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Controlling Auditor Interactions to Improve the Quality of a Financial Statement Audit

Christopher Turner
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Walden University

College of Management and Technology

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Christopher Turner

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Walden University
2016

Abstract

Controlling Auditor Interactions to Improve the
Quality of a Financial Statement Audit

by

Christopher Turner

MS, Walden University, 2012

BS, Eastern Connecticut State University, 2004

Doctoral Study Submitted in Partial Fulfillment
of the Requirements for the Degree of
Doctor of Business Administration

Walden University

June 2016

Abstract

Poor quality financial statement audits have a negative impact on the information provided to principals and stakeholders that can increase the risk of corporate fraud. The well-documented collapses of companies, such as Enron and WorldCom, brought the issue of audit quality to the headlines. Using agency theory as the conceptual framework, the purpose of this single case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. The population comprised a census sample of 9 individuals with direct involvement in the audit process within a Connecticut-based organization and its audit firm. Data collection comprised of semistructured interviews and analysis of public and internal documents. Using methodological triangulation, 5 primary themes emerged including communication, documentation, knowledge and experience, character, and procedural. The findings of this study may promote social change by enhancing knowledge of what role management can play in ensuring a high-quality audit. Improved insight to the audit process may promote investor confidence in the financial statements and economic growth through capital spending.

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Dedication

This study is dedicated to a number of individuals who have guided me and made me who I am. First my mother, whose unconditional love and support helped me through many obstacles in my life. My father, from whom I learned the man and father I wanted to be when I grew up. My sisters, whom have always been there. My kids, who are growing into people any father would be proud of.

Finally, to my wife, whom makes me strive to be better and do better every day. Without her support and encouragement, I would not be who I am.

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Section 1: Foundation of the Study

Subsequent to the collapse of companies such as Enron and WorldCom, business officials, regulatory agencies, and investors realized that shortfalls exist in the financial statement audit process (Kao, Li, & Zhang, 2013). The enactment of the Sarbanes-Oxley Act of 2002 (SOX), sponsored by U.S. Senator Sarbanes (D-MD) and U.S. Representative Oxley (R-OH), to deter future corporate governance scandals was a direct response to these high profile collapses (Willits & Nicholls, 2014). The Securities and Exchange Commission (SEC) officials wrote SOX to focus on financial reporting quality, including reporting, disclosure, and internal controls over financial reporting (Gupta, Weirich, & Turner, 2013). The Government Accountability Office (GAO, 2003) established that audits must conform with generally accepted auditing standards (GAAS), assuring the financial statements are in conformance with generally accepted accounting principles (GAAP) and free of material misstatements. The audit standards promulgated by both the Public Company Accounting Oversight Board (PCAOB) and the Audit Standards Board (ASB) detail specific responsibilities over financial reporting for both the auditor and management (PCAOB, 2015). The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm to carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the audit engagement letter.

Background of the Problem

Financial statement audits conducted by Certified Public Accountants (CPAs) are the primary safeguard shareholders have to ensure companies are presenting financial information that is free of material mistakes and in accordance with GAAP (Skinner & Srinivasan, 2012). An audit is an objective evaluation a company's internal controls, transactions, account balances, and financial statement presentation by independent experts (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). While the auditor is responsible for expressing an opinion on the fair presentation of the financial statements, management is responsible for these statements (PCAOB, 2015). In published auditing standards, the PCAOB outlines responsibilities for the board of directors and management related to the annual financial statement audit including:

- Designating an individual with the skills, knowledge, and experience to be responsible for overseeing the audit services;
- (b) Preparation the financial statements;
- (c) Reviewing and overseeing adjusting entries and correcting entries, including understanding the impact these entries have on the financial statement (American Institute of Public Accountants [AICPA], 2015).

Boone, Khurana, and Raman (2012) indicated that audit process inputs, such as (a) partner rotation, (b) audit firm rotation, (c) auditor independence, (d) regulatory changes, (e) comingling non-audit services during the course of an engagement, and (f) auditor and client relationship affect the quality of an audit. Thus, the board of directors and management is responsible for identifying a quality firm and establishing the terms of

engagement that meets the best interests of the stakeholders. Ensuring a quality audit engagement protects the company stakeholders from financial statement fraud, material misstatement, and penalties and litigation claims against the company (Ojo, 2014).

