

*Full Length Research Paper*

## **Factors affecting the success of auditors in Turkey**

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In this paper, using survey data gathered from internal, external, and tax auditors in Turkey, we aim at identifying the roles expected from the auditor and the factors that influence the success of the auditor. Exploratory factor analysis of the data we collected identified six factors of the success of the auditor: independence and impartiality, knowledge of relevant laws and provision of services, personal abilities, accuracy and caring social welfare, identification of problems and risks, and responsibility. These factors were also confirmed in subsequent confirmatory factor analysis. We conclude this study with an evaluation of these factors as well as a comparison of them with the factors identified by Humphrey et al. (1993).

**Key words:** Audit quality, audit expectations, factors of auditor success, factor analysis.

### **INTRODUCTION**

A quality audit can be performed by auditors who can successfully manage the processes, and there has been some criticism of audit quality. The Enron case in the United States in 2001, and the subsequent collapse of the Arthur Andersen firm in 2002, generated a burst of criticisms regarding the audit quality of accounting firms. Those criticisms were instrumental in the enactment of Sarbanes Oxley Act of 2002 (Francis, 2004). Preceding the American case was the Cadbury Committee's 1992 report on financial aspects of corporate governance, certain parts of which dealt with how to improve audit quality. The report particularly underlined the importance of impartiality in auditor's relationship with senior executives (O'Sullivan, 2000). Reinstatement of audit quality in the wake of audit frauds is also argued to be one of the central tenets of corporate governance (Skinner and Srinivasan, 2010).

Audit quality affects both the auditor and the audited company and serves as a measure of audit firms. Quality audits boost the reputation of audit firms (Moizer, 1998). Thus, audit firms who are willing to improve their reputation in the market should concentrate on audit quality and the success of the auditor. Identification of the roles that make the largest contribution to the success of

auditors is also important as it will help auditors save time and money in their audits.

The aim of this study is to identify the roles expected from the auditor for a quality audit as well as the factors of these roles. We start with a review of the literature on audit quality and expected roles of auditors. We then outline the methodology of this study, after which we present our results. We conclude our study with an evaluation of our findings.

### **LITERATURE REVIEW**

#### **Audit and auditor quality**

A high-quality audit has many components, one of which is auditor quality (Sinchuen and Ussahawanitchakit, 2009). Watkins et al. (2004) indicated that auditor's ability plays a role in his/her making personal decisions, which is an important part of an audit quality. Some studies dealt with how auditor's professional conduct relates to the success of the auditor and audit quality (Catanach and Walker, 1999; Ussahawanitchakit and Lim-U-Sanno, 2008). Both Catanach and Walker (1999) and Ussahawanitchakit and Lim-U-Sanno (2008) identified a positive relationship between audit quality and professional conduct.

Watts and Zimmerman (1986) indicated two major attributes of high-quality auditors' competence (sufficient

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accounting and auditing expertise to uncover frauds) and *independence* (the ability to report frauds). They also noted that auditor quality is very much related to the likelihood that the auditor will report breaches of the contract. Additionally, Bartov et al. (2000)'s study revealed that high-quality auditors were enthusiastic about reporting frauds and irregularities, while unwilling to approve doubtful accounting activities.

Chen et al. (2010) emphasized audit quality and costs. They found institutional improvements prompt auditors to prioritize the costs of compromising quality over the economic benefits gained from important clients. Emphasizing the link between financing decisions of companies and information symmetry, Chang et al. (2009) concluded that auditor quality affects companies' financing decisions. Mansi et al. (2004) also found support for audit quality's positive effect on reliability of financial reporting. Last but not least, Humphrey et al. (1993) investigated activities that influence the success of the auditor among British auditors with different specializations and identified six factors that influence auditor success, which were independence, problem solving, compliance, predicting, investigation, and commerciality.

### **Expected roles of the auditor**

Several studies have been done on the expected roles and duties of auditors. Mansi et al. (2004) identified provision of information and insurance as two major roles of auditors in the capital markets. Joshi et al. (2009) studied on Bahraini auditors and their clients. In this study, clients listed "difficulty in meeting auditor's requests" and "audit personnel difficulties in understanding the business" among their unfulfilled expectations from auditors. McEnroe and Martens (2001) also revealed that investors had higher expectations for assurances of the audit than do auditors.

