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People and Audit Process Attributes of Audit Quality: Evidence from Malaysia

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ABSTRACT

This study explores the concept and attributes of audit quality from the perspective of those responsible for audit services, namely auditors, as a key constituent group in the auditing system. The study surveyed two groups of external auditors (group 1- audit partners and managing partners and, group 2 - senior and junior auditors) to compare their perceptions of the people and audit process attributes for achieving audit quality. The study was conducted in the form of a survey, with data gathered via a questionnaire. The returned surveys yielded a 37% response rate. The findings suggest differences in views on concepts of audit quality by the two groups of auditors. Overall, the top five highest-rated attributes of audit quality reported to be most important in determining audit quality are: compliance with the International Standard Quality Control (ISQC) 1, obtaining credible and sufficient audit evidence, technical expertise of the audit team, audit work meeting the audit firms' quality standards, and competency of the audit team. Further analysis shows that the two groups of respondents have different views on attributes of audit quality. Group 1 perceived attributes of audit quality are related to the auditors' assessment of risk and internal quality review procedures within the audit firm. In comparison, group 2 perceived auditors' competency and compliance with relevant standards as indicators of audit quality. Public accounting firms might be interested in understanding such underlying differences so that efforts to improve audit quality could focus on the key attributes perceived to be important for high quality audit services. This study is significant for extending the literature on audit quality. It also provides useful input to public accounting firms for improving the quality of their audits.

Keywords: *Audit quality, perceptions, audit process, quality control review*

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INTRODUCTION

The increasing cases of corporate collapses in the recent past have been linked to poor audit quality that has threatened the credibility and governance of the audit function (Kilgore, Radich & Harrison, 2011; Knechel, Krishnan, Pevzner, Schefchik & Velury, 2013; Houssein Eddine, 2015). Questions have been raised by key stakeholders of audit services as to whether the auditors have carried out their responsibilities diligently and whether the audit firms have good audit processes in place when executing audit services (Carcello, Hermanson & McGrath, 1992; Reilly, 2006; Boone, Khurana, & Raman, 2008). Accordingly, various initiatives have been undertaken by different parties that have resulted in changes and the introduction of auditing rules, regulations and standards to enhance and promote high-quality audits (Ravenscroft & Williams, 2005; Casterella, Jensen, & Knechel, 2009; Kilgore et al., 2011). For example, the International Auditing and Assurance Standards Board (IAASB) published the International Standard of Auditing, Quality Control 1 (ISQC1) that deals with a firm's responsibility for its quality control system for audits and reviews of financial statements, and other assurance and related services (Harrison, 2011). As such, audit firms are faced with additional responsibilities when implementing quality control procedures to self-assess their people and processes so that they can recognise deficiencies that could undermine audit quality (Sanusi, Isa, Iskandar & Heang, 2014).

Various discussions concerning audit regulations have sought to enhance our understanding of the attributes affecting audit quality in practice (ICAEW, 2002; Francis, 2011; FRC, 2006; Knechel et al., 2013; IAASB, 2014). Prior research has documented that audit quality relates to the quality of its people. As such, the competency, knowledge and experience of professional auditors are important determinants of audit quality (Schroeder, Solomon & Vickrey, 1986; Carcello et al., 1992; Chen, Shome & Su, 2001). In like manner, the audit process such as the assessment of risk and audit procedures would affect the quality of audit services (Sutton & Lampe, 1991; Sutton, 1993; IAASB, 2014; Brown, Gissel & Neely, 2016). Although people and audit process are key determinants affecting audit quality in practice, there is limited empirical evidence that examines its impact on audit quality from the perspective of those responsible for audit services.

Prior research has examined audit quality by referring to the association between ‘input’ factors - such as audit firm size, audit fees and audit tenure and ‘outcome’ factors - such as the quality of earnings, accuracy of financial information and litigation related to audit quality (DeAngelo, 1981; Kim, Chung & Firth, 2003). The use of archival research is a well-established approach in examining these proxies of audit quality. Other approaches have studied audit quality by examining the judgements and decisions of auditors and ‘dysfunctional behaviours’ that may threaten audit quality using experimental or survey approaches (Lord & DeZoort, 2001; Herrbach, 2001). In addition, some studies have employed a behavioural perspective that examines the perceptions of auditors, financial statement preparers, users and quality inspectors regarding the attributes of audit quality (Schroeder et al., 1986; Carcello et al., 1992; Duff, 2009; Sulaiman, 2018). The current study is consistent with the latter behavioural approach as it focuses on the perceptions of auditors with regard to audit quality in practice.

This study attempted to identify concepts and attributes of audit quality from the perceptions of external auditors in Malaysia. This study addressed the following questions

- RQ1: What are the concepts of audit quality as perceived the external auditors?
- RQ2: What are the most important attributes of people and audit processes affecting audit quality as perceived by external auditors?

Specifically, this study provides evidence on the relative importance of people and audit process attributes in affecting audit quality as perceived by two groups of external auditors (group 1- audit partners and managing partners and, group 2 - senior and junior auditors). The contribution of this study would be threefold. First, while research on people could be considered a rather ‘established’ area, this study also examined the influence of processes on audit quality. So far, little attention has been paid to the audit process, in particular, the influence of quality control review despite various rules and regulations in place to improve audit quality through effective audit processes (Francis, 2011; Kilgore et al., 2011). There is limited research that examined whether quality control review is a key attribute that influences audit quality (Knechel et al., 2013; Martin, 2013). Therefore, the outcome

of the study could guide regulators and audit firms on the applicability of the quality control review process in enhancing audit quality. Second, this study gathered views concerning attributes affecting audit quality in practice from two groups of auditors. Comparing the views of these two groups is important because the ways in which auditors' conceptualise attributes affecting audit quality on audit assignments are relevant for understanding audit services. It is essential to understand what both groups consider high audit quality given their different level of experience and knowledge. Third, this study provides additional insights into the perception of external auditors in Malaysia regarding the attributes affecting audit quality in practice. The results would provide a guide to the management of audit firms on the key attributes that the external auditors perceived contribute to high audit quality. It could also enhance audit quality by improving the people and processes to provide higher quality audit services.

