Reinforcing users' confidence in statutory audit during a post-crisis period : An empirical study

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Reinforcing Users' Confidence in Statutory Audit during a Post-Crisis Period: An Empirical Study

Abstract

Purpose: This paper examines the factors that are perceived as important for the statutory audit function in order to restore confidence in the financial statements, its value relevance and decision usefulness in the aftermath of the financial crisis.

Design/methodology/approach: This research used a structured questionnaire to collect data from practising accountants, auditors and accounting academics within the UK. A factor analysis was undertaken to examine the potential inter-correlations that could exist between different factors obtained from the literature. The analysis reduced these variables into the more important factors which were subsequently measured through logistic regression.

Findings: The paper identified, as critical factors for enhancing statutory audits, 'a continuously updated accounting curriculum', 'expansion of the auditor's role', 'frequent meetings between regulators and auditors', 'mandatory rotation of auditors', limiting the provision of non-audit services', 'knowledge requirements from disciplines other than accounting' and 'encouraging joint audits'. It is hoped that addressing these issues might improve confidence in the audit profession, thereby reinforcing its value relevance as an assurance service to the corporate world.

Research Implications: The study's findings imply that professional accountancy bodies, accounting educators and accounting firms will need to incorporate the key factors identified in this study into their curriculum and training schemes. However, the generalizability of these findings might be limited as the research data were primarily obtained from UK accountants alone.

Originality/value: This study extends the frontiers of knowledge on critical factors that could reinforce users' confidence in the statutory audit function and have implications for policy and practice.

Keywords: statutory audit, Auditors, financial crisis, the theory of inspired confidence.

Paper Type: Research Paper

1. Introduction

High quality audits contribute in no small measure to the protection of shareholders against exploitation by potentially reckless directors (O'Sullivan, 2000; Cohen et al., 2002) and enhancing the credibility and reliability of the reported financial statements (Davidson and Neu, 1993). As an assurance service upon which users of accounting information rely, the statutory audit function plays a vital role in the modern day corporate accountability. Although it is widely believed that the credit bubble in the US was the underlying cause of the recent global financial crisis (GFC) (Jin et al., 2011; Kothari and Lester, 2012; Lindquist and Drogt, 2012), the role of auditors in its occurrence has been questioned. For example, the Lords' Committee Report (2011:6) accused auditors of "dereliction of duty" for failing to share vital information with regulators before the crisis. Furthermore, it stated that auditors either failed to identify unscrupulous lending practices by banks, and also demonstrated their unawareness of the substandard financial reporting practices by organisations or, alternatively, they simply turned a blind eye to the problems that contributed to the financial crisis. In support of the criticisms, the report alluded to the case of Northern Rock which was given an unqualified audit opinion, meaning that the financial statements were judged to reflect a true and fair view of the financial position/activities (Jones, 2011). However, within months of this unqualified opinion, Northern Rock required a substantial taxpayer bailout to avoid going bust, highlighting potential weaknesses in the audit process (Winnett, 2008). Similarly, in the US, Lehman Brothers collapsed shortly after receiving an unqualified audit opinion (Rushe, 2010).

A review of the current literature suggests that auditors were not the root cause of the GFC and that they performed their duties within the legal remit of their role (Lambe, 2010; Rapoport, 2010 and Jin et al., 2011). However, the general consensus in the literature is that auditors' increasingly evident difficulties in dealing with issues such as fair value accounting, off-balance sheet financing and unscrupulous lending by banks, along with their failure to alert the regulators did contribute to the GFC (Allen and Carletti, 2008; Plantin et al., 2008; Hout, 2009; Magnan, 2009). The auditing profession seems to accept that there are problems which require addressing. For example, the "big 4" audit firms together with Grant Thornton and BDO International recently jointly proposed an overhaul of the current financial reporting systems with a view to meeting the current economic and business realities. According to the proposal, "the auditing profession needs to develop talent and expertise to deliver consistent, high-quality audit services in the coming environment, both through the hiring of outstanding individuals and the training of auditors in new auditing techniques (especially evolving information technology, fair value models and expanded business information)" (Global Vision, 2006: 2-3).

