

Displacement impacts of auditing works on auditors' independence and their work qualities

Alireza Roozbahani

Department of History, Ardabil branch, Islamic Azad University, Ardabil, Iran

E-mail: Alirezaroozbahani710@yahoo.com

Abstract: One of the most important advised strategies of vocational applicant and stocks have been for solving problem of auditors' independence, increasing auditing service qualities and auditing enterprise cycles. The process of auditing enterprise cycles mean changing auditor change after performing a few auditing cycle of a firm that it is carried out based on regulations with public community decisions of that firm. In this investigation, we are making an effort to study that auditing affair cycles (displacement) between auditing groups will have effects on their function from a independence, work quality levels and reporting point of view. We are using from a test with a subject design for determining whether auditing enterprise cycle impact on auditors understanding from the auditors' independence and their work quality viewpoint. With regards to findings, have been carried out based on 212 polling from auditors, the results show that the present of auditing work cycle policies impact on auditors' independence, on deviation from them. But auditor tenure in long will have well-deserved impacts on mentioned 3 options.

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Introduction:

Financial and economical consecutive critic and enterprise auditor failures (Anroun, Worldcom, Sun Bim...) and effectiveness of auditors' weak reports on countries economy caused being discussed of following questions:

- 1) Do auditors have required independence?
- 2) Do displacement works auditing have been affected on independence work quality and assuring of their report between auditing groups?
- 3) What does time alternation must have auditing group tenures on investigated unit?

Auditing enterprise cycle isn't a new meaning. This meaning has performed in several countries such as Brazil, Spanish, Italy, Canada and France.[2]

Italy

Since 1974, this country has been recognized that auditing enterprise cycles need for accepted firms in stock exchange. According to regulation of this country, auditing enterprises act as independence auditors for nine years and before using previous auditor, it must spend at least 3 years. In this country, auditing enterprise cycle conditions have been regarded for ensuring auditors independence. In the published information from stock of this country, it has been stated that Italy experiment from auditing enterprise cycles was a good experiment and this process suggests non-independence of auditing in

investors mind that is very important for protecting investor ensure.

On the other hand, in this process have negative impacts. The experience has been indicated that auditing fees reduce continuously; this caused worrying about enterprises ability for proper level protection from auditing service quality control. Performed experimental investigations in Italy indicate that auditing enterprise cycles is a great threat for auditing quality for competitive stress.[1]

Spanish

The organization that inspector on stock market and bond transaction in Spanish reported that since 1989 to 1995, this country has been experienced auditing enterprise cycles with distance in terms of time at least 3 years and maximum 9 years. Mentioned organization stated that the main aims of performing this law were protected of auditing independence and promoting fair competitive in auditing market.

In 1995, business rules of firms and governed rules on Spanish auditing enterprises reformed and they eliminated auditing enterprise cycles and allowed that companies can be selected annually the same auditor after primitive cycle expiration (minimum 3years, maximum 9 years).

Spanish experience showed that new auditors' fees have increased. Again in November 2002, the rules of Spanish auditing reformed so that provide new condition.

According to new rules, it is necessary that all auditing team members (including auditing partners, managers, supervisors and senior auditors) in accepted firms in stocks, companies under public supervise and firms with annual income up 32 million euro in every seven years change once. [1]

Canada

After bankruptcy in one of the Canada great banks in 1923, auditing enterprise cycles was included in banking rules and this necessary continued until review date of bank laws. According to related rules, the banks must be considered by two auditing enterprise for two consecutive years. On the other hand, every bank carries out the cycle process in each two years between two auditing enterprise.

In practice, this condition carried out in two various methods from the Canada formal authorities' views. Some of the banks appointed a set of three auditing enterprises and one of the three enterprises was as permanent auditor while changed every two years.

Other banks selected a set of three auditing enterprises and they changed these three enterprises alternatively. Changed enterprise in its output year withdrawal from bank auditing and remained as business affair development inspector and financial bank reporting until ensure that when mentioned enterprise again selected as auditor, have the required information about bank activities.

