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## Audit Quality: Auditors' Professionalism and Objectivity- A Review of Literature

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### **Abstract:**

*Many have argued that auditors' professionalism and objectivity beget audit quality and as such audit quality cannot be different from the system that produces it but in order to resolve these contending views of audit quality, this views the two important inseparably attributes of Audit Quality that are auditors' competence Auditors competence (professionalism/expertise) and Auditors independence (objectivity). This paper discussed the different points of view for regulators and practitioners. Information for this study was obtained from secondary sources to include journals, text books and other internet materials. The study aims to explore the capability and expertise of the auditors meaningfully impact the audit quality. Moreover, this study found that effective preparation and superiority control played an essential role. According to this research, it is also necessary to increase the objectivity and professionalism of auditors to improve the audit quality. The research adopts an exploratory approach in that it reviews and discussed various literature on the subject matter to support its findings and recommendation Furthermore, this article intends to review the theoretical aspects and empirical evidences made on Agency theory and Stewardship theory can be used to analyse how regulation might influence professionalism and independence to impact overall audit quality. A government internal supervisory tool maintains independence and auditors maintain objectivity.*

**Keywords:** Audit quality, auditor objectivity, auditors competence, auditor independence and auditor professionalism

### **1. Introduction**

Auditors are subjected to a system of public regulation, self-regulation, and controls that, taken as a whole, constitutes the regulation of the profession. Attention in this area is premised on the role of an auditor as a vital gatekeeper in financial reporting, Preserving and enhancing confidence in the quality of audit services is essential to the public interest (Bricker,2019).

The profession occasionally seems to confuse these two issues whenever they argue that auditors should 'compete on quality' (Knechel, 2016). This is certainly a noble idea but chasing quality without considering cost may not result in an economically viable equilibrium. While regulators may be less concerned about cost, it might be more constructive to argue that the profession should 'compete on value', which implicitly recognizes the trade-off of costs and benefits of the audit (Knechel, 2016).

The Audit Quality Forum brings together representatives of examiners, stockholders, commercial and controlling bodies. The International Standard on Auditing (ISA) is in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code) addresses the responsibilities of the engagement quality control reviewer with relevant ethical requirements.

Shareholders delegate rights to managers to act in the principal's best interest. The issue of the separation shows a loss of the effective control (Amahalu et al., 2017). Many factors affect the audit quality (Abiahu and Amahalu, 2017). Showcase of financial information without misstatements is a part of quality audit Nwanyanwu (2017). Salehi and Kangarlouei (2010), Al-Khaddash et al. (2013) conducted a study to measure the impact of audit quality. A proper quality of auditing report helps to build investors' decisions and financial managerial decisions (Nwaobia, Kwarbai & Ogundajo,2016).The purpose of this study is to make some suggestions for future studies based on the literature review.

#### **1.1. Statement of the Problem**

The rise in the recent accounting inadequacies and irregularities was an eye opener to many questions about auditors' competency, independence, and audit quality (Bricker, 2002).The failure to achieve the mentioned improvements in efficiency or effectiveness in the professionalism of audit quality, during this Pandemic period that companies are closing down leads to a downward spiral for an industry, some issues may occur when the Auditors professional fees are beaten down through various competitive pressures, audit quality may deteriorate, which further

puts high pressure on prices. This potential problem is compounded in an industry with flat (or declining) demand. These problems can be simultaneously addressed only if the market for audit services is synergetic, meaning the auditor is earning economic rents that can be wrung from the system with appropriate regulation or increased competition, or auditors can be stimulated to innovate in ways that simultaneously reduce costs and improve quality. A great deal of previous research suggests that audit markets are, in fact, competitive on balance (Ferguson, Francis, & Stokes, 2003; Hamilton, Li, & Stokes, 2008; Numan & Willekens, 2012; Knechel, 2016).

There has been a mechanical growth in the professionalism as regards the quality of audit. However, despite these progress in the quality we still have some complaints on doubt on quality of audit independence, low quality of audit opinion and report, alternatively, questions have been raised on whether audit quality is good or not, depending on the investors/stakeholders' viewpoint (Oakland, 2014).

Financial statements do not reflect many factors that affect financial condition because they cannot be stated in monetary terms (Bamidele, M., Ibrahim, J., & Omole, I., 2018). From the auditing firms point of view whose level of professionalism, independence and integrity are brought to bear in assessing the accuracy of financial statements. The next sections will discuss literature review, methodology, data presentation and analyses. Others are discussion of findings, conclusion and recommendations.

## *1.2. Conceptual Review*

Audit quality has been defined as an outcome conditional on the presence of certain attributes of auditors. The widely used definition by DeAngelo (1981, 1986) defines audit quality as 'the market assessed joint probability that a given auditor will both discover a breach in a client's accounting system, and report the breach.' This definition is often interpreted to break down audit quality into two components: (1) the likelihood that an auditor discovers existing misstatements and (2) appropriately acts on the discovery. The first component links to an auditor's competence and level of effort while the latter relates to an auditor's objectivity, professional scepticism and independence. These two components also suggest that different aspects of the audit can influence overall audit quality. On the basis of audit process, there are many definitions for audit process (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). Effective and perceived qualities (usually designated as apparent quality) are necessary for auditing to produce beneficial effects as a monitoring device (Enofe, Mgbame, Aderin, & Ehi-Oshio, 2013).