This study therefore investigates those factors that may enhance the statutory audit function and reinforce the confidence of financial statements' users in the post-financial crisis period. Based on Limperg's (1932) theory of inspired confidence, the paper sought the perceptions of accountants, auditors and accounting academics on the measures that are most likely to enhance the audit function as the world emerges from a financial crisis. Using a questionnaire survey, the study finds that the most critical factors are: 'a continuously updated accounting curriculum', 'expansion of the auditor's role', 'frequent meetings between regulators and auditors', 'mandatory rotation of auditors', limiting the provision of non-audit services', 'emphasising knowledge requirements from disciplines other than accounting' and 'encouraging joint audits'. If the foregoing factors are given the right attention by the audit profession, the statutory audit function might not only be able to withstand the current post-crisis socio-economic challenges but reinforce users' confidence in its value relevance. The study sheds light on the significance of an effective audit function to the global financial system. Such audit function will be a cardinal pillar that should strengthen the corporate governance structure of the modern organisation.

The remainder of the paper is as follows: Section 2 summarises the relevant literature, including the theoretical underpinning for the research. Section 3 discusses the research methodology applied. The results are presented and discussed in Section 4 while section 5 presents the summary and conclusions.

2. Literature Review

2.1 Theoretical framework

The agency theory has been widely utilised in this subject area (See Sharma et al., 2008; Law, 2011; Quick et al., 2013). The agency theory (Jensen and Meckling, 1976) argues that managers engage in actions that promote their own interests at the expense of shareholders. To ensure that the interests of managers are aligned with those of shareholders, monitoring mechanisms are put in place. One such important monitoring mechanism is the external auditor (Sharma et al., 2008). The role of the external auditor is to provide assurance to shareholders and potential investors that the financial information presented reflects a true and fair view of the company's financial performance and position. In this context, external auditors play a significant role in the accountability of companies (Antle, 1982).

Although the agency theory is appropriate in explaining the audit function as a control mechanism, it cannot effectively explain the factors that are important to improving confidence in the perceived importance of the audit function. Therefore, for this research, the theory of inspired confidence (Limperg, 1932) is considered appropriate. The fact that the very existence of the statutory audit function is firmly entrenched in the confidence that investors and indeed society reposes in it makes the theory of inspired confidence most fitting for this research. The theory of inspired confidence, (also referred to as the theory of rational expectations) is based on the principle that the existence and continuous relevance of the statutory audit function is derived from society's needs for independent examination of the financial statements prepared and presented by managers (Limperg, 1932). In other words, the external stakeholders (who use the auditor’s report) will find it difficult to fully trust the information being provided by management due to the latter’s personal interest/potential conflicts of interest and information asymmetry. In essence, this theory argues that the relevance of the statutory audit function is solely based on society’s demand and this should enable users to measure the accountability of the management and to rely upon the financial statements to make informed economic decisions. In this context, the statutory audit function is expected to provide a level of assurance that fulfils all reasonable expectations of the market and wider society (Sharma et al., 2008; Sikka et al., 2009). In summary, this theory is underpinned by a simple principle – for the statutory audit function to be considered successful, it must fulfil its objectives which revolve around its ability to maintain the confidence of society, and if society’s confidence is lost, the statutory audit function also loses the purpose of its existence.

Limperg (1932) sees society confidence falling to two strands - *exaggerated confidence* and *the shortcoming in confidence*. In relation to the first strand, the statutory audit function fails to maintain the confidence of society because society’s expectations exceed the remit of the auditor's statutory role. This strand is analogous to Porter’s (1993) ‘reasonableness gap’ component of the concept of audit expectations gap. The second strand, *the shortcoming in* *confidence* asserts that auditors themselves fall short of the required standard in fulfilling their function, a strand similar to Porter's (1993) 'performance gap (which comprises deficient standard' and 'deficient performance' gaps). As a result, in the first scenario, society are at fault due to their expectations not being reasonable while in the latter case, the auditors are to blame for failing to fulfil their role as required. Quite evidently in the recent GFC, confidence in the audit function has suffered some reputation damage in the eyes of the society (even though this is likely not to have been entirely the auditor's fault) as organisations that were considered to be relatively safe were wiped out within months (The Lords' Committee Report, 2011).

