

Eurasian Studies in Business and Economics 8/1
Series Editors: Mehmet Huseyin Bilgin · Hakan Danis

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Ugur Can *Editors*

Eurasian Business Perspectives

Proceedings of the 20th Eurasia
Business and Economics Society
Conference - Vol. 1



 Springer

Eurasian Studies in Business and Economics 8/1

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and Economics Society Conference - Vol. 1

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Preface

This is the eighth issue of the Springer's series *Eurasian Studies in Business and Economics*, which is the official book series of the Eurasia Business and Economics Society (EBES, <http://www.ebesweb.org>). The issue is divided into two volumes, and this volume includes selected papers in the field of business that were presented at the 20th EBES Conference. The conference was held on September 28–30, 2016, at the IFM—Real Estate and Facility Management at TU Wien in Vienna, Austria, with the support of Istanbul Economic Research Association. Prof. John Rust from Georgetown University, USA, and Prof. Alexander Redlein from Vienna University of Technology, Austria, joined the conference as keynote speakers. All accepted papers for this volume went through a peer-review process and benefited from the comments made during the conference as well.

During the conference, participants had many productive discussions and exchanges that contributed to the success of the conference where 261 papers by 420 colleagues from 60 countries were presented. In addition to publication opportunities in EBES journals (*Eurasian Business Review* and *Eurasian Economic Review*, which are also published by Springer), conference participants were given opportunity to submit their full papers for this volume.

Theoretical and empirical papers in the series cover diverse areas of business, economics, and finance from many different countries, providing a valuable opportunity to researchers, professionals, and students to catch up with the most recent studies in a diverse set of fields across many countries and regions.

The aim of the EBES conferences is to bring together scientists from business, finance, and economics fields, attract original research papers, and provide them publication opportunities. This volume covers a wide variety of topics in the field of business and provides empirical results from many different countries and regions that are less investigated in the existing literature. The main business fields represented in this volume are:

- (i) ACCOUNTING AND FINANCE
- (ii) MANAGEMENT AND MARKETING
- (iii) HUMAN RESOURCES AND EDUCATION
- (iv) RISK MANAGEMENT

Although the papers in this issue may provide empirical results for a specific country or regions, we believe that the readers would have an opportunity to catch up with the most recent studies in a diverse set of fields across many countries and regions and empirical support for the existing literature. In addition, the findings from these papers could be valid for similar economies or regions.

On behalf of the Series Editors, Volume Editors, and EBES officers, I would like to thank all presenters, participants, board members, and the keynote speaker, and we are looking forward to seeing you at the upcoming EBES conferences.

Istanbul, Turkey

Ender Demir

Eurasia Business and Economics Society (EBES)

EBES is a scholarly association for scholars involved in the practice and study of economics, finance, and business worldwide. EBES was founded in 2008 with the purpose of not only promoting academic research in the field of business and economics but also encouraging the intellectual development of scholars. In spite of the term “Eurasia,” the scope should be understood in its broadest terms as having a global emphasis.

EBES aims to bring worldwide researchers and professionals together through organizing conferences and publishing academic journals and increase economics, finance, and business knowledge through academic discussions. To reach its goal, EBES benefits from its executive and advisory boards which consist of well-known academicians from all around the world. Every year, with the inclusion of new members, our executive and advisory boards became more diverse and influential. I would like to thank them for their support.

EBES conferences and journals are open to all economics, finance, and business scholars and professionals around the world. Any scholar or professional interested in economics, finance, and business is welcome to attend EBES conferences. Since 2012, EBES has been organizing three conferences every year. Since our first conference, around 9132 colleagues from 92 different countries have joined our conferences and 5240 academic papers have been presented. Also, in a very short period of time, *EBES has reached 1713 members from 84 countries.*

Since 2011, EBES has been publishing two academic journals. One of those journals, *Eurasian Business Review—EABR*, is in the fields of industry and business, and the other one, *Eurasian Economic Review—EAER*, is in the fields of economics and finance. Both journals are published thrice a year, and we are committed to having both journals included in SSCI as soon as possible. Both journals have been published by *Springer* since 2014 and are currently indexed in *Scopus*, the *Emerging Sources Citation Index* (Thomson Reuters), *EconLit*, *Google Scholar*, *EBSCO*, *ProQuest*, *ABI/INFORM*, *Business Source*, *International Bibliography of the Social Sciences (IBSS)*, *OCLC*, *Research Papers in Economics (RePEc)*, *Summon by ProQuest*, and *TOC Premier*.

