

Audit Quality: A Literature Overview and Research Synthesis

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Abstract: The paper aim is to evaluate the current literature on audit quality. To satisfy the aim, the author carries out a secondary research in which past research on the topic has been evaluated and the following findings have been found. for this, the author has considered 1981 to present as a relevant period for conducting this research. Additionally, “audit quality”, “definition”, “processes”, “inputs”, “audit evidence”, and factor related search terms have been used for obtaining the required data. Firstly, there is no universal definition of audit quality as different authors have separately defined it. Secondly, the author has summarized various indicators of audit quality after establishing the audit quality framework. Here, it is necessary to mention that there are various local and international jurisdictions that are applicable and followed by various local and international firms. At the same time, various audit quality indicators are important to assess how they are linked to audit quality. For example, professional skepticism is one the important input indicators that is highly essential to determine audit quality.

Key words: audit quality; audit quality indicators; premature sing-off; PCAOB synthesis.

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I. Introduction

Audit quality retains a positive and strong relationship with the degree of confidence of various stakeholders. There are various stakeholders who are directly or indirectly related or affected by the audit quality of financial statements. If a company receives various audit quality notes where auditors have raised a number of questions relating to various controls and audit procedures, this would severely affect the audit quality and it would also compel many stakeholders to determine their future relationship with that company. Since many stakeholders do not just want to see an unqualified audit opinion, but they also expect an appropriate level of audit quality as approved and highlighted by auditors. In other words, if an auditors issues a qualified audit report, this would create various challenges for the company’s management, their strategic and operational decisions relating to finance, debt management, sales, marketing, human resources and all other related departments. Therefore, each stakeholder has its own concerns and expectations from the financial and operational performance of audited financial statements.

Creditors make their lending decisions when they overview the audited financial statements of their client. For example, if a company’s audit quality is below their benchmark for extending loan or credit facility to their clients, this would not allow them to maintaining the same sort of credit relationship with their client. When a company receives a qualified audit opinion, this unequivocally represents that the company has failed to meet their financial goals. And when a company is unable to perform effectively, this means it is highly likely that the company would not be able to avoid the problem of liquidity crisis or working capital challenges. Therefore, for a creditor, it would seriously affect the ability of their client to timely pay back their debt. Since the company is experiencing the effects of liquidity shortage, the chances of bankruptcy cannot be ruled out. Therefore, audit quality is important for creditors.

Shareholders’ confidence is also reliant on audit quality. directors retain an agency relationship with their shareholders as the former is legally and ethical bound to make informed business decisions that maximize the shareholders’ wealth not only in the short run but also in the long run. In other words, it would not be incorrect to say that directors are required to satisfy the expectations of their shareholders and the best and effective way is to increase and maintain an attractive financial performance and financial stability of the company. And, this can only be reflected through audit quality and the audit report issued by independent audit firm. If an audit firm issues an unqualified audit report, this would reflect the audit quality of that company’s financial statements. As a result, shareholders would be in a position to retain their level of trust on their directors’ ability to increase the wealth of their shareholders.

The issue of audit quality is also important for regulators. Different business and company laws are developed and implemented to protect the public interest when commercial activities and transactions are carried out. Some regulations cannot be ignored and must be followed by commercial entities. On the other hand, there are certain rules and regulations that are voluntary in nature. However, still regulators are interested to see how directors use both compulsory and voluntary rules and regulations for serving their business interests not at the cost of public interests. Here, it is necessary to point out the consumers, investors, shareholders, institutional investors, and other groups' collective interests are mainly looked after by regulators. In this context, if a firm's audit quality does not receive a reasonable audit report but numerous qualifications are attached, this situation compels regulator to take all legal and necessary actions to investigate the matter whether the mentioned qualifications affect the public interest. As a result, it is the prime regulatory duty of regulators to see whether the audit report is implying some serious violations of rules and regulations. Therefore, audit quality is also an important aspect for regulators as well.

The paper aim is to investigate how audit quality can be maintained through highlighting the nature of the relationship between the audit quality and the various audit quality factors that diminish the audit quality. The study has four main objectives, which are as following:

1.1 Research Objectives

1. Identifying and explaining various definitions of audit quality remains an important way to understand the scope of audit quality.
2. Examining how pre-mature sign-offs audit quality will also be determined.
3. Ascertaining the factors that diminish audit quality will also be carried out.
4. Recommending certain steps that can improve audit quality and its practices will also be provided.

In order to achieve the objectives of this study, the study questions can be formulated as following:

1.2 Research Questions

1. What are the different practical definitions of audit quality?
2. How pre-mature sign-offs affect audit quality?
3. What are those factors that reduce audit quality?
4. What are the major recommendations for improving the audit quality considering the impact of adverse audit quality practices?