2.2 Statutory Audit and the Recent Global Financial Crisis

There is a general consensus in the literature that auditors' failings exacerbated the recent GFC. However, the extent of their contribution to the crisis is widely disputed. Some authors argue that auditors were negligent during the recent GFC as major banks such as Northern Rock and Lehman Brothers were given the all assuring unqualified audit opinions only for them to collapse a few months later (Sikka, 2009; Otusanya and Lauwo, 2010; Achim et al., 2010; Yeoh, 2010; Hawkes, 2011; The Lords Committee Report, 2011; Farrell, 2012; Jones, 2013a; Rapoport 2013). The criticism of the audit function is however, not new. For example, Sikka et al. (2009) argued that the current auditing model which makes auditors financially dependent on their clients opens the audit profession to serious criticisms from the points of view of independence, quality and effectiveness. Sikka et al. (2009) asserted that the current auditing model "*is also incomplete as it pays little attention to the organisational and social context of auditing*". Furthermore, the authors stressed that as modern corporations diversify "*into new forms of investment and complex financial instruments",* auditors need to devise new ways other than the traditional approach in order to cope. From the foregoing, it will be appreciated why the call for a shift in the current auditing paradigm has become more vociferous – hence, the need to enhance audit effectiveness. From the perspectives of the theory of inspired confidence, these criticisms point towards the *shortcoming in confidence* strand as the criticisms suggest that auditors failed to take reasonable care in their activities

Other authors, however, have argued that certain accounting standards made it difficult for auditors to alert the authorities because these banks were meeting all legal requirements, thus auditors were also fully compliant with regulations (Lindquist and Drogt, 2012; McManus, 2012). In this context the literature asserts that the rules that govern fair value accounting are considered to be too complicated for auditors as they make the subsequent fair value measurements difficult for auditors to authenticate especially in times of illiquid markets (Hout, 2009; Allen and Carletti, 2008; Plantin et al., 2008; Magnan, 2009; Kothari and Lester, 2012). Therefore, the literature argues that the accounting standards themselves contributed to auditors' potential failings in the recent GFC. In fact, Jin et al. (2011) argued that had it not been for the sound work of auditors, the GFC would have been even worse. Rapoport (2010) also shared this viewpoint and stated that auditors cannot be blamed for poor investment decisions along with many other flaws in the financial sector.

In spite of the arguments supporting the audit function, Lambe (2010) suggests that although there is no evidence of systematic audit failure, the audit function needs to be enhanced. Similarly, Pannese and DelFavero (2010), Sanderson (2010) and Jones and Tait (2011) acknowledged that although auditors were not to blame for the GFC, their duties need to extend beyond their clients in meeting the needs of the various users of their report. In sum, whether we blame auditors or the regulatory framework within which they operate (accounting and auditing standards), users of statutory audit reports seem to be losing their confidence in the statutory audit function and this confidence issue was heightened in the recent crisis period (Hout, 2009; Jones, 2011; Hawkes, 2011; Egan, 2012). Hence, there is need to enhance the audit function and reinforce users' confidence in it as an assurance service.

The ACCA's (2010) study raised a number of issues in relation to enhancing the audit function, including audit competition, auditor's liability, auditor independence, auditor competence, expanding the auditor's role, going concern evaluation and dialogue between auditors and regulators (ACCA, 2010). This study contributes to the ACCA (2010) research by answering the research question: how can the statutory audit function be enhanced in order to (i) cope with current and prospective socio-economic challenges of a post-financial crisis period and (ii) reinforce users' confidence in its value relevance?

3. Research Methodology

In order to provide answers to the foregoing research question, the study adopted a quantitative approach for data collection and analysis. The quantitative method allows for a rigorous analysis that could lead to logical conclusions on the topic under investigation. This approach remains the predominant research approach in the literature (Davidson and Neu, 1993; O'Sullivan, 2000; Jin et al., 2011; Lindquist and Drogt, 2012). Primary data were collected by means of questionnaire survey of accountants and auditors selected using a non-probabilistic sampling technique. The sampling approach was adopted because, by its nature, this study cannot be based on a random sampling as it requires peculiar target research subjects with necessary knowledge of and exposure to the operations of statutory audit function. The questionnaire was distributed to 483 participants, which included accountants, auditors and accounting academics in the UK. These are considered significant to this study for various reasons. First, they are considered well informed about the recent developments in accounting and auditing. Also, they live in a country in which the impact of the recent financial crisis was felt by users of audit reports.

The questionnaire design draws on the issues raised and factors considered in relevant previous studies (see above). These cover two main areas:

(i) the adequacy of the current auditors' roles (as required by statutes) particularly during a financial crisis period. These include questions on the current audit models on risk assessment, opinion, materiality, auditors' relationship with regulators, auditors' liability and auditor independence.