The remainder of this paper is set out as follows. Section 2 reviews the literature, section 3 introduces the research methodology, section 4 analyses the data and details the results, while section 5 concludes the study.

PRIOR RESEARCH

Concepts of Audit Quality

The concept of audit quality has proven to be difficult to define with certainty. It is not immediately or directly observable and is difficult to measure (Power, 1997). Moreover, audit markets' participants have conflicting roles and different expectations that lead to different interpretations of audit quality (Sutton, 1993). As a result, different people tend to have different definitions and ways of measuring audit quality (Rasmussen & Jensen, 1998; Watkins, Hillison & Morecroft, 2004). Nonetheless, a standard definition for "audit quality" is crucial as it provides a common standard and objective reference for stakeholders, users of financial statements as well as its preparers to assess "audit quality", and, therefore, increases the confidence of all parties that a quality audit has been performed. As a result, developing frameworks of audit quality indicators may be considered one the best alternative tools to gauge the quality of an audit (FRC, 2008; Knechel et al., 2013; IAASB, 2014).

DeAngelo (1981) provides a widely cited definition of audit quality, defining that audit quality is the combination of the auditor discovering any material misstatements and/or breach and how the auditors appropriately act on the discovery in reporting the misstatements and/or breach. Knechel et al. (2013) suggest that the discovery of a misstatement requires that appropriate resources be utilised effectively in the audit process i.e., inputs (e.g. professional scepticism, knowledge and expertise) and processes (e.g. assessing risk, obtaining and evaluating audit evidence and, review and quality control), while reporting a misstatement requires an auditor to take appropriate action given the current context at the end of the audit. Knechel et al. (2013) further explains that audit quality is not a silo definition, and it has always been associated with an outcome conditional on the presence of certain attributes of auditors.

Some researchers also defined high audit quality as the ability of the auditors to detect errors and subsequently enhance the reliability of the financial statements. Some observe that poor audit quality is identifiable via engagements that result in litigation or claims due to audit malpractice (Behn, Jong-Hag, & Kang, 2008; Francis, 2011). Some researchers considered client restatements as an indicator of low audit quality as restatements may imply that the audit firm did not comply with the GAAP which raises questions as to whether the audit system provides assurance on both reliability of the financial statements and quality of audits (Francis, Michas, & Yu, 2013; Lobo & Yuping, 2013). The professional literature is inclined to define audit quality in relation to meeting the requirements of the auditing standards during the audit (Krishnan and Schauer, 2001; McConnell and Banks, 1998). Francis (2011) observed that audit standards imply that audit quality is achieved by the issuance of the “appropriate” audit report on the client’s compliance with generally accepted accounting principles. “Appropriate” in this context means that the auditors issue correct opinions regarding the client’s financial statements at an appropriate level of audit risk and comply with auditing standards. Based on this discussion, this study examined the following research question:

RQ1: What are the concepts of audit quality as perceived by external auditors?

People and its Influence on Audit Quality

The IAASB (2014) proposes audit inputs (such as people), audit processes and audit results as audit quality indicators. Possible audit quality indicators related to audit input are the time spent by the various level of engagement team including technical resources on specific audit engagements and the chargeable hours. According to the Framework for Audit Quality, high quality can be attained by an engagement team that is sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work to obtain sufficient appropriate audit evidence before issuing the audit opinion (IAASB, 2014). The Centre for Audit Quality's overview of quality indicators include a firm's leadership and tone at the top that upholds and adheres to the professional standards, independence, objective and accountable towards their audit reports, engagement team must have sufficient knowledge, experienced and time to complete the task (CAQ, 2014). Prior studies have indicated that, to achieve high audit quality, auditing firms prefer to recruit capable and competent individuals with relevant audit certifications and then continuously enhance their skills and knowledge by providing them with relevant training and investing in continuing professional education (Venuti, Holtzman & Basile, 2002; Lim & Tan, 2010; Gul, Donghui & Zhifeng, 2013; Zahmatkesh & Rezazadeh, 2017). Studies also noted that individual state of preparedness for audit execution increases when these individuals are provided with relevant training to enhance their level of competency (Chen, Hsu, Huang & Yang, 2013; Hoa, Pesi, Thanh & Sang, 2014).

According to Hoa et al. (2014) and Carcello et al. (1992), competency is an important factor to maintain audit quality, and a higher level of competency enables the auditor to detect material misstatements in the financial statements. Therefore, it is crucial for the audit firms to continuously hire and retain competent people, periodically review their competence, and assign them different assignments to enhance their skills (Anis, 2017). Past studies have supported that auditors with industry specialisation with more experience and a higher concentration of clients can make better judgements thus enabling them to execute an effective audit process and produce higher reporting quality (Owhoso, Messier, & Lynch, 2002; Carcello et al., 1992; Kilgore et al., 2011). According to Owhoso et al. (2002), auditors with relevant specialisation are able to detect errors and material misstatements

better than non-specialist auditors (Beck & Wu, 2006; Carson, 2009; Hoa et al., 2014; Houssein Eddine, 2015).