Problem Statement

Restating financial statements to correct material errors burdens management because of the impact on credit ratings (Liu, Rowe, & Wang, 2012), increased risk of litigation, and loss of confidence in management (Mande & Myungsoo, 2013). Liu et al (2012) determined that a company's credit rating decreased by 58% of a credit rating level designation on the Standard and Poor's rating system after a financial restatement. The general business problem is that companies have credit rating risk with materially misstated financial statements. The specific business problem is that some client managers and boards lack strategies to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their manager assertions.

Purpose Statement

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. The population included nine individuals that make up the audit team who are involved in the annual financial statement audit for a Connecticut-based public company. Data collection included open-ended interviews and public data available on the company. The

implication for positive social change includes the potential to have a better insight to audit processes. Improved insight to the audit process may promote investor confidence in the financial statements and economic growth through capital spending.

Nature of the Study

The chosen method for this study was qualitative. My research goal was to identify thematic issues, which surface during the literature review and research phase of a study. Qualitative methodology is appropriate when the researcher wants to explore themes, primarily through interviews with participants (Barnham, 2012). Quantitative researchers seek to determine the significance of a relationship between reduced variables (Venkatesh, Brown, & Bala, 2013). However, the purpose of this study was to identify themes not to measure the significance of relationships between variables. A quantitative research approach was not appropriate when variables are not predefined (Fassinger & Morrow, 2013). A mixed method study was also not ideal because, as indicated by Fassinger and Morrow, the quantitative portion of a mixed method study would require the prediction and testing of the theoretical construct.

The design for this research was a case study. A case study has a singular setting or targeted focus (Løkke & Sørensen, 2014). A case study was appropriate for this study because the design allows me to conduct an in-depth exploration of multiple data sources from my chosen research area (Yin, 2014). A phenomenological study, investigating the lived experiences of the participants, involving several sites would require lengthy interviews to evaluate the detailed topics this study covered, reducing the participants' willingness to partake in the study (Small, 2009). Additionally, a phenomenological

design was not suitable for this study because understanding the lived experiences of participants was not the main purpose of this study. An ethnographic study was inappropriate because the study was addressing a business problem that exists worldwide and was not limited to one ethnicity or culture (Small, 2009).

Research Question

The overarching research question was: what strategies can client managers and boards use to facilitate an engagement, provide relevant evidence, and support management assertions?

Interview Questions

1. What interactions exist in the audit process between the client and auditor?
2. What role does the client play in the audit process?
3. How does the client's interaction with the auditor affect audit quality?
4. What components of the audit process are within the control of the client?
5. What components of an audit are not within the control of the client?
6. What measures are appropriate in determining the quality of an audit?
7. What factors do you believe compromise the quality of the audit process?

Conceptual Framework

The primary conceptual framework theory for this topic was agency theory as introduced by Berle and Means (1932), expanded by Jensen and Meckling (1976), and further expanded by Jensen and Meckling (2009). The principal assumption of agency theory, according to Jensen and Meckling (2009) is that management agents will not act in the best interest of owners or shareholders (the principals) without proper oversight to

ensure such commitment. Fama (1980) described a cost associated with monitoring agents. The cost of an audit, which is quite substantial, is an example of agency related monitoring cost (Gotti, Han, Higgs, & Kang, 2012). Agency theory was an appropriate framework for the audit process because the purpose of an audit was to validate the fair presentation of financial information communicated by the agents to the principals. If the agents could be trusted to act in the best interest of the principals, the reliance on the audit by the board or directors, investors, and owners would significantly decrease. Fama (1980) reduced the company framework to a series of contracts between the principal and each agent. Each agent is driven by self-interests, which the contracts attempt to redirect to the company's benefit. Two of the primary components of agency theory are costs of monitoring an agent's behavior and costs incurred to ensure the agent does not engage in opportunistic behavior (Jensen & Meckling, 2009). The original theory framed the relationship between principals and agents, specifically owners and managers, in the arena of large public companies (Berle & Means, 1932). The theory has evolved over the past decades by other authors utilizing the term of *agent* as any party acting on behalf of the principals or the company as a whole (Saltaji, 2013). Agency theory was appropriate for this study because the foundation of the study was to determine what client managers and boards can control in their interaction with the auditor to affect the quality of the financial statement audit. Additionally, the foundation of the theory deals with the requirement to monitor the activities of the agents and report them to the principals.

