



A Comparative study on the audit quality attributes and perception of the audit partners and financial statement users

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Abstract

Purpose: One of the most important topics in accounting literature is the quality of information presented in financial statements. The audit helps in maintaining the records and verification of the books of accounts. The audit fosters trust among all the parties involved including banks, debenture holders, creditors and other stakeholders. Therefore, in order to secure the stakeholders related to any organization audit is undertaken. The financial auditors report provides users with the confirmation that the company will continue to operate in the foreseeable future and the activity reported in the financial statement is sustainable, at least in the medium term. In this regard the literature has grown significantly in the terms of analyzing the quality of financial audit this provides the purpose for undertaking this research. **Research design, data and methodology:** This research is exploratory research that is it is quantitative in nature and investigates the research question that has not previously been studied in depth. The methodology adopted for collecting responses with respect to the research is judgmental sampling which covered employees associated with financial sector. The data is collected from 62 individuals working in financial sector so as to measure their knowledge about financial audit and also to know the attributes and perceptions that influences the audit quality. **Results:** The result outlines the major attributes and perception effecting the audit quality, it was found out by performing factor analysis, and analyzing the data collected. **Conclusions: There have been researches on the audit quality but this one contributes in identifying the majorly affecting characteristics of auditors on audit quality and perceptions.**

Keywords: Financial statements, debenture holders, stakeholders, Audit quality, Audit

1. Introduction

Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied.

Naturally, the purpose of an audit should be to ensure that the information provided in the financial statements is accurate and not deceptive, and that there are no errors or frauds that would skew the information that the accounts should really be conveying. The primary focus was on mathematical accuracy; proper application of accounting principles and disclosure, for ensuring preparation of accounting statements in such a way as to enable the reader of the accounting statements to form a correct view of the state of affairs, were not given adequate attention.

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The reliability of the budget summaries that auditors are reporting on is significantly increased by their work. Excellent audits support the financial stability. We may discover a variety of already completed research on audit quality; archive studies comprise analyses of audit quality in numerous countries and in various industries, such as banks and government sectors. The organization and operation of audit teams have a significant impact on the quality of the audit. Audit quality is all about looking at how an audit is conducted in any business, how successful it is, and how appropriately and morally it is conducted. So, we can say that:

A high-quality audit is more likely to be carried out when auditors:

- display appropriate values, ethics and attitude,
- are knowledgeable, skilled and experienced
- Have enough time to perform the audit.

If the quality of the audit being undertaken is excellent, its stakeholders will receive valuable information. This research will thus examine the perspective of the audit partners and consumers of the financial statements in addition to the audit's quality.

Along with the auditors, a number of other significant parties, including the members of the audit committee, management, investors, and regulators, are involved in the audit process. These groups all have the potential to have an impact on auditor choices, and they all can have different ideas about what a quality audit should look like. We need to comprehend the effects of these auditor decision-making on these various groups in order to more clearly comprehend the incentives and motives that affect auditor decisions. By looking at aspects that affect auditors' and consumers' views of audit quality, I add to the accounting literature.

2. Literature Review

Carcello Joseph states that in an increasingly competitive environment, it seems important to understand the perceptions of both users and preparers as they relate to audit quality. Any differences may allow for audit firms to deliver more satisfaction to both groups and simultaneously improve their own audit quality.

Benjamin states that audit measures practice against performance, the audit cycle involves five stages: preparing of audit, selecting criteria, measuring

performance level, making improvements, sustaining improvements.

DeAngelo defines audit quality as the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. ((1981), 1981)

(Duff, 2004) says that recruitment of the 'high-flyers' and 'good quality people' emphasized by respondents in audit firms, and highlighted in the firms' marketing literature needs to identify two aspects of performance. First, their technical skills. Second, auditors and trainee auditors should possess the social skills necessary to maintain and develop long-term relationships with audit clients.

(Danielle Lombardi, 2014) The auditing field is at a critical juncture. Independent audits continue to take place annually, whereby associated analysis and reporting routines are based solely on historical data.