Further, the literature has concluded that auditors who are experienced industry specialists with certified licences and are familiar with the audit task, provide greater audit quality and tend to neutralise auditors' biases and errors during the audit process to produce better quality reports (Carcello & Nagy, 2004; Casterella et al., 2009; Lim & Tan, 2010; Redmayne, 2013; Chen et al., 2013). According to Knechel et al. (2013), auditor knowledge and expertise have a direct bearing on the quality of the audit. They concluded that auditors with higher accumulated knowledge through client task and industry experience make decisions consistent with professional standards and regulatory requirements and, therefore, have higher consensus on their audit work. These audit works are perceived to be of higher quality. Studies have also concluded that expertise of individual audit team members is critical to determine the quality of an audit, and auditors with a higher level professional scepticism and proper tone from the audit partners produce higher quality audits (Nelson, 2009; Knechel et al., 2013; Coppage & Shastri, 2014). Gul et al. (2013) suggest that auditors' professional judgements and decisions ultimately decide the quality of audit reports. Experienced auditors with sound professional judgement would be able to provide better insights and henceforth better quality audits. Coppage & Shastri (2014) and Mardijuwono & Subianto, (2018) also supported that in order to remain professional in their scepticism, the auditor should continuously have a questioning and critical mind that is supported with persuasive evidence to recognise possible signs of fraud and challenge the management team in the event of any ambiguity.

Audit Process and its Influence on Audit Quality

Possible audit quality indicators related to audit processes relates to the culture, integrity, competency of the engagement team, independence, rewards and compensation system, technical competency testing of the auditors and the number of findings of the internal quality audit review and the remedies. The Financial Reporting Council (FRC) (2008) and the IAASB (2014) highlight that audit quality lies in the audit process. Francis (2011) reports that the audit process is a production function involving audit procedures as a representation of what auditors do in the delivery of

audit services. The audit process includes procedures such as engagement planning, assessing risk, gathering evidence and reviewing of the audit performance that affects the quality of audit performance (Sutton, 1993; Knechel et al., 2013). Glover, Prawitt & Wilks (2005) indicated that audit planning should involve preparing the audit scope and audit programme based on audit materiality level. This is important because it would allow a higher level of audit to be performed particularly for financial statements that require further investigation (Knechel et al., 2013; O'Donnell & Schultz Jr, 2003).

Audit programmes need to be carried out in compliance with auditing standards and ethical requirements in order to achieve quality audits (Murray, 2013). Thus, auditors' familiarity with the auditing standards is equally important to ensure high standards of audit quality (Mahmood et al., 2013). Some researchers have emphasised the importance of having a standard checklist for conducting audits. The audit programme (nature and extent of audit procedures) would be modified in the event there is material information that requires the auditors to do so (Abdullatif, 2013; Asare & Wright, 2004). Carcello et al. (1992) suggested the use of extensive statistical techniques in the course of an audit to determine sufficient audit evidence has been gathered that ensure representation of the audit testing. High-quality audits are also related to the audit evidence and the ability of the auditors to support the credibility of the source of information without bias and prejudice (Knechel et al., 2013). Given the importance of audit evidence and credibility, senior auditors or supervisors are encouraged to review audit files and documentation prior to completing the audit fieldwork and signing off on the audit report (Murray, 2013).

The assessment of risk and client's internal control using standard procedures to evaluate control deficiencies and to determine possible misstatement in the financials are also key factors related to audit quality (Asare & Wright, 2004; Liddy, 2014). The audit risk assessment is important because it determines subsequent audit assessment which includes changes to the organisation of audit evidence around the client's business processes (Knechel et al., 2013; O'Donnell & Schultz Jr, 2003). Studies have also acknowledged that stringent audit tests are necessary for high-risk clients and audit tests are tailored to reflect the clients' risk during the audit process to ensure high risks clients' audit is provided with sufficient time, resources

and proper audit plan to detect suspicious activities and ensure high-quality audits (Elder & Allen, 2003; David Piercey, 2011). Some studies have also noted that it is important for a firm to conduct a thorough study of the client's system of internal control to understand risks associated with the client's organisation (Ayers & Kaplan, 2003; Sutton & Lampe, 1991). Thus, it is crucial for risk assessment to be carried out during the engagement planning (Sutton & Lampe, 1991).

Changes in audit regulations have heightened the importance of quality control review within the audit firm for achieving high audit quality (Casterella et al., 2009; Schafer, 2011; AICPA, 2014; Chiu, Chien & Lin, 2017). A quality control process must be in place within the audit firm for continuous quality control monitoring and the reports issued by the auditors must be reliable, useful and timely (CAQ, 2014). Each audit firm is responsible for monitoring the effectiveness of its quality control systems and maintaining global standards. This includes performing a self-assessment of its systems and procedures, and carrying out, or arranging to be carried out on its behalf, an independent review, which includes the firm's processes to identify and respond to quality issues. The ISQC1 provides a definitive concept of quality control review as policies and procedures or quality programmes within the audit firm to attain high audit quality. Schafer (2011) stressed the importance of quality control review as it validates the effectiveness of the audit process. The review must be carried out by personnel who are qualified and have knowledge of quality control review, and it has to be carried out in real time and promptly to ensure the relevance of the findings (Epps & Messier, 2007; Martin, 2013).

Qualified personnel understand the firm's audit methodology, have spent sufficient time on audit fieldwork, have shown high levels of performance in that capacity and relevant professional practices combining with best practice knowledge (Schafer, 2011; Martin, 2013). Researchers have noted the importance of concurring qualified partner review in attaining high audit quality by reducing the possibility of bias judgements by the auditors and issuing of correct audit opinions (Ayers & Kaplan, 2003; Epps & Messier, 2007). The quality control review results must also be appropriately documented and clearly referenced and incorporated into the firm's report and quality control standards (Schafer, 2011). Based on this discussion (people and audit processes, and its influence on audit quality), this study examined the following research question:

RQ2: What are the most important attributes of people and audit processes affecting audit quality as perceived by external auditors?

