

# A PRELIMINARY STUDY ON AUDITORS' PERFORMANCE ATTRIBUTES - PERCEPTIONS FROM ACCOUNTING FIRM PRACTITIONERS

RAMESH RUBEN LOUIS<sup>1\*</sup>  
NOOR ADWA SULAIMAN<sup>1</sup>  
ZARINA ZAKARIA<sup>1</sup>

Received: 8 August 2021 / Revised: 16 August 2021 / Accepted: 16 August 2021  
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## ABSTRACT

**Research aim:** Recent occurrences of accounting failures have raised concerns over the quality of auditors' performance. While there have been numerous studies on audit quality, there are limited research on what attributes constitute proper auditors' performance. Thus, the objective of this study is to examine auditors' performance attributes perceived to be important to achieve audit quality by auditors in practice.

**Design/ Methodology/ Approach:** Data were obtained from 307 survey questionnaires received from auditors of large firms, small and medium-sized firms, and sole proprietors.

**Research finding:** The study respondents perceived auditors' performance related to competencies to perform the audit effectively and performing the audit in accordance with standards and regulations as the most significant attributes. These two key attributes were significant regardless of the types of audits performed (i.e. PLC or SME) and the position of the auditor (management or staff levels). On the other hand, attribute relating to providing individualised attention to clients was perceived to be of the lowest importance to the respondents.

**Theoretical contribution/ Originality:** This study examined various behavioural and individual attributes for proper auditors' performance, which enhances the literature on audit quality.

**Practitioner/ Policy implication:** Key attributes and behaviours for auditors' performance can be used by researchers and audit practitioners to set their performance benchmark and also used to assess any shortcomings.

**Research limitation:** The respondents were mainly auditors of small and medium-sized firms and sole proprietors.

**Keywords:** Auditor' Performance, Attributes, Perceptions, Practitioners

**Type of article:** Research paper.

**JEL Classification:** M42

## 1. Introduction

The fundamental purpose of external auditing is for auditors to ensure that financial statements prepared by management of an entity and issued by its board of directors is free of material misstatement and reliable by the users of the financial statements (Ismail & Mustapha, 2015; Neri & Russo, 2014). As such, the work done, or proper performance by auditors in detecting any material misstatements and subsequently reporting such breaches or non-compliances in accordance with prescribed standards and regulations is paramount in fulfilling that fundamental purpose. The significance of auditors' performance as a

<sup>1</sup> Faculty of Business and Economics, University of Malaya, Kuala Lumpur, Malaysia  
R. R. Louis [rameshruben@gmail.com](mailto:rameshruben@gmail.com), N. A. Sulaiman [adwa@um.edu.my](mailto:adwa@um.edu.my), Z. Zakaria [zarinaz@um.edu.my](mailto:zarinaz@um.edu.my)

\* Corresponding Author

cornerstone of audit quality is also prescribed in DeAngelo's (1981) definition of audit quality, one of the most cited definitions of audit quality in literature.

Despite the significance of proper performance of auditors while undertaking and reporting on an audit, their work done and reporting have come under much scrutiny and question over the years. Accounting failures and poor performance of audit work are continuing to occur despite amplified regulatory requirements, enhanced standards for performing and reporting on audits (such as the International Standards on Auditing (ISAs) and International Standard on Quality Control 1 (ISCQ 1)) and framework on audit quality issued by the International Auditing and Assurance Board (IAASB). The occurrences of more recent accounting failures, including Rolls-Royce, Mitie Group, Carillion and Bargain Booze, suggest that quality of work performed by auditors require further scrutiny (Zandi, Sadiq, & Mohamad, 2019). Regulators have also identified auditors' inferior performance during routine monitoring and inspections of auditors' work. The Financial Reporting Council's 2017/2018 inspection reports of U.K. auditors found a decline in audit quality across the Big Four and non-Big Four auditors. Examples include KPMG signing-off on estimates and revenue from contracts in Carillion PLC, audit shortcomings by PricewaterhouseCoopers (PwC) in the audit of BHC and Grant Thornton's failure to report non-disclosure of significant related party transactions by Sports Direct PLC (Jolly, 2019). The Malaysian Institute of Accountant's practice review of audit firms in Malaysia found deterioration in the quality of audit work performed by small and medium practitioner (SMP) auditors, where 77.3% of the firms reviewed were unsatisfactory, with 22.7% requiring disciplinary action (MIA, 2020).

Even though prior academic research have examined audit quality from an array of perspectives (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013; Sulaiman, Shahimi, & Singh, 2019), the recurrence of accounting failures and findings from periodic inspections of audit firms have found that the decline in audit quality is attributable to poor performance on the part of auditors. Scholars and the profession alike have emphasised the significance of auditors' performance in terms of desired attributes and behaviours for performing an audit and reporting appropriately (Hussein & Hanefah, 2013; IAASB, 2014; Sulaiman et al., 2019). Along similar lines, Cameran, Dittillo and Pettinicchio (2018) asserted that audit team member attributes are crucial to auditors' performance.

The purpose of this study is to examine perceptions of audit practitioners on the attributes for auditors' performance, specifically on desired behaviours and attributes to achieve audit quality. Gaining insight into the relative perceived significance of those attributes will enable researchers and practitioners alike to identify key attributes that should be attained, and if necessary improved on by partners and staff so that the work performed is proper to achieve audit quality. The study also explores differences in the perceived importance of various auditors' performance attributes from the perspective of the top management and staff of audit firms, as well as between auditors of small and medium enterprises (SMEs) and auditors of public-listed companies (PLCs). Despite being subject to largely similar standards of auditing and ethical requirements, auditors of PLCs and auditors of SMEs operate under differing circumstances and expectations.