II. Existing Definitions Of Audit Quality

Various authors have separately defined the conceptual framework of audit quality. DeAngelo (1981) explains audit quality as a market-developed assumption that an auditor will be able to highlight and detect a material breach (i.e. misstatement) and he would subsequently report to the related authority. A closer analysis of this definition highlights two important features of this definition: Detection capability of auditor and its true intention to report it. Within this context, it is vital to mention that this definition does not clearly highlight a true fact, but it only puts a light on an assumption that the auditor will be in a position to detect the material misstatement within financial statements. In other words, this aspect of the first definition assumes that the auditor will be professionally well-equipped and he would be technically sound and competent enough to uncover hidden material misstatements within financial statements. However, this definition is the part of an assumption that is generally found in the market relating to the role and performance of auditor. Additionally, clients also expect their auditors to satisfy the expectations of their auditors in a professional manner (Fontaine and Pilote, 2012) without compromising audit quality (Francis, 2011), while carrying out their audit engagements. Thereby, numerous definitions do not always indicate or prove their validity in all sorts of audit engagements and audit processes as well. Overall, numerous definitions of audit quality give various aspects that are more general than particular (Tritschler, 2013).

The second element of the definition is related to the reporting process. In this part, it is assumed that the auditor will report all of its findings to the related competent authority. However, this definition does not clearly indicate whether the reported findings would be fully reported, partially reported or inaccurately reported. Whenever an auditor conducts an audit process for satisfying various audit assertions, the auditor is required to determine a sample size and apply relevant audit standards and procedures for obtaining certain results. Upon collecting and compiling the results, the auditor submits the report to the related authority. However, this submission of the report could include unsatisfied audit assertions and uncompleted audit procedures. Under this situation, it is necessary for an auditor to maintain the integrity of their independence and impartiality as well (Gul, 1989).

Audit quality is a goal-oriented audit activity and it is about the perception of users as well (Almutairi, Dunn & Skantz, 2009). For example, audit quality is achieved when a certain audit activity is carried out "... in

accordance with Generally Accepted Auditing Standards (GAAS)¹ to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in accordance with Generally Accepted Accounting Principles and (2) are not materially misstated whether due to errors or fraud” (Government Accountability Office, 2003, p. 13). This definition looks highly technical. For example, a closer analysis of this definition would enable one to deduce that an auditor is not only required to read and understand GAAS but also needed to grasp GAAP and its various accounting standards and their practical aspects as well. In other words, this definition highlights an important aspect relating to the field of auditing: To become a successful auditor, an aspirant is required to obtain relevant GAAS and GAAP certifications or any other related audit course or program (Knapp, 1991). Without this academic support, it would be very difficult for anyone to become an auditor. Additionally, internal control-related comprehensive knowledge and reasonable past experience are certain additional requirements for becoming a professional auditor (Koop and O’Donnell, 2005).

The second definition looks (i.e. Government Accountability Office definition) more accurate and effective than the first one. For example, the first definition does not highlight the technical and competent aspect related to audit quality instead it only focuses on the result aspect. Generally, it is assumed that an auditor would detect material misstatement and would report them; this type of expectation does not put any sort of pressure on the auditor because it simply identifies the common expectations from the auditor and its responsibilities. On the other hand, the second definition gives more preference to the competence and actual performance of the auditor by highlighting all those features and personal aspects that are fundamental for becoming a professional and competent auditor. For example, if an aspirant wants to become a part of a renowned audit firm, he would be required to follow a certain academic and practice roadmap before becoming the part of that audit firm. More precisely, if the audit firm expects a particular audit certification, this would compel the aspirant to acquire this qualification before applying for a junior position in the audit firm. Additionally, many firms do not hire new candidates by only knowing whether they know and understand the definition and meaning of audit quality or audit practices, but they are more interested to know whether they have already completed the basic audit qualification essential for becoming a part of their audit team members (Knapp, 1991). Therefore, it would not be incorrect to say that the second definition puts a more light on the importance of technical and competent aspect of audit and audit quality. Without this aspect, it would not be possible for the aspirant and others to get easily inducted to audit firms. Additionally, personal qualities should also be maintained, including, independence, impartiality, professional demeanor and other related traits (Mednick, 1990).

Adding a positive or negative adjective before the term “audit quality” also highlights another way to understand the scope and definition of audit quality. For example, Krishnan and Schauer (2001) contend that the presence of material violations of the audit assertions and benchmarks would highlight the poor audit quality. At the same time, some audit experts believe that audit quality is directly correlated to the number of audit assignments carried out by the auditor (Carcello et al., 2002). In this particular aspect, it would not be incorrect to deduce that the perspective of Carcello et al. (2002) purely suggests that if an auditor performs numerous audit assignment, that would considerably increase the integrity and quality of audit. On the other hand, if the same auditor performs a few audit engagements and audit procedures, this would negatively affect audit quality.