Furthermore, since 2014 Springer has started to publish a new conference proceedings series (*Eurasian Studies in Business and Economics*) which includes selected papers from the EBES conferences. Also, the 10th, 11th, 12th, 13th, 14th, 15th, and 17th EBES Conference Proceedings have already been accepted for inclusion in the Thomson Reuters' *Conference Proceedings Citation Index*. The 16th, 18th, and subsequent conference proceedings are in progress.

On behalf of the EBES officers, I sincerely thank you for your participation and look forward to seeing you at our future conferences. In order to improve our future conferences, we welcome your comments and suggestions. Our success is only possible with your valuable feedback and support.

With my very best wishes,

Jonathan Batten, PhD
President

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Part I
Accounting and Finance

Auditing Quality: Some Empirical Studies

Maurizio Rija

Abstract Much has been written on audit quality, but there are still many differences in the literature. After two decades of research on audit quality, there is no universally accepted definition by researchers, who are still far from the establishment of a single framework of indicators which determine, unequivocally, whether the activity of statutory auditor has taken place according to the guidelines set forth in the applicable standards. Various definitions have been developed that are based on different approaches. Importantly, it is a topic in continuous evolution and the debate in the literature is now very open. It seems clear that the concept of audit quality has become, over the years, more and more important as a growing need was felt to ensure the truth and accuracy of the data contained in financial statements, ensuring the quality of financial information by transmitting confidence in this way to the markets and stakeholders who, in making decisions, legitimately rely on accounting records. In this paper, the definitions of quality that the literature has developed over the years will be presented and issues will be addressed related to the measurement of quality through proxies that researchers have used. Finally, the possible future studies to make further contributions to research will be briefly analyzed.

Keywords Auditing • Control • Quality • ISA • Corporate governance

1 Introduction

In this section, the definitions of direct and indirect of the auditing process quality will be outlined. The quality of the auditing process plays an essential role in the maintenance of an efficient market environment. It is a not a new concept in the field of auditing. Researchers of the subject and the bodies that govern the discipline classify the definitions into two categories: (1) direct definitions, which include those definitions of quality that do not use any proxy as a support and (2) indirect

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definitions, which proxies are used (a quality auditor, reputation, etc.) to define the quality, and the auditing implicitly.

In the first part of the paragraph, direct definitions will be analyzed which have been established in recent years in the literature. In research papers, audit quality is defined as the joint probability, assessed by the market, that an auditor identifies the presence of material misstatements in the financial statements of its clients and signs them in his report (De Angelo 1981). In this case, audit quality is a function of two key parameters, namely the auditor's ability to detect material misstatements (technical skills), and error reporting (the auditor's independence from the market evaluated). The just-mentioned parameters are the fundamentals followed by the current principles of international auditing standards that are characterized by an approach based on the identification and risk assessment that the financial statements are free of material misstatements and the identification and performing of further audit procedures designed to address these risks (Soprani 2015). It is therefore an approach to risk-based audit as opposed to the previous approach taken by the old Italian auditing standards, which were instead focused on the auditing procedures to be applied on individual balance sheet items.

Another key aspect of the auditing (De Angelo 1981), implemented by the ISAs, is the concept of significance (or materiality in technical language). Significance, which is a key aspect of the auditing process, means that, for users of financial statements, certain aspects, whether considered individually or together, are important factors in deciding whether and how to relate to the enterprise who drafted them. It might mean, for example, to decide whether to have economic relations with it, or judge whether to invest in the same, or even to consider whether to finance its activities. It is clear, therefore, that the auditor should have information on current or potential users of financial statements and use his professional judgment to determine what phenomena (qualitatively) can influence their decisions and, also, what is the error value threshold that would lead them to change their attitude towards the company (Soprani 2015).

Often the size of the auditor affects the quality of work and is a direct function of the number of clients (De Angelo 1981). That view is a break with the previous literature because the size factor was considered irrelevant for the purposes of determining the quality of service offered. In fact, some authors (Arnett and Danos 1979), using the hypothesis that audit quality is relatively homogenous, state that size may not be a determining factor for establishing the quality of the undertaking.

De Angelo (1981) show that the auditors with a large number of clients are at greater risk if they do not report significant errors identified in the financial statements. The auditor may use opportunistic behavior, thus lowering the level of quality. This happens because clients, through a credible threat of termination of the contract, can obtain benefits from auditors that reduce the level of quality in order not to lose the advantage of the fee they earn from the specific client.