Lin and Chen (2004)'s study on auditors and beneficiaries of audits in China revealed an increasing demand for expanding the applicability of independent auditing as well as the emergence of audit "expectation gap" with respect to audit objectives, auditor's obligation to detect and report fraud, auditor independence, and third party liability of auditor. Sidani (2007) studied on the "expectation gap" between Lebanese accountants and non-accountants. He found a significant difference in perceptions of the role of the auditor with respect to fraud detection. Fadzly and Ahmad (2004) who studied on Malaysian auditors, brokers, and investors also found a wide expectation gap regarding the reliability of auditor. Best et al. (2001) who studied on auditors, bankers, and investors in Singapore found evidence of a wide audit expectation gap in Singapore, particularly in the areas of auditor responsibility for fraud prevention and detection and maintenance of accounting records.

### **RESEARCH DESIGN AND SAMPLE**

The aim of the study is to identify the factors that influence the success of auditor in accordance with the views of auditor. In line with this aim, the success of auditor was considered as a component of audit quality. Therefore, it was attempted to identify the factors that influence the audit success by taking into account the view that the success of auditor would affect the audit quality.

In this study, we used the survey method to collect data. We adopted the survey used in Humphrey et al. (1993) and performed pre-assessment with multiple scholars to assure the clarity of the survey questions. The survey was applied on the Turkish auditors (external auditor, internal auditor, and tax auditor). In this study, the type of audit that was studied on is only external audit. So it was identified the success factors that is about external audit.

The survey questionnaire consisted of two sections. The first section included questions about demographic characteristics of the participants. In the second section which included questions on the roles that are expected from and that affect the success of the auditor, a five-point Likert scale (1=strongly disagree and 5=strongly agree) was used. Cronbach's alpha was found to be 0,809 for the survey indicating that this instrument had an acceptable validity. First, it was performed exploratory factor analysis to identify the factors that affect the success of the auditor and audit quality by using SPSS 16.0. Then it was performed confirmatory factor analysis with structural equation modeling to confirm the identified factors by using AMOS 16.0. At last, we conducted tests to see whether the respondents' demographic characteristics had any influence on these factors.

### **EMPIRICAL RESULTS**

Here we present the results of our empirical analysis. We first provide descriptive data on the demographic characteristics of the respondents, then we present our findings, and finally we assess and comment on our findings.

#### **Demographic characteristics of the respondents**

Table 1 presents the demographic characteristics of the Turkish external, internal, and tax auditors who participated in our survey. The majority of the respondents were male. The respondents were fairly evenly distributed in terms of age groups, which was not the case for work specialization. The number of internal auditors (46) was about twice that of external and tax auditors, 27 and 23 respectively.

The questions in the second part of our survey aimed at finding out the perceptions and expectations of respondents regarding the roles that affect the success of the auditor. In this part, the expected roles from auditor were evaluated from the perspective of the beneficiaries of audit services (Best et al., 2001; Fadzly and Ahmad, 2004; Humphrey et al., 1993).

Table 2 presents descriptive statistics for each auditor group as well as the results of one-way Anova of differences in mean values. The figures in Table 2 demonstrate that the statement that received the highest support from the respondents was "Acting independently

**Table 1.** Demographic characteristics of the respondents.

Profile of auditor		
Gender	N	Percent
Male	87	89.69
Female	10	10.31
	97	100
<b>Age</b>		
26-35 years	31	31.96
36-45 years	30	30.92
More than 46 years	36	37.12
	97	100
<b>Work specialization of the auditors</b>		
Internal auditor	46	47.92
External auditor	27	28.12
Tax auditor	23	23.96
	96	100

**Table 2.** Descriptive statistics and one-way ANOVA analyses.

Variable	Whole sample mean	Internal auditors mean	External auditors mean	Tax auditors mean	Significance
Q1. Firm knowledge of relevant laws and legal framework	4.62	4.26	4.96	4.95	***
Q2. Profiting	3.56	3.43	3.55	3.82	NS
Q3. Discovery of fraud and faults	4.23	4.00	4.42	4.50	**
Q4. Prevention of fraud and faults	4.40	4.54	4.33	4.22	NS
Q5. Acting independently without regard to self-interest	4.72	4.80	4.59	4.69	NS
Q6. Impartiality	4.66	4.67	4.50	4.83	NS
Q7. Taking responsibility along with the client company	3.48	3.34	3.73	3.45	NS
Q8. Responsibility towards audit committee	3.80	3.76	3.96	3.69	NS
Q9. Identifying the problems	4.53	4.60	4.52	4.39	NS
Q10. Ability to easily access knowledge	4.44	4.42	4.57	4.31	NS
Q11. Will to minimize risks and uncertainties	4.26	4.32	4.42	3.95	NS
Q12. Ability to predict	4.01	4.29	3.81	3.69	**
Q13. Good advertisement of available services	3.10	3.28	3.23	2.59	*
Q14. Compliance with work ethic	4.40	4.50	4.46	4.13	NS
Q15. Compliance with law	4.35	4.19	4.50	4.50	NS
Q16. Timeliness in decisions	4.51	4.44	4.59	4.56	NS
Q17. Ability to communicate	4.56	4.67	4.62	4.26	*
Q18. Accuracy in reporting	4.49	4.63	4.27	4.47	NS
Q19. Limiting his/her legal responsibilities	3.43	3.45	3.57	3.21	NS
Q20. Caring customer's interest	3.58	4.04	3.46	2.82	***
Q21. Caring social welfare	4.17	4.39	3.78	4.21	*