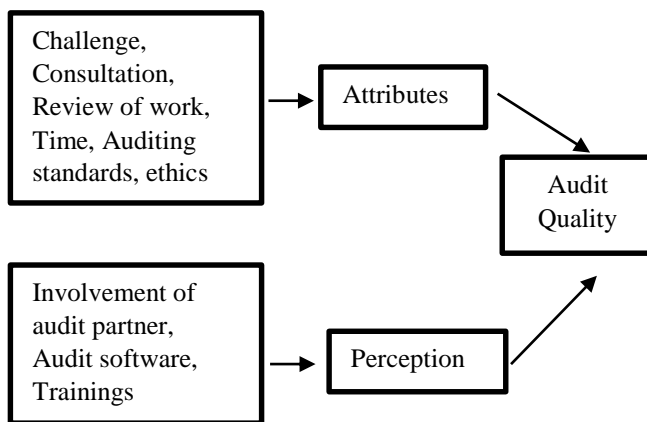
(Istrate) says that the quality of the information presented in financial statements is one of the most important topics in the accounting literature. There are many indicators to measure this quality and its impact on a variety of variables, often driven by the behavior of investors and other stakeholders

(J V Carcello, 1992) says that competition in the audit market and audit regulation are perceived as key contextual factors in the auditing environment affecting audit quality. Half of the quality inspectors perceived the level of audit quality in practice varies in different audit engagements.

(A. Ghosh, 2005) analyzed how investors and information intermediaries perceive auditor tenure. Using earnings response coefficients from returns-earnings regressions as a proxy for investor perceptions of earnings quality, we document a positive association between investor perceptions of earnings quality and tenure

3. Conceptual Framework

Figure 1



The Research identifies what are the major attributes (like consultation, ethics, Review of work, time) and perception (Training, audit partner, involvement of audit partner) that effects the audit quality. Though the responses the attributes and perception were identified that leads to high audit quality.

4. Objective of the study

In order to reach any conclusions a keen analysis of the topic is required, but before that one should know the objective behind initiating the study process. This research has been conducted in order to:

- To identify the perception of the auditors and financial statement users towards the audit conducted.
- To examine major attributes that effects audit quality.
- To analyze how the concept of audit quality is understood and applied by key participants in the audit process.
- To identify the awareness in the population regarding financial audit.

5. Research Methods

- 5.1 Population:** The population is every individual and organization who is somewhere related to financial audit that is whether is a client of an auditor or auditor itself.
- 5.2 Sample:** As it is not possible to collect data in short span of time from each auditor's client therefore, the individuals working in financial sector in India were chosen as sample from the population.
- 5.3 Sample size:** The sample size is total number of individuals from whom data for the research has been collected and for this research the sample size is 62 responses, as this is a pilot study.
- 5.4 Sampling Technique:** Non probability sampling technique has been used, where the individuals were selected based on subjective basis. In which individuals in the population did not have equal chance of selection.
- 5.5 Sampling method:** The method used for choosing individuals is judgmental sampling where respondents were chosen based on the knowledge.
- 5.6 Data Source:** The data has been collected from two sources that is Primary data source and secondary data source. Primary data source: The primary data is collected from a survey of the sample defined. Secondary data source: The secondary data has been collected from books, and audit information available online.
- 5.7 Tool of data collection:** The data has been collected with the help of a structured questionnaire.