Rational stakeholders perceive the lack of independence of the auditor and consequently evaluate shares of a company entrusting the task to that auditor at a very low price. The negative consequences of this vicious circle impact on the value

of companies, causing a fall in their value. For companies it is no longer convenient to keep on with that auditor assessed by the market as having a low level of independence and therefore the choice will fall on another subject that stakeholders consider independent of the client. The incentive of the auditor to implement opportunistic behavior will decrease with the increase of its size and it will be inversely proportionate to the higher number of clients. Not to lose the “quasi-fees” deriving from each client, the person making the statutory audit will increase the level of quality in the performance of his duties. It is clear that in the light of the study analyzed, the auditor’s independence plays a major role in the audit quality.

Tepalagul and Lin (2015) identifies four potential threats that can compromise the degree of the auditor’s independence causing a significant reduction in the level of quality. To facilitate understanding of the above, in Fig. 1 the threats to independence and their effects on audit quality are referenced.

As shown in Fig. 1, the threats found in the literature refer to the importance of the client and ancillary services to the auditing, the mandate of the auditor and the affiliation of the client with the external auditors. If the client is very important, from an economic point of view, for the auditor, the latter may be in a situation of economic dependence. The auditor has a strong incentive to keep that client in order not to lose a future source of profits, thus compromising his independence by acting in favor of the client.

Often auditors provide their clients services different from the auditing activity. This leads to higher incomes for the auditor, and therefore a risk of economic dependence on the client. Moreover, providing ancillary services to the main activity might create a conflict of interest and jeopardize the auditor’s work and his judgment on the client’s budget.

Several studies have shown that long-term auditing jeopardizes the independence of the activity because of the close relationship that could exist between the auditor and client. Another approach, prevalent in the literature, considers long-term auditing not as a threat, but rather as a tool to increase understanding of the company being audited, thereby increasing the level of quality (Tepalagul and Lin 2015).

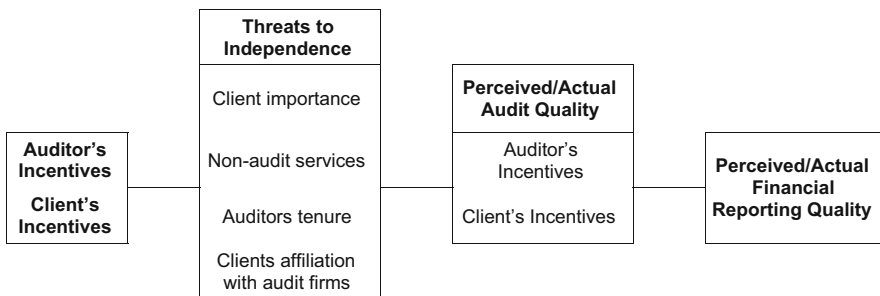


Fig. 1 Threats to the independence and effects on audit quality. Source: Adapted from Tepalagul and Lin (2015)

The affiliation of the client with the auditing firm refers to the situation where some of the staff of the client company is used to working with the auditor. The affiliation is considered a threat as it can undermine the independence since it can cause a dangerous circumvention of audit methodologies. In line with the De Angelo (1981); Palmrose (1988) define audit quality in terms of reliability; since the purpose of the auditing is to provide assurance on the data in the financial statements, the quality of the assignment is defined as “the probability that the financial statements do not contain significant errors.”

The following definition uses the results of the verification and audit quality is observed, by extension, through the reliability of financial statements. According to the approach followed, to a high level of budget guarantee corresponds a high quality of audit services. An important implication of this study is that material misstatements in the financial statements of companies become less likely with an increase in the level of quality. Therefore, even according to this thesis, the auditor will have an incentive to increase the quality of his work to avoid losing the job and suffering the costs and legal consequences arising from the discovery that the budget certified by him contains significant errors. Another way to define the quality of the auditing focuses on the accuracy of the information related by the auditor.

Titman and Trueman (1986) suggest that high-quality audits could improve the reliability of the information contained in the financial statements and allow investors to draw up a more accurate estimate of the value of the company.

Another set of definitions focuses on the degree of audit compliance with applicable auditing standards. The Government Accountability Office (GAO) is an investigative section of the United States Congress, devoted to the activity of auditing and evaluation. It is part of the legislative branch of the federal government of the United States of America. The GAO defines an audit of high quality as a check carried out in accordance with auditing standards generally accepted to provide reasonable assurance that the financial statements is presented in accordance with generally accepted accounting principles.