### 1.2.1. Audit Quality

Mathius (2016) defines quality as all the probabilities of an auditor. Audit quality is measured using criteria: 1) misstatement discovery, 2) based on morals, 3) sturdy pledge to review services provided to clients, 4) sensible philosophies, 5) appraisal and governing by supervisors, and 6) consideration provided by managers and partners.

The auditor has a statutory responsibility by virtue of Section 359(3) of the Company and Allied Matter Act (CAMA), 2020, to issue a report to the members of the audit committee which must be statutorily set up by such a client. Audit quality is essential to the fulfilment of the objectives on an independent external audit. Consistent and sustainable high audit quality contributes to ensuring the continued relevance and value of audit and assurance services; which in turn are essential in providing trust and confidence to the users of historical financial information, and increasingly also to users of information other than historical financial information. The highest standard of quality in the provision of professional services is imperative for the chartered accountancy profession; and even more so for those Chartered Accountants who are also Registered Auditors.

Investors and other stakeholders are concerned with the safety of their assets (South African Institute of Chartered Accountants, 2020). DeAngelo (1981) called audit quality as the market-assessed joint probability.

### 1.2.2. Auditor's Professionalism

Professionalism is more than just fulfilling personal responsibilities (Arens, 2015). It is the capability, proficiency, and specialised obligation in carrying out tasks (Audit Board of the Republic of Indonesia, 2017). As per Panji (2014), 1. excellence of outcomes 2. importance and meticulousness of work 3. determination and persistence 4. high truthfulness 5. presence of accord of thought and action.

### 1.2.3. Auditor's Competence

The expertise or competence of the auditors can be defined as the combination of acquaintance, proficiency, and social approaches (Financial and Development Oversight Board, 2010). Sawyers (2012) describes it as a connexion of the ways each auditor uses his knowledge, expertise and behaviour.

### 1.2.4. Auditor's Objectivity

According to Sawyers (2012), the definition of independence is 'the freedom from conditions'. The financial dependence on the client as well as the association between the auditor and the client is called constrained objectivity (Brooks, Cheng, Johnston, & Reichelt, 2015). Visibly, when the examiner observes at how his results and feelings will touch others, his neutrality will be damaged (Mojtaba, Omid, & Ahmad, 2018).

### 1.3. Theoretical Review

#### 1.3.1. Agency Theory

Agency theory is a valuable economic theory of accountability. It assistances to clarify the growth of the audit. Item phases exactly on relations of agency and shareholders (Mitnick,2013). This is portrayed through agency theory, and also complicated by other factors (Panda &Leepsa, 2017).Agency theory is based on the ground that agents have more information than principals (Yang & Morgan, 2011). The role of agents generally being performed by the auditors. This raises concerns regarding the clarity in the relationship between director-shareholder(Abdullah, Naser, & Al-Enazi, 2017).The simple agency model also suggests that the agents are not worthy to show the trust (Zhukovskaya,2016).

#### 1.3.2. Stewardship Theory

Stewardship theory accepts that managers are stewards which responsibility is to align their behaviours with the objectives of their principals. In this regard, management within various positions are responsible for providing all the necessities information that may influence the effectiveness of the audit. (Keay, 2017). Stewardship theories have been proposed recently as the possible basis for the reform of roles and responsibilities of principals and agents in government contracted service relations, and for the design and development of more effective methods for ensuring accountability (and quality) in contracted human services. Stewardship theories offer alternative ways of conceptualizing the principal agent relationship (Keay, 2017).

Under stewardship theories, “the model of man is based on a steward whose behaviour is ordered such that pro-organizational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours. Whether the steward’s “other regarding” behaviour stems from egoism or altruism is not easily established because it involves defining human intent and motivation, as well as considering the consequence of actions for other actors (Van Slyke,2007).

### 1.4. Empirical Review

An audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust (Akhidime,2019). Hameed (1995) reports auditor’s experience, honesty and knowledge of accounting and auditing standards as factors affecting audit quality.

A study based on chartered accountants of major banks and financial institutions has been studied by Firth (1980). A theory called Stewardship theory, focuses on collective goals compared to individual goals(Dicke,2002). This theory also focuses on accountability(Davis, Schoorman& Donaldson, 1997).Stewardship theory pursues to recognise the abilities and circumstances for good stewardship (Van Slyke, 2007). The difference between Agency and Stewardship theories differs in terms of human motivation.

### 1.5. Discussion of Findings

In discussing this topic, we seek to bridge the relationship between the concepts and the theoretical framework used in the study, the concept of audit quality, auditor Objectivity, and auditor independence and auditor professionalism being linked to the underpinning theories of Agency and stewardship theories.

This study establishes standards and provides guidance on specific responsibilities of firm personnel regarding quality control procedures for the audits of historical financial information, including audits of financial statement. As agent appointed by shareholders(owners), auditors are required to carry out their work in order to meet with expectation of stakeholders and investors. in trying to meet this required expectation.