\*Significant at p &lt; 0.10; \*\*significant at p &lt; 0.05; \*\*\*significant at p &lt; 0.01; NS: not significant.

"without regard to self-interest" (mean value 4.72), whereas "good advertisement of available services" (mean value 3.10) was the statement with lowest support. Thus, we can say that, according to the participants, independence is the most important aspect of the

success of the auditor, whereas advertisement is almost irrelevant to audit quality.

The three auditor groups differed in terms of the statements they agreed most. The statement internal auditors agreed most was "acting independently without

*regard to self-interest," whereas "firm knowledge of relevant laws and legal framework" was the statement external and tax auditors agreed most. By contrast, the three auditor groups did not differ in terms of the statement they agreed least, which was "good advertisement of available services".*

The one-way Anova of differences in mean values of three groups of auditor for each question reveals that "firm knowledge of relevant laws and legal framework" was perceived to have a less important effect on the success of the auditor by internal auditors than by external and tax auditors. "Caring for customer's interest" was also assigned varying importance levels by the three auditor groups, with tax auditors assigning the lowest importance and internal auditors assigning the highest. The auditor groups differed in terms of how important a role "discovery of fraud and faults" played in the success of the auditor. Internal auditors assigned lower importance to "discovery of fraud and faults" in the success of the auditor than did external and tax auditors. By contrast, internal auditors assigned higher importance to "ability to predict" in the success of the auditor than did external and tax auditors. Additionally, "good advertisement of available services," "ability to communicate," and "caring social welfare" were statements for which the differences in the mean values of the three auditor groups were statistically significant at the 0.1 level.

#### **Exploratory and confirmatory factor analysis of the roles that affect the success of the auditor**

Identification of the expected roles of auditors is important for audit quality and the success of the auditor. Here we first identify the factors of expectations from auditors and then confirm the validity of these factors through confirmatory factor analysis.

Exploratory factor analysis is a method of analysis that allows us to reduce the number of variables and -with minimal loss of information- uncover the underlying structure of a relatively large set of variables (Nakip, 2006). The SPSS 16.0 was used in our data analysis. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy turned out to be 0.771, suggesting that the homogeneity of variables is acceptable for factor analysis. Also, Bartlett's test of sphericity was statistically significant ( $p < 0.001$ ), indicating the suitability of the sample for factor analysis. We used varimax rotation, which is the most widely used orthogonal rotation method, to facilitate the interpretation of factors. Factor analysis yielded six factors with eigenvalues above 1.0. Table 3 reports the results of exploratory factor analysis.

Six factors are identified as factors that affect the success of the auditor, which are named as  $factor_1$ : "independence and impartiality",  $factor_2$ : "knowledge of relevant laws and provision of services",  $factor_3$ :

"personal abilities",  $factor_4$ : "accuracy and caring social welfare",  $factor_5$ : "identification of problems and risks", and  $factor_6$ : "responsibility".

The results of subsequent confirmatory factor analysis with structural equation modeling in AMOS 16.0 were as follows:  $\chi^2 = 293.361$ ; CMIN/df = 1.746; IFI = 0.833; CFI = 0.823; RMSEA = 0.088. The results of confirmatory factor analysis demonstrate that the congruence between factor structure and data was satisfactory. In other words, the six factors identified by exploratory factor analysis are confirmed by confirmatory factor analysis.

We conducted independent t test (for gender) and one-way Anova (for age and work specialization) to see if the confirmed factors differed along demographic characteristics of the respondents. Table 4 presents the results of these analyses.