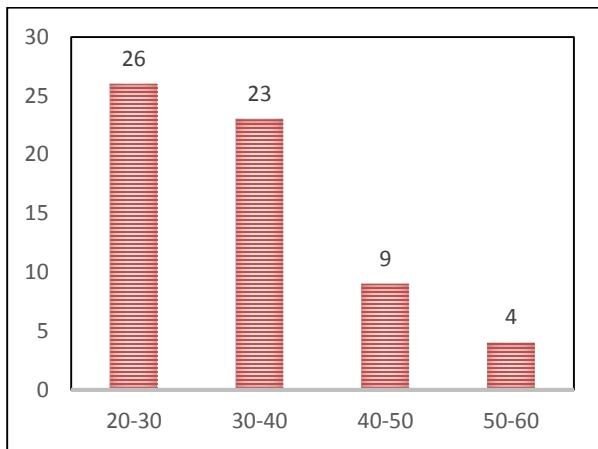
6. Results and Discussions

6.1 Age

Table 1 displaying individual's age group in the sample

Age	Number of responses
20-30	26
30-40	23
40-50	9
50-60	4
Grand total	62

Figure 2



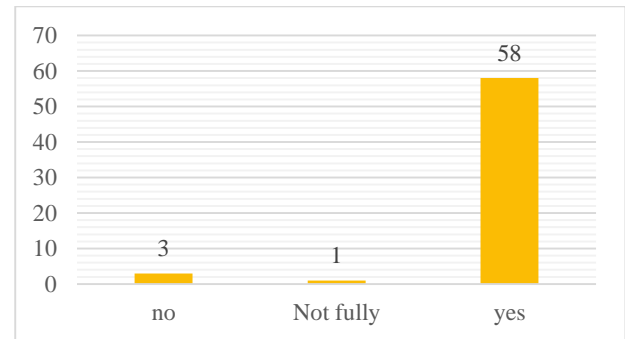
From the above table and graph we can interpret the age of the responses that is divided into groups in order to consolidate the data. We can see that there are four groups in which there are 26 individuals that belong to 20-30 age group that makes up to 42% of the total 62 individuals, 23 individuals or 37% belongs to 30-40 age group, 9 individuals or 15% belongs to from 40-50 age group and 4 or 6 % representing 50-60 age group. So, in total there are 62 responses in the survey.

6.2 Awareness about the audit firm

Table 2 depicting the awareness of the population

Awareness about the audit procedures	Number of responses
No	3
Not fully	1
Yes	58
Grand Total	62

Figure 3 representing the above table



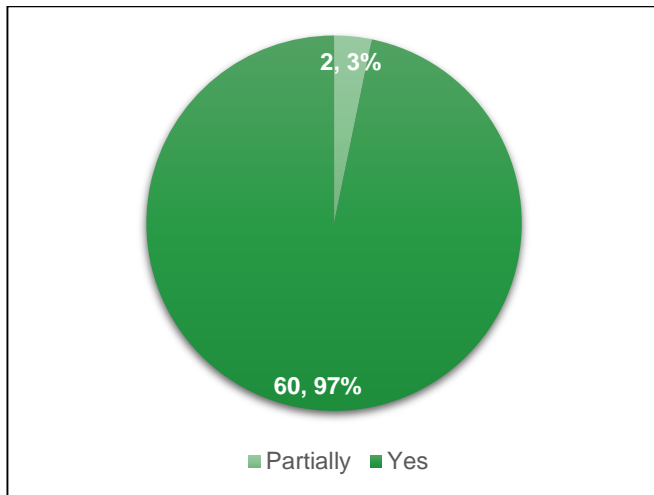
The above graph represents that majority of individuals in 62 responses are fully aware about the audit procedures, that is 93.5% or 58 individuals. 3 among 62 are not aware as they were not from finance background, and 1 individual is not fully aware. Therefore, we can say that sample is aware of the audit procedures.

6.3 Fulfillment of audit requirement

Table 3

Fulfil the audit requirements	Number of responses
Partially	2
Yes	60
Grand Total	62

Figure 4 representing above table



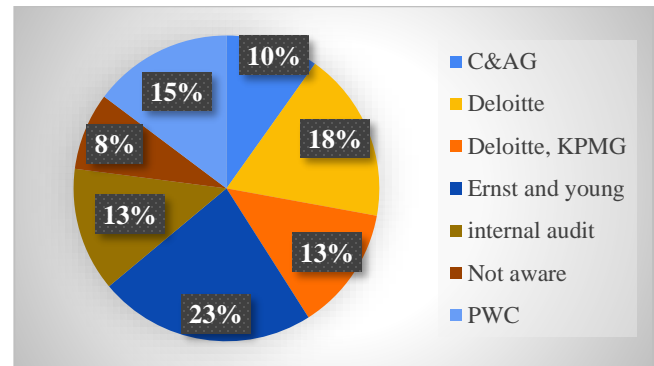
The above graph represents that whether the individuals are satisfied from the auditors or not, and we can see that out of 62 individuals 60 were in favor that their auditors fulfill the audit requirement that is 97% of the population. 2 individuals or 3% partially believed that their auditors fulfill the audit requirement