Finally, most of the literature has examined approximated, or even equated the quality of the auditing with the quality of the implementing of the control subjects. However, Manita and Elommal (2010) argue that the quality of the auditing should be expressed in terms of the quality of the auditing process by placing the emphasis on the examination of the different phases into which the same process is divided. Table 1 shows the main direct definitions.

In this part we will discuss the various contributions relating to indirect definitions, most of which are based on the concepts of independence and competence, following the approach developed by De Angelo (1981).

Francis and Yu (2009) state that “higher quality auditings are derived from the possibility for the auditor to issue an opinion on the going concern basis, the accuracy of the report in predicting the possible failure of the client and the extent to which client behavior highlights the rise of profits from the application of fiscal policies.” Another stream of definitions focuses solely on the auditors’ competence.

Table 1 The quality of auditing: direct definitions

| Definition | Source |
|--|----------------------------|
| The quality of the auditing is defined as the joint probability, assessed by the market, that a given auditor identifies the presence of material misstatement in the financial statements of its clients and signs them in his report | De Angelo (1981) |
| High-quality audits could improve the reliability of the information contained in the financial statements and allow investors to draw up a more accurate estimate of the value of the company | Titman and Trueman (1986) |
| The quality of the auditing is defined as the probability that the financial statements do not contain material misstatements | Palmrose (1988) |
| Audit quality is a component of the quality of accounting information disclosed and increased information quality leads to a reduction of information asymmetries between operators | Clinch et al. (2010) |
| Audit quality should be expressed in terms of the auditing and not according to the auditor's quality | Manita and Elommal (2010) |
| Audit quality is according to the auditor's skill in detecting material misstatements (technical capacity) and the ability to report them (auditor's independence) | Chadegani (2011) |
| Audit quality is the likelihood of detecting errors in controlling, regulating auditors and encouraging them to constrict managerial opportunism | de las Heras et al. (2012) |
| The degree of certainty that the accounting principles are applied in order to faithfully represent the economic activities of the clients | Defond and Zhang (2014) |

Source: Adapted from Bing et al. (2014)

In particular, it is stated that the value of the auditing stems from the ability of the entity in charge of monitoring to detect and correct material errors in the financial information presented.

Balsam et al. (2003) define the quality of the audit as the quality of the company's auditor and a factor that limits the extent to which management can manage profits. Other researchers have defined audit quality in terms of reputation and size. These two features reflect the skills and the degree of the auditor's independence.

Li et al. (2009) suggest that large-sized and/or specialized auditors are seen as subjects with greater insurance cover in case of fiscal fraud and/or other forms that show the failure of the audit procedure.

Skinner and Srinivasan (2012) focused on reputation by stating that companies highly respected for the reliability of their financial statements, are inclined to replace the auditors when the quality of the assignment is debatable, in order to avoid negative consequences on the capital market. In this sense, a company with a good reputation will be encouraged to keep qualified auditors in office in order not to lose the standard of reputation gained in the market. Ultimately, the auditors develop the reputation of their brand to deliver assurance of superior quality resulting in increased quality of audited financial statements. Audit quality can

also be deduced from the quality of the profits produced, as high quality auditing, limits the extent of profit management by administrators and improves reporting capabilities of the budgets.

Many studies have used the profits quality as a replacement definition to explain the quality of the auditing (Chen et al. 2008; Asthana and Boone 2012; Koh et al. 2013; Chan and Watson 2011). The concept of the audit quality has also affected the international organizations that deal with statutory audit. In particular, the IAASB (International Auditing and Assurance Standards Board is an independent body that deals with issuing international auditing standards, guidelines on quality control and other services to audit companies internationally) suggests that auditing is a discipline that is based on people who have specific skills, using their experience and applying principles such as integrity, objectivity and professional skepticism to make appropriate judgments based on the facts and the circumstances of the assignment. The above implies that high-quality audits should be met through the expertise and independence, ensuring a high level of quality of the audited accounts.

It is important, according to the IAASB, that all involved in various capacities in the auditing (e.g. Auditors, professional associations, legislators, etc.) work actively together to achieve the set objectives. Only through such cooperation can an adequate quality of work performed and audited accounts be ensured. It can be noted, in Table 2, that the indirect definitions examined are based theoretically on direct definitions previously analyzed.

