

Audit Quality Measurement Criteria from the Users' Point of View¹

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INTRODUCTION

Foreign researchers have done comprehensive studies on audit quality and proposed numerous criteria for its measurement. In Iran, the same criteria used in international research are employed to measure audit quality. However, Iran has unique characteristics that can affect how these criteria are applied. For example, there are no active international auditing firms, and public (government) auditors work at the same time as private auditors. Also, many companies rely on the public sector, and there are a lot of qualified, adverse, and disclaimer opinions. The specific features of companies and the small size of firms also play a role. Mandatory audits by the Iranian National Tax Administration, frequent restatements of financial statements by companies, intense competition in the private audit market, the public auditors' monopoly, and the significant difference in fees paid to public and private auditors complicate measuring audit quality. It is therefore evident that using foreign research criteria without considering the specific auditing conditions of Iran may lead to errors. Additionally, in most studies on audit quality, researchers usually rely on

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a single indicator to measure audit quality. However, these indicators are not usually confirmed by the users of audit reports in Iran, which raises the possibility of errors. Furthermore, most of these indicators are not (context) specific to each audit work and measure only one dimension of the auditing process. For example, input indicators of audit quality focus solely on the characteristics of the auditor, neglecting the auditing process itself, environmental features, and results. Similarly, output indicators concentrate only on company factors or the type of report, overlooking the characteristics of auditors and the auditing process.

This study was carried out because the market and users of audit reports expressed concerns about measuring audit quality in the issued reports and previous studies proposed qualitative and non-measurable indicators. Taking into account the mentioned factors and their relevance for users, while considering the environmental conditions and access to information in Iran, are crucial aspects of the current study; moreover, the ability to measure these criteria and their practical usefulness, combined with a comprehensive checklist of the indicators proposed for audit quality, attests to its innovative nature. Therefore, the main research question is as follows:

- ✓ What are audit quality measurement criteria from the perspective of different users?

In the current study, participants were asked to not only identify the factors used to measure audit quality but also to specify the indicators for measuring these factors. They were encouraged to use available information such as the characteristics of the employer's company, the characteristics of the audit firm, the audit process, the audit report, the company's financial statements, as well as internet searches or any other criteria they consider important for making informed judgments about the quality of the audit report. In other words, this research sought to focus on measurable indicators and avoid relying on qualitative or non-measurable ones. As a result, it addressed users' concerns about being able to measure the identified factors, which were overlooked in previous studies due to their impracticality or immeasurability. To further identify the factors that measure audit quality, the participants were asked to define the measurement indicators for these factors. Additionally, the study examined the effects of these indicators on audit quality. Therefore, this research is

innovative and sets itself apart from other studies carried out in Iran. This raised the following two questions:

- ✓ What are the measurement indicators of the mentioned audit quality factors?
- ✓ How do the mentioned measurement indicators affect audit quality?

METHODOLOGY

RESEARCH AND DATA COLLECTION METHOD

This study used the qualitative research method of Grounded Theory. Interviewees were asked to express all their subjective criteria and considerations for assessing the audit quality. They were also asked to evaluate the audit report, and financial statements, and, if necessary, to gather information from internet searches and the employer's company. They were asked to specify the criteria that they believed affect the assessment of audit quality and that they can access without using the company's confidential information. To begin the interview, an open-ended main question was posed: If an audit report, along with the financial statements of that company and publicly available information from the company and the audit firm, is accessible to you through internet searches, what indicators would help you determine the quality of the audit report and the degree of its quality? After the interviews, Thematic Analysis (TA) was applied to analyze the data. Thematic Analysis is a qualitative research method that focuses on identifying significant or interesting patterns in the data, known as themes, to address the research questions (Maguire and Delahunt, 2017).