Auditors of PLCs are subject to heightened public scrutiny as they audit financial statements that are available to the public as compared to SMEs which are predominantly private entities. This consequently also raises expectations of auditors' performance from various stakeholders such as investors, regulators, management and the general public. Besides that, the governance structure in PLCs with the establishment of audit committees and the need to comply with the Malaysian Code of Corporate Governance entails a stricter governance over performance of PLC auditors as compared to auditors of SMEs who are not subject to such governance requirements (Husnin, Nawawi, & Salin, 2016). As such, the perceived significance of desired behaviours and attributes for auditors' performance for this two groups could differ. Similarly, the differing responsibilities, economic, reputational and professional consequences of proper auditors' performance towards the firm between top management as compared to staff are also different. This too gives rise to differing perceived importance of auditors' performance attributes.

Examining the perceptions from different groups of auditors, as mentioned above, provides valuable information on the expectation and situational gap of desired behaviours and attributes between different levels of auditors and the nature of audits undertaken. The differences or gaps identified can be used to address any behavioural and attributes shortcomings to ensure proper audit performance across different types of audits and level of auditors. Besides identifying differences in perceived importance of auditors' performance between groups of auditors, this study expands the auditors' performance attributes by bringing together desired behaviours and attributes as perceived to be significant by audit practitioners in the study of audit quality. The understanding of pertinent auditors' performance attributes not only enables researchers and practitioners to better understand key attributes that drives quality performance of an audit, but is also useful in human resource development of auditors.

The remainder of this paper is organised as follows: Section 2 provides a review of the relevant literature related to this study. Section 3 describes the research methodology, and section 4 provides the research findings and discussion. The conclusion section discusses key observations from the analysis, limitations of the study and implications for future research.

## **2. Background and Literature Review**

### ***2.1. Governance of auditors' performance in Malaysia***

In the Malaysian auditing setting, section 248(2) of the Companies Act 2016 (CA 2016) prescribes requirements for companies to have their financial statements audited. Section 266 of the CA 2016 sets out the duties and responsibilities of auditors, which include reporting on the compliance of financial statements with applicable approved accounting standards and providing an audit opinion on the true and fair view of the financial statements (SSM, 2016). Auditors of public listed companies also have additional responsibilities under the Capital Market and Services Act 2007 (CMSA 2007) to report on any breach of the CMSA 2007 and other irregularities that they may have discovered during the course of the audit.

Auditors of private companies (mainly SMEs) in Malaysia are regulated by the Malaysian Institute of Accountants (MIA), while auditors of PLCs are regulated by the Audit Oversight Board of Malaysia (AOB), which predominantly provides oversight functions for the work performed by auditors and registration of auditors. The auditing standards and prescriptions applicable for auditors' performance in Malaysia encompass the ISAs, ISQC 1 and By-Laws on Professional Ethics, Conduct and Practice issued by the MIA. As of 31 December 2019, the MIA listed 36,365 registered members, approximately 21% or 7,700 of whom worked in public practice (i.e. in the external audit profession).

## **2.2. Prior research**

An auditor's performance hinges on the auditor being able to perform the audit and subsequently issue an appropriate audit opinion based on the evidence obtained during the audit, in line with DeAngelo's (1981) definition of audit quality involving the joint probability of auditors' ability to perform audits to detect material misstatements and their behaviour in reporting those misstatements (Chadegani, 2011; Duff, 2004). Past studies examining auditors' performance have focused on behavioural aspects - i.e. professional judgement and scepticism, and quality threatening behaviour (QTB), and individual attributes aspects - i.e. auditors' attributes.

### *2.2.1. Behavioural studies*

Professional judgement and scepticism have always been a major focus of research on quality of auditors' performance, especially behavioural studies, as prior research regarding audit quality has pointed to biases that result in repeated errors in judgement by the auditor when performing the audit (Watkins, Hillison, & Morecroft, 2004). Studies examining professional judgement and scepticism behaviours by auditors such as such as performing sufficient work to obtain appropriate audit evidence and obtaining credible information and explanations from client have generally found that these behaviours have a significant positive impact on the proper performance of audit procedures such as risk assessment, sampling and obtaining audit evidence during the audit, as well as issuing an appropriate audit opinion given the circumstances (e.g. Gul, Wu, & Yang, 2013; Iskandar, Sari, Mohd-Sanusi, & Anugerah, 2012; Sulaiman et al., 2019).

QTB refers to deliberate and unapproved shortcuts done by auditors due to time or resource constraints that threaten to reduce audit quality. Such behaviour can include acts including failure to pursue questionable items, false sign-off on audit steps, performing a superficial review of audit evidence or suppressing questionable audit evidence (Peytcheva & Gillet, 2012). Studies on QTB among auditors, such as premature sign-offs (PMSO) of audit procedures and incomplete verification of a client's documents, have generally found that such behaviours impair the quality of the audit work performed and audit opinion rendered thereafter (e.g. Broberg, Tagesson, Argento, Gyllengahm, & Martensson, 2017; Haron, Ismail, & Ibrahim, 2014; Herda, Cannon, & Young, 2019; Zakaria, Yahya, & Salleh, 2013).

### 2.2.2. *Individual attributes studies*

Besides studies that show professional judgement and scepticism, and QTB as key behaviours of an auditor that has an impact on the performance of the audit, other studies have revealed that individual attributes of an auditor are paramount in enabling the auditor to perform the audit effectively. These attributes encompass the experience, knowledge and expertise of the auditor. Studies on auditors' attributes, including experience, knowledge, skills, objectivity and their ability to service clients have also found that these attributes have a positive impact on auditors' performance (e.g. Duff, 2004; Sulaiman et al., 2019).