Table 2 The quality of auditing: indirect definitions

| Definition | Source |
|---|-------------------------------|
| The quality of the auditor of the company is a factor that limits the extent to which management can manage profits | Balsam et al. (2003) |
| Higher quality auditings are derived from the ability of the auditor to issue an opinion on the going concern basis, the accuracy of the report in predicting the possible failure of the client and the extent to which client behavior highlights the increase in profits derived from ‘application of the budgetary policies | Francis and Yu (2009) |
| Large-sized and/or specialized auditors are seen as subjects with greater cover in case of fiscal fraud and/or other forms that demonstrate the failure of the auditing procedure | Li et al. (2009) |
| Auditing is a discipline that is based on people who have specific skills, using their experience and applying principles such as integrity, objectivity and professional skepticism to make appropriate judgments based on the facts and the circumstances of the assignment | IAASB (2011) |
| Companies highly respected for the reliability of their financial statements are likely to replace the auditors when the assignment quality control carried out is questioned, in order to avoid negative consequences on the capital market | Skinner and Srinivasan (2012) |

Source: Adapted from Bing et al. (2014)

2 Research Idea, Aims, Methodology-Phases for Measuring the Quality of the Auditing and Results of the Research

As previously stated, the definitions on audit quality are not uniform among the various experts in the field; also measuring the quality of the auditing appears controversial (Chadegani 2011; Bing et al. 2014). In recent years, there have been several contributions on the subject and researchers have used different parameters.

A first line of research concerns the so-called measures that allow an immediate idea about the level of quality of the audit. They include the financial statements in accordance with accounting standards, the auditing of the quality control, the probability of failure, the document auditing, the parameters processed by international bodies.

Based on these variables, Krishnan (2003) studied the relationship between firm size and compliance with reporting obligations by non-profit organizations. They found that compliance with the accounting standards increases with increasing size of the companies. Many studies have used the risk of failure as a measurement parameter such as, for example, the study conducted by Geiger and Raghunandan (2002), which measured the quality of the auditing on the assumption that the auditor has issued a positive opinion on the assumption of going concern, in the year preceding the declaration of bankruptcy of some American companies. The analysis conducted showed that the auditors are less likely to issue an opinion on the going concern basis during the first years of work at a particular company, but not thereafter. The above is contrary to the concern expressed that a long-term relationship between auditor and client affects the quality of the service offered.

A second line of research assessed the quality of the auditing through the so-called indirect measures such as the size of the control, the tenure of office of the auditor, industry expertise, audit fees, economic dependence, the reputation, and the cost of capital. The size of the control is the indirect measurement most commonly used. De Angelo (1981) have shown in their studies how the size of an auditing firm is an important indicator of audit quality because large companies have more equipment.

Ghosh and Moon (2005) used as a study variable the tenure of the auditor which can have a negative association with the quality of the audit because the person who has held the position for a long time at the same company, may give up his independence to avoid losing the client.

The introduction of a rule requiring periodic mandatory rotation of the audit firm is a very significant issue which was discussed both in Europe and in the United States of America. This rule limits the maximum number of years that an audit firm can devote to the same client. It has been proposed in order to preserve the independence of the auditor and increase investor confidence in the financial statements published by the company.

Cameran et al. (2014) analyze the effects of mandatory rotation on audit quality in the Italian context in which this rule has been applied for over 20 years. The authors argue that audit quality tends to be lower in the first two of the 3-year

periods. In particular, using the so-called conservatism as a proxy of audit quality, they reveal that the independent auditors show greater conservatism (and therefore a higher quality of auditing) in the last three years than in the first two triennials. This happens because in the third term (the last) of the audit firm in charge may not be renewed and the risk of litigation becomes more relevant. In addition, the study documented that the perception of the quality of the auditing investors improves when the mandate comes to an end. So, the real and perceived quality of the auditing looks better in a context of mandatory rotation of audit firms. This study provides a valuable support to the stakeholders to evaluate the costs and benefits associated with the implementation of the mandatory rotation.

Wooten (2003) tried to measure the quality of the knowledge accumulated by the auditor in a given field. Through this study it was shown that the auditors with more clients in the same sector develop more experience regarding the understanding of the specific risks of that industry, with a positive effect on the quality of work done. Other variables used in support of the studies are the audit fees and the economic dependence of the auditor.

Choi et al. (2010) examined whether the association between professional fees and audit quality is asymmetric, in the sense that the relationship between the two variables is influenced by the sign of the auditing rates. The research results show that the measurement of audit quality is not affected by the association with the auditing fees regardless of the sign that these bring.

