questions, hypotheses and methodology

The compilation of the study is done in the function of 1 (one) research question and hypothesis related to this research question.

Research question: What are the factors that are perceived to affect building the understanding of the quality of the audit?

The audit quality framework, published by the IAASB in 2014, divides factors that influence audit quality into 3 (three) categories, Input, Output and Contextual.The corresponding part of the questionnaire was constructed starting from this division. This question will be answered for each of the Input, Output, and Context factors categories from the EDD viewpoint. From the literature review, it turns out that the factors included in the Input category are considered to be the most influential to the quality of the audit and, exactly for this fact, are also the most studied over the years by various researchers in the field of accounting. The first hypothesis has been raised on these evidences, referring to the case of Albania.

Hypothesis 1: Input factors are the factors that are perceived to have the highest impact on the quality of the audit. This hypothesis will be verified through the processing of the collected data from the questionnaire, where the perception of Input, Output and Contextual factors results. The selected methodology for the implementation of the study is based on survey techniques, applied to the respondents' category, active auditors, total population, 208 professionals, according to IEKA's official register and audit committee members. The collected data through the survey system was processed statistically in order to verify their credibility and inclusiveness, and verify the raised hypotheses. The method of data analysis used for the purpose of verifying the raised hypotheses is the correlation and regression one. The IAASB developed an audit quality framework in 2014. This framework focuses on five elements: input factors, process factors, output factors, interaction between parties ,and contextual factors. This framework is also the basis of the development of the questionnaire built for the realization of this survey. According to the International Standards on Auditing and Security Standards Board (IAASB) consultation document, the quality of audit is an important issue that requires a greater attention. The objectives were: raising awareness on the key elements of audit quality, encouraging key actors to explore ways to improve quality audit and facilitate a greater dialogue between them on this subject. The IAASB Framework also encourage the key audit quality elements that are distinguished as follows: a) Inputs covering factors such as values, ethics, and attitudes that are influenced by a company's culture; also covers the knowledge, skills and experience of auditors; b) The process that covers audit processes and quality control procedures and their impact on the quality of the audit; c) Products incorporating reports and information formally prepared for audit purposes; d) Main interactions within the Financial Reporting Supply Chain covering formal and informal communication between stakeholders and the context that may affect these interactions; e) Contextual factors including a number of environmental factors that may affect the quality of the audit.
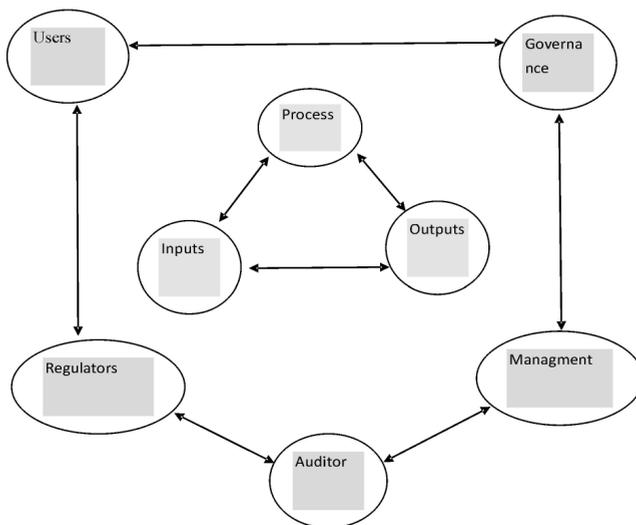
Figura 3.1 – IAASB Framework for Audit Quality, IAASB (2014).

The framework outlined in this document defines the key attributes in favor of the audit quality, reflecting the various perspectives of stakeholders. *Inputs* are grouped into the following categories:
- Values, ethics and attitudes of auditors;
- the knowledge and experience of the auditors and their defined time for carrying out the audit ; and
- the effectiveness of the audit process and quality control procedures.

Within these categories, quality attributes are further organized between those that apply directly to:
- the level of engagement of the audit;
- auditing company level; and
- the national level and consequently indirectly for all audit societies operating in that country and the audits they undertake. Auditing quality inputs will be affected by the context in which an audit is conducted, interactions with key stakeholders, and outcomes. For example, laws and regulations (contexts) may require specific outputs that affect the capabilities (inputs) that are used.