6.4 Auditors

Table 4 depicting auditors name that have worked in organization of responses

Auditors Name	Number of responses
C&AG	6
Deloitte	11
Deloitte, KPMG	8
Ernst and young	14
internal audit	8
Not aware	5
PWC	9
Grand Total	61

Figure 5 Pie chart representing the above table



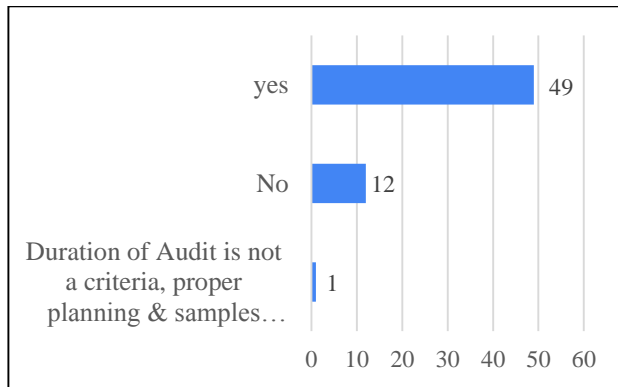
The above table and graph represent the auditors that worked with the organizations of the individuals who are part of the research. So, we can see that the highest number of firms were audited by Ernst and young that is 14 that makes up to 23% of total 62 responses, 11 firms were audited by Deloitte that is 18% , 8 individuals or 13% of 62 individuals stated Deloitte and KPMG (Klynveld Peat Marwick Goerdeler) as their auditor, 9 firms were audited by PWC (Price Waterhouse Coopers) that is 15%, 8 or 13% of 62 responses carried internal audit in their organization, and 6 firms were audited by C&AG (Comptroller and Auditor General of India). Out of 62 responses 5 individuals were not aware of their auditors.

6.5 The longer the audit the better the audit quality

Table 5

Effect of duration on audit quality	Number of responses
Duration of Audit is not a criteria, proper planning & samples size criteria is more important.	1
No	12
yes	49
Total	62

Figure 6 Stacked bar representing Table 5



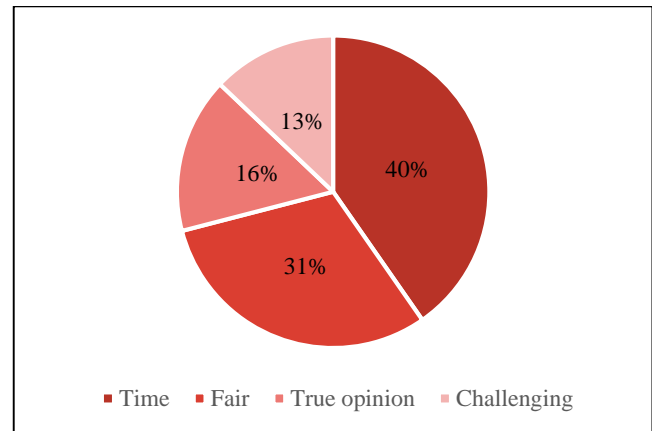
The above graph represents the numerical form of responses and their view towards the statement “the longer the audit the better will be the audit quality”, in simple words the table and figure depict effect of time on auditor. There are 49 individuals out of 62 or 79% who believe the statement to be true and said that time surely have effect on audit quality and 12 individuals who are against it, 1 individual gave different view by saying that time is not a parameter but proper planning and criteria is.

6.6 Perspective of the audit quality

Table 6 depicting perspective of audit quality

Perspective regarding audit quality	Number of responses
Time	25
Fair	19
True opinion	10
Challenging	8
Grand Total	62

Figure 7 representing the Table



While knowing the perspective of the individuals towards audit quality, the most common factors that influenced the quality were:

1. Time: The audit in which time constraint is added can be titled as good quality audit. Out of 62 responses 40% individuals chose time as one perspective.
2. Fair representations: Few individuals stated that there should be fair representation of the financial statements to the auditor, at most transparency should be maintained by the organizations. 31% of 62 individuals believed fair representation of the financial statements is also necessary.
3. True opinion: Some interviewee also said that high quality audit is when the auditor gives true opinion about the organizations financial condition and examines the firm with honesty. Out of 62 individuals 16% wanted that auditor’s opinion should be fair and true to enhance audit quality.
4. Challenging: Few responses stated that the auditor should challenge the management of the organization in order to deliver high quality audit. Out of 62 individuals 13% said that auditor should be challenging to the client in order to obtain fair and true picture of financial statements.