Other studies have focused on the fees received by the auditor that reflect the effort made by the latter in carrying out the assignment obtained (Kanagaretnam et al. 2009). It should be recalled that the audit market is a strongly regulated market and the opportunity to gain fees are limited. Generally, the large accountancy firms are able to charge higher fees for their service because of the power of monopoly and/or increased efforts in the activity of audit monitoring. Therefore, more effort in the auditing process corresponds to a higher level of fees to the benefit of the quality that tends to increase.

Yasina and Nelson (2012) argue that high fees indicate that auditors provide more efficient services than those who adopt the lowest rates. An alternative approach believes, however, that high auditing rates provide less incentive in reporting errors and/or fraud because it creates a relationship of economic dependence between the auditor and the client. It is important to remember that most of the research treated here is based on some fundamental assumptions, namely a) the auditor provides a unique level of quality for all clients; b) the level of quality remains constant in different periods of time; c) for different groups of independent auditors we assume a homogeneous quality level (referenced to large accounting firms, Big Four).

With reference to the quality of the audit, attention has been paid to parameters based on sources of differentiation. Three primary sources of differentiation, i.e. the institutional differences between countries, differences in the practice followed by the individual offices, differences owing to the area of specialization. At the national level, the choice of specialized auditors is higher where levels of investor protection and reporting skills in finance are higher (Francis and Wang 2008).

Ettredge et al. (2011) have investigated the choice of specialized auditors made by clients in an international context which is outside the US borders. The study focused on the specific characteristics of each client, on the factors, at the sector level and at the level of the reference country, hypothesized to improve or reduce the demand for auditors who have experience in the field. Through this research it was discovered that the selection of international clients is positively correlated with size, thus the leverage, the opportunity for growth, the amount of capital and belonging to a regulated sector.

Francis (2004) claims that more precise work can be effected analyzing specific offices of the large accountancy firms rather than the company as a whole. The reason for this view is that the individual audit assignments are carried out by an office which is typically located in the same city as the headquarters of the audit client. The perspective changes dramatically when you move the unit of analysis from the company as a whole, to the analysis of specific departments within a company.

Another group of studies that it seems appropriate to deal with here is the one based on the so-called output, (auditor's opinion), on the auditing processes (auditing environment, process performance, forecasting profits and gains arising from budgetary policies) and on inputs (the auditor's perception).

The IAASB takes up this classification defining audit quality as a triangular system based on inputs, outputs and contextual factors (IAASB 2011). The output of the audit has an important influence on audit quality because it is often considered by stakeholders in their assessments of the quality standard. For example, the auditor's report can positively affect the quality if it clearly conveys the outcome of the audit with no omissions and/or errors. It has been shown that when the mandate is extended over time, the auditor's opinion is perfected allowing a high quality to be achieved in the assignment. This means that the mandatory rotation of audit quality deteriorates due to the limited tenure of office, and not on the contrary (Carey and Simnett 2006).

Geiger and Rama (2006) examined whether the large accountancy firms (Big Four) have a higher level of quality with a low number of reporting errors, in the context of issuing an opinion on the going concern basis. The results indicate that their error rates are significantly lower than other auditing and this difference affects, of course, also the quality standards. As for the auditing process, it is important to note that it also covers issues such as the soundness of the audit methodology, the effectiveness of the control instruments used and the availability of adequate technical support. All these factors are oriented to the execution of quality control.

Manita and Elommal (2010) constructed an attention measurement scale, of the parties interested in the auditing process. The phases that result from this study are the qualitative study with the members of the auditing committee, the editors and preliminary testing of a questionnaire, data collection, research of the measuring instrument, the reliability and validity of the instrument measurement. This approach still has several limitations such as the size of the object of study sample and the difficulties of selection and measurement of the sample chosen.

Maijoor and Vanstraelen (2006) studied the environmental impact of the auditing, the quality of the auditing company and presence on the international markets, and the fiscal policies implemented by the administrators. The authors refer to two factors that can mitigate the environmental impact control which means the quality of the big auditing firms (Big Four) and the economic dependence of a company on international capital markets. They found that more rigorous testing environment reduces the amount of the profits arising from the application of budgetary policies, regardless of the type of auditor and there is no evidence on the effect of a quality control at international level. Finally, there are different inputs to ensure audit quality such as the role played by the ISAs, the personal qualities of the auditor as the skills, experience, attitudes and ethical values (Duff 2004).