III. General Frameworks For Establishing Audit Quality

Globally, various international entities have framed and developed numerous frameworks for ensuring audit quality. For example, the International Auditing and Assurance Standards Board (IAASB), the United Kingdom’s Financial Reporting Council and the Australian Treasury (Knechel, Krishnan, Pevzner, Shefchik, Velury, 2013).

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However, because of its more validity, the author has selected the above definition for understanding the scope of audit quality.

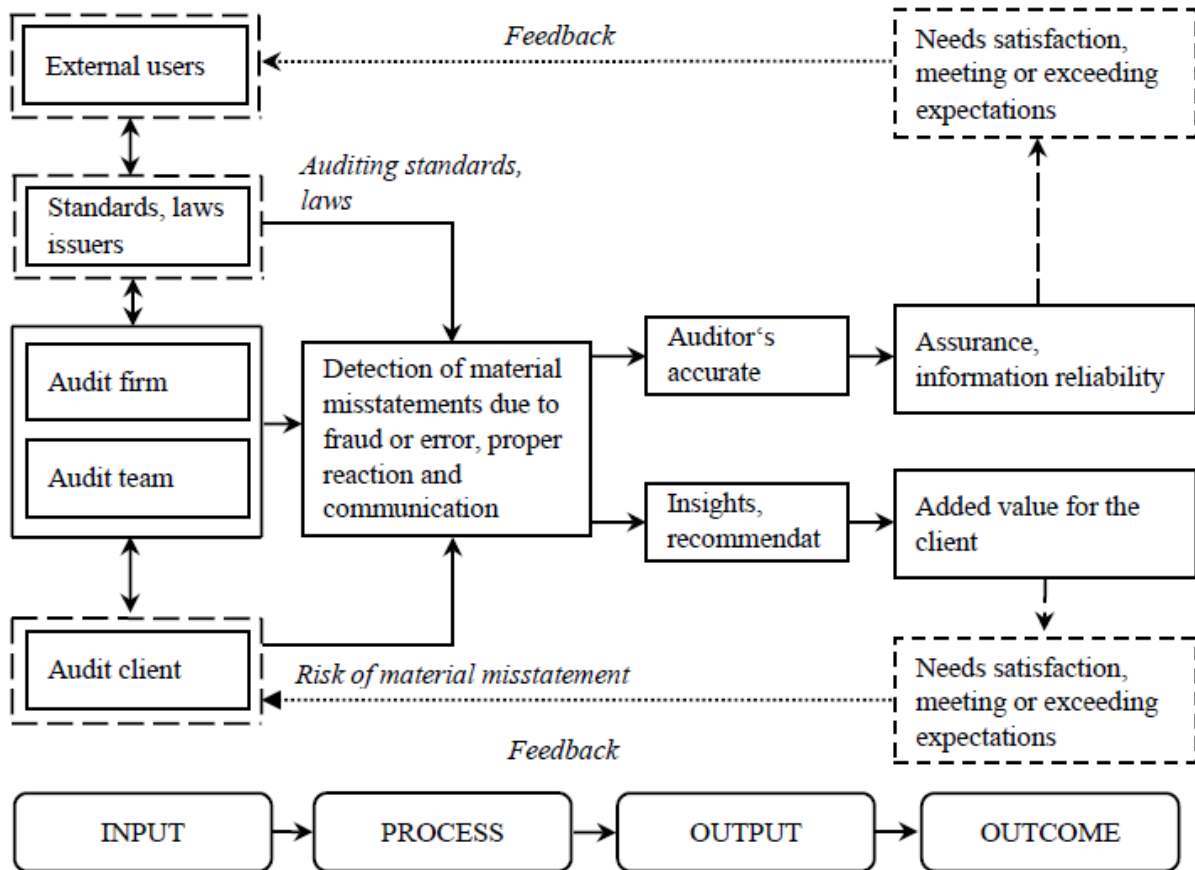


Figure 01: U.K.’s Financial Reporting Council: Audit Quality Framework (Source: FRC, 2008 as quoted in Knechel, Krishnan, Pevzner, Shefchik, Velury, 2013).

This figure hallmarks five fundamentals essential for identifying the strength of audit quality. Audit firm culture is an organization-related framework designed to highlight how an audit firm uses its own culture and various aspects of personal and organizational setting to influence on the competitive strength of their employees. For example, if an audit firm provides a regular training and development sessions to their employees for enhancing their technical and audit skills while carrying out their audit engagements, this would highlight the audit firm’s culture is enabling the auditors to sharpen their audit skills so as to improve their audit performance and audit quality as well (O’Donnell and Schultz, 2003).