RESULTS

Based on the interview results, audit quality indicators from a user perspective were categorized into the following four groups:

$$\text{Audit Quality} = \text{Demand Indicators for Audit Work (Motivations and Qualifications)} + \text{Input (Characteristics of Audit Firm)} + \text{Audit Process} + \text{Results (Audit Report)}$$

Given the use of TA for data analysis, the following are indicators that represent audit quality in each part:

1. DEMAND INDICATORS FOR AUDIT WORK (MOTIVATIONS AND QUALIFICATIONS)

Board size, board independence, ownership concentration, institutional ownership, CEO power, Duality of CEO's role, CEO's term of office, reliance on debt/liability, board expertise and experience, state ownership of the company, board effectiveness, lack of ownership of the parent company's shares by the subsidiary, family ownership, presence of internal audit, audit committee size, audit committee effectiveness, audit committee independence, financial literacy of the audit committee, restating the previous year's financial statements, prior period adjustments due to errors, size of the employer's company, normal financial ratios relative to the industry, consolidated financial statements and having affiliated companies, earnings management, bankruptcy risk, separation of ownership from management, type of company activity (manufacturing, services, trading, contracting, etc.), publicly traded company, public joint stock company, employer's area of business, enforcement of accepted standards, voluntary audits.

2. INPUT (CHARACTERISTICS OF AUDIT FIRM)

Audit firm size, number of partners in the audit firm, ratio of firm revenue to those of partners and staff, number of members accepted in the Iranian Association of Certified Public Accountants (IACPA), firm public reputation, membership in international professional associations, firm website's ranking and up-to-dateness, ranking by IACPA, firm's stock market ranking, legal claims against auditors, firm's trustworthiness as a stock exchange entity, number of partners trusted by the stock exchange, quality control rating.

3. AUDIT PROCESS

Auditor's term of office, auditor rotation, expertise of the audit firm, firm's independence, unusual fees of the audit firm (proportionality of the contract amount to the type of work), date between the confirmation of financial statements and date of report completion (early signing), signatories of the audit report (experience and reputation), first-time audit of the firm if there was no audit in the previous year, first-time audit of the firm if there was an audit in the previous year, date of the audit report

during peak workload periods (July and October) and the date of the general assembly.

4. RESULTS (AUDIT REPORT)

Report format, significant differences between the previous audit report and the new year one, number of provisions in commercial laws and other regulations, difference between declared and final taxes of the company, reclassification of important conditional clauses with emphasis on specific matters and other clauses, compliance of the number and type of conditional clauses with the type of opinion, stock exchange requirements (mandatory rules and regulations) included in the audit report, disclosure of the required adjustment amount in the misstatement clauses in the audit report, appropriate opinion regarding transactions (dealings) subject to Article 129 of the amendment to the Commercial Law.

CONCLUSIOIN

This study aimed to establish measurable criteria for audit quality from the perspective of independent auditors, financial managers, investors, and bank facilities managers. To do this, Grounded Theory and Thematic Analysis were used. A series of indicators were defined to ascertain the effects of the aforementioned criteria on audit quality. After the interviews, the criteria were classified into four main categories: demand indicators for audit work (characteristics of the employer's company), input factors (characteristics of the audit firm), processes, and results. A total of 8 main categories were considered, with 64 measurable indicators proposed for them. According to the interviewees, the proposed indicators are measurable. The indicators mentioned fall under the category of the characteristics of the specific employer's company and do not change when an auditor is replaced. The indicators of the audit firm are specific to each firm and do not change with a change in the employer's company, while the indicators related to the audit process and results (audit report) are specific to each audit work. In other words, unlike the criteria used in other audit quality studies, the indicators suggested in this research are adaptable to each audit work. This approach enables the evaluation of audit quality in each work independently, taking into account its distinct characteristics.

The identified factors encompass the entirety of the audit process, in addition to the factors that affect the demand for audit services, specifically the characteristics of the employer's company. This provides a comprehensive overview of the indicators from diverse groups for evaluating audit quality. It is crucial to acknowledge that, as per the responses obtained from the interviewees, the assessment of audit quality cannot be based on a single criterion. Instead, it necessitates the consideration of multiple criteria drawn from diverse categories.

Keywords: Audit Quality, Audit Quality Indicators, Foundation Data Method and Thematic Analysis.

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