Sun and Liu (2011) examined whether the risk of litigation with the client affects the differentiation of audit quality between large and not large auditing firms. The two researchers developed hypotheses based on potential monetary losses and reputation of the auditor and, after collecting data for listed US companies, conducted a regression analysis showing that the effectiveness of the large accountancy firms to constrain profits produced from fiscal policy is greater for high litigation risk clients than those with low risk, suggesting that clients with high risk can push the auditors to carry out their duties more effectively, increasing the quality.

With regard to the second line, Carcello et al. (1995) argue that the characteristics related to the auditing team are generally perceived as more important for the quality of the auditing with respect to the characteristics of the independent auditors.

Schroeder et al. (1986) focused their studies on the effect produced by fifteen factors on audit quality, by comparing the factors relating to the auditing firm and those relating to the team. The results confirmed that the factors related to the auditing team are more important than those of the independent auditors. Audit quality is not primarily based on the ISAs, but on the quality of people, their training and their ethical standards.

The Financial Reporting Council (FRC), an institution working in the UK that deals with the promotion of a high quality of corporate governance and reporting in order to encourage investment, argues that the skills, the personal qualities of the audit partners, the staff and provided to staff training are important factors that determine the quality of the auditor. Research in the field of professional ethics (Rayburn and Rayburn 1996) has shown that the type of personality is directly related to the ethical orientation of individuals.

There are several contributions in the literature investigating the behavioral perspectives of the audit quality (Coram et al. 2003; Dechow et al. 1995; Herrbach 2001; Carey and Simnett 2006; Baotham 2009; Carcello et al. 1995).

Malone and Roberts (1996) developed a more comprehensive model than those previously mentioned. They studied the relationship between the incidence of reduced quality of auditing and the personal and professional characteristics of the auditors analyzed as well as the quality control system of the audit firm. They

concluded that the solidity of the quality perceived by the auditors of their companies, the audit procedures employed and the intensity of the penalties imposed on their companies in the case of acts of reduced quality, are inversely related to the cases of behavior characterized by a reduced quality the auditing.

Baotham (2009) studied the effects of independence of the auditing, the quality and credibility and reputation on the sustainable success of CAPs (Certified Public Accountant) in Thailand. The results indicated that the independence of the auditing has a positive relationship to audit quality and credibility. In turn, the quality has a positive association with the credibility of the auditing. Quality and credibility affect significantly the reputation and sustainable success. The concentration ethics, intrinsic and extrinsic, plays an important role.

A final group of studies analyzed is that focused on the different perceptions of audit quality by shareholders, auditors, financial analysts and clients. Those mentioned are just some of those involved in the studies mentioned below.

Svanström (2013) measures the quality of the auditing through the perception of the managers who are best placed to see the improvement of audit quality because they communicate daily with the auditors and deal with the preparation of financial statements. We must pay particular attention to the perception of management because it can only represent the quality of service and not the actual audit quality. The results obtained can be biased and therefore not expressive of the real level of quality. Some studies have equated the quality of the audit to the quality of earnings. The main idea is to ensure the reliability of accounting information by maintaining high-quality earnings.

Koh et al. (2013) observe how, in the enterprise, there is a reward system for managers based on achieving certain goals in terms of profits. So, it is evident that there is an intention on the part of management to manage earnings through the adoption of fiscal policies. In addition, the earnings management is also closely linked to the regulation of discretionary accruals. In other words, managers have a tendency to change the level of competence to change the size of the profits, thus achieving any profit targets previously set (Francis and Yu 2009). From the above considerations, it emerges how the budget is the product resulting from a process of negotiation between managers and auditors (de las Heras et al. 2012). Therefore, it is argued that the quality of information on profits in the financial statements can reflect the quality of the auditing. From the point of view of profit management, discretionary accruals are preferred by the Manager tool, as it allows the amount of profits earned to be manipulated. There is a positive correlation between accruals and profits, while the quality of the auditing is related to the provisions of an inverse relationship. The greater the discretion of managers, the lower the quality of profits resulting from the balance sheet and, consequently, the level of the audit quality will be low. Some research has shown that the provisioning policy can directly reflect the status of the auditing firm effort to enforce accounting standards, countering the earnings management through discretionary maneuvering on the budget (Lawrence et al. 2011).