A seminal study on audit quality, specifically on auditors' individual attributes, is the study by Duff (2004). It represents a key study on auditors' individual attributes in audit performance, in which the researcher developed AUDITQUAL, a multi-item listing examining different elements that affect the quality of an audit which was obtained from studies of audit quality. Specifically, Duff defined audit quality as a large construct, made up of several attributes, operationalised into measurable items. AUDITQUAL consists of nine items: capability, expertise, independence, reputation, experience, assurance, providing non-audit services, responsiveness and empathy. Duff (2004) asserted that these attributes are not only crucial for an auditor to perform the audit effectively (i.e. the technical part of the audit) but also to provide quality service to clients (i.e. the service part of the audit). Duff's AUDITQUAL is an extension and a culmination of prior studies of audit quality (e.g. Behn, Carcello, Hermanson, & Hermanson, 1997; Carcello, Hermanson, & McGrath, 1992) based on the auditor's attributes in performing the audit.

Several studies on quality of audits performed have found the abovementioned individual attributes by Duff (2004) to have a significant impact on auditors' performance such as experience (e.g. Mardijuwono & Subianto, 2018; Redmayne, 2013) and, capability and expertise (e.g. Hoa, Pesi, Thanh, & Sang, 2014; Owoso, Messier, & Lynch, 2002). Smith and Kilda (1991) and Iskandar et al. (2012) also found that poor professional judgment is attributable to auditors' attributes such as experience and competency, indicating that auditors attributes affects their behaviours, which consequently affects auditors' performance.

### 2.2.3. *Bringing together individual attributes and behaviours for auditors' performance*

Generally, studies on auditors' performance that examine desired behaviours (such as professional judgement and scepticism and avoiding QTB) and attributes (e.g. skills, experience, knowledge, objectivity, ability to service clients) have indicated that these behaviours and attributes are key to an auditor's proper performance. The significance of these attributes and behaviours in ensuring the quality of audits performed is also promulgated in the profession through IAASB's "Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality" (IAASB, 2014) as well as the ISQC 1 (IAASB, 2009). While there have been various prior studies that have examined auditors' performance from behaviours and attributes, they were not examined collectively. Studies on QTB have examined adverse behaviours but excluded attributes such as experience, knowledge and objectivity. Likewise, studies on

attributes (e.g. Duff, 2004; Sulaiman et al., 2019) have excluded desired behaviours (or threatening behaviours) when examining audit quality. This study expands the scope of auditors' performance, bringing together desired behaviours and attributes in the assessment of audit quality, as behaviours and attributes collectively affects auditors' performance. Thus, this study's focus on auditors' behaviours and attributes as they relate to auditors' performance is also consistent with Tysiac's (2016) assertion that having the right people to perform the audit process is the most vital element in the pursuit of audit quality, as well as Gul et al. (2013) finding that quality of audit performance is best scrutinised at the individual level.

### **3. Methodology**

The study examined auditors' performance based on individual auditors' desired behaviours and attributes. These were derived from prior literature based on studies of Zakaria et al. (2013) and Duff (2004), as set out in Table 1.

**Table 1. Attributes of Auditors' Performance**

No	Measure	Source
<b>Behavioural (professional judgement and scepticism, and non-QTB) attributes:</b>		
1.	Does not accept weak explanations or representation from the client as evidence.	Zakaria et al. (2013)
2.	Does not sign off on a required audit procedure without completing the necessary work done.	Zakaria et al. (2013)
3.	Incomplete or insufficient (i.e. superficial) review or verification of client's documents.	Zakaria et al. (2013)
4.	Fails to research on contentious accounting principles applied by the clients.	Zakaria et al. (2013)
<b>Individual auditor attributes:</b>		
5.	Ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	Duff (2004)
6.	Knowledge and skills to perform the audit.	Duff (2004)
7.	Provide client service that meets their needs.	Duff (2004)
8.	Objective and willing to report any breach by the client in their financial statements.	Duff (2004)
9.	Easily contactable (e.g. by phone).	Duff (2004)
10.	Provides clients with individualised attention.	Duff (2004)
11.	Have been performing the audit for at least two years.	Duff (2004)
12.	Credible to third parties.	Duff (2004)

In order to better understand and assess whether there were any other auditors' performance attributes (other than those identified from literature as set out in Table 1) that were applicable or relevant in practice, a content analysis of Transparency Reports issued by the ten largest accounting firms in the world (which each have presence in Malaysia) and interviews with eight audit practitioners and two audit regulators in Malaysia was undertaken. The content analysis was a precursor to the quantitative method of study (Brannen, 2017). The content analysis generally found that ability to perform the audit in accordance with standards, competency and experience, ethical behaviour, client service and professional scepticism were significant attributes for auditors' performance (Louis, Sulaiman, & Zakaria, 2020). The findings show that the attributes derived

from literature, as set out in Table 1 was also relevant in practice. Therefore, the auditors' performance attributes in Table 1 was suitable to be used for this study.

The research instrument, which is the survey questionnaire, was designed based on the items in Table 1 to obtain the views of audit practitioners on significant auditors' performance attributes for audit quality. Before conducting the pilot test of the research instrument, content validation was carried out involving a panel of experts comprising two academics and five audit partners in Malaysia to assess whether the questionnaire items adequately measure what the construct is intended to assess and whether the items were suitable and sufficient to measure the area of study (Tsang, Royce, & Terkawi, 2017). A pilot study comprising the 12 attributes of auditors' performance was conducted, asking respondents to rate the attributes using a five-point Likert scale from 1 *Strongly Disagree* to 5 *Strongly Agree*. The study respondents were auditors from audit firms registered with the MIA. The MIA's latest database of all public accounting practices in Malaysia (denoted as "AF") was used as the designated population pool from which samples were drawn. The database listing the individual AF firms was obtained from MIA's online directory at [https://www.mia.org.my/v2/Membership/services/member\\_firms\\_directory.aspx](https://www.mia.org.my/v2/Membership/services/member_firms_directory.aspx). As of 30 June 2019, 1,481 AF firms were registered with MIA.