(ii) how the statutory audit function may be enhanced in a way that will reinforce society confidence in it. These include questions on audit fees, joint audits, audit education, audit market concentration.

Prior to distribution, the questionnaire was pilot-tested on five auditors and five accounting academics and was adjusted following feedback. The final questionnaire contained 14 questions (see Appendix 1) and was three pages long. The questionnaire design employed a five-point Likert scale in which respondents were required to choose from “Strongly Disagree” to “Strongly Agree”. The questionnaire was posted to the target respondents while a few of the respondents preferred to complete a web-based version (of the questionnaire). The first round resulted in 72 questionnaires being received. Follow ups were sent after six weeks and resulted in 45 additional responses. The total of 117 responses was used in the data analysis (see Table 1 below).

In designing the questionnaire, the first part asked respondents to answer the factors that are believed would lead to the enhancement of confidence in the audit function. This part of the questionnaire captured had 12 questions. These consisted of questions relating to the accounting curriculum, joint audits, going concern evaluation, auditor's role expansion, materiality issues, meetings between auditors and regulators, market concentration, knowledge required from other disciplines, mandatory rotation, audit fee, auditor's liability and non-audit services. These were used, following factor analysis, in the logistic regressions reported in this paper. The last question in the questionnaire asked the respondents on whether they felt confidence in the audit function could be enhance or improved following the GFC, particularly if the issues raised in the first part of the questionnaire were addressed. This question required a yes or no answer and was used in the regression analysis as categorical dependent variable.

4. Data Analyses and Discussion of Results

This section presents the findings of the survey as detailed in the below sections.

4.1 Analysis of respondents

Out of the 483 questionnaires distributed, 117 usable questionnaires were received and used this analysis (see Table 1). This indicates a response rate of 24.2% which is considered high in questionnaire survey studies (e.g., Mear and Firth, 1990; Ho and Wong, 2001)

[insert Table 1 here]

As can be seen in Table 1, the most responses came from the academic community constituting 34.1% of the respondents. Auditors are slightly higher at 19.4% compared to

18.8% for accountants. The greater response from the academic community might be expected due to their engagement in research and therefore the desire to support research. Nevertheless, the number of responses from each type of respondent is sufficient to undertake the analysis and address the research questions raised in the study. In the next section, the analysis of responses is undertaken and the findings are discussed.

4.2 Analysis of responses on the factors that enhances the audit function

The findings relating to the factors that can contribute to enhancement of the audit function and improve society's confidence are reported in Table 2.

[insert Table 2 here]

As Table 2 shows, the most important factors that can enhance the audit function and improve society's confidence are 'a continuously updated accounting curriculum with 86.3% of the respondents either indicating that they agree or strongly agree. This is followed by 'knowledge requirements from disciplines other than accounting' with 85.4% of respondents being in agreement. Other important factors include, 'expansion of the auditor's role', 'frequent meetings between regulators and auditors', 'mandatory rotation of auditors', 'limiting the provision of non-audit services',, 'encouraging joint audits', 'a graded approach to going concern' and 'encouraging auditors to scrutinise immaterial issues'), which attracted over 60% level of agreement from the respondents regarding their importance in enhancing the statutory audit function. These ratings are supported by the rating on the question of whether respondents viewed addressing these factors will enhance the audit function. About 60% of the respondents suggested that addressing these factors will enhance the audit function and improve societal confidence. On the whole, it seems that the respondents consider education and regulatory issues as the most important in enhancing the audit function. These findings are generally consistent with those reported in the ACCA (2010) study. The implication is that universities and other educational or training institutions have to consider the design of their curricular to ensure that it addresses the knowledge requirements of the audit function. In addition, these results suggest that the current statutory and regulatory frameworks (in terms of accounting and auditing standards and other legislation) for audit are perceived as important and therefore policy-makers might want to strengthen these.

The table also reveals that there are certain factors that the literature considers important, but the respondents perceived these as not important to enhance the audit function. These include ‘decreasing the level of market concentration and ‘increasing audit fee’ on which the most respondents, 65.9% and 64.9% respectively, either disagreed or strongly disagreed. This is not consistent with the surveys of the ACCA (2010).