The second important factor is skills and personal qualities of partners and staff members (Knechel, Krishnan, Pevzner, Shefchik, Velury, 2013). After receiving a regular audit-related training and development sessions, it becomes the responsibility of the auditors to put their best efforts for obtaining the objectives relating to their audit engagements and processes (O’Reilly, Leitch and Wedell, 2004). If the auditor is capable enough and is willing to put the audit knowledge into practice, this would considerably improve their performance and audit quality because the purpose of providing audit training is to enhance their audit skills and technical know-how essential for conducting a professional audit work. On the contrary, if the auditors find it difficult to apply the audit knowledge, this would not help them detect and prevent material misstatements and violations of auditing standards. Consequently, this would seriously raise questions about the credibility of the audit firm and their nature of audit quality as well (Peecher and Piercey, 2008).

At the same time, both reliability and usefulness are two important considerations for investors and shareholders (Chang, Gygax, Oon, and Zhang, 2008). Whenever an investor decides to look for a lucrative investment stock, among other things, the investor tries to obtain the official copies of the audited financial statements as this enables to understand the true nature of the current financial statements. In the audited financial statements, it is comparatively easier for an investor to read and understand the financial position and performance of an entity. This critical appraisal of financial statements help identify whether the company would be an ideal entity for the purpose of future investment or it faces various types of financial risk, market risk, foreign exchange risk, political risk or any other type of risk (Pincus, 1989). At the same time, this evaluation would help investors to see whether the external audit firm has expressed their opinion about the true and fair view of the company’s financial statements. If the audit firm has mentioned no red flags about the company and its internal controls and substantive procedures, this would indicate a financially and operationally strong performance of the company (Pincus, 1989). As a result, this would encourage many investors to change their mind and consider the company as a lucrative investment for generating a reasonable or expected level of returns in future.



Graph 02: Audit Quality Framework (Vaicekauskas & Mackevicius, 2014).

IV. Indicators Of Audit Quality

4.1 Overview

Audit quality indicators highlight how they are important for pointing out the significance of audit quality. Professional skepticism, professional expertise, and professional experience are three major inputs indicating three features of audit quality inputs. Here, professional skepticism remains an important element as an auditor is required to apply this judgmental tool while collecting audit evidence. Similarly, professional experience and professional expertise collectively reflect how an auditor must possess them and apply them for obtaining audit evidence to satisfy their audit objectives. Additionally, the processes include risk assessment and the quality of audit evidence as both collectively and individually indicate how they are relevant and required for collecting an audit procedure. At the same time, they also point out how they are associated to audit quality as well.

4.2 Inputs

Professional skepticism is highly correlated with audit quality (Chen et al., 2009). Professional skepticism can be simply defined as a way not to accept the perspective of client and their related documents; instead, putting one's professional judgment to evaluate and understand the hidden truth behind any suspicious transactions and activities as well (Johnson, 2016). For example, if an auditor conducts an audit process by implementing more audit procedures and surplus audit activities for identifying material misstatements and violations, this would generate additional and reliable audit evidence that would increase audit quality (Hurt et al., 2008; Bernardi, 1994.; Shaub and Lawrence, 1996). At the same time, if the same auditor is easily willing to understand and accept the perspective of clients and their provided audit evidence, this would not be helpful in detecting fraud and material misstatement as the attitude of the auditor is not professional enough to unearth all those factors and audit evidence sufficient enough to detect material deviations and misstatements as well.

Professional expertise is another important input element affecting audit quality (Mednick, 1990). Before joining an audit firm, a prospective auditor is required to pass various technical examinations and other tests essential to test and improve the audit-related technical competency and professional level. For example, Certified Public Auditor, and other related local and international certifications are additional examples highlighting the importance of professional knowledge and qualifications. At the same time, if an auditor has

timely qualified a professional auditing course and has also received a certification, this would enable the auditor to become a part of an audit firm for providing their audit services to their clients.

Professional experience is another valuable input element essential for improving audit quality (Saha and Roy, 2017). After obtaining an audit-related qualification, an auditor is required to conduct various audit engagements where he applies all of his theoretical and conceptual frameworks for understanding and evaluating the performance of internal controls and other risk-related transactions and activities as well. However, in the beginning, it is rarely possible to apply and detect material misstatement because the auditor requires the support of experience so as to improve his audit-related estimations and judgments. Additionally, the client's workplace environment, their compliance with the local and international laws and regulations are some of the additional factors that are highly essential for the new auditor to understand properly before going to apply audit tests and audit procedures as well (Suyono, 2012). As a result, after a few years, the auditor improves his audit performance as the audit experience has considerably improved and encouraged the auditor to understand how clients use their accounting and other managerial activities to comply with local and international regulations. Overall, this level of understanding is crucial as it improves audit quality and the professional performance of the auditor as well.