Outputs
Audit results are often determined by the context, including legal requirements. While some actors may influence the nature of the results, others have less impact. For some stakeholders, such as investors in the listed companies, the auditor's report is the main output.
Interactions between key actors
While each individual shareholder in the financial reporting chain plays an important role in supporting high quality financial reporting, the way of interaction

ISSN 2519-1284
Acces online at www.iipccl.org

European Journal of Economics, Law and Social Sciences
IIPCCL Publishing, Graz-Austria

Vol. 3 No. 1
January, 2019

may have a particular impact on the quality of the audit. These interactions, including formal and informal communications, will be affected by the context in which the audit is performed and allow a dynamic relationship to exist between the inputs and the results. For example, discussions between auditors and those in charge of governance at the planning stage may affect the use of specialized inputs and the form and content of the auditor's report for those who are in charge of output.

Context

There are a number of contextual factors that can ease the quality of financial reporting, including corporate governance and the applicable financial reporting framework. Contextual factors, including legal and regulatory requirements, also form interactions among key stakeholders. These factors may also affect the audit risk, the nature and extent of required audit evidence , and the efficiency of the audit process.

4. Source, data collection and sampling

In this project , the study of official publications and reports, and questionnaires will be used to answer the research questions set out previosly.
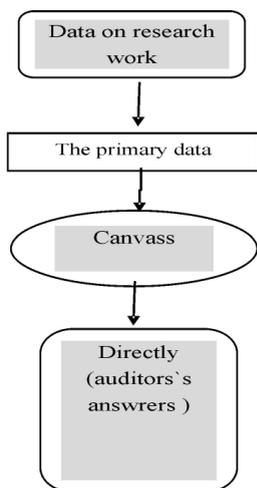

Figure 4.1.1: Collection of research data

Collection of data from the questionnaire

The group of respondents is the one of active auditors registered. Currently the number of active auditors is 208. Initially, the sample intended to be selected was that of the auditors and audit engagement partners who had declared more work hours in the 2017 audit.

This was not possible because this information was requested by IEKA by email, but it was rejected for private reasons. Consequently, a random sampling method was used, through the direct distribution of questionnaires, during the annual auditors training held at the Tirana International Hotel, on 23/11/ 2018. This direct contact was selected to increase the number of respondents' responsiveness, as they did not produce any results after contacting them via email and phone.

The number of questionnaires that was distributed was 70, but the number of questionnaires completed by the respondents was 29 pieces.

Table 4.1.2: Selected sample and received responses number

Auditors	208	Active Auditors
	70	The randomly selected sample
	33%	Selected sample
	29	Questionnaire`s responses
	41%	Responses

4.1 Design of the questionnaire

The form of questions used in the questionnaire includes a Likert scale from one to five points per answer. A Likert scale has the advantages of being relatively easy to build and administer and easily understood by respondents, making it particularly useful. The questionnaire consists of closed questions. Care was taken at the length of the questionnaire, ensuring that it covers all important issues. In formulating the questions asked , care has also been taken to ensure that they are clear and understandable. Confidentiality of the information provided to the respondets was guaranteed in providing the questionnaire. The questionnaire used in the study was developed after reviewing the previous literature.

The questionnaire is structured in 2 sections

Section 1, aims to identify the general characteristics of the sample.

Section 2, aims to identify the factors that are considered most infuential to the quality of audit in Albania. The factors in the questionnaire are divided into three macro categories, Input, Output and Contextual, according to the division made by the IAASB in 2013, in its publication on this topic.

Also through the responses of this section will be verified Hypothesis 1.

5. Results, Interpretations and Discussions

Factorial analysis

In social sciences and in many other disciplines, researchers often face a large number of values / variables, and under these conditions the need to discover the structure of indicator links is needed. The easiest way to accomplish this is the correlation analysis between these indicators. Factorial Analysis provides the method to empirically support this process of identifying concepts, constructs, which are identified for the purpose of the work. In the following, to achieve the objective of establishing the raised hypotheses, were used factorial analysis tools, following the foreseen steps provided by the relevant statistical procedures.

Table 5.1: Evaluation of the reliability of the scale indicators

Scale	Type of factor	Number of indicators	Cronbach's Alfa
Percieved audit value	Dependets variable	26	.839
Value/Ethics/Attitude	Input	14	.897
Knowledge/Experience/Time	Input	14	.890
Audit process/Quality control procedures	Input	14	.944
Output factors	Output	10	.952
Contextual factors	Contextual	7	.941

In order to continue with the factorial analysis it is necessary to make an assessment of the reliability of the scale indicators in advance. This assessment is made through the Cronbach's Alfa statistical instrument. Since the Cronbach's Alfa values are above 0.7,

ISSN 2519-1284
Acces online at www.iipccl.org

European Journal of Economics, Law and Social Sciences
IIPCCL Publishing, Graz-Austria

Vol. 3 No. 1
January, 2019

this allows the statistical viewpoint to proceed with the reduction of the dimensions of the constructs. The followed practice for this procedure is the limitation of generating a single factor for each construct. This means that each scale or inventory used for the operation of the constructs, which consists of multiple and measured indicators with the Likert Scale with 5 values, is converted into a single variable. This conversion is optimal because it passes from nominal variables to continuous one, and the latter have the advantage of more sophisticated statistical processing than the first one.