Moreover, Svanström (2013) suggests that, to detect weaknesses or significant errors, an auditor must always start from the analysis of the accounting data

verifying discretionary accruals to discover a possible earnings management through fiscal policies. In most research, the provisions are measured in absolute terms because that way the discretion afforded to managers (Menon and Williams 2004) can be identified more completely. In other words, the absolute value of provisions would be able to detect the increases and decreases of the business income. However, some experts prefer to express the value of provisions not in absolute terms, but considering the value of the examined sign (Carey and Simnett 2006). Audit quality can be gauged by assessing the cost of capital on the credibility of the financial information flow. It has been shown that investors perceive profits controlled by the big auditing firms (Big Four) as safer than those that were audited by small companies. For this reason, clients of the big auditing firms should benefit from a reduction in capital cost (Lawrence et al. 2011).

According to Schauer (2002) the role of an audit procedure is to reduce the risks of material errors and/or fraud. According to the author, in most of the studies indirect measures of quality are mainly used. With this in mind, the bid-ask differential model (Bid-ask spreads) was developed, considered by Schauer as a measure and more effective audit quality. The market is characterized by continuous transactions and when a transaction cannot be explained through available information, the differential between supply and demand increases in order to counter the asymmetric information. The bid-ask spread is positively correlated to the extent of asymmetric information of companies. In this case, the differential can be a measure of the information disclosed and therefore an accurate indicator of the quality of statutory audit.

Through this model, Schauer (2002) examines the differences in the audit quality resulting from the different levels of specialization in the sector auditor. In this model, the dependent variable is the bid-ask spread percentage calculated as the difference between the high and low daily offer divided by the average. The study results show that the degree of industry specialization and the auditor's experience are positively correlated to the quality of the auditing. Another proxy used in the literature is that of the disciplinary sanctions.

It is suggested that the failure of the audit procedure is more common in those auditors who provide a low quality. The above implies the existence of a negative association between audit failure and quality of service (Palmrose 1988 and Svanström 2013). If the auditor makes mistakes in the conduct of his work, a sanction could be imposed on him. The probability of being subject to disciplinary sanctions can be used to estimate the quality of the auditing. If an auditor has a high probability of being sanctioned, it means that the level of quality offered by him is low. In other words, the high risk of being punished is a poor indicator of compliance with the principles and rules of the profession. As the degree of compliance increases, the higher the quality of the service provided. Conversely, a low risk of incurring disciplinary sanctions is synonymous with a high level of audit quality. The disciplinary sanctions imposed pressure on auditors who, rather than lose their compensation and see their reputation compromised, have the incentive to increase the quality level of the services offered. In particular, the auditors with a better

reputation have every incentive to avoid mistakes and to maintain a high quality level.

Finally, some American master studies measure the quality of the auditing with reference to the cancellation of checks AICPA (American Institute of Certified Public Accountants) is an organization founded in the United States in 1887 and is the national body that regulates the profession of the CPA. It played a prominent role in regulating the professional functions with regard to auditing, certification and ruling and updating of accounting and auditing principles and the PCAOB inspections. It is demonstrated that unfavorable checks and inspections are a signal of low audit quality. In other words, an auditor with a low level of quality has a high probability of receiving an inspection report with many shortcomings identified.

According to DeFond and Lennox (2011), the PCAOB impositions involve high costs on a low level of quality auditors. In addition, crimes could be discovered during the inspections which could be reported to the authorities and which would involve major penalties and a substantial loss of reputation. This situation would lead these auditors, in extreme cases, to leave the market. But we must consider that the inspections that the two authors cite are required only once every 3 years. This important limitation means that newly established companies are subtracted from this discipline. Table 3 shows the main the main proxies to measure audit quality.

3 Conclusion

The concept of audit quality is very difficult to pin down because there can be different points of view that allow one to arrive at different definitions. Some authors have defined audit quality directly, while others have opted for an implicit definition by other parameters (e.g. independence).

After years of study and research of various kinds, not only have researchers not come to define audit quality, but they also appear uncertain about what measuring method to adopt.

Audit quality has been studied and measured through different proxies, but they are still several gaps in the literature. Given the importance of ensuring a high level of quality, research should focus on exploring the areas that affect quality such as client service satisfaction and client loyalty.

Gaps still to be filled are found in areas related to the characteristics of the auditor. For example, it would be interesting to deepen, with further study, how audit quality is influenced as a result of substitution and/or rotation of the auditor.

The research that we consider analyzed, marginally, the involvement and influence of the characteristics of the corporate governance of the companies audited. However, the study of Talamona et al. (2013) should be remembered, who analyzed the relationship between audit quality and the quality of corporate governance. This research provides an important contribution because it analyzes the data on the internal control systems anomalies on the balance sheets outside the American context. The results of this survey show that the quality of corporate governance is