4.3 Regression Analysis

4.3.1 Factor Analysis

To enable running the regression analysis, factor analysis was undertaken with a view to examining the potential inter-correlations that could exist between different variables or questionnaire responses and then to reduce the number of factors. Factor analysis is widely used in the field of accounting and finance as demonstrated by the studies of Beattie et al. (1999) and Al-Ajmi and Saudagaran (2011) on auditor independence. The factor analysis was undertaken as follows. The factors were extracted using principal axis factoring and direct oblimin rotation was utilised to interpret the factor loadings of the above 12 independent variables. By using the eigenvalue >1 criterion, only four factors had eigenvalues of greater than 1, given the cut-off of 0.3 for factor loading. The four factors were subsequently extracted. These accounted for 73.75% of the total variance of the original 12 variables (see Table 3).

Insert table 3 about here

The first factor explained 30.59% of the variance and was characterised by high loadings of audit fee, market concentration and liability and this factor was termed as audit competition. The second factor represented 18.38% of the variation which consisted of non-audit services, mandatory rotation, and joint audits and was termed as auditor independence. The third factor accounted for 14.36% of the variance and was influenced by the variables of going concern evaluation, scrutinising immaterial issues and meetings between auditor's and regulators and therefore was termed as taking proactive action. Finally, the fourth factor accounted to 10.41% of the variance and was termed as education since it consisted of accounting curriculum, knowledge from other disciplines and auditors' role expansion. A combination of these four independent factors explains 73.75% of the total variability in the statutory audit function. In short, the above variables in each assigned factor are highly correlated with one another and thereby classifying these independent variables into factor groups simplifies the logistic regression process with fewer variables.

4.2 Logistic Regression Analysis

The four factors of audit competition, auditor independence, taking proactive action and education were regressed against the dependent variable, representing the statutory audit function enhancement. Given the categorical nature of the dependent variable, logistic regression analysis was used. The purpose of performing the logistic analysis was to examine which of the four factors are the most influential in enhancing the audit function. The dependent variable was coded as a dummy value with 0 being audit function is enhanced and 1 being audit function is not enhanced. In this context, the following hypothesis is tested:

H_0: The effectiveness of the statutory audit function is not enhanced by factors of competition, independence, proactive action and education.

H_1: The effectiveness of the statutory audit function is enhanced by factors of competition, independence, proactive action and education

The results are presented in Table 4.

[insert Table 4 here]

From Table 4 above, the model explains a significant amount of the variance in the outcome as shown by Nagelkerke R-squared value of 55.1%. This suggests that that 55% of the variance in the outcome of the audit function is being explained by the predictor variables. The Hosmer and Lemeshow test illustrates that this model does consistently fit within the data as the P value is at 0.567 which is higher than 0.05 thereby validating the use of this model. The overall model fit of 72.6% demonstrates the effectiveness of this model in predicting the actual outcomes.

With regards to the four factors in the model, Table 4 shows consistent with the analysis in Table 2 that competitive issues are not significant in enhancing the audit function as reflected by the p-value which is greater than 0.05. This suggests that an increase in audit competition by increasing the audit fee, reducing market concentration and auditor's liability are not considered significant for enhancing the audit function. The results contradict ACCA (2010) and Velte and Stiglbauer (2012) who concluded that the current concentration in the audit market is inimical to the audit quality. It is possible that this finding might be influenced by the differences in the respondent groups between this study and previous ones as the respondents in this current study did not include users of audit reports. In relation to auditor independence, it can be observed from Table 4 that independence is significantly related to the perceived enhancement of the audit function. The coefficient of independence is positive and significance at the 1% level. Again, this finding is consistent with the results in Table 2 and supports both ACCA (2010) and Carcello and Palmrose (1994). The importance of auditor independence has been emphasised by authors (e.g., Sikka et al. (2009); arcello and Palmrose, 1994; Sori, 2009; Crump, 2013). The coefficient of the factor, ‘education’, is positive and significant at the 5% level indicating that it is important for the enhancement of the audit function. This means issues relating to continuously updated accounting curriculum, knowledge required from other disciplines before being admitting to the audit profession and scrutinising immaterial issues are critical. Finally, the coefficient of ‘proactive action’ is also positive and significant at the 5% level. These results support the ACCA (2010) findings that the issues of frequent meetings between auditors and regulators, going concern evaluation, and expansion to auditor's role are considerably likely to enhance the audit function.