6.7 Perceptions affecting audit quality (perception of clients, financial statement users)



Perception factors	Assigned name	Count
Audit engagement & audit planning	P1	56
Technical consultations give quality of judgements	P2	44
Training enhances technical expertise	P3	45
Internal reviews enhance auditing standards	P4	40
Communication influences the quality	P5	54
Interaction influences the quality	P6	43
Training enhances audit	P7	48
Software facilitates technical requirements	P8	41
Risk approach efficient audit	P9	40
Software promotes documentation	P10	34
Internal reviews help in audit documentation	P11	44
Audit software achieves efficient audit	P12	34
Firm methodologies and manuals improve the quality	P13	49
Interaction is influential in the content	P14	44

The above table and graph represent the votes that were given by the individuals surveyed. That will help us to know what factors actually influences the audit quality.

Like we can see the highest votes have been given to the statement audit engagement and planning. But as there are too many factors so in order to combine the similar factors and extract the most influencing one Factor Analysis has been performed on the above data.

Factor analysis is a technique that is used to reduce a large number of variables into fewer numbers of factors. This technique extracts maximum common variance from all variables and puts them into a common score. As an index of all variables, we can use this score for further analysis.

Factor Analysis of Perception affecting audit quality
In the Perception affecting audit quality analysis, 14 variables were analyzed. Bartlett's test of sphericity and KaiserMeyer



Olkin (KMO) measure of sampling adequacy were used to examine the appropriateness of factor analysis. The approximate chi-square statistic is 127.618., which is significant at .007 levels. The KMO statistic (0.536) is also

large (>0.5) Hence factor analysis is considered an appropriate technique for further analysis of data.

The 14 Variable defined in the above table has been confined to only five variables. The five most affecting perceptions that affects audit quality are:

1. **Involvement of audit partner and consultation influence the audit quality:** Under this the variables from the main 14 variables that have been included are P1, P2, P3, P5, P8 and P10. Here,

P1: Involvement of audit partner and consultation influences the audit quality.

P2: Consultation during audit enhances the audit quality.

P3: Training of auditors.

P5: Effective communication between the auditors and client.

P8: Audit software facilitates compliance with technical requirement.

P10: Audit software promotes compliance with document required.

2. **Interaction between client and auditors influences audit quality:** This is an essential factor as without proper interaction there will be misunderstandings that will have negative impact on the audit quality. Therefore, the factors included under this is P14 and P6. Here,

P14: Interaction is influential towards content of audit work.

P6: Interaction influences the quality

3. **Audit software leads to effective audit:** Proper usage of software helps human brains to fasten the work and deliver best conclusion by drawing correct results. So, it was witnessed that individuals believe that auditors should make use of audit software. To find out this factor P 11, P14, P12 have been clubbed out of the 14 variables defined in the table above. Here,

P11: Internal review enhance compliance with auditing standards

P4: Internal reviews enhance auditing standards

P12: Audit software facilitates achievement of audit effectively

4. **Risk based approach and methodologies**

promotes quality judgement: The Risk Based Audit Approach is designed and implemented by the auditor to focus the nature, timing and extent of the audit procedures on those areas which have high potential of material mis-statement. The auditor should focus on those areas where there is high risk of material mis-statements as compared to those where there is low possibility of risk. Therefore, the auditors should utilize their rules and methods to carry on with true audit and provide client with honest financial disclosures. P9, P13 are the variables that forms this factor of perception. Here,

P9: Risk-based approach achievement of effective audit

P13: Methodologies and manuals improve the quality of audit judgement

5. **Training and internal reviews leads to effective audit:** In order to excel in anything proper training and analyzing mistakes is important. Auditors is someone on whom other stakeholders of the company are dependent. They look forward to them for true opinion about the company. Therefore, the auditors carrying on the audit should be trained enough to face and identify the faults in the financial statement. Also, a review at regular intervals should be done in order to correct the mistakes in the audit process before delivering any opinion. This factor is taken from combining the variables P7 and P11. Here,

P7: Training effects delivery of effective audit

P11: Internal reviews within the audit firm

After performing the above-described factor analysis the study provides the readers with 5 perceptions that highly effects the audit quality.



