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Building a Model of Factors Affecting the Quality of Financial Statement Audits of Independent Audit Firms

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Abstract

This article studies the factors affecting the quality of financial statement audits of independent auditing companies. Through qualitative research method, the author reviews previous studies. The model shows that there are three factors that affect the quality of financial statement audits, which are: Responsibility, independence and audit

experience. From the above results, the article provides academic and practical management implications, contributing to improving the quality of financial statement audit activities of independent auditing companies in the coming time.

Keywords: Independent Audit, Audit Quality, Sense of Responsibility, Independence, Audit Experience

1. Introduction

Audit quality is one of the important issues that is of concern to administrators. Improving the quality of financial statement audit activities of independent auditing companies helps make audit activities transparent, increases the reliability of audited financial statements and contributes to stabilizing the operations of auditing companies. businesses, while bringing sustainable development to activities in the economy. With such importance and urgency, research synthesizes and builds a model of factors affecting the quality of financial statement audits to support improving audit quality in Vietnam.

2. Literature review

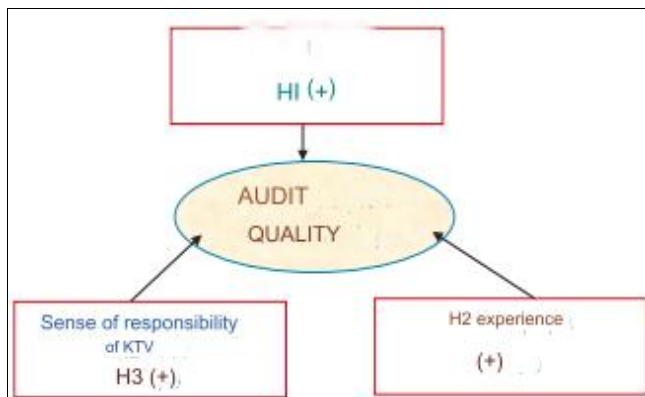
Studies on audit quality can be summarized as in Table 1 below:

No. Encoding	Attribute name	Basic for determining factors and scales
TABLE 1. CODING OF ATTRIBUTES OF FACTORS AFFECTING THE QUALITY OF AUDIT OF FINANCIAL STATEMENTS OF INDEPENDENT AUDIT COMPANIES IN THE CITY OF HANOI		
Descriptor variable: Audit quality of financial statements of independent auditing companies in the city, Hanoi		
1	QUA1	Auditor's ability to detect fraud and material errors in financial statements
2	QUA2	Auditors report frauds and material errors on financial statements
3	QUA3	Auditors perform their responsibilities well through full compliance with professional standards
Independence of KTV		
4	IND1	The auditor does not have a direct financial interest or a material indirect financial interest in the audited client.
5	IND2	The auditor must not have undertaken work that is significantly related to the financial statements or other activities of the audited entity.
6	IND3	Auditors are not dependent on the audited entity in providing opinions
7	IND4	The auditor does not have a close family relationship with the Director/member of the Board of Directors/employee holding a position that has significant and direct influence over material issues of the audit service provision contract of the company audited businesses.
8	IND5	The auditor is not threatened to prevent further action True to the necessary principles of objectivity and professional skepticism, from Director, member of the Board of Directors, or employee holding a position services that have a significant impact on the audited enterprise.
Experience of KTV		
9	EXP1	Auditor's practice period
10	EXP2	Experience in certain industry fields
11	EXP3	Knowledge and skills in auditing financial statements
12	EXP4	Experience in auditing financial statements of businesses have the same business line
The sense of responsibility of KTV		
13	RES1	Comply with professional standards in auditing
14	RES2	Carry out audit work with due care
15	RES3	Conduct the audit with professional skepticism

3. Theoretical basis

Concept of audit quality: Auditing is a special type of service, so audit quality is very difficult to observe and measure. The results of the audit are used by many different subjects. Each subject uses the audit report for different purposes, so their views and requirements on audit quality are also different., therefore there are many different views on audit quality. However, it is possible to approach two main views on audit quality that are widely accepted, including:

- Academic perspectives on audit quality: De Angelo's (1981) foundational research on audit quality is still valid today. Accordingly, De Angelo (1981) believes that audit quality is based on the ability to detect and report material errors in financial statements.



Source: Compiled by author based on literature review

Fig 1: Research model and hypothesis

According to this study, audit quality depends on the following two factors: (i) Auditor skills, audit procedures and audit techniques used; (ii) Auditor independence. If an auditor does not meet the requirements for professional competence, the ability to detect material misstatements in financial statements will be low, thereby affecting audit quality. On the other hand, the auditor's ability to detect material errors is guaranteed, but if the auditor fails to maintain independence and does not report detected errors, it will directly affect quality. Audit report is prepared.

Based on De Angelo's (1981) background perspective, many later studies developed approaches to audit quality appropriate to each specific condition. Palmrose (1988) exploits DeAngelo's (1981) concept of audit quality based on the level of assurance, since the purpose of the audit is to ensure that financial statements are free from material misstatements, thus quality Auditing is the ability of financial statements to be free from material misstatements. This definition uses the reliability of audited financial statements to reflect audit quality.

- Practical perspective on audit quality: In the field of auditing, Carcello *et al.* (1992)^[5], Behn *et al.* (1997)^[3], Kym, B. (2007) define audit quality based on the level of satisfaction with the objectivity, honesty and reliability of audit reports from those who care about.