Conclusion

This study investigates the factors that are perceived as important in enhancing the statutory audit function in order to reinforce users’ confidence in its value relevance. The results from analysing questionnaire responses indicated that the important factors are: ‘a continuously updated accounting curriculum’, ‘expansion of the auditor's role’, ‘frequent meetings between regulators and auditors', 'mandatory rotation of auditors', limiting the provision of non-audit services', 'knowledge requirements from disciplines other than accounting' and 'encouraging joint audits'. The results also demonstrate that encouraging competition in the audit market is not perceived as important for improving confidence in the audit function.

The study contributes in a number of ways. First, it provides insights into the factors that can lead to an enhanced audit function. These findings have implications for practice and policy. In this case, the current practice by large audit firms of employing graduates of diverse backgrounds (disciplines other than accounting) as trainees needs to be intensified. Smaller firms should also imbibe this practice in order to enrich the skill-sets available in audit purposes thereby enhancing audit effectiveness. The findings also suggest that professional accountancy bodies, accounting educators and accounting firms should make necessary adjustments to their curriculum and training schemes in order to incorporate diverse skill-sets necessary to enhance audit quality. Added to these, current auditors can also be trained through undertaking continuous professional development activities or other ad-hoc in-house training. The findings also indicate that the call for a mandatory rotation of auditors on a more frequent basis is justified. Similarly, policy debates on the necessity to put a cap on certain non-audit services like performing the internal audit or tax consultancy work need to be intensified.

The contributions of this study must be viewed in the context of some limitations. First, this study only used a questionnaire instrument to collect data. It could have possibly benefited from a follow up interview or focus group discussions to explore the identified crucial factors further. However, this was not possible due to the busy schedules of respondents that participated in the study and resources constraints on the part of the researchers. Secondly, the study only acquired responses primarily from professionals that were based in the UK and did not include users of audited accounts. This may somewhat affect the generalisability of its findings. In addition, this is a cross-sectional study and only provides a snapshot of the measures that are most likely to enhance the audit function. A longitudinal study could have provided better insights into the issues.

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Table 1: Analysis of the Questionnaire Distribution In Total

Type of Participant	No. of Respondents that were Contacted	No. of respondents that actually Participated	Percentage of respondents that actually Participated
Academic	167	57 (48.7%)	34.1%
Accountant	192	36 (30.8%)	18.8%
Auditor	124	24 (20.5%)	19.4%
Total	483	117	24.2%

Table 2: Analysis of responses to the Factors in the Questionnaire

Variables	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
'a continuously updated accounting curriculum'	57/117 (48.7%)	44/117 (37.6%)	14/117 (12.0%)	2/117 (1.7%)	0/117 (0%)
'expansion of the auditor's role'	48/117 (41.0%)	46/117 (39.3%)	14/117 (12.0%)	6/117 (5.1%)	3/117 (2.6%)
'frequent meetings between regulators and auditors'	48/117 (41.0%)	45/117 (38.4%)	18/117 (15.4%)	3/117 (2.6%)	3/117 (2.6%)
'mandatory rotation of auditors'	44/117 (37.6%)	48/117 (41.0%)	13/117 (11.1%)	9/117 (7.7%)	3/117 (2.6%)
'limiting the provision of non-audit services'	40/117 (34.2%)	51/117 (43.5%)	18/117 (15.4%)	5/117 (4.3%)	3/117 (2.6%)
'knowledge requirements from disciplines other than accounting'	52/117 (44.4%)	48/117 (41.0%)	16/117 (13.7%)	1/117 (0.9%)	0/117 (0%)
'encouraging joint audits'	33/117 (28.2%)	41/117 (35.0%)	34/117 (29.1%)	9/117 (7.7%)	0/117 (0%)
'a graded approach to going concern'	34/117 (29.0%)	44/117 (37.6%)	25/117 (21.4%)	12/117 (10.3%)	2/117 (1.7%)
'encouraging auditors to scrutinise immaterial issues'	34/117 (29.0%)	45/117 (38.5%)	25/117 (21.4%)	9/117 (7.7%)	4/117 (3.4%)
'decreasing the level of market concentration'	2/117 (1.7%)	4/117 (3.4%)	34/117 (29.1%)	43/117 (36.8%)	34/117 (29.1%)
'increasing audit fee'	1/117 (0.9%)	4/117 (3.4%)	36/117 (30.8%)	51/117 (43.5%)	25/117 (21.4%)
'reducing auditors' exposure to liability to claims from clients'	8/117 (6.8%)	16/117 (13.7%)	58/117 (49.6%)	28/117 (23.9%)	7/117 (6.0%)
	Enhanced			**Not enhanced**	
Based on your responses to the above 12 questions, do you feel that the audit function in the future will be 'enhanced' or 'not enhanced'?	71 (60.7%)			46 (39.3%)	