The samples selected included individuals ranging from senior audit staff up to audit partners of large firms (including the Big Fours), small and medium-sized firms (SMPs) and sole proprietors (SPs). Audit partners were selected as respondents for the survey questionnaire as they were responsible for ensuring the quality of audit work performed by the engagement team before issuing the audit opinion. Audit seniors, audit supervisors, audit managers and audit principals or directors were also selected to respond in the survey questionnaire as they would primarily be involved in gathering audit evidence for audit assurance as well as supervising and reviewing audit performance of other personnel on the engagement team. A pilot study was first conducted where 120 survey questionnaires were distributed. The survey questionnaire was distributed using two methods, an online survey form/questionnaire created using Google Forms and physical copies distributed to targeted participants. A link to the Google form was created and forwarded to targeted respondents to complete, while the physical copies were distributed by hand at two meetings of an audit firm association in Klang Valley, Malaysia. By the cut-off date (30 August 2019), 102 usable responses had been received (85% response rate). Based on the results of exploratory factor analysis (EFA) performed on the pilot study data, 2 attributes were dropped from the list of attributes - "The auditor is credible to third parties" and "The auditor has been performing the audit for at least two years" due to low factor loading.

The final study used the resulting final set of 10 auditors' performance attributes (as shown in Table 4). The survey questionnaires were distributed in person to auditors attending several audit training programs conducted by the MIA, the Association of Chartered Certified Accountants (ACCA) and the Malaysian Accounting Firms Association (MAFA) as part of the continuing professional education (CPE) programs for their members held in Kuala Lumpur, Kota Kinabalu, Sabah and Kota Bharu, Kelantan, between October and December

2019. Out of 500 questionnaires distributed, a total of 307 usable questionnaires were returned, representing a 61.4% response rate. Statistical Package for the Social Science (SPSS) version 22.0 was used as the statistical analysis tool for this study. For the pilot test, Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity was first performed before proceeding with the EFA. For the final study, descriptive statistics in terms of mean scores were used to determine the perceived significance of auditors' performance attribute items.

#### **4. Empirical Analysis**

The analysis of the research findings entails responses obtained during the pilot study stage to establish attributes to be used in the final study, including a factor analysis to identify the existence of any underlying components. Meanwhile, the assessment of the items from the final survey responses aimed to determine which auditors' performance attributes were significant, as perceived by audit practitioners. An analysis of differences in the respondent groups was also performed to examine whether differences existed in the perceived importance of attributes.

##### **4.1. Demographic profile of the respondents**

Table 2 provides the profile information of the study respondents. The respondents' gender was nearly balanced, with male respondents (53%) slightly outnumbering female respondents. Most respondents were 35 years of age and below, with a small percentage (1.6%) of respondents was over the age of 60 years. In terms of respondents' current position in their respective audit firms, audit seniors made up the majority of respondents at 40.4%, followed by audit managers/assistant managers at 25.8% and audit partners at 21.8%. A significant proportion of the respondents were professionally qualified accountants possessing certification from professional accountancy bodies, such as ACCA, MICPA, ICAEW, or CPA Australia, making up 56.4% of the total respondents. In terms of respondents' number of working years of experience in audit, the profile is quite balanced, in that 38.4% exceeded 10 years of working experience, 28% between 6 to 10 years of working experience and the balance of 33.6% of respondents indicated 5 years or less of audit working experience. In terms of the profile of the respondents' audit firms, most respondents worked in audit firms that only performed audits of SMEs, making up 78.2%. The balance (21.8%) reported working in firms that performed audits of PLCs. The analysis of the respondents' profile also indicated that most respondents were working in small to medium-sized audit practices/firms.

##### **4.2. Factor analysis for auditors' performance attributes**

The results of Kaiser-Meyer-Olkin (KMO) tests for each variable, as shown in Table 3, indicate that all constructs have a KMO > 0.5. Bartlett's Test of Sphericity also shows that the chi-square value for all the constructs is also significant ( $p < 0.05$ ). Based on this outcome, the data were suitable for factor analysis. The EFA performed on auditors' performance resulted in factor loadings between 0.576 and 0.804 (as shown in Table 3), except for 2 attributes that were dropped from



the list of attributes (as initially presented in Table 1) due to factor loadings below 0.500 (Fen & Sabaruddin, 2008; Hair, Black, Babin, Anderson, & Tatham, 2006).