RESEARCH METHODOLOGY

This study examined the issue of audit quality from a behavioural perspective and identifies concepts and attributes that are perceived by external auditors as important for achieving high-quality audits. Since there is no cohesive definition of audit quality, developing a framework on audit quality indicators may be considered one of the best alternatives to gauge the quality of an audit (Knechel et al., 2013; IAASB, 2014). Accordingly, the research instrument was developed based on prior research and relevant publications to examine factors perceived as affecting audit quality (see Table 1). This study employed a survey questionnaire to elicit auditors' views on the importance of people and process factors on audit quality. A five-point Likert-type interval scale ranging from strongly disagree to strongly agree was used to describe auditors' perceptions.

The first section of the questionnaire asked respondents to indicate the strength of their agreement for each of the people factors that could influence the quality of an audit in practice. The first section of the questionnaire covered attributes that are related to the auditor's competency such as their knowledge and skills in executing an audit task and level of a questioning mind and a critical assessment in executing the audit work. The second section of the questionnaire asked respondents to indicate the strength of their agreement for each of the audit process factors (assessment of risk, audit procedures and quality control review) that could influence the quality of an audit in practice. The third section of the questionnaire asked the external auditors to indicate their view on the concepts of audit quality. The final section of the questionnaire elicited demographic information from respondents such as principal role, age group, professional qualification, the highest level of education, size of audit firm that the respondents are working with and their overall experience in auditing.

Table 1: Audit Quality Attributes

Audit Quality	Main Source
Detect errors and material misstatements	DeAngelo (1981)
Reporting misstatements	DeAngelo (1981)
Less financial restatements	Francis et al. (2013)
Less litigation cases	Francis (2011)
Financial statements, in material aspects are prepared in accordance with the applicable financial reporting framework	Knechel et al. (2013); Wooten (2003)
Issue appropriate audit report	Francis (2011)
Seldom reissue audit opinions	Wooten (2003)
People (Competency)	Main Source
Technical competency	Carcello et al. (1992)
Technical experts, subject matter experts	Carcello et al. (1992)
Senior experienced personnel	Carcello et al. (1992); Ayers & Kaplan (2003)
Challenge the management of the audit client	Coppage & Shastri (2014)
Training	Carcello et al. (1992); Knechel et al. (2013)
People (Professional Judgement and Scepticism)	Main Source
Strict guidelines on procedures that requires compliance of audit checklist before signing off the audit report	Carcello et al. (1992)
Obtain sufficient evidence and credible source of information	Jeppesen (1998); David Piercey (2011) Knechel et al. (2013)
Applies their expertise and scepticism	Carcello et al. (1992)
Audit Process (Risk Assessment)	Main Source
Assesses the client's risk during the pre-agreement	Carcello et al. (1992); Knechel et al. (2013)
Conducts a thorough study of the client's system of internal control	Sutton & Lampe (1991); Ayers & Kaplan (2003) Knechel et al. (2013)
Audit tests reflect client's risk	Sutton & Lampe (1991); Elder & Allen (2003); Knechel et al. (2013)
Stringent audit test for high-risk clients	David Piercey (2011)
Audit Process (Audit Procedures)	Main Source
Audit is carried out in accordance with regulatory auditing standards	Knechel et al. (2013); Mahmood Moeinaddin et al. (2013)
Audit is carried out in accordance with firm's auditing standards	Knechel et al. (2013)
Proper audit planning process	Knechel et al. (2013)
Audit scope based on audit materiality	Knechel et al. (2013)

Higher level of audit programmes to obtain more information	Knechel et al. (2013)
Use of statistical techniques in conducting the audit	Carcello et al. (1992)
Audit work is determined by a standard audit test plan	Knechel et al. (2013); Asare & Wright (2004)
High level of documentation	Knechel et al. (2013); Sutton & Lampe (1991)
Audit is subject to review before the audit is completed	Knechel et al. (2013); Sutton & Lampe (1991)

Audit Process (Quality Control Review)	Main Source
Meets the quality standards of the audit firm	Martin (2013); PwC (2013); KPMG (2013)
Carried out according to the regulatory standards	Martin (2013); PwC (2013); KPMG (2013)
Performed by concurring partner	Knechel et al. (2013)
Carried out by qualified personnel	Epps & Messier (2007); Martin (2013); PwC (2013); KPMG (2013)
Carried out in real time and timely	Knechel et al. (2013); Epps & Messier (2007); Martin (2013)
Focused on finding deficiencies	PwC (2013); KPMG (2013)
Improves audit processes	PwC (2013); KPMG (2013)

A pilot test with ten respondents was carried out to determine the understanding of the respondents towards the meaning of the questions and its clarity. The pilot test allowed the researcher to eliminate issues and problems and perform the necessary adjustments which include reconstructing the questionnaires to be more objective and clear before distributing them to the target respondents. Two groups of respondents were identified in this study. The first group consisted of respondents from the audit engagement partner and managing partner. They are responsible for strategy, supervision and decision-making in the firm. The second group was senior auditors and junior auditors. This group of respondents are responsible for executing the audit process and managing audit tasks and functions. The study was interested to seek a view from these two different groups because they have a different level of experience, knowledge and exposure to auditing practices. Henceforth, they may have divergent views about the importance of people and process factors on the attainment of high audit quality in practice.

