

# Auditors' Characteristics Audit Quality and Auditors' Job Satisfaction

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## Abstract

The aim of this study is to investigate the relationship between auditors' characteristics such as independence, work experience and accountability with audit quality and also investigate the relationship between audit quality and auditors' job satisfaction. This study applies survey method and for developing conceptual framework, library method and for collecting data, field method is used. This study utilized the questionnaires which are distributed among auditors in audit organization and other audit firms. For testing the research hypotheses, 149 questionnaires are collected and analyzed. The results show that there is not any significant relationship between auditor independence and audit quality. But, auditor work experience and accountability have effect on audit quality. Moreover, the results indicate that audit quality affects auditors' job satisfaction.

**Keywords:** Auditor independence; Auditor work experience; Accountability; Audit quality; Job satisfaction.

## 1. Introduction

Independent auditing is one of the important business function that plays a major role in supporting the quality of financial reporting across the world, both in the public sector and in the private sector. In fact, it is an important part of the institutional monitoring, and it is based on the public interest. Therefore, audit quality is considered to be the most important issue for audit standards setting process. According to the Audit Quality Board, the audit profession has not been able to take steps in a rapidly manner like changing environment. They emphasize that more researches has to be done to assess the factors affecting the audit quality. The quality that determines the audit function depends on several factors, such as: the auditor's abilities (including knowledge, experience, adaptive power and technical efficiency), and professional performance (including independence, objectivity, professional care, conflict of interests, and judgment). The audit quality structure is multidimensional but intangible, so it is difficult to measure it. Since, many factors affect the audit quality, developing the framework for determining the audit quality is important (Ansari *et al.*, 2012). Following the financial scandals of companies and financial crises over the past two decades, the auditors and audit quality are under the question. In Iran, after the discovery of bank fraud in 2011, some experts have claimed that the audit failure is happened (Hasas and Madahi, 2009). After the financial scandal of Enron and WorldCom in 2001, the United States forced 233 companies to redeem their financial statements due to fraud detection in their financial statements. In response to these events, legislators have made some changes to the agenda. For example, in 2007, the US Business Advisory Committee was established to consult the Treasury Department on the audit profession. In 2008, the UK Financial Reporting Board released a report entitled "Audit Quality Framework". The Australian Treasury reported the "Audit Quality in Australia - A Strategic Review" in 2010. These developments reflect dissatisfaction with the quality of auditing and the role of auditors and auditing (Kilgore *et al.*, 2011).

Job satisfaction reflects the tendency and emotion that people have about their jobs. In other words, job satisfaction reflects the response that individuals show by comparing actual achievements and expected achievements with respect to their job. Auditors' Job Satisfaction is one of the important issues in audit firms, because improving the auditors' job satisfaction can provide a basis for increasing their productivity and thereby helping audit firms achieve their goals. Although, various factors can affect the job satisfaction of novice auditors, but "how to guide auditors," "providing proper working conditions" and "proper division of work by supervisors" can be the most important of these factors which is recommended in statement No. 4 of the Commission on Change in Teaching American Accounting (Accounting Commission, 1993). The American Accounting Association has also set standards to improve the audit quality, so that the implementation of these standards will lead to higher quality audits and, as a result, increase the soundness of financial statements. However, the audit quality and determining the factors influencing quality will continue to be considered, so that the quality of financial statements and their reliability increases more and more. Therefore, considering the controlling role of auditors and the existence of different levels of audit quality on the one hand, and the existence or absence of auditors' job satisfaction and its impact on audit quality, and on the other hand, the individual characteristics of auditors cause different issues in the preparation information and financial reports. Therefore, the main objective of this research is to investigate the

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relationship between auditors' individual characteristics such as auditor's independence, auditor's experience, auditor's accountability with audit quality and job satisfaction of auditors.

## **2. Literature Review and Research Hypotheses**

Audit quality is in particular a complex and multifaceted concept. One of the most commonly used definitions of audit quality is the definition by DeAngelo (1981). She defined the quality of the audit as follows: "The market assessment of the probability that the auditor will detect material misstatements and report material misstatements of financial statements". In fact, the first dimension of the audit quality definition emphasizes the auditor's ability and experience and knowledge and the second dimension emphasizes the auditor's independence.