One of the main advantages in mentioned system was that using two auditing enterprises caused independence auditing in bank loan. This view is one of the key protections in bank professional and supervision system. According to the opinion of professional authorities, second enterprise wouldn't have extra cost. In 1991, Canada banking law reformed by ratification of laws for compatible bank supervision so that eliminate auditing enterprise cycles. From the Canada authorities' viewpoint, one of the eliminating reasons in this cycle condition was that related costs don't coincidence with its advantages and it seems that Canada is only such system in the world.

Auditing enterprise cycles haven't been considered for accepted firms in Canada stock exchange, but auditing participation cycle is needed for all accepted firms in stock in 2003. [1]

France

Since 1998, auditing enterprise participations was necessary by legislator authority in France, but the execution of this law encountered with problems, because the maximum auditing participations tenure hadn't been recognized.

In 2003, this country passed financial safety support rule. According to this law, the main partner couldn't sign up 6 annual auditing reports. The mentioned rule

was as a substitution for previous rule that allowed interference of two auditing enterprise in evaluating company financial positions. From the France stock exchange commission senior auditor viewpoint, auditing enterprise cycles didn't passed in order to probable risk to auditing quality. [1]

Brazil

Occupational authorities of Brazil passed auditing enterprise cycles condition with maximum 5 years tenure and the passage of minimum 3 years for comeback of previous auditor in 1999. Brazil stock exchange commission stated that the main reason of auditing enterprise cycle approval have been supporting supervision on auditor activities after two bank financial scandal.[1]

This country haven't any necessary for auditing enterprise participation cycles, because mentioned commission believes that auditing enterprise cycle has a good results. [5]

Some believes that limiting successive years of companies auditing by an enterprise can be a solution for mentioned questions including solving for improvement of auditing enterprise independence.

Sara Benz Exesli stated that we need an auditing participation so that the works continue every five years.

There are several programs with auditing enterprise cycle contents in socks rules that they are discussed in order to auditor independence.

In Iran Islamic Republic auditing organization acts three years rule (auditor tenure on an investigated unit).

Importance and necessary of research questions:

During early years, various discussions among researchers have been carried out about negative and positive respects of auditing enterprises relationship, some believes that time period and auditing operation continuity threat its independence and auditor work quality. De Angelo describes auditing work quality from two views: [3]

- 1) Discover probability in system from auditor.
- 2) Deviation report probability in system from auditor.

So De Angelo believes that an auditor that interested to her/his custom isn't independence and may be reported discovered deviations subject. Thus, the auditor work quality reduces.

The council of American expert auditors stated that the main reason of this subject is lack of public interesting about required cycle. In the 1912, the council of American expert auditors stated contrast during a statement with this matter that "auditing enterprise has continued by auditing work required cycle" that the main reason of this subject is lack of public interesting about required cycle.

After this statement, 400 financial critic resulted of weak auditing have taken place during 1991 to 1970 that by using a statistic, American expert council found that auditing weak probabilities and auditing failures has been 3 times in order to this mistake statement during these years.

The studies show that necessary for auditor substitutions increase the risk of auditing failures, because auditor hasn't enough knowledge about her/his customer operations.

Touch firm managing director James. A said that auditing costs have increased by auditing work cycle. He believes that auditing work cycle and institution reduce experimental knowledge and auditing cycle continuity increase deviation gradient of auditing learning. [4]

Managing director John. H. Beig and the board of directors Tay. I. Krif company that had been experienced required cycle method and positive viewpoints stated that if "Anron" experienced substitution and cycle every 5 to 7 years, it couldn't continue issuing misleading information. Furthermore, H. Beig noticed that work cycle reduces demand for non-financial services.

Research questions:

This study notice into two research questions:

- 1) Does auditing work cycle impact on auditor independence?
- 2) Does auditor tenure impact on auditing work quality and reporting?

Some of the researchers discussed that auditing company cycle causes that feels auditor independence.

In this direction, studies carried out based on following assays.