Operational Definitions

Audit engagement: The audit engagement is the contractual agreement between the audit firm and the client defining scope, liability, and fee (Desir, Casterella, & Kokina, 2014).

Audit risk: The audit risk is the potential for the existence of a material misstatement in the financial reports which is not detected in the audit process (Ruhnke & Schmidt, 2014).

Big 4: Big 4 is a representation of the collective of the top four audit firms in the world service a majority of corporations (Kao et al., 2013).

Discretionary accrual: A discretionary accrual is a change to a company's reported financial position for earnings management purposes (Asthana & Boone, 2012).

Engagement Risk: The engagement risk is the potential for a misunderstanding between the client and audit firm about the needs or expectations from one another (Reinstein, Green, & Beaulieu, 2013).

Management assertion: Management assertions are statements that can be evaluated by testing measurable criteria (Ben-Menachem & Gaviious, 2008).

Material misstatement: A material misstatement is inaccurate or misleading information in the financial statements, which individually or in aggregate are important enough to cause the financial statements to not be presented fairly in conformance with GAAP (GAO, 2003).

Unqualified opinion: An unqualified opinion indicates that the auditor expresses an opinion that the financial statements are not materially misstated (GAO, 2003).

Assumptions, Limitations, and Delimitations

Assumptions are the information the researcher assumes to be true, even though such information may be unproven (Kirkwood & Price, 2013). A limitation is a threat to the validity of the study, causing a researcher to provide findings inconsistent with the goals of the study or findings that do not address the research question (Aastrup & Halldorsson, 2003). Delimitations define the boundaries of the study, articulating what the researcher will not do or include in the research (Ellis & Levy, 2009).

Assumptions

Assumptions are the concepts the researcher believes to be true without empirical evidence (Ellis & Levy, 2009). The first assumption was that financial statements free of material misstatements are the responsibility of management and are an expectation of external users. I also assumed that participants were knowledgeable of the audit process and the company. My final assumption was that statements made by participants were true.

Limitations

Limitations are uncontrollable factors inherent in the study that threaten the validity of the study (Drost, 2011). I did not have complete control over who I could interview. The target company provided a participant pool to select as interviewees. The target company and audit firm included in this study limited access to the participation pool. In addition, only those who volunteered participated. Participants were able to withdraw at any time. Therefore, my final sample population may not represent a complete set of information for analysis. The target company and audit firm included in

this study limited access to the participation pool. As suggested by Ellis and Levy (2009), participants may not be experts in the research topic. Thus, participant comments may not reflect industry best practices.

An additional limitation related to the documentation I reviewed as part of my methodological triangulation data collection strategy. The data available related to the historic information of the company. Historic data does may not represent the current situation of the firm. The final limitation relates to a potential for researcher bias in the analysis of the interview responses. A researcher's knowledge of the problem causes the study to be subject to bias (Yin, 2014).

Delimitations

Delimitations define the scope of what the researcher will and will not do or consider in the study (Ellis & Levy, 2009). The delimitations articulate the boundaries of the study providing context to the research (Ellis & Levy, 2009). The delimitation of this study was the sole company that was studied. Transferability of the findings from this study to other companies would require a similar study. The findings of this study are not indicative of the geographic region or industry in which the company operates.

The target company of this study was not an SEC registrant and not required to be SOX compliant. Transferability to companies with different circumstances may not be appropriate (Yilmaz, 2013). SOX regulations require companies to disclose more detailed information in their filings than other companies. Therefore, companies who are obligated by regulation to be SOX compliant may not be categorically similar to the target company of this study.

Another delimitation of this study was the company is a Connecticut-based company; transferability to other areas of the country or world may not be appropriate. Generalizations require large sample sizes to prove the tested theory across many variables (Yilmaz, 2013). Additionally, such generalizations are not typical of qualitative research (Yilmaz, 2013).