4.3 Processes

Risk assessment is highly correlated to audit quality (Beasley, Clune, & Hermanson, 2005). Fundamentally, risk assessment consists of three broad activities: Identification, analysis and management of risk (Knapp, 1991). In the first process, it is the prime responsibility of an auditor to detect and identify risk and its presence (O'Donnell and Schultz, 2003). For example, if an auditor observes that their client is not using close-circuit cameras for monitoring the activities of their warehouse staff workers; this situation could increase the risk of theft and other similar operational risk-related challenges for the client. After detecting this major system failure risk, it becomes the responsibility of the auditor to mention this risk in their report. At the same time, the auditor must analyze this risk and figure out its various ramifications for the client and their business activities (Pincus, 1989; Peecher and Piercey, 2008). Without highlighting and mentioning the potential issues that could be caused by the absence of close-circuit cameras in the warehouse, it would be very difficult for the auditor to justify their perspective and its importance. Subsequently, the auditor must suggest certain recommendations for managing the risk. For instance, the auditor could recommend installing close-circuit cameras at the crucial positions inside the warehouse. At the same time, 24 hour monitoring of the warehouse would be essential for detecting any theft activity and other suspicious communications between the warehouse workers.

The quality of audit evidence also affects audit quality (Enofe, Mgbame, Efayena, & Edegware, 2014). Auditors always want to see whether systems and risk management procedures are strong enough to prevent, detect, and control any risk from affecting the performance of client's system. In other words, auditors are not hired to only try to find system failures so as to improve their public image and performance in the industry, but they are hired to evaluate whether their client's system is fully complying with their local and international regulatory regimes and their specific and general requirements as well. As a result, to prove and validate their perspective, auditors are required to substantiate their perspective through the support of audit evidence (Johnstone, Gramling, & Rittenberg, 2013). There are various types of audit evidence that are highlighted and presented by auditors. For example, if a company has not separately provided a job description to their human resource manager and sales manager and only one person is mandated to look after the functions of both departments, this could seriously affect the performance of sales department because the role of a sales manager is to ensure attaining monthly and annual sales target. Under this situation, the sales department has failed to achieve their annual sales target and has submitted their report to the human resource department and the human resource department has misplaced the report, this would seriously affect the performance of both departments. Under this situation, the auditor would detect and identify that it is inappropriate to assign the responsibility of both departments (i.e. human resource and sales departments) to the same person. This identification represents the audit evidence as it does not allow the client's both departments to work professionally and smoothly as well.

Inputs and processes are two important audit quality indicators. Inputs include professional skepticism, professional expertise, and professional experience. Audit quality is directly linked to professional skepticism. Here, it is necessary to point out that higher the level of professional skepticism, the more improved audit quality would be. This type of mindset is important as it reduces the audit errors besides increasing audit quality. However, without developing an effective and professional auditing judgment, it would be very difficult to extract maximum benefit from this approach. At the same time, professional certifications improve professional expertise of auditors. Various certifications, including Certified Public Auditor, have been designed in a way that helps current and potential auditors to experience a considerable increase their level of judgment. Consequently, that would enhance their level of professional expertise. In the same context, relevant

professional experience is another audit quality indicator that empowers an auditor to improve audit quality through their personal experience and understanding of different audit environments.

Risk assessment is an important process for evaluating and understanding audit quality. Risk detection is an important part of risk assessment and that can be avoided, if an auditor uses close-circuit cameras for substantiating their certain audit assertions. Similarly, the quality of audit evidence can be better understood if a client has put in place strong controls in their business operations that can be considered as highly reliable, enabling the client to prevent and detect various types of related risks.

4.4 Outcomes

Audit report remains an important source for audit quality (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). After conducting various audit engagements and audit procedures, an auditor develops an audit report in which various elements, risks, going concern concept, strategic accounting and other policies are taken into account. Subsequently, the auditor expresses their opinion on highly risky transactions and policies and on overall outlook of the financial statements. If the auditor has found material deviations and misstatements, this would force the auditor to give a qualified audit opinion relating to the financial statements. In contrast, if the auditor is unable to detect any significant and material misstatements during their audit procedure, this would convince them to issue an unqualified audit opinion for their client's financial statements. However, in case of certain minor or some major irregularities are found, the auditor is legally mandated to give a qualified audit opinion but he has to restrict the scope of the qualified audit opinion so as to ensure the integrity of the overall financial statements and their individual segments as well (Peecher and Piercey, 2008). However, auditor's report is of little value as it does not satisfy the expectations of all users (Church et al., 2008). Here, the perspective of Church et al., (2008) is worth elucidating. For example, there are various users who find it difficult to understand each and every part of an audit report because they lack accounting and auditing understanding of basic terms and their practical applications. Under this situation, it becomes very difficult, especially for new investors, who plan to enter into the field of investment. At the same time, the quality of an audit report becomes unimportant as it fails to fill "information gap" (Mock et al., 2013). This information gap encompasses elements, such as sample size, level of materiality used in different sample sizes used for evaluating different audit assertions and expectations; audit partner's names, and other related aspects (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013).

