

Full Length Research Paper

A study of the desirable aspects of audit firms from clients viewpoints': Some evidences of Iran

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Certainly for those companies that are free to select their auditor, there are some characteristics and criteria for selecting an auditing institution. It is evident that such characteristics and criteria can be different in any society. This study aims to identify criterion used by Iranian Companies. So, in this study we want to find some characteristics of desirable audit institution from the view of Iranian companies. In fact, here the question is, what features of audit institution can be desirable from the view of an Iranian company? In other words, an Iranian company regards what features for audit selection? The results of the study reveal that majority of the respondents agreed on the suggested selection criterion of an audit firm.

Key words: Audit firm, audit selection, Tehran stock exchange, Iran.

INTRODUCTION

In any economic events, the people try to judge or to decide. Therefore, in this course they are needed to know some information about that event. But the quality level of published information in that community should be considered (Salehi and Rostami, 2010). But what is certain is that the published information in public level should be reliability. According to the above mentioned, two categories of information can be consider (Salehi et al., 2010). These two are financial and non-financial, which in these two categories, information control and accredited financial are the main responsibilities for the auditor.

These factors have led to special attention to the auditing profession and audited institutions. Because on one hand, the community to ensure of published information, and on the other hand, the managers and agents to ensure the community pay special attention to this profession (Salehi and Moradi, 2010). Today there is a competition among institutions, it is because of the growth of professional workers and consequently audit institutions. Since in each market, it is essential to know the customers' needs and services, then it seems that it's time to recognize the audit institutions demands and

pay more attention to them.

Research problem

Auditing profession is moving in a narrow path so that any small problem can be cause of a big one. Because the auditors need to attract the customers like other economic entities, but they should able to work in independent conditions and also they should not be affected by those customers. In other words, auditors must obtain customers' satisfaction and try to state it for society, truly (Salehi and Rostami, 2009).

Now, because of numerical growth between the audit institutions and professional employees, competitive pressure increased among these institutions and unfortunately sometimes the ethical and professional principles is ignored. Because try to attract the customers lead to weak the professional ethics in relation to advertising and how to deal with customer. While the economic downturn exist in the community will affect on these conditions, negatively. The most obvious consequences of such situations are firms' tender to choice an auditor and the worst of all is the significant relationship between the auditor opinion and the type of received fees (Salehi, 2007). Since the customer satisfaction is one of the main purposes for auditors, sometimes they accept all types of demands. For

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example, in 1980s, England suffered major changes in their economic condition and those changes made tangible competitive conditions and tender by the customer. Auditors in response to this trend used determine audit fees and competitive price (Salehi et al., 2008). It means that, they came down audit fees for the early years with the hope of next years that they can reach to natural and normal surface. In this way they could attract customer. Although causal inference is difficult for this problem, but without doubt these behaviors will influence on the structure audit services. For example, increasing auditor changes and insecurity relations between audit and client are some evidences for this problem. Thus it seems that with understanding the needs of companies and their expectations of audit institutions, this problem can be more understand. Because such expectations can define how this profession work.

Several studies have conducted in developed countries. Despite of doing such research, these findings can be generalized to the other countries easily, because there are some differences between social and environmental conditions, particularly in economic and legal conditions for each society. Therefore, such research can provide different results for any different societies.

The characteristics of active companies in each community and their motives to choice or change auditor can be different from each other. So it seems that, conducting such research about auditing profession in any population is essential. Because due to competitive pressures in auditing environment and its fee issue, this profession is very sensitive. So audit institutions should be able to satisfy customer expectations constantly in this environment. It is very important and vital for the audit institutions to understand customer's characteristics.

The audit institutions as providers of service, must work based on new ideas on customer needs and expectations of companies receiving services in order to know their demands and satisfying them. Finally it can be concluded that identifying what are the employer subsequently want, for example, recognize desirable goods characteristics for consumer, is important and determinant. Although Within 30 recent years, some experimental and theoretical research carried out and theoretical framework provided in connection with this investigation but experts believe that, according to different conditions of each society, this research can be different, so it can't be a comprehensive framework. Understanding community expectations about audit institutions can be a way to identify the knowledge level and type of its standpoint to this profession. This way can provide a positive step toward carry out such researches in the country.

Literature review

Charles (1978) conducted a study regarding some criterion used to select an audit. He highlighted that clients should consider:

1. The Certified Public Accountant (CPA) firm's expertise,
2. The CPA firm's present level of involvement with the industry,
3. The firm's dedication,
4. The firm's reputation in serving to clients.