The factors that can affect the audit quality from the both dimensions of De Angelo's definition are individual characteristics such as work experience, accountability, and independence. Experience in a field is to deal with a specific case that provides an opportunity to acquire knowledge in the storage and knowledge of the subject. The auditor's experience has an undeniable effect on the auditors' judgment. Experience increases the ability of the auditor to process information and makes various solutions in specific situations. Also, the experience creates a structure for the auditor's judgment that these structures provide better decision-making and better information interpretation (Kelley *et al.*, 2011).

Researches show that auditors with industry specialization have two major reasons for higher audit quality. First, familiarity with the accounting and auditing problems of those industries due to the continuous auditing and second, the motivation to earn reputation in that specific industry group. Recent researches suggest that there is a positive relationship between the auditors' industry specialization and the quality of the audit report. In other words, auditors who are specialized in specific industry are more capable of identifying and dealing with the specific problems of that industry. Additionally, as the audit firm gains more experience in the industry, it will be more interested in providing superior quality audit services because of its positive reputation. Abdolmohammadi and Wright (1987), compared the experienced and inexperienced auditors. The results show that novice auditors follow uniform patterns in a variety of control situations, and that experienced auditors remember patterns of error situations and probabilistic controls from their experience, while novice auditors have no such ability. Libby and Frederick (1990), investigated the relationship between audit experience and audit quality and the results show that there is a direct relationship between audit experience and audit quality. This means that the more experienced auditors have a deeper understanding of the financial statement's mistakes, and the decisions of these auditors have higher quality. Marcella (1995), investigate the impact of various factors, including employment in the private or public sector, the size of the company, the size of the working groups, the level of company technology, experience, level of education, age, gender, and occupational status on the ethical standards of the independent auditors. The results show that age and work experience are factors influencing the ethical standards of independent auditors. Paino *et al.* (2012), evaluated the influence of the professional code of ethic and experience on the auditor's judgment. The results indicate that the presence of professional code of ethic affect the quality of auditors' judgment, but not on students. Kasaei and Hematfar (2016), explore the effect of audit experience on the quality and cost of auditing of listed companies on Tehran Stock Exchange. The results show that there is a significant relationship between audit experience and quality and audit costs. According to previous research results, the first research hypothesis is as follows:

*Hypothesis 1: From the independent auditors' viewpoint, there is a positive relationship between auditor's experience and audit quality.*

The second dimension of the DeAngelo (1981) audit quality definition emphasizes on auditors' independence. In the Statement of auditor independence (Conceptual Framework, 2002), the independence is defined as, "escape from the pressures and other factors that eliminate the auditor's ability to make an inalienable decision". Watts and Zimmerman (1986), argue that if the auditor is not independent from client, his view does not add to the credit of financial statements. Therefore, preservation of independence for auditors is crucial. Rahmina and Agoes (2014) examined the effect of auditor's independence, tenure, and audit fee on audit quality. This research was carried out using the primary data collected by distribution of the questionnaire. The results show that independence, tenure and audit fee have positive effect on audit quality. Krooki and Zayandehroodi (2015), examined the effect of auditor's size and independence on audit quality. The research was a survey-field and results indicate that there is a significant relationship between audit quality and auditor's independence and auditor's size. Therefore, the second hypothesis of the research is as follows:

*Hypothesis 2: From the independent auditors' viewpoint, there is a positive relationship between auditor's independence and audit quality.*

Other personality characteristic that may affect audit quality is the auditor's accountability. According to Vejenkins, accountability means the existence of a commitment to respond to responsibilities. The accountability responsible is a duty in which auditors provide convincing explanations and reports in the form of audit report. Therefore, accountability responsible has two aspects such as, the obligation to perform a specific task called responsibility, and a requirement to explain and expedite how to perform responsibility by providing the necessary reports based on rational and reliable reasons for accountability (Babajani, 2003). The accountability and transparency are the basic requirements of auditors to represent borrowing, credibility and authority. Accuracy, transparency and accountability in each section of the auditor's ranking have a positive effect on the reduction of corruption. Etemadi and Jabari (2008), investigate the effect of accountability on audit quality. The data collection tool was a questionnaire and the statistical population include supervisors and senior auditors working in the audit firms and the audit organization. The result show that with increasing the level of accountability in the evaluation

stage, the results of audit work lead to an increase in the level of conservatism, the effort and objectivity of the auditor's judgment, but does not affect the level of objectivity and conservatism of the auditor's judgment at the planning stage. According to Donnelly *et al.* (2006), auditors have a sense of loyalty in long periods of time working with the firm, which in turn increases the accountability and competence of auditors to conduct a quality audit. Therefore, the third hypothesis of the research is as follows:

*Hypothesis 3: From the independent auditors' viewpoint, there is a positive relationship between the auditors' accountability and audit quality.*

Human recourse is an important factor in the success and development of any organization and the organizations will not be able to achieve their goals without them. It is necessary to utilize the available human resources and capabilities of talent, favorable atmosphere, appropriate motivation and job satisfaction. Job Satisfaction is defined as an attitude that individuals have toward their jobs and are the result of their perception of the job and the degree of appropriate co-ordination between the individual and the organization (Ivancevich and Matteson, 1980). The main determinants of job satisfaction are divided into internal and external factors. Internal factors include personality, values, cognition, etc., and external factors include payment, physical working conditions, hours of work, and job security. Although various factors can affect the job satisfaction of auditors, but according to past researches, the proper division of work, the provision of appropriate working conditions, and guidance of auditors can be the most important factors. Audit firms spend a lot of money to hire and train employees, but auditors decide to leave their jobs after a short period of time. In other words, the more motivation and willingness of individuals to continue working, they will have more job satisfaction. The attention of supervisors and managers to the auditors' feelings towards the work environment can help to establish a proper working relationship (Kashi and Gharebaba, 2016). Increasing job satisfaction makes auditors more motivated by their responsibilities and more willing to detect and report mistakes, so audit quality will increase. Heller *et al.* (2000), concluded that the job motivation will increase job satisfaction as individuals consider their work meaningful and enjoyable, and also the person tends to stay in a job that makes him satisfied and leave a job that makes him dissatisfied. Kashi and Gharebaba (2016), investigated the relationship between leadership styles and job satisfaction among auditors working in audit firms. The results show that among the four leadership styles studied (grammatical, argumentative, participatory, and contextual), the grammatical style significantly related with job satisfaction. Moreover, the job satisfaction in men is more than women and is more in married auditors. The fourth hypothesis of the research is as follows:

*Hypothesis 4: From the independent auditors' viewpoint, there is a positive relationship between audit quality and auditors' job satisfaction.*

### **3. Research Methodology**

The present research is a behavioral research and in terms of purpose is an applied research. Also, according to the method, this is a descriptive-survey study. The statistical population of this study consists of all auditors working in the audit organization and private auditing firms. Since the official statistics of the number of auditors in the audit firms and audit organizations are not available, the number of statistical population is assumed to be uncertain. According to the kukran formula, the sample size is about 170. Therefore, 500 questionnaires are distributed among the members of the population and 171 questionnaires are collected and finally 149 questionnaires are used for analysis.

In this research, data are collected using a questionnaire tool. The research questionnaire consists of 6 sections. The first part shows personal information, including age, gender, work experience, and degree of education, as well as the type of audit firm in which the auditor is working. The second part of the questionnaire is measured the audit quality (Questions 1 to 10) and the third part is measured auditor's independence (Questions 11 to 20). Section four also is measured the auditors' experience (questions 21 to 33) and the fifth part is measured auditors' accountability (questions 34 to 36) and last section is measured auditors' job satisfaction (questions 37 to 50).

### **4. Validity and Reliability of the Questionnaire**

In this study, the content validity is tested by the professors of the university with the experience of the audit work. As a result, their comments and suggestions are applied and then the questionnaires are completed by 30 randomly selected auditors. Using the output of the LISREL software, Cronbach's alpha is extracted to assess the reliability of the questionnaire. The amount of Cronbach's alpha for the 30 samples examined is 0.87, indicating a high reliability of the questionnaire.