The questionnaire was distributed to external auditors from different sized audit firms, i.e., the Big 4, mid-tier and small size audit firms. A total of 400 questionnaires were distributed of which 151 (37.75%) were completed.

The respondents were assured of their anonymity. The study analysed the data using the SPSS Version 21. First of all, the data is checked for errors by looking at any missing value or value of a variable outside of the possible range. The Normality Test was carried out to determine whether the data set was modelled for normal distribution. Mean values of the audit quality attributes were analysed to determine the overall importance of each of the audit quality attributes on audit quality.

FINDINGS AND DISCUSSION

Demographic Profile

The result shows that group one (audit and managing partners) represents about 23% of the respondents and the remaining 77% of the respondents are from group two (senior and junior auditors) (see Table 2). The respondents consisted of audit partner (9.9%), managing partner (13.2%), senior auditors (27.2%) and junior auditors (49.7%). Most of the respondents (87%) worked with the Big 4 accounting firms, and the remaining worked with non-Big 4 accounting firms. The majority of the respondents possessed professional qualifications and have working experience of less than five years.

Table 2: Demographic Profile of Respondents

Personal Information		Number	Percentage (%)
Principal Role	Audit Partner	15	9.90
	Managing Partner	20	13.2
	Senior Auditor	41	27.2
	Junior Auditor	75	49.7
	Total	151	100
Age	Below 30	90	59.6
	31 – 40	37	24.5
	41 – 50	20	13.2
	Over 51	4	2.60
	Total	151	100
Posses Professional Qualification	Professional qualification	135	89.4
	No professional qualification	16	10.6
	Total	151	100

Personal Information		Number	Percentage (%)
Firm size	Big 4 audit firms (E&Y, KPMG, Deloitte, PwC)	131	86.8
	Medium size audit firms	20	13.2
	Small audit firms	-	-
	Total	151	100
Experience in auditing practice	Less than 5 years	86	56.9
	5 to 10 years	30	19.86
	11 to 15 years	19	12.58
	16 to 20 years	16	10.59
	Total	151	100

RQ1: Analysis of Audit Quality Concepts

Table 3 provides the results of the highest to lowest rated audit quality concepts. Overall, the external auditors rated the ability of auditors to detect errors and misstatements as the key concept of audit quality followed by the ability of the auditors to report it. This is consistent with the definition of audit quality proposed by DeAngelo (1981). The respondents also rated the importance of adherence to the approved financial reporting framework upon the preparation of the financial statements as the third highest rated concept in audit quality. This is consistent with the framework of audit quality proposed by the IAASB in 2014 that emphasised the purpose of the audit is to enhance stakeholders’ confidence. Hence, financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and presented fairly or give a true and fair view.

Table 3: Top to the Lowest Rated Audit Quality Concepts

No	Attributes	Mean
1	Auditors’ ability to detect errors and material misstatements.	4.59
2	Auditor reporting misstatements upon detecting material misstatements.	4.58
3	Financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.	4.52
4	Audit issue appropriate audit report (right audit opinion) on the financial statements.	4.46

No	Attributes	Mean
5	Less financial restatements by the preparers of the financial statements.	4.34
6	Less litigation cases due to audit malpractice towards the audit firms.	4.35

Further analysis showed different views regarding the top to the lowest rated audit quality concepts from the two groups of auditors (see Table 4). Group 1 (partner/managing partner) rated the audit quality concepts and that the “financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework” and the “auditor issues an appropriate audit report (right audit opinion) on the financial statements” as the most important audit quality concepts. This notion is consistent with prior research such as Francis et al. (2013), Lobo and Yuping (2013), Krishnan and Schauer (2001), McConnell and Banks, 1998), and Francis (2011) in which the audit standards are observed to imply the audit quality as achieved by the issuance of the “appropriate” audit report on the client’s compliance with generally accepted accounting principles. Group 1 also perceived that “auditor reporting misstatements upon detecting material misstatements” and “auditors’ ability to detect errors and material misstatements” are rated as audit quality concepts and ranked number 3 and 4 respectively. Previous research provides a broadly cited definition of audit quality in which it is the combination of the auditor discovering any material misstatements and/or breach and the way the auditors appropriately take action on the discovery to report the misstatements and/or breach (DeAngelo, 1981).

For group 2 (senior/junior auditor), interestingly, “auditors’ ability to detect errors and material misstatements” is considered as the most important audit quality concepts. It is followed by the “auditor reporting misstatements upon detecting material misstatements” ranked as number 2. This view could be due to the fact that being at the working level group, the senior/junior auditors must be able to detect errors and material misstatements and then report the misstatements upon detecting them. Furthermore, this has been supported by prior research that define high audit quality as the ability of the auditors to detect errors and subsequently enhance the reliability of the financial statements (Behn, Jong-Hag, & Kang, 2008; Francis, 2011). This group also rated the audit quality concepts, “financial statements are prepared, in all material respects, in accordance with the applicable financial

reporting framework” and “less litigation cases due to audit malpractice towards the audit firms” as number 3 and 4 in the ranking respectively. This notion is supported by some researchers that poor audit quality is classifiable through engagement which are involved in litigation or claims due to audit malpractice (Behn et al., 2008; Francis, 2011).