Table 3: Factor Analysis

Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.907	32.557	32.557	3.671	30.590	30.590	2.764
2	2.421	20.178	52.735	2.206	18.384	48.974	2.617
3	1.949	16.240	68.975	1.723	14.358	63.333	2.637
4	1.617	13.478	82.453	1.250	10.414	73.747	2.080
5	.527	4.393	86.846				
6	.420	3.500	90.346				
7	.278	2.317	92.662				
8	.208	1.730	94.392				
9	.199	1.659	96.051				
10	.179	1.488	97.540				
11	.160	1.334	98.873				
12	.135	1.127	100.000				

Table 4: Logistic Regression Results

Variables	**Coeff.**	**Std. Errors**	**Wald**	**df**	**Sig.**	**Exp(B)**	**95% C.I for Exp(B)**	
							Lower	**Upper**
Competition	0.052	0.286	0.33	1	.855	1.054	0.601	1.848
Independence	0.827	0.289	8.180	1	.004	2.286	1.297	4.028
Proactive actions	0.709	0.284	6.242	1	.012	2.032	1.165	3.545
Education	0.546	0.277	3.881	1	.049	1.7227	1.003	2.973
Constant	0.427	0.278	2.363	1	.124	1.533		
Number of Observations	117							
-2 Log Likelihood	58.694							
Nagelkerke R^2	0.551							
Influence of Predictor Variables	72.6							

Appendix 1: Questionnaire

<u>How to Reinforce Users' Confidence in the Statutory Audit Function in the Light of the Recent Global Financial Crisis</u>

Along with other factors, the role of auditors in the recent global financial crisis has been questioned. This questionnaire aims to investigate factors that may enhance the statutory audit function and reinforce the confidence of financial statements' users in the aftermath of the crisis. This research project is likely to be of immense benefit to the accounting profession, together with ratings agencies, the financial sector, academics and other stakeholders. The findings of the study are intended for publication in an academic journal and the responses to the questionnaire will form an integral part of the analysis section. At all times, the data will be collected in full compliance with the University's code of ethics and all information collected will remain strictly confidential while respondent's anonymity will be protected at all times.

The questionnaire will only take a few minutes to complete and we thank you for your time.

1) Please select your occupation

Auditor ☐ Accountant ☐ Academic ☐

2) Regular changes to the auditing curriculum to reflect the frequent changes in the market and within the accounting profession is necessary to enhance audit quality

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

3) Joint audits should be introduced to potentially enhance the audit process? (Joint audit is a situation whereby two firms work together to audit the same company)

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

4) Auditors seem to have been very reluctant in the past to give firms any opinion other than an unqualified audit opinion for fear of investors and stakeholders abandoning a relatively safe business. Therefore, a graded approach should be introduced with respect to a client's going concern status (rather than the all or nothing approach).

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

5) Auditors should be required to scrutinise immaterial issues. (For instance, small immaterial misstatements that are indicative of fraud, but are not considered to have a material impact on the financial statements).

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

6) Do you support the notion that auditors should have frequent meetings with the regulator in order to identify potential warning signals much earlier than was the case in the reent financial crisis?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

7) Do you believe that decreasing the level of market concentration (e.g. The big 4 becoming the big 5) would enhance the audit function?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

8) Should auditors be required to possess the required standard of knowledge in ICT, forensics, law and other disciplines before being admitted to the profession?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

9) Should mandatory rotation of auditors on be introduced to lower the risk of establishing an unduly cosy relationship with their clients?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

10) If you agree with the mandatory rotation of auditors as selected in question 10, how often would you want this rotation to occur?

Yearly ☐ Every two years ☐ Every three years ☐ Every four years ☐

Every five years ☐

11) Do you feel that an increase in audit fees is required to enhance the audit function?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

12) Do you agree that if auditor's exposure to liability claims from clients was reduced, then it would enhance the audit function?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

13) Should non-audit services be prohibited in order to enhance the audit function?

Strongly Agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐

14) Based on your responses to questions 2 – 13 above, do you feel that the audit function in the future will be ‘enhanced’ or ‘not enhanced’?

Enhanced ☐ Not enhanced ☐