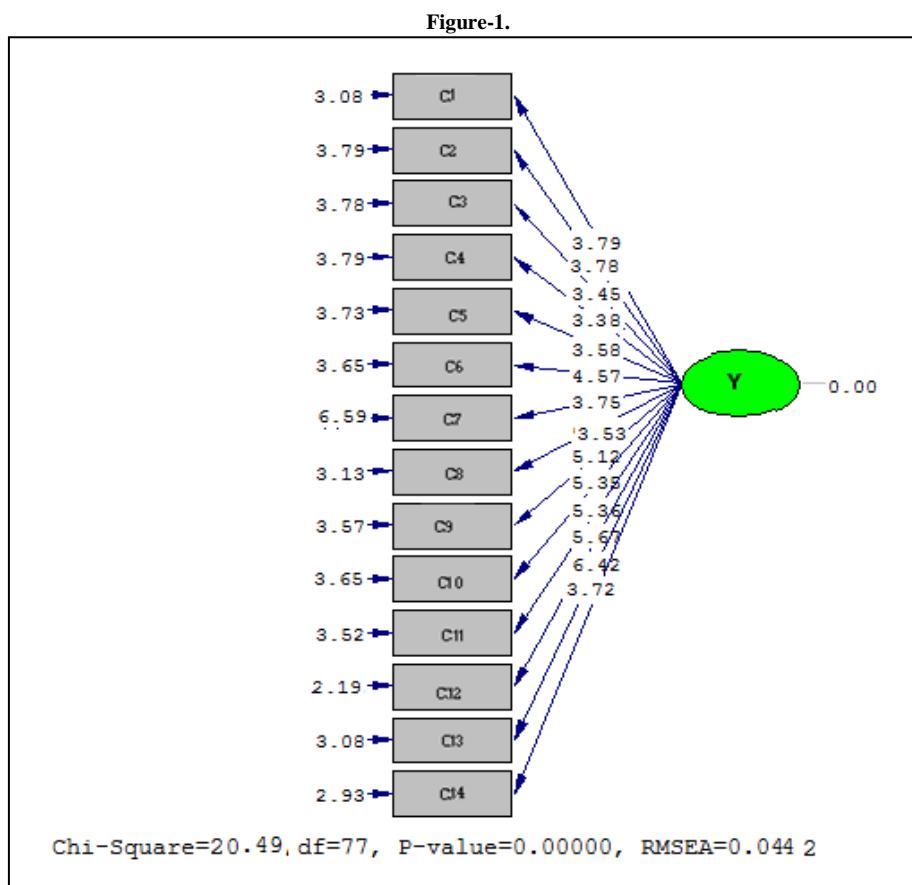
In addition, using factor analysis method, the ability to measure variables by questionnaire is examined by LISREL software. Table 1 shows that for RMSEA the value is 0.055 and because it is small value (less than 0.08), then the model has a minor error. The residual mean square root (RMR) equals 0.031 and is a small amount that indicates acceptable fit. The ratio of the chi-square to the degree of freedom is 2.28 and it is between 2 and 3, and also indicates that the fitness of the model is appropriate. The fitness index (GFI) is about 0.94 and close to one. The values of AGFI and PGFI are 0.92 and 0.83, respectively are close to each other. The IFI, CFI indexes are also above 0.9 and close to one. The NFI, RFI, PNFI, NNFI indexes also have good values and all indicate the utility of the measured model. It can be said that questionnaire sentences measure accurately the research variables.

Table-1. The Fitness of Measuring Research Variables

Index		Value
Chi Squared		9.14
Degree of freedom		4
Chi Squared / Degree of freedom		2.28
Root Mean Square Error of Approximation	RMSEA	0.055
Root Mean Square Residual	RMR	0.031
Goodness of Fit Index	GFI	0.94
Normed Fit Index	NFI	0.94
Comparative Fit Index	CFI	0.97
Relative Fit Index	RFI	0.82

In estimating factor loading, the main variables of the research are illustrated with the symbols "F1 for Auditor Independence, F2 for Auditor Accountability, F3 for Job Satisfaction, F4 for Auditor Work Experience and Y for Audit Quality".

It is illustrated in Figure 1 that the values of T-statistics in the paths of the confirmatory factor analysis model are big amount and their absolute magnitude is more than 1.96. Therefore, the all values of factor analysis (coefficients) at the 0.05 error level are meaningful.



### 5. Research Results

Based on research data, 66.4% of respondents are male and the highest number of respondents has master's degree and average age of respondents is about 30 years old. The highest frequency of respondents is 36.9% for the senior auditor and the lowest frequency is 3.4% for the audit partner, and the highest number of respondents is 32.9% who have over 15 years of audit experience and 89.9% of the respondents working in the trusted auditing firms of the stock market.

In addition, the results of structural equations, pearson correlation between research variables and t-test are presented with significant levels. Regarding the coding which is from 1 to 5, the average of responses is 3 and in the mean comparison test, it is considered the average of 3. In table 2 the results of testing normality is presented.