Regulatory reviews of audit firms also highlight the importance of audit quality. The Public Company Accounting Oversight Board (PCAOB) is legally mandated to overview and review the performance of various public and private firms as they are authorized to impose a fine in case of poor audit performance and quality of the audit firms (DeFond, 2010). When an audit firm is unable to satisfy the quality benchmark set by the regulatory institutions, this forces the regulatory bodies, such as the PCAOB, to look into the matter for determining the type of fine relevant and appropriate for the audit firm. Subsequently, if the audit firms know and understand that they would be penalized for their inappropriate and unprofessional conduct, this would certainly convince and force them to put their best auditing efforts for improving their audit quality (Peecher and Piercey, 2008). As a result, it has been observed and experienced that the audit firms have improved their audit-related performance by reporting a fewer auditing insufficiencies over the course of last decade (Church and Shefchik, 2012).

4.5 Context

Lowballing retains a negative correlation with audit quality (Dopuch & King, 1996). Lowballing can be simply defined as a process of accepting lower audit fee in return for providing a diminished audit quality (Dopuch & King, 1996). For example, in an audit market, for a firm hiring and employing more than 50 employees, \$500,000 would be charged as an annual audit review fee. In other words, this is a norm that is blindly followed by the all existing audit firms. In the same audit market, a new audit firm has just launched their auditing services and has approached one client, employing more than 50 employees, and accepted to conduct their annual audit for \$400,000. This difference between the normal audit fee \$100,000(\$500,000-\$400,000) practically defines the concept of lowballing. Generally, this type of audit practice is not legally allowed as it severely affects the auditing norms and practices. Additionally, in the highlighted example of lowballing, it is highly likely that there is a high risk of collusion between the audit firm and the client because they both have clearly violated the general norm of receiving and offering the normal audit fee of \$500,000 for such clients.

Abnormal audit fee also negatively affects audit quality (Stanley, 2010). In certain situations, clients are more than willing to offer and provide above-average and above-market audit fee to their audit firm. This type of tendency is common when a client is desperate to get an unqualified audit opinion. This level and type of desperation only occurs when the client has something to hide from the eye of public or from their investors and shareholders because they know that if they are able to hide their financial irregularities from their shareholders

and investors, it would become easy for them to continue their business as usual. For this, they are generally required the support from their auditors. And the best way to obtain an unqualified audit opinion is to offer a higher audit fee to their audit firm. Under this situation, if the audit firm decides to accept their higher audit fee, carries out their audit and concludes the audit report by expressing their unqualified audit option, this would severely affect the audit quality of their financial statements (Stanley, 2010). Here, it is vital to highlight that the client has already violated various accounting and other regulatory provisions; subsequently, the auditor has tried to cover it up by expressing their unqualified audit opinion. Under this situation, it is highly likely that the audit quality would not satisfy their quality benchmarks because the client had already breached various regulatory conditions and requirements and it has only used the audit firm and their audit report to hide their financial misstatements from the eye of their investors and shareholders. As a result, this type of behavior and practices has severely affected the audit quality of the financial statements of the client ((Dopuch & King, 1996).

4.6 Premature sign-offs

Premature sign-offs have severely affected the audit quality. Premature sign-off can be simply defined as “audit personnel signing-off on audit program steps before completing one or more of the required audit procedures” (Raghunathan, 1991, p.71). In this definition, premature signoff occurs when an auditor undermines the importance of an audit procedure by deliberating not taking or performing the required or fundamental audit steps for reaching a reasonable audit conclusions; instead, they undermine the importance of such steps by skipping them in the middle of an audit process. In other words, when an auditor does not attach a required level of importance to certain audit steps, this severely affects the audit procedure and that activity is defined as premature signoff. Past research shows auditors have deliberately signed-off various audit procedures. For example, Alderman and Deitrick (1982) carry out a primary research to investigate the presence and tendency of auditors to accept and apply the concept of pre-mature signoff. The subsequent results reveal 31 percent of the respondents agreed that they observe the occurrence of premature signoff frequently, highlighting the scale of premature signoff and its acceptability in the audit world. As a result, it would not be incorrect to say that the premature signoffs have really affected audit quality. Premature signoffs put a light on the internal culture weaknesses of audit firms. It has been observed that many audit firms indirectly support the practice of premature signoffs as they know and understand that their clients would not object to it or it would not be easy for them to detect and observe whether the audit firm has skipped certain essential audit procedures. In a nutshell, it would not be incorrect to say that the issue of premature signoffs has become a common auditing practice as many stakeholders, such as audit firm, client, even some time regulator, give a support to such activities. Therefore, this situation has convinced many audit firms to reduce their audit procedure and even skip essential audit steps for various reasons. For example, if an audit firm reduces its needed audit procedures, this would certainly reduce their cost per audit assignment. Since every audit firm always tries to reduce their cost per audit assignment, they use premature signoffs as a way to decrease their cost of audit.