Meanwhile, Steven (1983) had come out with some guidelines helpful for credit union (CU) in selecting an auditor. They are:

1. What is the auditing firm's commitment to the CU movement?
2. Does the firm understand the duties and responsibilities of the supervisory committee and the procedures that have to be performed?
3. Is there high staff turnover within the auditing firm, and does it have liability insurance?
4. Does the firm have quality control standards and is it willing to quote a maximum fee?
5. Will the company be available for management advisory services such as financial analysis?
6. Will the company follow up on the audit findings within 90 days after the audit is completed and report findings to the supervisory committee?
7. If there is a computer system, will the firm be able to audit it?

Whittington et al. (1984) suggested that when selecting an audit firm, the client should consider:

1. Reputation of the firm,
2. Personnel assigned to the engagement,
3. Geographical characteristics,
4. Range of services provided,
5. Industry expertise,
6. Firm specialists,
7. Independence
8. Fee.

Mark (1986) offered a 4-step process as a better way for selecting a CPA firm. This process considers:

1. Industry specialization,
2. Creativity,
3. How the accounting firm fits with the client's internal culture,
4. Fairness of the fee.

Additionally, Casabona and Barbera (1987) have suggested general procedures for auditor selection. They found that of the 66 organizations responding, 50% of the 44 using independent auditors had a formalized selection process. They further said that "the public sector was found to be letting fee considerations color the evaluation of all other factors, which can cause qualified audit firms to stop competing for these audit engagements."

McLean (1991) highlighted five considerations when selecting an accounting firm, which were: industry experience, resources, audit approach, knowledge of the

local market, and price.

Addams and Davis (1992) conducted a study on Chief Financial Officers (CEOs) of public listed companies with regards to (1) the primary reasons why client changes auditors and (2) the most important factors that influence a potential client's decision in selecting a new auditor. Their findings revealed that fees are the most important reason that leads client to change auditor. Meanwhile, technical expertise, fees, communication and industry expertise as the most important factors in selecting an audit firm.

A study was made by Scott and Walt (1995) about (1) investigated which, if any, of the traditional service quality dimensions are relevant to the selection of international accounting firms in general and the six largest firms in particular; (2) identified the relationship between such factors and changes in client estimation of the accountancy service firm supplying them with service; (3) investigated whether the accounting service selection dimensions differ in importance in relation to the different services offered by accountancy firms, and (4) found out whether information sources used by accountancy firms are personal (i.e. communications from persons with whom the client has come into contract) rather than non-personal (i.e. published information). They had suggested that image as important dimensions for the selection of an accountancy services.

Finally, Peter (1996) reported that Praxair Inc. went through a 2-phase selection process. First, the company evaluated the candidates' qualifications on a global basis. Secondly, Praxair asked the remaining candidates to dig deeper into the company's operations and provide quote on what the audit would cost on a global basis.

Research hypotheses

Research hypotheses are about the importance of audit institutions' characteristics in process of audit selection.

In the following hypotheses we want to prove a significant relationship between auditor choice (dependent variable) and the main characteristics of audit institutions (independent variables). These hypotheses include:

H₁: There is a significant relationship between the ability of auditor to serve the supplemental services and auditor selection.

H₂: There is a significant relationship between approved auditor by major shareholders and auditor selection.

H₃: There is a significant relationship between expertise and familiarity with industry and the auditor selection.

H₄: There is a significant relationship between audit institution's reputation and auditor selection.

H₅: There is a significant relationship between audit

quality and auditor selection.

H₆: There is a significant relationship between the reliability and integrity of audit institutions and auditor selection.

H₇: There is a significant relationship between the timely delivery of audit reports and auditor selection.

H₈: There is a significant relationship between employer working relationships with partners of institutions and auditor selection.

METHODOLOGY

Because the aim of this study is to evaluate the desired characteristics of audit institutions from the perspective of TSE, so we hope that results of this research help audit institutions and companies; therefore, we can say that, this research has a functional goal. Since the information about literature in this research has been gathered by library methods and books and articles studying, and also a questionnaire is used to collect required data, so it based on the nature and method, is a descriptive - survey study.

Statistical population

The population in this study just limited to listed companies on TSE. According to the Iranian law, Audit Organization is responsible to audit economic units which have public domain. Whereas the freedom of companies to chose an audit for auditing is very important so this factor should be also considered in selecting statistical population. So in this research we omit those companies which audit by audit organization in accordance with the law.