**Table 2. Profile of Respondents**

Demographic variables	Categories	Frequency	Percentage
Gender	Male	142	46.3
	Female	165	53.7
	Total	307	100.0%
Age	Below 30 years	91	29.6
	31 to 35 years	74	24.1
	36 to 40 years	48	15.6
	41 to 45 years	22	7.2
	46 to 50 years	33	10.7
	51 to 55 years	20	6.5
	56 to 60 years	14	4.6
	Above 60 years	5	1.6
	Total	307	100.0%
Current position in the audit firm	Audit Partner	67	21.8
	Audit Principal/Director	14	4.6
	Audit Manager/ Assistant Manager	77	25.1
	Audit Supervisor	25	8.1
	Audit Senior	124	40.4
	Total	307	100.0%
Highest level of academic qualification	Master's degree	11	3.6
	Bachelor's degree in accounting or finance	103	33.6
	Other bachelor's degree	5	1.6
	Professional accounting qualification (such as ACCA, MICPA, CPA Australia, ICEAW and similar)	173	56.4
	Diploma in accounting or finance	13	4.2
	Others	2	0.7
	Total	307	100.0%
Working experience in audit	1 to 5 years	103	33.6
	6 to 10 years	86	28.0
	More than 10 years	118	38.4
	Total	307	100.0%
Types of entities audited by the firm	Only performs audit of SMEs	240	78.2
	Performs audit of PLCs	67	21.8
	Total	307	100.0%
Size of the firm (by number of employees including all partners)	Less than 20	61	19.9
	21 to 50	106	34.5
	51 to 100	62	20.2
	101 to 200	29	9.4
	201 to 500	16	5.2
	More than 500	33	10.7
	Total	307	100.0%

#### 4.3. Perceived importance of auditors' performance attributes

Table 3 also provides the results of the overall perception of auditors' performance attributes based on the ranking by mean scores. The highest

auditors' performance attributes that the respondents perceived as important is the auditors' knowledge and skills (mean = 4.41). The level of auditors' knowledge and skills (which may involve client-specific knowledge, task-related knowledge and industry experience) have a direct impact on the performance of the audit, affecting auditors' judgement throughout the audit engagement as well as the development of the auditors' competency/expertise (Beck & Wu, 2006; Owahoso et al., 2002).

**Table 3. Perceived Attributes of Auditors' Performance by Respondents**

No	Attributes	Pilot Study		Final Study	
		Factor loading (from EFA)	Cronbach Alpha ( $\alpha$ ), KMO & Bartlett	Mean	Rank
1	The auditor is objective and willing to report any breach by the client in their financial statements.	0.642	$\alpha = 0.810$ , KMO = 0.735, Sig = 0.000	4.13	6
2	The auditor does not accept weak explanations or representation from the client for audit assurance.	0.628		4.15	5
3	The auditor does not sign-off a required audit procedure without completing the necessary work done.	0.576		4.22	4
4	The auditor performs complete or sufficient (i.e. superficial) review or verification of client's documents.	0.714		3.86	8
5	The auditor will research on contentious accounting principles applied by the clients.	0.684		3.76	9
6	The auditor has the relevant knowledge and skills to conduct the audit work.	0.804		4.41	1
7	The auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	0.722		4.38	2
8	The auditor is able to provide client service that meets the client's needs.	0.682		4.26	3
9	The auditor is easily contactable.	0.785		4.03	7
10	The auditor provides clients with individualised attention.	0.738		3.76	10

Knowledge and skills relate to the competency of the auditors to perform the audit effectively and efficiently, which was also one of the key auditor attributes identified by Duff (2004) for audit quality. Having the necessary skills to perform the audit such ability to perform risk assessments, performing substantive tests, gathering sufficient and appropriate audit evidence, dealing with fraud and error and issuing an appropriate audit evidence given the circumstance, among others, are critical technical skills that is paramount for proper performance of an audit.

Various past studies in the auditing setting have also found the significance of relevant skills and experience for proper audit performance. Studies by Hegazy, Raslan and Eldawla (2016) and Khadr (2004) found that auditors' expertise and

experience had an impact on proper performance of risk assessment while Fouda (2008) noted that auditors' capabilities and experience had a direct impact on work done and reporting of going concern.

The profession alike has also set out knowledge and skills as a key element for achieving quality in audits performed. The IAASB's 2014 "Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality" specifically postulates that it is imperative that auditors' knowledge and skill be brought to the audit to ensure the effectiveness of the audit's processes and, partners and staff must have the necessary competencies and understand the entity's business. (IAASB, 2014; Neri & Russo, 2014). The MIA in its latest Practice Review Report 2019/2020 also highlighted the significance of competency amongst auditors:

*"As auditors are trusted for their integrity and competency in providing a true and fair opinion on financial statements, the audit profession can only heighten its trust and sustainability by developing ethical and trusted leadership and high competency. To ensure auditors' skills and knowledge grow in tandem with the latest professional standards, competency is key (MIA, 2020, p. 11)"*

Given the importance of competency (i.e. knowledge and skills) for proper auditors' performance noted from prior studies, audit quality prescriptions set out by the profession as well as reports from audit regulators, it is not surprising that this study found knowledge and skills to perform the audit work being perceived to be the most important auditors' performance attribute. The second most significant attribute perceived by the respondents is the auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements (mean = 4.38). The audit of financial statements must be carried out in accordance with applicable approved auditing standards, quality control standards, ethical standards and relevant regulatory requirements. This is clearly set out in ISA 220 "Quality Control for an Audit of Financial Statements" and ISQC 1. As it is a mandatory requirement, set out by the standards, it has therefore been perceived to be a critical auditors' performance attribute by the respondents. The importance of this attribute is consistent with the study by Sulaiman et al. (2019) which found that carrying out an audit in accordance with ISAs to be one of the top ten rated audit quality attributes amongst audit practitioners. Besides being mandatory for auditors to comply with auditing standards and regulations when performing and reporting on an audit, respondents likely perceive this to be highly significant as they are monitored and reviewed by regulators in terms of compliance with applicable standards and regulations.