In terms of gender, there was a significant difference between male and female respondents only on the first factor (independence and impartiality). The respondent's age was not found to have a statistically significant effect on any of the factors. Lastly, the respondent's work specialization had a significant effect on two of the six factors, namely "knowledge of relevant laws and provision of services" and "personal abilities". Thus, we can conclude that the respondents' demographic characteristics had limited effect on the factors that were identified and confirmed in our factor analysis.

#### **SUMMARY AND CONCLUSION**

The success of the auditor and the roles expected from auditors are important issues. The accuracy of the information provided by the auditor has an influence on audit quality. We can say that there is a strong relationship between the success of the auditor and audit quality. In other words, the success of the auditor is related to the roles expected from the auditor and how well the auditor meets those expectations.

In this study, we aimed at identifying the factors that influence the success of the auditor in terms of the roles expected from him/her. We identified six factors in terms of the roles expected from auditors, which were named as independence and impartiality, knowledge of relevant laws and provision of services, personal abilities, accuracy and caring social welfare, identification of problems and risks, and responsibility. The number of factors that were identified in our study was the same with the one in Humphrey et al. (1993), although there were some differences in terms of factor names. Thus, we can say that in a broader sense the results of this study are in line with those of Humphrey et al. (1993).

Lastly, the respondents' demographic characteristics were found to have only a limited effect on the factors of the success of the auditor.

Because the results of this study are based on the opinions of various auditors of different background, they

**Table 3.** Exploratory factor analysis of factors that affects the success of the auditor.

Variable	<b>Fac<sub>1</sub></b>	<b>Fac<sub>2</sub></b>	<b>Fac<sub>3</sub></b>	<b>Fac<sub>4</sub></b>	<b>Fac<sub>5</sub></b>	<b>Fac<sub>6</sub></b>
Q5. Acting independently without regard to self-interest	0.885					
Q6. Impartiality	0.849					
Q4. Prevention of fraud and faults	0.549					
Q14. Compliance with work ethic	0.492					
Q1. Firm knowledge of relevant laws and legal framework		0.812				
Q15. Compliance with law		0.710				
Q3. Discovery of fraud and faults		0.553				
Q10. Ability to easily access information		0.547				
Q16. Timeliness in decisions		0.537				
Q20. Caring customer's interest		-0.453				
Q17. Ability to communicate			0.807			
Q13. Good advertisement of available services			0.538			
Q12. Ability to predict			0.532			
Q19. Limiting own legal responsibilities				0.652		
Q18. Accuracy in reporting				0.627		
Q21. Caring social welfare				0.557		
Q2. Profiting					-0.810	
Q11. Will to minimize risks and uncertainties					0.570	
Q9. Identifying the problems					0.469	
Q7. Taking responsibility along with the client company						0.823
Q8. Responsibility towards audit committee						0.767
Number of variables	4	6	3	3	3	2
Eigenvalue	3.372	2.568	2.095	2.016	1.941	1.856
Explained variance (%)	16.056	12.231	9.975	9.601	9.241	8.837
Cumulative variance (%)	16.056	28.286	38.261	47.862	57.103	65.941
KMO measure of sampling adequacy				0.771		
Bartlett's test					$\chi^2 = 842.802$ , sd:210, p:0.000	
Cronbach alpha of all variables					0.809	

**Table 4.** Differences about factors in terms of demographic characteristics.

Demographic characteristics		<b>Fac<sub>1</sub></b>	<b>Fac<sub>2</sub></b>	<b>Fac<sub>3</sub></b>	<b>Fac<sub>4</sub></b>	<b>Fac<sub>5</sub></b>	<b>Fac<sub>6</sub></b>
Gender	t	-1.714	-0.823	-0.801	0.986	0.027	0.656
	p	(0.09)*	(0.413)	(0.425)	(0.348)	(0.979)	(0.513)
Age	F	1.231	0.010	0.160	0.204	0.116	2.121
	p	(0.297)	(0.990)	(0.853)	(0.815)	(0.891)	(0.126)
Work specialization	F	2.164	9.437	4.559	2.092	1.807	1.213
	p	(0.121)	(0.000)***	(0.013)**	(0.129)	(0.170)	(0.302)

\*Significant at p <0.10; \*\*significant at p < 0.05; \*\*\*significant at p < 0.01.

can provide noteworthy contribution to the success of the auditor.

They are also informative as to which roles the auditors should concentrate more. In all, we believe that

organizations and institutions that seek to improve audit quality and to better evaluate the success of the auditor can benefit from taking into account the factors identified in this study.

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