6.8 Attributes affecting audit quality

Audit Attributes	Assigned name
The auditor is experienced	A1
The auditor is technically competent	A2
The auditor is independent	A3
The audit is carried out in accordance with ethical standards	A4
The audit is carried out in accordance with auditing standards	A5
The audit meets the quality standards applied internally by the audit firm	A6
The audit work is determined through an appropriate planning process	A7
The work done in carrying out the audit is subject to review before the audit is completed	A8
The auditor maintains effective communication and interaction with the audit committee	A9
The role of the audit partner is at the centre of the audit process	A10
The auditor reports the correct audit opinion on the financial statements	A11
The auditor provides good value for money to the audit client	A12
The audit firm provides additional services in association with the audit	A13
The auditor demonstrates an appropriate level of challenge to the management of the audit client	A14
The audit work undertaken is based primarily on an assessment of the risks associated with the client's financial statements	A15
The auditor maintains a high level of documentation in the completed audit file	A16
The auditor does sufficient work to obtain sufficient evidence to support an audit opinion	A17
The auditor satisfies the audit client's expectations	A18
Audit firm methodologies and manuals enhance the auditor's ability to challenge client management	A19
Technical and other consultations within the firm during planning influence the quality of the resulting audit process	A20
The audit is valued by the audit client	A21
The audit is completed in a timely manner	A22
The audit firm is free from negative findings in inspection reports	A23

The above table represents the attributes that affects the audit quality. These attributes are with respect to auditors and their

work. Each individual in the sample was required to rate the attribute on the scale of agree, neutral and disagree. As we can see in the table almost all the individuals agreed to each factor rarely there were individuals who disagreed. As the factors are too many, that counts to 23 in order to condense and confined the data collected factor analysis has been performed on the above attributes.

In the attributes affecting audit quality analysis, 23 variables were analyzed. Bartlett's test of sphericity and KaiserMeyer Olkin (KMO) measure of sampling adequacy were used to examine the appropriateness of factor analysis. The approximate chi-square statistic is 543.130, which is significant at .000 levels. The KMO statistic (0.663), is also large (>0.5). Hence factor analysis is considered an appropriate technique for further analysis of data.

The above 23 variables have been confined into components after performing factor analysis. The factors are enlisted below:

- 1. The auditor should showcase appropriate level of challenge and focus on client satisfaction:** The first criteria that will enhance audit is when auditor challenges the client so as to extract all the necessary information required to provide true opinion and focuses on client satisfaction that is defined by good value for money, correct opinion, and also provides additional services. This factor was drawn after analyzing the component matrix and extracting the highly correlated variables. Variable A14, A12, A13 and A18.

 - A14:** The auditor should provide probate level of challenge to the management of the audit client
 - A12:** The auditor must provide good value for money to the client
 - A13:** The audit firm provides additional services in association with the audit
 - A18:** The audit is valued by the client
- 2. Review of work done and role of audit partner:** The auditor should review his work in intervals so as to prevent from any mistakes or drawing false opinion. Also, the role of audit partners should be defined in order to prevent misunderstandings. To draw this factor variables A8 and A10 were combined as they were highly correlated.

 - A8:** the work done is subject is subject to review before the audit is completed.
 - A10:** The role of audit partner is at the center of audit process.
- 3. Consultation and quality standards:** The auditor must maintain proper interaction with the client and try to flow information required for smooth functioning of



audit process, also obtain fair financial statements. Auditor should maintain auditing standards so as to maintain and provide a good quality audit. A6, A18, and A20 are the variables combines in order to obtain this factor.

A6: The audit meets quality standards applied internally by the audit firm

A18: The auditor to satisfies the client's expectation

A20: Technical and other consultations within the firm during planning influence the quality of the resulting audit process.