Table-2. The results of normality test

Variables	K-S	Sig
Auditors' Independence	0.846	0.471
Work Experience	0.823	0.507
Audit Quality	0.687	0.734
Job Satisfaction	0.679	0.748
Accountability	1.084	0.190



In order to test the research hypotheses, the path analysis method is used. Each of the paths of the structural equation model is considered as a hypothesis, and therefore the results of testing the research hypotheses are presented as follows. The results in Table (3) show that the significance level of probability of T statistics is less than 0.01 and therefore, the auditor's work experience positively and significantly affects the audit quality with a standard coefficient of 0.33. Therefore, the first hypothesis of the research is accepted.

Table-3. The results of testing the first hypothesis

From	To	S.E	T-Statistic	Sig	Evaluation
Work Experience	Audit Quality	0.23	6.62	0.00	accepted

The results in Table (4) show that the significance level of probability of T statistics is more than 0.01 and therefore, the second hypothesis of the research is not accepted.

Table-4. The results of testing the second hypothesis

From	To	S.E	T-Statistic	Sig	Evaluation
Auditors' Independence	Audit Quality	0.11	-0.94	0.08	Not Accepted

The results in Table (5) show that the significance level of probability of T statistics is less than 0.01 and therefore, the auditors' Accountability positively and significantly affects the audit quality with a standard coefficient of 0.89. Therefore, the third hypothesis of the research is accepted.

Table-5. The results of testing the third hypothesis

From	To	S.E	T-Statistic	Sig	Evaluation
Auditors' Accountability	Audit Quality	0.35	4.12	0.00	accepted

The results in Table (6) show that the significance level of probability of T statistics is less than 0.01 and therefore, audit quality positively and significantly affects auditors' job satisfaction with a standard coefficient of 0.48. Therefore, the fourth hypothesis of the research is accepted.

Table-6. The results of testing the fourth hypothesis

From	To	S.E	T-Statistic	Sig	Evaluation
Audit Quality	Auditors' Job Satisfaction	0.10	3.43	0.00	accepted

## 6. Discussion and Conclusion

In this research, the relationship between the individual characteristics of auditors and audit quality and also the effect of audit quality on auditors' job satisfaction are investigated. Individual characteristics of auditors include auditors' independence, auditors' work experience and auditors' accountability. The results show that one of the individual characteristics of the auditors include auditors' independence does not affect the audit quality, but the other individual characteristics affect audit quality and also the quality of audit has an impact on the job satisfaction of the auditors.

The results show that the auditors' work experience positively and significantly influenced the audit quality. This result is consistent with Libby and Frederick (1990) and Donnelly *et al.* (2006). It can be said that the experience of the auditor has a positive and significant effect on the quality of the audit and it increases the audit quality. This difference of quality in market is worthwhile for audit services. But, this result is contrary to the results of Agostin and Jonathan (2014) and Ashton (1990), because they concluded that the auditors' experience is not influenced audit quality. According to the results of the second hypothesis, auditors' independence does not affect audit quality. This result is consistent with the results of Park (1990), which examines the effect of competition on the independence and quality of the audit work in South Korea, but the results of this study, contrary to the results of Agostin and Jonathan (2014). They concluded that the independence of the auditor has a positive impact on the quality of the audit, the greater the independence of the auditor, the higher the quality of the audit.

According to the results of third hypothesis, the auditors' accountability positively and significantly affects the audit quality. Therefore, strengthening the accountability of auditors will strengthen audit quality. The results are consistent with the study of Agostin and Jonathan (2014), Freedman (1998) and Etemadi and Jabari (2008). It is concluded that increased levels of accountability in the assessment phase of the audit work results in an increase in the level of conservatism, effort, and objectivity of the auditors' judgment. Also, according to the results of the fourth hypothesis, audit quality has a positive and significant effect on auditors' job satisfaction. This result is consistent with the research of Inoff (2014).

There are some limitations in this research which should be considered in interpreting the research results as follows:

- One of the most important limitations of this study is to use questionnaire to collect data. Using the questionnaire for some reasons, such as the obfuscation of some of the responses presented to improve the status

quo, affects the results. In order to control this limitation, the researcher asked the respondents to declare their exact opinion regarding the anonymity and confidentiality of the questionnaires.

- The results of this research belong to the research period and may not be obtained if done at other times.

- In this research, only the opinions of independent auditors have been examined and the motivations of internal and public auditors have not been investigated. This limitation does not allow the results to be extended to other sectors and other levels of auditing.

According to the results, it is recommended to examine the relationship between job satisfaction, organizational commitment and income of audit firms in future researches. Also, in future research, the other tools such as interviews can be used to collect data and carry out this research qualitatively.

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