The International Audit and Assurance Standard Board (IAASB) established various standards to regulate the audit quality practice around the world. They have drafted the International Standard on Quality Control (ISQC) 1 and the International Standard on Auditing (ISA) 220 on Audit Quality.

Auditors need to maintain an honest and dispassionate mind-set to promote unbiased judgments and consideration of the facts as determinants of a final opinion. They also believe that auditors should have a truthful and composed mind-set (Mautz & Sharaf ,1961).

According to the ISQC 1, elements of a firm's system of quality control comprises of regulations about: leadership responsibilities for quality within the firm; ethical requirements (including independence); acceptance and continuance of client relationships and specific engagements; human resources (including assignment of engagement teams); engagement performance (including consultation, resolution of differences of opinion and engagement quality control review); and monitoring (including dealing with complaints and allegations).

To further buttress the standard, it prescribes how individual audit practice should ensure proper handling of potential risks in the following area of audit engagement:

Leadership responsibilities: It helps to ensure strategies and measures. It also creates a suitable environment that promotes an internal culture important in executing engagements. It also aims to distribute responsibilities among team members.

Ethical requirements (including independence):All the policies and procedures must be designed in such a manner such that ethical requirements must be met. All kinds of threats to independence should be identified. Firms should promote integrity of the client. In case of conflicts the firm has to identify client relationship or a specific engagement.

Human resources: The firm shall create guidelines and events intended to afford it with reasonable assurance that it has appropriate people with the aptitude, proficiencies, and obligations per professional standards.

Engagement performance: the company shall start relevant consistency in the quality of engagement performance. The firm shall establish policies and procedures to address cases where the results of the monitoring procedures.

Documentation of the System of Quality Control: the firm shall start strategies and events requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

The IAASB believes that the engagement partner needs to be adequately and suitably involved through the engagement as this is essential to providing the engagement leadership required to achieve high quality audits to fulfil the objective. Keeping all the aspects in mind, ISA 220 (Revised) listed elements of quality control with respect to an audit engagement. ISA 220 provided guidance on dealing with matters arising in the following areas of audit engagement:

Leadership responsibilities: It encourages the engagement partner for taking the responsibility for the overall quality. Ethical requirements (including independence) It establishes a compliance with independence requirements that apply to the audit engagement. Considerations Specific to Public Sector Entities: Constitutional procedures should be there to check the independence of public sector auditors.

Monitoring: This process helps to ensure that the policies and procedures are pertinent, satisfactory, and functioning effectively. It also helps to ensure that the latest information has been circulated by the firm.

Documentation: This team basically creates all the documentation related to ensuring auditing quality. Maintaining the relevant ethical requirements is being handled by this team. The overall checklists regarding audit quality can be monitored by the ISA 220 which is similar to ISQC1. As per ISA 220, the engagement partner need to take accountability for the overall quality of each audit. The study discusses audit quality control procedures in line with stewardship theory, that auditor is a steward responsible to shareholders and the public; they owe various parties' duties to ensure that the quality of their work is determined by the expectation of the consumers of the consumers of their report. In order to meet these expectation, they are supposed to meet ethical requirement, professional requirement, regulatory requirement and even public interest in the discharge of their role as auditors.

The risk-based approach focuses on the important part of the assignment instead of committing the limited audit resources to the whole audit area. This approach allows the auditor to commit more audit resources to areas where risk is higher and assigns more resources where perceived risk are high, and less resources where perceived risk are low.

Due to current realities of digital economic activities and remote working environment which created new sets of risk, Accounting and Audit standard may need to be revised / amended to mitigate these new risks.

## 2. Conclusion and Recommendation

It is therefore concluded based upon various frameworks and standards reviewed on audit quality control that it is carried out to enhance the outcome of the audit and assurance processes. This will also increase the confidence level of the users of the audit reports having the knowledge that the report is a product of qualitative scrutiny to validate the stated audit opinion. Various audit quality control frameworks should be revised to include the effect of digital economic activities and the remote working arrangements. The fallout of these new business realities will affect the quality of documentation of the operational audit standard.

## 3. Further Recommendation

Based on my findings and conclusions, I make the following recommendations:

Audit Quality control frameworks should be revised to incorporate current realities in the business environment such as remote working arrangement and effect of digital economic activities across countries.

Auditors and accounting firms should be trained to retain the high-quality performance required from them as agents of the stakeholders in order to justify their confidence of the end users of their reports.

Monitoring from the regulatory and professional bodies should be carried out more frequently to evaluate the processes and procedures of the audit and assurance firms as stewards in order to enforce the qualities expected from their audit.

The world is in a 'heightened state of hyper-vulnerability' due to multiple cybercrime categories in this pandemic period, human errors are more likely to be made remotely (Motta, 2020). Audit quality and regulation should be put in place to mitigate against this risk.

The US Cyber security and Infrastructure Security Agency has created an online tool to help individuals interested in cybersecurity careers learn about the various roles in the field and how to map out a training and career path, the regulations bodies need to imitate this for effective audit.

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