Data collection

To collect necessary data, a questionnaire was used to test hypotheses of the study. Questionnaire consisted of two parts; one group of questions was related to public sector (type and education level of respondents) and other questions were related to specialized sector that used to evaluate the discussed features in the assumptions. Specialized research questions included 30 questions that are designed based on Likert Scale. The questions were closed-type questions that respondents will declare the importance rate of topic in the question. Numerical value were chosen for options from 1 to 5 (1 = unimportant, 2 = less important, 3= almost important, 4 = important and 5 = very important).

Method of data analysis

Based on a questionnaire and relationship between each question and hypothesis, the best statistical method used in this study is mean comparison single test.

Mean comparing single test: $t = \frac{d}{S_d} \rightarrow or \rightarrow t = \frac{\bar{x} - \mu_0}{S_{\bar{x}}}$

Where: $d = |m - \mu|$
 $S_d = \frac{S}{\sqrt{n}}$

Table 1. Educational background of participants.

Groups	Frequency	Frequency percentage
PhD	2	1.40
Master's degree	40	27.20
Bachelor's degree	96	65.30
Lower than B.A	9	6.10

In the questionnaire of this study the Likert spectrum is used, so respondents' confidence interval for the mean is smaller or equal than 5 and greater or equal than 1. Middle number of this interval is 3, so mean of responses will be compare with 3.

Therefore with evaluating of 95% confidence interval mean difference with number 3, hypotheses can be answered. As if the upper and lower bound of confidence interval are positive it can be concluded that the average response of individuals is more than 3, and considered element has a positive effect on Auditor selection. If the upper and lower bound of confidence interval are negative, it can be concluded that the average response of individuals is less than 3, and considered element has a negative effect on Auditor selection. If the upper bound is positive and lower bound of confidence interval is negative, it can be concluded that the average response of individual is equal to 3, and considered element has no effect on Auditor selection. Friedman test is used to ranking affecting factors.

RESULTS

Table 1 shows the frequency distribution and frequency of respondents' education status. According to the results of data analysis about the respondents' education status, it can be seen that 1.40 % of the respondents have PhD degree, 27.20% of them have master's degree, 65.30% of them have a bachelor's degree and 6.10% of respondents have lower degrees.

Comparison single-sample test

It can be said that according to the Comparison mean test in the significance level of 5%, and since sig of all factors is less than 5%, H_0 is rejected and claims of mean inequality with number 3 is approved. And generally, all the achieved assumptions due to smaller sig (significance level) in comparison mean test of considered error rates (sig <0.05) and it is confirmed with regard to confidence intervals with positive upper and lower bound.

H₁: There is a significant relationship between the ability of audit in the complementary services and auditor selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the first row of the Table, interpretation of T-test results of equal mean with number 3 (sig. <0.05) indicate that zero assumption is rejected and the claim of

inequality mean with number 3 in error level of 5% are accepted. If the claim of equal mean with number 3 was accepted, the lack of relationship between two variables is confirmed. Confidence interval for mean difference between the two groups is calculated as follows:

$$4.3120 < \mu - 3 < 4.5656$$

$$0 < \mu - 3 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with 3, it can be said that the mean of population is more than 3 and the claim of researcher based on the effect of audit ability in presentation of complementary services on auditor selection is confirmed in 95% of confidence interval and because the considered mean is bigger than number 3, this effect is positive.

H₂: There is a significant relationship between confirm auditor by third persons and auditor selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the second row of the Table, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% are accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.0977 < \mu - 3 < 3.3422$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with 3, it can be said that the mean of population is more than 3, so the claim of researcher based on the effect of confirming auditor by third persons on selection auditor in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

H₃: There is a significant relationship between expertise and familiarity with the employer industry and auditor selection.

Table 2. Summary of testing of hypotheses.

Hypotheses	Independent variable	Dependent variable	Chi square amount	Sig.	df	Confidence interval for 95% mean difference		Results
H ₁	ability of audit in the complementary services and	auditor selection	69.192	0	146	4.5656	confirmed	confirmed
H ₂	confirm auditor by third persons	auditor selection	52.058	0	146	3.3422	confirmed	confirmed
H ₃	expertise and familiarity with the employer industry	auditor selection	46.052	0	146	3.2068	confirmed	confirmed
H ₄	reputation of audit institution	auditor selection	40.58	0	146	3.8649	confirmed	confirmed
H ₅	audit quality	auditor selection	50.565	0	146	3.5155	confirmed	confirmed
H ₆	reliability and integrity of audit institutions	auditor selection	38.787	0	146	2.9336	confirmed	confirmed
H ₇	timely delivery of audit reports	auditor selection	45.379	0	146	3.4477	confirmed	confirmed
H ₈	working relations of employer with partners of audit institutions	auditor selection	44.782	0	146	3.5136	confirmed	confirmed