4.7 Reduced Audit Quality Practices (RAQP)

RAQP also affects audit quality. RAQP can be defined as “... poor execution of an audit procedure that reduces the level of evidence gathered for the audit, so that the collected evidence is unreliable, false or inadequate quantitatively or qualitatively” (Herrbach, 2001: 790). Within this context, it is vital to mention that when an auditor fails to take a professional approach and interest for carrying out an audit procedure, this lack of interest results in RAQP and that subsequently affect audit quality (Herrbach, 2001). There could be various reasons behind this lack of interest. for example, if an auditor is new and has no related or prior experience of audit and he has been asked to perform complex and lengthy audit procedures, this situation would certainly discourage the auditor to perform all the necessary steps essential for satisfying the audit objectives, but he would be more willing to complete the audit assignment as soon as possible because he has lost his auditing interest essential for completing this type of audit procedure.

V. Methodology

The author has used Phenomenology as a research philosophy for collecting and evaluating the obtained data from various resources. The main benefit of this approach is that it allows a researcher to apply one’s own subjective knowledge for investigating a research problem. Various reasons justify the selection of Phenomenology as a research philosophy for answering the research questions. For example, the nature of research questions is one that can be better served by utilizing the conceptual underpinnings of the Phenomenology. For example, identifying and evaluating various definitions of audit quality can be achieved through using the secondary research approach in which the use of subjective knowledge would be highly essential to understand how numerous authors have defined audit quality and its basic components. Without using this framework, it would be very difficult to answer other research questions as well. At the same time, the

author has used a particular research strategy using Google. For example, quotation mark along with exact words was used to collect various articles, databases and books for understanding how they have defined the concept of audit quality and its basic features. For instance, the search terms, such as “audit quality” and “definition”, were mainly used for accessing various articles. Additionally, terms, such as “factors”, “premature sign-offs”, “causes”, and other related terms really helped the author to collect the required type and quality of information from various available resources. This search strategy has really paid off. For example, identifying and locating different definitions and their basic factors showed how different definitions received numerous interpretations from related experts, clearly indicating that there was no single definition of audit quality that is universally applied.

VI. Future Research

5.1 For inputs

The workplace culture and professional judgment of auditors must be researched. It has been observed that many auditors fail to develop a required level of professional expertise and professional audit-related skills. Under this situation, they find it difficult to maintain the required level of professional judgment. At the same time, among various reasons, workplace culture is one of the central causes normally associated to the underperformance of auditors and their firms as well. Therefore, it is highly recommended that the future research must focus on the relationship between the workplace culture and the professional development of auditors as they are individually and collectively related to audit quality. Till this point in time, no conclusive and comprehensive research has been carried out to ascertain whether the workplace environment improves the professional development or professional judgment of auditors as most the past research have purely focused on only auditor’s professional judgment, such as professional skepticism. Thereby, this overemphasis on the personal and professional attributes of auditor has undermined the importance of workplace culture and its correlation to the professional judgment and professional development of auditor.

The role of technology for improving audit quality must also be investigated. recently, new inventions, such as big data, and other similar advances in the field of technology has considerably improved chances for enhancing the current level of audit quality and audit practices as well. For example, till this point in time, it is common to see that an auditor still relies on a smaller sample size to test audit assertions and satisfy audit objectives. More specifically, if the auditor chooses ten percent sample size for representing its entire population, this would force the auditor to rely on the findings generated by the ten percent sample size whereas the remaining ninety percent populations would be untouched and most probably unaudited as well. Under this situation, it is highly probably that the chosen sample size may professionally convince the auditor to develop and express an unqualified audit opinion whereas the ninety percent of population contain material misstatements in the financial accounts and statements as well. Because of audit limitations and time shortage, auditors are generally forced to choose a small sample size, causing a possibility of inadequate audit procedures and risk assessment as well. Thanks to the latest technology, it has become possible to choose fifty percent or even sixty percent sample size so as to conduct various audit procedures for ascertaining whether the accounts reflect a true and fair of financial statements. Therefore, it is highly recommended that the future research must also focus on how technology would be useful for improving audit quality through its inputs and their related audit procedures and practices as well.