Significance of the Study

A comprehensive audit is essential to many parties because it ensures the operations, recordation, and reporting of results by the company are accurate (Ruhnke & Schmidt, 2014). This is important to investors because they are reassured the company is conducting business responsibly and faith can be placed in the financial statements. Similarly, board members rely on the audit to ensure management is guiding the company adequately. Management relies on the audit to verify that employees are following the designated processes and there is no detectable fraud at the operational levels. Employees, like investors and board members, rely on an audit to ensure the management team is guiding the company and preparing financial documents ethically. Stakeholders of all levels rely heavily on the audit process, therefore the study of the factors that can be detrimental to the audit process and audit quality is of significant importance.

Contribution to Business Practice

Vendor-customer relationship (Asthana & Boone, 2012) and NAS (Hollingsworth & Li, 2012; Paterson & Valencia, 2011) are topics of previous studies on the individual concepts of the audit process. However, I have not found any studies that have

incorporated these components with other facets of the audit process that may affect audit quality. If the management team has a better understanding of audit process inputs and audit quality, and the factors that affect it, management may mitigate the risk of a low-quality audit. Companies, audit firms, and regulatory agencies can develop improved standards to ensure higher audit quality with a better understanding of the audit process inputs and audit quality.

Implications for Social Change

The contribution to professional application is the enhanced knowledge of what role management can play in ensuring a high-quality audit. The successful identification of improved standards to ensure higher audit quality will improve stakeholder confidence in the financial statements of companies. This increased confidence can help to ease the minds of company shareholders, company employees, and ownership. Addressing the fundamentals of building a quality audit process will help to restore the confidence of the public in the way companies are managed, disproving that SOX was implemented too quickly and without research (Gupta et al., 2013). Additionally, the implementation of a quality audit process will ensure that collusion between auditors and clients is avoided, adding to the confidence of investors and thereby contributing to social change.

A Review of the Professional and Academic Literature

Many authors have written about individual topics pertaining to the audit process. This section will present a summation of the problem, the background theory related to the problem, examine the research of previous authors, and present a conclusion of the findings. The literature yielded several topics including (a) auditor independence, (b)

auditor size, (c) partner rotation, (d) firm rotation, (e) NAS, (f) fee structure, (g) corporate governance, (h) client and customer dynamic, (i) market concentration, (j) opinion shopping, (k) SEC, and (l) SOX. The literature contained herein was located by searching the Walden University library for peer-reviewed journal articles pertaining to the terms including *audit quality*, *non-audit services*, *governance*, and *auditor independence*. As I identified new topics in these journals, the aforementioned terms emerged and then searched. Collection of resources ceased when no new topics arose in the journal articles. This literature review includes 124 resources, with 112, or 90%, of these resources being peer-reviewed sources. The publication date of these resources ranges from 1988 to 2015, with 112, or 91%, being within 5 years of the publication of this study. In total, the study includes 177 resources, with 153, or 86%, being peer reviewed and 154, or 87% being published within 5 years of the publication of this study.

Background Theories

The primary background theories pertaining to the audit process are agency theory and stewardship theory. Agency theory and stewardship theory both address the relationship between principals and agents, but from opposite perspectives (Htay, Salman, & Meera, 2013). Agency theory views top executives as self-serving, while stewardship theory positions the executives as representatives of the stakeholders and company vision. Assuming that the primary objective of an audit is to attest to the material accuracy of the financial statements and detecting errors and misstatements, agency theory was the appropriate background theory for this study (Kleinman, Lin, & Palmon, 2014).

Agency theory. The primary assumption of agency theory is that management will not act in the best interest of owners or shareholders without proper oversight to ensure such commitment (Saltaji, 2013). Two of the primary components of the theory are costs of monitoring an agent's behavior and costs incurred to ensure agents do not engage in opportunistic behavior (Jensen & Meckling, 2009). The original theory was designed to discuss the relationship between owners and management, with management acting as agent for ownership (Berle & Means, 1932). The theory has evolved over the past decades by other authors utilizing the term of agent as any party acting on behalf of ownership or the company as a whole (Saltaji, 2013). Donaldson and Davis (1991) argued that components of agency theory, as proposed by prior authors, are valid. Specifically, the authors stated that agents will choose paths which are self-serving, but state that such actions can also be beneficial to the shareholders. The authors also indicated that incentive mechanisms are typical for promoting management to make decisions aligned with the shareholders' interests. An example of these mechanisms is a plan where the executives receive shares, potentially at a discount, thus aligning the executives' interests with those of the shareholders. More simply, the executives may have a compensation package, which is directly tied to the shareholder returns.