Table 4: Top to the Lowest Rated Audit Quality Concepts: Comparison of Group Differences

Group One (Audit Partner/Managing Partner)		Group Two (Senior/Junior Auditor)	
No		Mean	Mean
1	Financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.	4.86	Auditors' ability to detect errors and material misstatements. 4.53
2	Audit issue appropriate audit report (right audit opinion) on the financial statements.	4.86	Auditor reporting misstatements upon detecting material misstatements. 4.51
3	Auditor reporting misstatements upon detecting material misstatements.	4.83	Financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. 4.41
4	Auditors' ability to detect errors and material misstatements.	4.80	Less litigation cases due to audit malpractice towards the audit firms. 4.36
5	Less financial restatements by the preparers of the financial statements.	4.54	Auditor issues appropriate audit report (right audit opinion) on the financial statements. 4.34
6	Less litigation cases due to audit malpractice towards the audit firms.	4.31	Less financial restatements by the preparers of the financial statements. 4.28

RQ2: Analysis of People and Audit Process - Audit Quality Attributes

Overall, the analysis showed that six out of the ten highest rated audit quality attributes are related to the audit process (see Table 5). The external auditors rated highest control review within the firm in achieving audit quality in practice. The respondents perceived having a quality review system as prescribed by the ISQC1 and meeting internal quality control and quality control review carried out by qualified personnel as important attributes affecting audit quality in practice. The auditors' focus on the internal quality review could be due to the heightened regulatory requirement on the importance of the quality review system and governance within audit firms in enhancing audit quality (Casterella et al., 2009; Kilgore et al., 2011; KPMG, 2013, PwC, 2013; Sanusi et al., 2014). The inspection report published by the Audit Oversight Board (AOB) in Malaysia emphasises the importance of the audit firm's internal monitoring process in addressing audit deficiencies that reduce audit quality (AOB, 2014; 2013).

Further, the respondents perceived the importance of risk assessments and compliance with auditing standards in the conduct of an audit for high audit quality. The finding is similar to Sutton & Lampe (1991) and Knechel et al. (2013) who also showed the importance of risk assessment during the pre-engagement stage as an indicator of audit quality. Prior research suggests that it is important for the auditors to assess the risks associated with the client during the audit process to determine that the audit tests are designed and planned specifically to reflect the client's risk. This step relates to the extent and organisation of the audit plan and audit evidence (Abdullatif, 2013). Consistent with Knechel et al. (2013), this study showed that audit quality is related to the audit being carried out in accordance with regulatory auditing standards. In contrast, Carcello et al. (1992) showed that auditors' compliance with general auditing standards is not considered as one of the top-rated attributes for audit quality.

Table 5: Ten Highest Rated Attributes of Audit Quality

Rank	Factor		Attributes	Mean
1	Audit Process	Quality Control	The quality control review programme is carried out according to the regulatory standards (ISCQ 1).	4.74
2	People	Professional Judgement & Scepticism	The auditor does sufficient work to obtain sufficient evidence and credible source of information.	4.72
3	People	Competency	The audit team includes technical experts, subject matter experts or specialist.	4.71
4	Audit Process	Quality Control Review: Methodology	The audit carried out by the firm meets the quality standards applied internally by the audit firm.	4.68
5	People	Competency	The auditor is technically competent.	4.66
6	People	Professional Judgement & Scepticism	The firm has strict guidelines on procedures that require compliance of audit checklist before signing off the audit report.	4.64
7	Audit Process	Audit Procedures: Methodology	The audit is carried out in accordance with regulatory auditing standards (e.g. International Standard of Auditing).	4.63
8	Audit Process	Assessing Risk	The firm assesses the clients during the pre-agreement stage to determine if they are high risks.	4.62
9	Audit Process	Quality Control Review: Methodology	Quality control review is carried out by qualified personnel.	4.60
10	Audit Process	Assessing Risk	The firm's audit tests are specifically designed and planned to reflect client's risk.	4.60

The analysis shows that the respondents' perceived people's attributes such as competency and technical expertise as key attributes affecting audit quality, which is consistent with prior research (Sutton & Lampe; 1991; Carcello et al.; 1992; Beck & Wu, 2006; Hoa et al., 2014; Houssein Eddine, 2015). A similar finding shows that auditors perceived attribute such as having guidelines or procedures that require compliance to an audit checklist before signing off the audit report as important for audit quality (Carcello et

al., 1992). In addition, the auditors rated obtaining sufficient evidence and credibility of the source of information as important to audit quality. The results indicate that when auditors perform the audit, their decision must be supported with credible information to avoid the possibility of biased judgement (Ayers & Kaplan, 2003; Jeppesen, 1998; Knechel et al. 2009; David Piercey, 2011; Knechel et al. 2013). Overall, analysis of the top ten rated attributes for audit quality shows that six out of the ten attributes are related to dimensions of the audit process and the remaining four attributes are related to the people factor.

Further analysis shows different views regarding the five highest rated audit quality attributes from two groups of auditors (see Table 6). Group 1 (partner/managing partner) has rated the audit quality attribute and that the quality control review programme is carried out according to regulatory standards (ISCQ 1) as the most important audit quality attributes. Quality control review is carried out by qualified personnel and the audit carried out by the firm that meets the quality standards applied internally by the audit firm are amongst the top 3 audit quality attributes. This emphasis could be due to their higher level of understanding regarding the impact of non-compliance with the quality control review, i.e. ISCQ 1, which could have a significant adverse impact on the audit firm and partners' reputation that leads to loss of market share and ultimately audit licence. According to some research, quality control review programmes are crucial as they validate the auditing firms' auditing process and must be carried out by personnel who are qualified and have knowledge of the quality control review (Epps & Messier, 2007; Schafer, 2011; Martin, 2013).