5.2 For processes

The impact of auditor-client negotiations on audit quality must also be investigated. Generally, it has been observed that audit report does not include any negotiations between an auditor and their client. This absence of information has serious ramifications for their relationship and subsequent audit procedures and processes. For investors and shareholders, it is highly essential to know and understand how their executive directors are using their authority to ensure and defend their financial interests while negotiating with auditors. In any negotiation, every party always tries to protect and serve their interests when they enter into a negotiation process. This type of activity is commonly pursued by companies and audit firms, but things become complex and challenging when the concepts, such as lowballing and abnormal audit fee, come forward and affect audit quality. In either case, the future research must indicate and highlight all those issues and perspectives that are normally discussed and argued by the both parties while finalizing their audit fee. Therefore, it is highly recommended that the future research must focus on how client-auditor negotiations are framed. The following questions must be considered:

Q1: How client-auditor negotiations affect audit quality?

Q2: What are the arguments that are used by both parties for supporting their related perspective?

At the same time, lowballing and abnormal fee benchmarks must be established and should be understood while evaluating and understanding client-auditor negotiations as this sort of information always

enables one to understand whether executive directors have served the shareholders' interests or their personal interests.

5.3 For outcomes

Is an unqualified audit opinion sufficient to substantiate its audit quality? The current literature on this topic does not provide enough previous research on this vital issue. Therefore, it is highly recommended that the future research must focus on how these two outcome indicators are inter-related and inter-dependent as well. At the same time, both quantitative and qualitative aspects of audit must be taken into account. Till this point in time, research has not pointed out how qualitative and quantitative audit procedures have added credibility to audit report and audit quality as well. More precisely, in certain cases, an auditor is required to select a five percent sample size that is sufficient enough to represent the remaining ninety-five percent population. This example represents the application of a quantitative audit as the auditor has used some quantitative numbers for carrying out the audit procedure. Additionally, if an auditor personally inspects the presence of fixed assets and concludes that the company's assets are present, this example would represent the qualitative aspect of the audit as it only the subjective judgment and verification of the fixed assets by the auditor. Therefore, these aspects must be researched so as to understand their impact and relationship with audit quality.

5.4 For context

Is the rotation of auditors linked to audit quality? Auditing is a life-long process as clients are generally required to comply with the regulatory requirements by producing their annual audit report to their shareholders. In other words, audit takes places ever year. Under this situation, clients are required to select and hire an audit firm for performing an external audit of their financial statements and other accounts. Therefore, it is highly recommended that the future research must focus on how the rotation of auditors is beneficial not only for clients but also for audit firms as well. Till this point in time, there is no conclusive and comprehensive research suggesting a strong link between the rotation of auditors and audit quality. In that research, focus must be given to the fact that how audit quality is affected when a client decides to change their auditor; additionally, how regulatory rotation and client-decided rotation would be useful for audit quality remains an important area for the future research. At the same time, it is also vital to research whether audit quality diminishes when a firm decides to continue working with one audit firm for numerous years.

VII. Summary And Conclusion

Audit Quality remains one of the most important pre-requisites for conducting an audit. The paper evaluates the nature of audit quality and several factors that affect audit quality on various levels of an audit engagement. By way of definition, audit quality is achieved when an auditor is capable of identifying material misstatements by applying Generally Accepted Auditing Standards and Principles that help to ensure the accuracy of the auditor's actions and report (Tuovila, 2019). Audit quality is hence, obtained by virtue of an auditor's technical competence or expertise, professional skepticism and experience. Higher levels of these factors cause auditors to identify risk factors more effectively and efficiently (Schaefer and Brazel, 2017). Along with these, risk assessment, quality of audit evidence and professional auditing judgement are other factors that have a direct relationship with audit quality. There are, however, factors such as lowballing, abnormal audit fee, premature signing-off and Reduced Audit Quality Practices (RAQP) that have a negative correlation with audit quality. When these factors are present, audit quality tends to be lower (Liu et al., 2016).

The presence of these factors makes it all the more important to improve audit quality by keeping a check on them. For the purpose of future research, it is recommended to focus on the relationship of workplace culture and professional judgement of auditors with audit quality and to determine the extent of impact these factors have in affecting the quality of audit. Role of technology, auditor-client negotiations on audit quality and rotation of auditors are few other research areas that will help improve audit quality once their relationship with audit quality are established. Research on quantitative and qualitative aspects of an audit such as an unqualified audit opinion, and the relationship of these factors with audit quality will also enable to improve audit quality in future audits.

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