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the third row of the Table, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% is accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.9429 < \mu - 3 < 3.2068$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with 3, it can be said that the mean of population is more than 3, so the claim of researcher based on the effect of expertise and familiarity with the employer industry on auditor selection in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

H₄: There is a significant relationship between the

reputation of audit institution and audit selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the fourth row of the Table 2, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% is accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.5059 < \mu - 3 < 3.8649$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with number 3, it can be said that the mean of population is more than 3, so the claim of researcher based on the effect of the reputation of audit institution on auditor selection in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

H₅: There is a significant relationship between audit quality and auditor selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the fifth row of the Table, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% is accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.2510 < \mu - 3 < 3.5155$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with number 3, it can be said that the mean of population is more than 3, so the claim of the researcher based on the effect of audit quality on auditor selection in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

Table 3. Result of hypotheses.

The number of data for each variable	The number of factors	Chi square	df	Sig.	Conclusion
147	8	373.848	7	0.000	Confirmed

Table 4. The rank of effective Factors on audit selecting in Friedman test.

Factors	The mean of rank
ability of audit in the complementary services	7.40
expertise and familiarity with the employer industry	5.47
reliability and integrity of audit institutions	4.57
audit quality	4.42
timely delivery of audit reports	4.23
confirm auditor by third persons	3.94
reputation of audit institution	3.44
working relations of employer with partners of audit institutions	2.55

H₆: There is a significant relationship between the reliability and integrity of audit institutions and auditor selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the sixth row of the Table, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% is accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$2.6492 < \mu - 3 < 2.9336$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with number 3, it can be said that the mean of population is more than 3, so the claim of the researcher based on the effect of reliability and integrity of audit institutions on auditor selection in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

H₇: There is a significant relationship between the timely delivery of audit reports and audit selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the seventh row of the Table 2, interpretation of T- test results of equal mean with number 3

(sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% is accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.1600 < \mu - 3 < 3.4477$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with number 3, it can be said that the mean of population is more than 3, so the claim of the researcher based on the effect of the timely delivery of audit reports on audit selection in 95 % of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

H₈: There is a significant relationship between working relations of employer with partners of audit institutions and audit selection.

$$\begin{cases} H_0: \leq 3 \mu \\ H_1: > 3 \mu \end{cases}$$

According to the eighth row of the Table 2, interpretation of T- test results of equal mean with number 3 (sig <0.05) indicate that zero assumption is rejected and the claim of inequality mean with number 3 in error level of 5% are accepted. Confidence interval for mean difference between the two groups is calculated as follows:

$$3.2166 < \mu - 3 < 3.5136$$

$$\mu - 3 > 0 \rightarrow \mu > 3$$

According to the above results for the mean confidence interval difference of population with number 3, it can be said that the mean of population is more than 3, so the claim of the researcher based on the effect of working relations of employer with partners of audit institutions on audit selection in 95% of confidence interval is confirmed and because the considered mean is bigger than number 3, this effect is positive.

Components priority

In order to Components Priority, Friedman test was used in this research.

H₀: Priorities of effective factors are same on auditor selecting.

H₁: At least two priorities are different

In order to prioritize the effective factors, at first we evaluated H₀ and because sig is less than 5% (the amount of considered error), so H₀ assumption that is equality of priorities has been rejected and H₁ assumption that is not equal priorities will be confirmed. The results of Friedman test for evaluating equality of effective factors on audit selecting improvement (Table 3).

According to chi square of two, its degrees of freedom statistic and the amount of significant level on audit selection effective factors (sig =0.000), and considering $\alpha=0.05$, equality of averages is rejected, then in this way we can analysis the results of prioritize based on averages of rank of variable. It shows in Table 4.

Conclusion

This study found that majority of the respondents agreed on the suggested selection criterion of an audit firm.

Audit institutions as Kind of providers of service, must know needs and expectations of receiving services companies based on new idea of customer satisfying in order to satisfy their demands.

In this study, only the views of companies in TSE were investigated. In future researches the scope of study could be expanded and vision of other users such as actual and potential investors, creditors, employees, government and financial experts, even all social categories can be analyzed.

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