- 1) Auditing company cycle policy against the lack of auditing work cycle.

- 2) Influences of tenure on auditor cycle policy.

Researchers believe that auditor independence must be kept both in reality or in practices and this behooves us to study about two options. For investigation about independence, it is necessary to information.

Independence understanding for users of financial statements that have been trusted to financial statement is very important.

Public trust commission reported that auditors work cycle is as an increasing factor of auditing independence and making confidence in investment.

Thus, we developed research questions as following:

- 1) Does auditor cycle impact on auditor independence?
- 2) Does auditor cycle impact on auditor work quality?
- 3) Does auditor tenure impact on auditor independence?
- 4) Does auditor tenure impact on auditor work quality?

Method, statistical society, sample group and data collection tools:

Here has been used from an experimental design for research that considers 3 conditions. Conditions are different based on cycle policy and tenure term. We will have been studied participations details, data, variables and research methods.

This statistical society includes 300 auditors that selected by chance. We received usable 212 answers. 207 answers participated in experiment and 7 people eliminated from analyze.

Participations include experienced technical management of auditing organization with professional background 25 years in this field and senior supervisors. At this juncture, approximately 95% of them are graduated of accounting field.

Organization Class	Frequency	Percent
Senior manager	5	%2
Technical manager	20	%9
Senior supervisor	23	%11
Supervisor	25	%12
Auditor and senior auditor	139	%66

In this research, we have used from variance analyze for comparing each groups for our various investigation.

Discussion and Conclusion:

The first question is that does auditing work substitution policy for auditing groups' impact on auditor independence?

The results of table 1 indicate a level of significance for this subject.

A meaningful answer equals with 5.06 for AFR., 3.65 for AFR_1 and 4.77 for AFR_6 respectively. The difference between AFR_0 and AFR_6 indicates

that auditing work cycle policy has a high impact on investigated unit independence rate.

The second question is that does investigated unit cycle policy and auditor tenure term impact on auditors work quality and its reporting?

It is noteworthy that firstly auditor must discover cases during investigations or if he/she discovers it, then he/she doesn't report it. The results of table 1 indicate that a level of significance for this subject isn't clear. But long term tenure for auditing group will be affected on work quality, discovering deviation and reporting.

Group	Independence		Quality		Reporting	
	Frequency	Level of significance	Frequency	Level of significance	Frequency	Level of significance
AFR. If we don't have auditing work cycle	5/064	0/010	1/163	0/350	0/954	0/435
AFR_1 Auditing work cycle with annual tenure	3/650	0/031	2/484	0/092	1/976	0/152
AFR_6 Auditing work cycle with 6 years tenure	4/770	0/012	5/088	0/009	3/483	0/036

Results, limitations and future investigations:

The view of auditing organization auditors is that cycle policy of audited companies has a high impact on auditors independence, but hasn't any impact on their work quality. And also increasing auditor tenure from one year term to 6 years term doesn't have impact on auditor independence.

The limitations that can be introduced: auditing work cycle policy is costly. These results are related to auditing organization auditors. Also other limitation is that selected samples are limited to one group of financial users.

Future investigations can be carried out about other users of financial reports.

These users can be financial analyzers, investors, fund managers, auditing committee members and other related persons. In future research can be used from 10 years, 5 years and 3 years cycle terms about auditors tenure and can be analyzed these results based on these information.

Resources:

1: Parsley, but N. (1387), "Rotation of audit firms and their impact on audit quality companies listed in Tehran Stock Exchange", Accounting Master's thesis, Department of Management and Accounting, Islamic Azad University, South Tehran.

2: Catanach, A., & Walker, P. (1999). The international debate over mandatory auditor rotation: A conceptual research framework

3: De Angelo, L.E. (1981)"Auditor Size and Audit Quality". Journal of Accounting and Economic.Vol3.no3. pp.1

4; American Institute of Certified Public Accountants (AICPA) (2006).

5- United States General Accounting Office (GAO) (2003),«Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation» vol. 93