Although both schools of thought on audit quality are supported and used by many researchers, the research process on audit quality is based on the subsequent satisfaction level of Kym and colleagues. (2008) also draw an important conclusion, demonstrating the connection between academic and practical perspectives on audit quality, specifically: If the ability to detect and report

material misstatements of the higher the level of auditor, the higher the level of satisfaction of audit service users. In other words, there exists a positive relationship between the satisfaction with audit quality of audit information users (practice perspective) and the level of assurance in the ability to detect and report material misstatements. Auditor's weaknesses (academic perspective). This is relatively consistent with the findings in the studies of Elizarevna (2012) and Pankov (2016).

In the article, the author approaches based on the views of DeAngelo (1981) and Beatty (1989)^[2] on audit quality. Thereby, audit quality can be considered based on two aspects, which are the auditor's ability to detect fraud and errors (demonstrating the auditor's level of professional competence and experience). And their ability to report fraud and errors (demonstrating the auditor's independence and objectivity). In addition, audit quality will also be more assured when auditors perform their responsibilities well.

4. Research hypothesis

- Research on the impact of independence on audit quality:* Many studies confirm that auditor independence affects the quality of audits. Research by Dopuch (1984) shows that large audit firms often maintain greater independence than small audit firms, thus providing better audit quality. Arens, *et al.* (2014) argue that the value of auditing depends greatly on public perception of auditor independence. Similarly, David N. Ricchiute (2006) asserts that, in reality, independence is an important factor to create professional reputation, a means to ensure the market for auditing services develops.

Recent studies all confirm the impact of independence on audit quality. Among them, Eko Suyono (2012)^[9] determined that auditor independence positively affects audit quality. Novie Susanti Suseno (2013) believes that auditor independence significantly affects audit quality. The above research results are also consistent with Baotham's (2009)^[1] study; Tepalagun and Lin (2016); Kym, B. *et al.* (2008).

In Vietnam, Bui Thi Thuy (2013) researched factors affecting audit quality at listed companies. The results show that the auditor's group of factors such as experience, professionalism, pressure, independence, and qualifications have the highest influence on audit quality. In addition, research results by Phan Van Dung (2015), Lai Thi Thu Thuy and colleagues (2017), Le Thi Tuyet Nhung (2021) also show that independence has an impact on audit quality. From the above analysis, the first hypothesis is set out as follows:

Hypothesis H1: There exists a positive relationship between auditor independence and audit quality.

- Research on the impact of experience on audit quality:* Experience is the knowledge and qualifications achieved after a certain period of time. Many people believe that repeating an audit job over a long period of time will improve audit quality. Research by Bonner and Lewis (1990)^[4]; Kym Boon, Jill McKinon, Philip Ross (2008) show that the experience factor is as important as the auditor's expertise and affects the quality of the audit. Experienced auditors often work more effective than auditors with less experience and

helps improve audit quality. Research by Aldhizer III, Miller and Moraglio (1995), Chen, Kelly and Salterio (2012) also shows that auditor experience affects audit quality through risk assessment and design design. Appropriate audit plan. The results of this study also agree with the study of Schroeder *et al.* (1986); Carcello *et al.* (1992) ^[5]; Aldhizer *et al.* (1995); Behn *et al.* (1997) ^[3]; Behn *et al.* (1999) and Smith; Bedard and Johnstone (2009); Knechel (2000); Jeppesen, (2007); Gaballa, A S M, and Ning, Z. (2011).

In Vietnam, research by Lai Thi Thu Thuy and Bui Duc Hieu (2017) surveyed auditors with 11 factors affecting the quality of auditing financial statements of FDI enterprises in Vietnam, including: Experience factor and level of professional expertise of the auditor. From the above analysis, the second hypothesis is set out as follows:

Hypothesis H2: There exists a positive relationship between auditor experience and audit quality

- *Studies on the impact of responsibility on audit quality:* The impact of responsibility on audit quality has been confirmed by many studies such as: Acemoglu and Gietzmann (1997), Free (1999), Fargher, Taylor and Simon (2001). Responsibility is understood in the sense of the auditor's sense of responsibility and the auditor's legal responsibility if he does not fulfill his obligations.

Research by Tan, HT, and Kao, A. (1999) shows that the sense of responsibility has an impact on audit performance results, although the complexity of the tasks is low, the sense of responsibility is not high. Will not improve quality. On the contrary, no matter how complex the job is, a higher sense of responsibility will lead to better quality. This result is also consistent with the research of Eko Suyono (2012) ^[9], the sense of responsibility has a greater influence on audit quality than independence.

Research by Suyono, E (2012) ^[9] conducted a survey of 150 auditors at 28 auditing companies in the central provinces of Java and Jogjakarta, Indonesia. Research results show that: (1) Auditors' independence, experience and sense of responsibility have a simultaneous impact on audit quality; (2) Independence and sense of responsibility have an individual impact on audit quality, while experience factors do not have an individual impact on audit quality; (3) The auditor's sense of responsibility is the factor that has the greatest impact on audit quality. From the above analysis, the third hypothesis is proposed as follows:

Hypothesis H3: There exists a positive relationship between auditors' sense of responsibility and audit quality.

5. Research models

Based on previous studies, the author proposes a research model in Figure 1:

To evaluate the impact of the factors identified according to the hypotheses just mentioned on audit quality, the standardized regression equation is illustrated:

$$Y = \beta_1x X_1 + \beta_2x X_2 + \beta_3x X_3$$

In which: Y is the dependent variable (audit quality); X1 is the independent variable; X2 is experience; X3 is a sense of responsibility.

6. Conclude

Qualitative research results show that there are three factors: independence, experience and responsibility that affect audit quality. Therefore, in the coming time, independent auditing companies need to proactively implement synchronous solutions affecting the above three factors to improve audit quality.

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