Table 6: Five Highest Rated Attributes of Audit Quality: Comparison of Group Differences

Group One (Partner/Managing Partner)				Group Two (Senior/Junior Auditor)		
No	Factor	Attributes	Mean	Factor	Attributes	Mean
1	Audit Process	The quality control review programme is carried out according to regulatory standards (ISCQ 1).	4.97	People	The auditor does sufficient work to obtain sufficient evidence and a credible source of information	4.71
2	Audit Process	Quality control review is carried out by qualified personnel.	4.94	People	The audit team includes technical experts, subject matter experts or specialists	4.67
3	Audit Process	The audit carried out by the firm meets the quality standards applied internally by the audit firm.	4.94	Audit Process	The quality control review programme is carried out according to the regulatory standards (ISCQ 1)	4.66
4	Audit Process	The firm's audit tests are specifically designed and planned to reflect the audit tests.	4.91	People	The auditor is technically competent	4.60
5	Audit Process	The firm conducts a stringent audit test for high-risk clients.	4.89	Audit Process	The audit is carried out in accordance with regulatory auditing standards (e.g. International Standard of Auditing)	4.60

Group 1 also perceived that assessing risks is crucial and therefore has rated the audit quality attributes such as the firm's audit tests are specifically designed and planned to reflect client's risk and the firm conducts a stringent audit test for high-risk clients and ranked as number 4 and 5 respectively. They associate a high level of importance to risk assessment because this is the group which decides whether to accept or reject clients in view of the client's risk. Chen et al. (2001) observed that audit firms generally recruit less risky clients to maintain the quality of accounting records. Given the heightened fraud in recent decades, the partners and managers could be of the view that stringent audit tests accompanied by standard audit plans and

checklists are equally important to detect fraud during audit risk assessments as well as providing high-quality audits (Abdullatif, 2013).

For group 2 (senior/junior auditor), the people factor is considered more important than the process factor as three out of the top five rated audit attributes are from the people factor. This group also rated audit quality attributes such as the quality control review programme is carried out according to the regulatory standards (ISCQ 1) as one of the top five rated audit quality attributes but not the highest. The most important audit quality attributes for this group is the auditor does sufficient work to obtain sufficient evidence and credible source of information and the audit team includes technical experts, subject matter experts or specialists. This view could be due to the fact that being at the working level group, the audit must obtain sufficient evidence and credible source of information to mitigate biases and prejudice and, effects of individual errors in judgements (Ayers & Kaplan, 2003; David Piercey, 2011, Knechel et al., 2013). In addition, the IAASB (2014) has advocated that auditors must be alert to possible evidence that could question the reliability of the available documents or information. Coppage & Shastri (2014) argue that, despite having professional scepticism, technical competency and proficiency are required to effectively execute an audit, especially when staff are overloaded, and professional scepticism cannot be effectively maintained.

Group 2 also rated that the audit is carried out in accordance with regulatory auditing standards (e.g. International Standard of Auditing) as one if the top five audit quality attributes. This could be due to the stringent compliance with the ISCQ 1 and audit failures that have tarnished the reputation of the audit profession (Teck & Ali, 2008; Beattie, Fearnley & Hines, 2009; KPMG, 2013, PwC, 2013, AOB 2013). According to A Framework For Audit Quality, Key Elements That Create An Environment For Audit Quality, February 2014 (IAASB, 2014), the purpose of the audit is to enhance stakeholders' confidence. Hence, financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and presented fairly or give a true and fair view. Also, the professionals such as the ICAEW, ACCA, CPA Australia and the MICPA common perspective on audit quality is to ensure the audit reports issued is appropriate and complies with regulatory and legal requirements.

Independent Sample T-test

Five sets of Independent Sample T-tests were carried out to determine whether there are differences between Group 1 (audit partner/managing partner) and Group 2 (senior/junior auditor) on research constructs: concepts of audit quality, people (competency, professional judgement and scepticism) and audit process (assessing risk, audit procedure and quality control review). The summary of the result is as follows.

Table 7: Comparison of Mean Factor Scores between Groups

Test Variable	Levene's Test for Equality of Variances		T-test for equality of Means			
	Equal variances assumed (F / p-value)	Equal variances not assumed	t	df	Sig. (2-tailed)	Mean difference
Audit Quality	7.745 / 0.006	Yes	3.953	149	0.000	0.27752
Competency	2.238 / 0.137	N/A	3.544	149	0.001	0.25956
Professional Judgement and Scepticism	3.454 / 0.065	N/A	3.096	149	0.02	0.18430
Assessing Risk	12.197 / 0.01	Yes	5.856	91.420	0.000	0.34070
Audit Procedures	0.122 / 0.727	N/A	2.382	149	0.018	0.13093
Quality Control Review	2.213 / 0.139	N/A	6.161	149	0.000	0.38244

From Table 7, most of the Levene's tests have a probability greater than 0.05, so it can be assumed that the population variances are relatively equal except for "assessing risk" and "audit quality" test variables. Therefore, this study used the t-value, df, and two-tail significance for the equal variance estimates to determine whether differences in the perceptions of the two groups exist. The results show that there are significant differences in the means of Groups 1 and 2 in terms of competency, professional judgement and scepticism, audit procedures, assessing risk, quality control review and audit quality concepts (p-values are significant at the 0.05 significance level (2-tailed) even though the population variances are assumed equal in those four test variables. In other words, there are significant differences in competency, professional judgement and scepticism, audit procedures and quality control review by these two groups though they come from the same population.

Based on the t-test results, the different views on the audit quality concepts could be due to the fact that group 1 which understands the impact

of non-compliance of preparation of “financial statements, in all material respects, with the applicable accounting standards and the audit liability of issuing appropriate audit reports (right audit opinion) on the financial statements better. Meanwhile, group 2 are involved more in the audit plan execution and being at the working level, group 2 must be able to detect errors and material misstatements and then report the misstatements upon detecting them. The t-test results show different views on the people factor between group 1 and group 2 in terms of competency and professional judgment and scepticism. Group 1 has vast working experience and has developed more and sharpened their professional judgment over the years as compared to group 2 that consists of senior/junior auditors who are still developing their skills and professional judgment as well as professional scepticism.