The oversight and monitoring responsibilities of audit regulators, such as the U.S. Public Company Accounting Oversight Board (PCAOB), U.K. Financial Reporting Council (FRC), AOB and MIA, encompass reviewing whether an audit engagement has been performed with applicable auditing standards (e.g. the ISAs) and include firm-wide policies and procedures relating to quality control in accordance with quality control standards such as the ISQC 1 (MIA, 2018). The audit regulator is a key stakeholder in proper audit performance due to their oversight function in ensuring that work performed comply with standards and

issuing of reprimands over shortcomings discovered in the auditors' work (AOB, 2021; MIA, 2018). Past studies on the role of regulators and auditors' performance have generally found that oversight by regulators such as the PCAOB in the United States have a positive impact on improving quality of audits performed (Carcello, Hollingsworth, & Mastrolia., 2011; Gunny & Zhang, 2013). The finding from this study is therefore consistent with the significance of the ability to conduct an audit in accordance with standards and regulations as an attribute for proper audit performance.

The third highest rated attribute in the study is the auditor's ability to provide client service that meets the client's needs (mean = 4.26). The importance of client service as an audit quality attribute was provided by Duff (2004). He noted that besides technical skills, it was important that auditors also possess and develop skills necessary to provide good service to their clients. He went on to assert that having a good working relationship with clients was crucial for auditors that firms should consider new hires who possess good interpersonal skills so that they are able to provide better service to clients. Even though client service had been a bone of contention in the past, especially the provision of non-audit services that is seen to impair the independence of auditors (Quick & Rasmussen, 2005), that does not mean that auditors are not expected to provide effective and efficient audit service to their clients whilst still maintaining ethical requirements.

A recent analysis by Knechel, Thomas and Driskill (2020) on auditing from a service perspective notes four key service orientation in auditors' performance. Firstly, audit is fundamentally an economic service which requires input and collaboration with management and personnel of the client. As such, for the audit to be effective auditors will have to work closely with clients to complete their audit procedures, as the information and representations provided have a direct impact on the audit outcome. Secondly, auditing is performed within a service network of parties that are concerned with the integrity and reliability of the financial statements that includes management, those charged with governance and shareholders. Therefore, the performance of a compliant and independent audit is a hallmark of service that is expected by all stakeholders of the client. Thirdly, while auditing is performed based on prescribed standards, it cannot be performed based on a "one size fits all" basis. This is because clients come in all shapes and sizes – in terms of nature of business, complexity, jurisdiction, industry, etc. As such, auditors will have to understand their clients well in order to tailor the audit performance based on their client's circumstances in order for the audit to be effective. This is part of client service that is expected by all stakeholders of an audit. Lastly, clients expect auditors to have the necessary knowledge, skill and experiences to execute the audit of their financial statements despite using a standardised audit methodology so that it meets the needs of the clients. Given the importance of service orientation in the performance of an audit, the high regard for client service by the respondents is reasonable and justified.

In terms of auditors' performance that have a low perceived significance, the two lowest ranked attributes are auditors provide clients with individualised attention and will research on contentious accounting principles applied by the clients (both mean = 3.76). Even though the respondents had perceived providing client service and meeting their needs as one of the highest significant auditors'

performance attribute, it appears that they regard client service as crucial but not to the extent of providing individualised attention. The main likely reason for such a low perception on this attribute is due to lack of resources by audit firms in terms of personnel and time-constraints to provide such level of service to clients due to tight audit deadlines. Several past empirical studies (e.g. Alderman & Deitrick 1982; Bills, Swanquist, & Whited, 2016) have shown that resource limitations, especially those involving staffing, have resulted in poor auditors' performance. Bills et al. (2016) for example found that audit firms with large number of clients to service had resulted in high workload for staff to manage and consequently impaired the quality of the audit performed. The MIA in their "The Audit Profession in Malaysia 2018" report explicitly assets that one of the key challenges faced by the audit profession in Malaysia, especially amongst SMP firms, is the lack of resources arising from the "talent crunch" within the accounting profession where most talents prefer to work in non-practice or commercial companies rather than audit, thus creating an up-hill retention challenge for audit firms. As 78% of the respondents in this study are auditors of SMEs, it is reasonable to note that many of them are facing resource constraints and therefore perceive individualised attention to clients to be the lowest attribute of auditors' performance.

The respondents also regarded researching contentious accounting principles applied by clients as a low auditors' performance attribute. Even though the occurrences of questionable accounting practices and treatment is a significant concern to auditors and should be adequately addressed in an audit as stipulated by auditing standards, the respondents likely find it a challenge to effectively deal with them. This in turn is due to the resource constraints faced by audit firms as discussed above. The MIA in their "The Audit Profession in Malaysia 2018" report has also reported on this phenomenon, stating:

*"The current landscape for public practice is dominated by a broad base of 1,332 sole proprietorships and partnerships of 2 partners (comprising about 90.4% of total audit firms). By and large, these firms lack resources and are unable to meet the requirements of professional standards and regulations (MIA, 2018, p. 12)"*

#### **4.4. Analysis of auditors' performance attributes - differences between groups**

##### **4.4.1. Auditors of PLCs and SMEs**

For this section of the analysis, the auditors of PLCs comprise auditors of the Big-Fours, large firms and other SMPs who are registered with the AOB to perform audits of PLCs. The auditors of SMEs are auditors who only perform audits of SMEs and do not undertake any PLC audits. They consist of mainly SMPs and SPs. Table 4 presents the five highest rated attributes by both group of respondents. The five highest rated attributes were analysed to identify the most significant amongst the ten attributes, as perceived by the respondents.

The results in Table 4 show that both auditors of PLCs and SMEs place high significance on competency (i.e. necessary knowledge and skills) to perform the audit and conducting the audit in accordance with prescribed standards and regulations. Both groups rated these two attributes as their highest. It is

reasonable to conclude that these two attributes are fundamental for proper performance of an audit as stipulated clearly in the ISAs (especially ISA 220), IAASB's Framework for Audit Quality and ISQC 1.