Table 5.2 *KMO and Bartlett′s Test*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.847
Bartlett's Test of Sphericity	Approx. Chi-Square	840.4
	Df	15
	Sig.	.000

The Kaiser-Meyer-Olkin test (KMO) is an index that compares the magnitude of the correlations observed with respect to partial correlations. The values included in the range 0.8 <KMO <1 indicate that the sample is accurate and can be followed by the other phases of factor analysis, correlation analysis and regression analysis. Bartlett's Test of Sphericity, the small statistical significance values of this test indicate that factorial analysis is appropriate for our data analysis.
Considering the above, it has been possible to undertake further steps to carry out factorial analysis for the purposes of this paper.

Table 5.3 *Pearson`s correlation analysis of components of the model (N=29)*

Variable	1	2	3	4	5
1. Percieved audit value					
2. Value/Ethics/Attitude	.788** .000				
3. Knowledge/Experience/Time	.686** .000	.661** .000			
4.Audit process/Quality control procedures	.644** .000	.579** .001	.809** .000		
5. Output factors	.598** .001	.558** .002	.685** .000	.731** .000	
6. Contextual factors	.492** .008	.534** .003	.661** .000	.601** .001	.649** .000

*, **, *** importance level in .05, .01 .0

In statistics, the Pearson correlation index (also called the linear correlation coefficient or the Pearson correlation coefficient or Bravais-Pearson correlation coefficient) between the two statistical variables is an index that expresses a possible linear linkage between them. To be able to judge the veracity of the perceptions on the quality of the audit and the way in which the quality of the audit is displayed is done the analysis of the correlation between these two variables in Table 4.2.3 and the values are a strong link statistically significant positive.

Values 0.3 <r <0.7 show a moderate correlation

Values r> 0.7 show a strong correlation.

Referring to the data evidenced above in the table, there is a correlation between considered moderate or strong variables, and therefore can be followed by a regression analysis in order to verify the hypothesis. Considering Dependable Variables Perceived Auditing Quality, the following correlations can be observed: - Dependent variables are strongly related to the "Value / Ethics / Attitudes" variable, and moderately with the "Knowledge / Experience / Time" and "Audit Process / Quality Control Procedures" variables, these are the variables Input factors. This means that these factors have the highest impact on the perceived quality of the audit, especially the higher correlation is with the "Value / Ethics / Attitudes" variable. Dependent variable is correlated moderately with variables influenced by, "Output Factors" and "Contextual Factors".

This means that these factors affect the perceived quality of the audit, moderately. Compared to the variables represented by input input factors, the impact of variables represented by Output and Contextual factors, correlation and consequently their impact on perceived audit quality is more moderate. This will be observed statistically following with the Regression Model.

There are also correlations between independent variables as follows:
- variable 2 "Value / Ethics / Attitudes" represents a moderate correlation with variables 3, 4, 5 and 6;
- "Knowledge / Experience / Time" variable 3 shows strong correlation with variable 4 and moderate correlation with variables 2, 5, 6 and 7.
- variable 4 "Audit Process / Quality Control Procedures" shows strong correlation with variable 3 and 5, and moderate correlation with variables 2, 6 and 7
- variable 5 "Output Factors", represents a strong correlation with variable 4 and moderate correlation with variables 2, 3, 6 and 7
- variable 6 "Contextual Factors", represents a moderate correlation with variables 2, 3, 4, 5 and 7

The existence of the positive correlations noted above, among various independent variables, means that the changes in the perception of some factors cause changes in the same direction of perception of other factors with which correlation is identified.