Based on the t-test results also, the different views found in the process factor in which the audit quality control review could be due to the fact that group 1 understands the impact of non-compliance with the ISCQ 1 standards more than group 2 as the reprimand and penalty have a direct effect on the audit firms’ and partners’ reputation. The different views of the risk assessment factor could be due to the fact that the risk assessment is carried out at a high level and during the pre-engagement level and subsequently the firm’s audit tests that reflect the client risk must be approved by the managers, whereas group 2 are involved more in executing the audit plan. Furthermore, results of the study show group 1 emphasising quality control and assessing risk as key attributes of audit quality. In comparison, group 2 emphasised competency and professional judgement as well as compliance with audit procedures and ISCQ 1 standards as attributes affecting audit quality. The possible difference in views could be due to the fact that group 1 is responsible for setting up policies and procedures and performing high-level review work, including determining if the client is a high-risk audit client. At this level, group 1 should have possessed the relevant competency, knowledge and judgement to carry out their task. This group focuses more on strategy, reputational management and complex matters such as risk assessment. In comparison with the partner and managerial level in which their position is strategic in nature and at supervisory and decision-making level, group 2 are more involved at the execution and working level. Competency is important to this group as they are still building their relevant skills and knowledge. Given their limited skills and knowledge, obtaining

and analysing audit evidence and ensuring that the audit work carried out complies with the relevant standards becomes paramount.

CONCLUSION

The purpose of this study was to investigate perceptions of two groups of external auditors (group 1 - audit partner/managing partner and group 2 - senior/junior auditor) on the concepts of audit quality and the importance of people and audit process attributes in achieving high quality audits. There is limited empirical investigation into the analysis of the importance of people and audit process quality attributes from the perspective of these two groups. The findings from this study are important because it may give some insights about how the concept of audit quality is understood by auditors and the importance of people and audit processes in delivering high audit quality in practice.

This study has revealed that both groups perceive the concepts of audit quality differently. Group 1 perceives audit quality as the conformance of the financial statements to the applicable financial reporting framework and that external auditors form the ‘right’ audit opinion on those statements. While for group 2, audit quality is closely related to their ability to detect and report material misstatements on the financial statements during the course of the audit. This reiterates the multifaceted concepts of audit quality as documented in prior research. The findings of this study have implications at the audit firm level. Specifically, concepts that the auditors attach to audit quality may influence the behavior or performance of external auditors.

Based on the results of the top ten rated audit quality attributes, both the people and process audit quality factors are important for the attainment of high audit quality. Knechel et al. (2013) noted that people and process factors are equally important audit quality indicators. However, their study was not substantiated with actual responses from selected respondents. Hence, this research has made an original contribution by applying both the people and process factors as one audit quality indicator to examine which audit quality factors and attributes influence audit quality performance. In general, this research has made an original contribution by analysing if there is a potential difference in audit quality attributes that influence

the performance of audit quality from the perspective of the two groups. The differences in the views of both groups show that different levels of principal role, skills, knowledge and experience result in different audit quality priorities when executing an audit. As both groups have different views on what they consider to be audit quality indicators that influence the performance of the audit, audit firms must bridge the gap to ensure all levels of the auditors share a common understanding of the most important audit quality factors or attributes to ensure high-quality audits.

The analysis for group 1 shows that they emphasised the audit process - quality control and assessing risks as key attributes of audit quality. In comparison, group 2 emphasised people -competency and compliance with auditing standards and ISCQ 1 as attributes affecting audit quality in practice. The difference in view could be due to the fact that group 1 is responsible for setting policies and procedures and performing high-level review work, including determining if the client is a high-risk client and identifying risks of material misstatement. At this level, the partner and managerial level personnel should possess the relevant competency, knowledge and judgement to carry out their tasks. In addition, this group focuses more on strategy, reputational management and complex matters such as assessing the effectiveness of the audit process and risk assessment during the conduct of the audit. In contrast, group 2 rated their competency and adherence to the auditing standards and quality control standards as important determinants of audit quality. This may be due to their greater involvement in the audit fieldwork. As such, their skills and knowledge are important when performing the audit procedures that is in accordance with the prescribed auditing standards to ensure delivery of high quality audit services.

In recent years, the external audit processes have evolved given reforms in auditing and corporate governance frameworks. This research has made an original contribution by applying the quality control review construct as an audit quality indicator. The results of the research have shown that the external auditors are off the view that the quality control review programme that is carried out in accordance with the ISCQ 1 standards is a significant audit quality attribute. Hence, it is crucial for external audit firms to carry out the quality control review effectively and share the findings of the review with the auditors to enhance the firm's audit processes. Some of

the Big 4 audit firms have conducted peer reviews in accordance with the ISCQ 1 standards and have published their transparency reports to show their commitment towards quality control and increase their transparency to stakeholders.

There were a few constraints while conducting the study. First, the study was confined to Malaysian external auditor practitioners in general. It would be better if it is conducted among specific different groups governing the accounting and auditing practice, such as the regulators (audit inspectors) and professional bodies and the financial statements' preparers so as to compare the perception of audit quality among these groups. Second, the majority of the respondents were from the Big 4 audit firms. It would be better to have more views from the medium and small sized audit firms. Third, previous literature has identified some other factors affecting auditor quality, such as culture in an audit firm and professional ethical standards. These factors were excluded from this study mainly because of limited data.

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