Besides, oversight by regulators (AOB on auditors of PLC and MIA on auditors of SMEs) on proper compliance and conduct of the audit in accordance to standards and regulations also ensures and keep audit firms vigilant towards proper audit performance; regardless of size and type of audits performed. Both auditors of PLCs and SMEs are concerned with sanctions and reprimands imposed by regulators that not only affects the continuity of their audit services (due to suspension of provision of audit services to clients), but also monetary loss (due to fines imposed) and reputation damage (Nagy, 2014). The AOB reported in their website (<https://www.sc.com.my/aob/aobs-sanctions>) that between 2018 to 2020, a total of 13, 11 and six audit partners respectively were sanctioned with fines ranging from RM44,000 to RM445,000 due to poor audit performance. Many of these audit partners and their firms were also barred from auditing PLCs for a period of twelve months.

**Table 4. Five Highest Rated Auditors' Performance Attributes by Auditor Position in the Firm**

No	PLC Auditors		SME Auditors	
		Mean		Mean
1	The auditor has the relevant knowledge and skills to conduct the audit work.	4.70	The auditor has the relevant knowledge and skills to conduct the audit work.	4.33
2	The auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	4.70	The auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	4.29
3	The auditor does not sign-off a required audit procedure without completing the necessary work done.	4.64	The auditor is able to provide client service that meets the client's needs.	4.20
4	The auditor does not accept weak explanations or representation from the client for audit assurance.	4.54	The auditor does not sign-off a required audit procedure without completing the necessary work done.	4.11
5	The auditor is able to provide client service that meets the client's needs.	4.48	The auditor is easily contactable (e.g. by phone).	4.08

The auditors of PLCs placed two attributes relating to QTB as their third and fourth highest auditors' performance attributes. It encompass not signing-off on incomplete audit procedures/work done (mean = 4.64) and not accepting weak representations from client for audit assurance (mean = 4.54). As discussed previously, PMSO and accepting weak explanations from clients can have a severe adverse effect on the quality and reliability of the audit performed (Broberg et al., 2017; Haron et al., 2014; Herda et al., 2019; Zakaria et al., 2013). As such, the findings from the study is consistent with prior studies of QTB and its impact on auditors' performance. The auditors of SMEs also regarded not signing-off on

incomplete audit procedures/work done as important to them by ranking it as their fourth highest perceived importance (mean = 4.11).

Even though in general, the results in Table 4 show that attributes perceived to be significant are somewhat similar between both groups of respondents, there is one key difference. The auditors of SMEs have placed higher (and more) importance on client service related attributes as compared to auditors of PLCs, where two attributes – the auditor is able to provide client service that meets the client’s needs (mean = 4.20) and the auditor is easily contactable (mean = 4.08) are within their top five perceived significant auditors’ performance attributes. This indicates that auditors of SMEs are more akin to client service orientation compared to auditors of PLCs. One of the key reasons why auditors of SMEs tend to have a closer relationship with their clients is because most SMEs generally do not have financial experts that may be competent or familiar with financial reporting matters (MIA, 2016) and therefore management of SMEs usually rely more closely towards their auditors for compliance requirements and ensuring that their financial statements meet those requirements during the audit process.

#### 4.4.2. *Top management and staff*

For this analysis, top management represents audit partners and audit directors or principals, in line with the American Institute of Certified Public Accountants (AICPA) findings that directors perform functions and assume responsibilities similar to those of partners (Lightbody & Single, 2011). The staff includes audit seniors, supervisors and managers. The five highest rated attributes were analysed to identify the most significant amongst the ten attributes, as perceived by the respondents.

Table 5 shows top management of firms place high significance on auditors’ competency and performing the audit in accordance with standards and regulations (mean = 4.60 and 4.59 respectively). The staff of audit firms also perceived these two attributes to be their top two significant auditors’ performance attributes. As discussed previously in Sections 4.3 and 4.4.1, this is likely due to the fact that these two attributes are fundamental to proper performance of an audit. Top management of firms have however, placed higher (and more) significance on the importance of QTB attributes, namely not accepting weak explanations or representation from the client for audit assurance (mean = 4.44) and not signing-off a required audit procedure without completing the necessary work done (mean = 4.41), compared to audit staff. This is likely due to audit partners and directors having a better appreciation towards the importance of these attributes and realise how such behaviours can adversely affect the audit work done and audit opinion rendered thereafter, not mentioning the sanctions and reprimands they could receive if such findings were identified by audit regulators during their inspection. The AOB in its “Annual Inspection Report 2020” highlighted that one of the key findings on auditors’ performance is “*the lack of professional scepticism among auditors in executing the audit, particularly in assessing the reliability of documents, responses to inquiries and other information obtained from management or TCWG throughout the audit* (AOB, 2021, p. 44)”. This shows that ensuring proper procedures are completed and representation obtained thoroughly substantiated is critical to an effective audit.