- Methodologies enhances ability:** The auditor should define proper methods in order to facilitate a high-quality audit that is one of its kind and unique. The auditor should utilize his competency and experience in order to define methodologies and perform it. A1 and A19 are the variables that were in correlation with this factor.

A1: The auditor is experienced

A19: Audit firm methodologies and manual enhances the auditor's ability to challenge client and management

- Following standards, giving Fair opinion after collecting sufficient evidences:** The auditor should provide true and fair opinion on the financial performance of the organization as many stakeholders are dependent on it. They must do so after collecting sufficient evidence from the client to support his opinion. This factor was o obtained after combining variables A7, A9, A17, A2, A4, A5, A11.

A7: The audit work is determined through an appropriate planning process.

A9: The auditor maintains effective communication and interaction with the audit committee

A17: The auditor does sufficient work to obtain sufficient evidence to support an audit opinion

A2: The auditor is technically competent

A4: The audit is carried out in accordance with ethical standards

A5: The audit is carried out in accordance with auditing standards

A11: The auditor reports the correct opinion on the financial statement

- Completed within time and free from negative findings:** Auditor must make sure that the audit is completed in timely manner and should be free from any findings that would have negative impact on company's brand. Though it is the duty of the client to maintain fair records and try to earn positive

returns. Variable A22, A23, A16 are combined together after analyzing high correlation with this factor.

A22: The auditors completed in a timely manner

A23: The audit firm is free from negative findings in inspection report

A16: The auditor maintains a high level of documentation in audit file

The above stated observation provides the reader of this report with 6 major attributes influencing the audit quality.

Findings:

- Majority of individuals believe that time has positive effect on audit quality that means the longer the audit the better will be the audit quality and also the order should be completed within specific time
- After analyzing 23 attributes and performing factor analysis on the same this study provides attributes that majorly influences the audit quality, that are:
 - The auditor should showcase appropriate level of challenge and focus on client satisfaction
 - The auditor must review of work done and define the role of audit partner
 - Consultation between client and auditors and maintaining quality standards
 - Auditor's methodologies enhance ability
 - Auditors should give fair opinion after collecting sufficient evidences
 - Completed within time and free from negative findings
- Not only attributes but this study also analysis perception of individuals towards audit quality. The main perception that are obtained after performing factor analysis on 14 variables are enlisted below:
 - Involvement of audit partner and consultation influence the audit quality
 - Interaction between client and auditors influences audit quality
 - Audit software leads to effective audit
 - Risk based approach and methodologies promotes quality judgement
 - Training of auditor and internal reviews leads to effective audit.



7. Conclusions

Monitoring and ensuring the standard of the auditing services is the responsibility of the quality inspectors. The performance of the audit processes was seen by individuals' feedback as a crucial component of audit quality. Additionally, it appears that they value "compliance" and "technical" audit qualities significantly as much as "client service" attributes for audit quality. The performance of real audit engagements is influenced by a variety of internal elements, including behavioral, technological, and relational issues, which may result in variations in audit quality between audits. Secondly, the evidence suggests that understanding of audit quality is primarily concerned with aspects of audit performance related to judgments and the execution of audit work. Elements such as the adequacy of external auditors' challenge to management, the sufficiency of audit evidence that should be documented in audit working papers, and concern about the impact of accounting standards that require greater judgement demonstrate the importance of this aspect of the audit quality discourse for financial statement users and preparers.

8. Limitations

As the source of information was individuals working in financial sector so the researcher had to face limitation with respect to convincing the individuals to go for a survey and provide information. Due to the limitations of the survey method, it only relies on reports of respondents' opinions rather than actual audit service delivery. The discussion of the findings must be impressionistic due to the small number of respondents. As a result, evidence interpretation must be approached with caution. The individuals' perceptions are influenced by their roles and functions. Other major limitation was time constraint, we were not able to cover larger chunk of responses due to less time but tried to provide best outcome.

9. Future Scope of the study

The research provides ground work for the future researches on audit quality. Further scholars can take help of the research paper in order to examine the existing views of the individuals and also to do comparison of the perception of individuals today and later on after change in time. The researchers can increase the sample size and reach out to more individuals in order to examine the awareness of financial

audit and perceptions regarding audit quality.

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