Table 5.4 *Simple predictive regression model of audit quality (N=29)*

Model	Dependets variable	Constant (B0)	Coefficient B	R Square	Confidence Intervals (B)
1	Value/Etics/Attitude	-.011	.776***	.620	.531 – 1.020

2	Knowledge/Experience/Time	-.039	.687***	.471	.387 – .987
3	Audit process/Quality control procedures	-.013	.636***	.415	.331 - .940
4	Output factors	.002	.587**	.357	.270 - 904
5	Contextual factors	.000	.483***	.242	.139 - 828

*, **, *** Importance level in .05, .01 .000

Note: The variables dependent on all models are the perceived quality of the audit Linear regression analysis is a technique that allows the analysis of the linear relationship between a dependent variable and one or more independent variables. Linear regression analysis is an asymmetric methodology based on the hypothesis of the existence of a cause-effect relationship between one or more independent variables and the dependent variables.

Because the sample is small, in order to respond to the raised hypotheses at the beginning of the study, it has been reasonable for regression models to be in a simple regression where as a dependent variable is the quality of the audit. Evidence from the use of the simple predictive quality regression model, the mid-table template, allows the following answer to the questionnaire and hypothesis. Research question: What are the factors that are perceived to affect building the understanding of the quality of the audit? Hypothesis 1: Input factors are the factors that are perceived with the highest impact on the quality of the audit.

This hypothesis is accepted because the beta coefficients values for the three input factors are the highest. As a result, we can also respond to the research question, claiming that the factors that are perceived as most influencing the quality of the audit are Input factors. From the macro input factor category, the surveyed EDFs consider the most important aspects of the Value, Ethics and Professional Attitudes of Auditors to Exercise in their Profession, followed by aspects related to Knowledge, Pervoja and Time, and from the Audit Process / Quality Control Procedures

6. Key Findings and Recommendations

The following outlines the findings on the results of this study regarding the perception of various factors in determining the quality of the audit.

From the evidence collected, it turns out that the factors that are perceived as most influencing the quality of audit in Albania are Input factors, followed by Outputs and Contextual ones.

This evidence is realized through factorial analysis, which confirms the hypothesis raised about the primary importance of the Input factors to the concept of audit quality. The most important input factors are those related to Values, Ethics and Attitudes. This evidences the fact that the characteristics pertaining to the individual aspects of the auditor, the values of the audit firm and the organization of the profession of auditors at the national level are considered as most important for a high level of audit quality. Contextual factors are considered, and why they affect the quality of auditing, with the lowest impact. Contextual factors include the legal framework in force, the way

of corporate governance, information systems, cultural aspects. It is again noted that the respondents do not consider the environment in which the auditor's profession is exercised as the quality assurance of the audit.

7. Restrictions of the work

The technique of data collection through the survey tool carries the risk of biased information generated by this instrument. As far as sampling is concerned, the number is limited, as through the use of different instruments to answer, it was very difficult to get them from the respondents. In Albania, the relevant literature is quite limited, which makes it difficult to compare the findings with previous evidence.

This study as every search is subject to certain limitations. These limitations relate to the scope of the involved groups, the level of coverage of these groups, and the limitations of data collection methods. This study is an explorer in nature and covers only perceptions from the auditors viewpoint.

A second limitation of the study is that the coverage of the involved groups was limited by the practical issue of limited responses, and future research could try to broaden the number of individual participants, perhaps through broader survey methods. Another possible line of research to explore may be the use of findings from this study to develop a deeper framework on the factors that affect the quality of the audit, and the specific combinations between them. In conclusion, another aspect of research that may be considered restrictive is the possible existence of different forms of prejudice, subjectivity and interpretation (for example, personal bias and personal answers by respondents). Limitations to the research method affect all research formats.

References

Francis, J.R., (2004). 'What Do We Know About Audit Quality?' The British Accounting Review, 36 (4):345-368.
Humphrey, C., Moizer, P. and Turley, S., (2007a). 'Independence and Competence? A Critical Questioning of Auditing'. Advances in Public Interest Accounting, 12:149-167.
Watkins, A.L., Hillison, W. and Morecroft, S.E., (2004). 'Audit Quality: A Synthesis of Theory and Empirical Evidence'. Journal of Accounting Literature, 23 (1):153-193.
Watkins, A.L., Hillison, W. and Morecroft, S.E., (2004). 'Audit Quality: A Synthesis of Theory and Empirical Evidence'. Journal of Accounting Literature, 23 (1):153-193.
A framework on Audit quality, 2014, IAASB.
Law 10091, date 05.03.2009 "For legal auditing ,organizing the profession of Legal Auditor and Approved Accountant " ammended with the law 47/2016.
SNA 200, General Objectives of Indipendent Auditor and carrying out an audit in accordance with SNA , Dicember 2009.