**Table 5. Five Highest Rated Auditors' Performance Attributes by Top Management and Staff**

No	Top Management		Staff	
		Mean		Mean
1	The auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	4.60	The auditor has the relevant knowledge and skills to conduct the audit work.	4.35
2	The auditor has the relevant knowledge and skills to conduct the audit work.	4.59	The auditor has the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements.	4.30
3	The auditor does not accept weak explanations or representation from the client for audit assurance.	4.44	The auditor is able to provide client service that meets the client's needs.	4.21
4	The auditor does not sign-off a required audit procedure without completing the necessary work done.	4.41	The auditor does not sign-off a required audit procedure without completing the necessary work done.	4.16
5	The auditor is able to provide client service that meets the client's needs.	4.38	The auditor is objective and willing to report any breach by the client in their financial statements.	4.11

The staff have placed a higher perceived significance on providing client service compared to management. Even though this would usually be more important to management, staff may have likely rated high perceived importance for this attribute as they may regard providing proper service to clients as a reflection of their work performance and consequently have an effect on their remuneration and even career advancement in the firm. Besides that, staff level respondents have also perceived independence in terms of the auditor being objective and willing to report any breach by the client in their financial statements as their top five perceived significant auditors' performance attribute. This finding of staff level placing importance on being objective and willing to report or non-compliances in the accounts of their clients echoes the finding from a recent empirical study on auditors' independence and ethical judgement by Nasution and Östermark (2020). Their study, where the majority of respondents were staff level (i.e. 91% being audit seniors and below), found that auditors' professional independence had a significant impact on ethical judgement. It shows that staff level auditors have a high regard for independence and ethical behaviour.

#### **4.5. Independent sample T-Test**

Table 6 presents the results of the t-test for auditors of PLC and SME groups and top management and staff groups. The p-value of Levene's test is  $> 0.05$ , therefore, the population variances are assumed to be relatively equal. The results indicate a significant difference exists between the auditors of PLCs group and auditors of SMEs group, as well as between the top management group and staff group



(where p-values are significant at 0.05 significance level; two-tailed), despite the two groups being drawn from the same population.

**Table 6. Comparison of Mean Scores for Auditors’ Performance Attributes between Groups**

Groups	Levene’s Test for Equality of Variances		T-test for Equality of Means			
	Equal variances assumed (F / p-value)	Equal variances not assumed (p < 0.05)	t	Df	Sig (2-tailed)	Mean differences
Auditors of PLCs and auditors of SMEs	0.360 / 0.549	N/A	-6.215	305	0.000	-0.35886
Top management and staff	1.309 / 0.253	N/A	3.650	305	0.000	0.20523

The difference in auditors’ performance attributes between auditors of PLCs and auditors of SMEs, and top management and staff, as indicated in the results of the t-test, is likely due to auditors of PLC and top management across all type of firms having a higher appreciation and understanding of the significance and consequences of proper auditors’ performance compared to auditors of SMEs staff in general. The impact or consequences of the auditor not having “the relevant knowledge and skills to conduct the audit”, or not having “the ability to conduct the audit work in accordance with prescribed standards and other regulatory requirements” or even “signing-off a required audit procedure without completing the necessary work done” on auditors’ performance is likely felt more by partners and directors than staff (who are more at the execution level) because the former are directly accountable for audit shortcomings during assurance/practice reviews to regulators as well as shareholders and management. Similarly, auditors of PLCs face a higher consequence of not having those auditors’ performance attributes in place as they audit public clients and any shortcomings at their end would face heightened scrutiny from the public, as compared to audits of SMEs which are predominantly private entities. That circumstance puts auditors of PLCs at a higher risk of improper audit performance.

**5. Conclusion**

This study examined auditors’ perceptions of auditors’ performance attributes and behaviours. This study also further examined differences between auditors of PLCs and auditors of SMEs, and between top management and staff, regarding their perceptions of auditors’ performance. Understanding the significance of these attributes in general and between groups will enable researchers and practitioners alike to gain better insights into key auditors’ performance attributes that are crucial for performing and reporting on an audit effectively.

In addition to past studies (e.g. Duff, 2004; Sulaiman et al., 2019) on auditors’ attributes and behaviours of examining skills, experience and ability to properly perform an audit, this study also found that not having or displaying

dysfunctional behaviour (or QTB) when performing the audit, especially not prematurely signing-off on audit work that is supposed to be done and not accepting weak representations from clients for audit evidence, to be important behavioural attributes for proper audit performance. The study also finds that competency and performing an audit in accordance to standards and regulations were key attributes regardless the type of auditors or their levels – be it auditors of PLCs or SMEs, or top management or staff level. This indicates that these two attributes are core attributes that is required for auditors' performance.

This study enhances the literature on audit quality from the perspective of the auditors' performance, in line with the proposals of many researchers studying audit quality suggesting that research on audit quality should focus on this area (Gaynor, Kelton, Mercer, & Yohn, 2016; Hussein & Hanefah, 2013; Knechel et al., 2013; Neri & Russo, 2014; Sulaiman et al., 2019). In practice, the audit profession also emphasises auditors' performance in the pursuit of audit quality (CAQ, 2014; IAASB, 2014). This study also contributes to existing literature on audit quality based on desired behaviours and attributes by expanding on the individual auditor attributes and behavioural aspects pertinent to achieving audit quality as set out by Duff's (2004) AUDITQUAL by incorporating the behavioural attributes of professional judgement and scepticism as well as QTB. While previous studies examined auditors' attributes, QTB and professional judgement and scepticism separately, this study brings these attributes together in one study to measure auditors' performance. This comprehensive measure of auditors' performance, which have also been perceived to be significant by audit practitioners, can be used by the audit profession to improve audit quality by improving and strengthening attributes pertinent to auditors' performance, which can subsequently guide human resource development of auditors.

One of the study limitations is that the data were obtained exclusively from auditors in Malaysia, mainly being SMPs and SPs. Other regions might exemplify different perceptions of auditors' performance, including differences across developed and developing jurisdictions. Furthermore, the data were only gathered from auditors, excluding other stakeholders, such as regulators and clients. The IAASB's 2014 "Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality" has indicated that proper audit performance is affected by other stakeholders involved in the financial reporting environment as well as auditors. As such, future studies should also consider the perceptions of other stakeholder groups.

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