The authors of agency theory argue that sufficient controls enactment and monitoring are required to ensure agents do not engage in opportunistic behaviors (Htay et al., 2013). The separation of ownership and control results in conflicts of interest between shareholders and executives. The typical term used for the structuring of the controls to safeguard the interests of all parties is corporate governance.

Krause and Bruton (2014) pose a fundamental question of agency theory: Who is monitoring the controls put in place to safeguard the shareholders' interests? This includes the question of whether individual board members monitor the controls or whether the board acts unitarily. In order to oversee the operations of a company, boards require answers to these questions and establish the functions of corporate oversight. CEO duality, meaning a CEO who also serves as the chairman of the board of directors, is a significant topic in agency theory as well. Agency theory authors indicate that a CEO who is not the board chairman increases independence and oversight (Krause & Bruton, 2014). A CEO serving as both the chief executive and chairman of the board would have the power to set his or her own compensation in a favorable way (Jensen & Meckling, 2009). Additionally, it is argued that a CEO with such duality is not completely focused on either role, oversight of the company's operations and leading the board, and, therefore, neither role is served sufficiently (Krause & Bruton, 2014).

Buchanan, Chai, and Deakin (2014) analyzed the differing perspectives of managers and shareholders, emphasizing the separation articulated by agency theory authors. Managers participating in Buchanan's et al. study confirmed they are responsible to many stakeholders, not just the shareholders. The shareholders, of course, stated that they should be the primary focus of the managers. Management also indicated the autonomy to determine strategy, demonstrating a deviation from the view that the principals should be in charge of the direction and decisions. Management indicated a resistance to cash disbursements to shareholders if such disbursements could hurt the firm's cash flow. Investors indicated a desire to support the long-term relations of the

company, rather than short-term gains of cash payouts. The managers and shareholder agreed that strategic planning should consider the long-term goals of the firm.

Another concept researchers have associated with agency theory is accountability (Mansouri & Rowney, 2014). Accountability balances the agent's self-serving behavior with sanctions and threats, controlling the agent's behaviors. Two managerial approaches are common when trying to foster accountability: external control and incentive alignment (Mansouri & Rowney, 2014). Controls guide the decision making process and make the individual accountable for any nonaligned choices, while incentives encourage decisions aligned with management's goals.

The most effective method to address the self-serving nature of agents is a direct form of monitoring, but such systems are typically very costly (Schillemans, 2013). Additionally, the corrective actions required to keep agents' actions aligned with investor interests will be costly, monetarily and socially. Such actions will deteriorate the relationship between agents and principals. The focus of such monitoring efforts is typically on outputs, performance reporting, and strategic planning (Schillemans, 2013).

Another concept Wiseman et al. (2012) evaluated pertaining to agency theory is power, or more specifically, power concentration. As power concentration grows with the principal, greater oversight and control becomes more likely and the principal can impress their agenda upon the agent. In these circumstances, agents are less likely to be incentivized for serving the principal's agenda, but more likely to be disciplined for not achieving the set goals.

Wiseman et al. (2012) advocated the divergence of the interests of the key principals. Much like the typical division of responsibilities within the corporate structure, separation of the CEO, CFO, and other key executive roles, the principals should have divergent goals to ensure a well-rounded business approach. Not only will a collective of unitarily driven principals be uncondusive to a successful business, but the agents focus on a single goal.

Critics of agency theory indicate that the theory does not account for the social context of principal-agent relationships. Wiseman, Cuevas-Rodriguez, and Gomez-Meija (2012) argued that this criticism is invalid because the flexibility of the theory allows for a nontraditional application to settings where the key elements of the theory exist. These elements include information asymmetry, agency cost control mechanisms, and self-interest driven behavior.

Stewardship theory. Stewardship theory, opposing agency theory, argues that management will act in the best interest of shareholders inherently (Donaldson & Davis, 1991). Authors of stewardship theory attempt to determine the circumstance under which agents act toward a common goal on behalf of the principals (Schillemans, 2013). Instead of focusing on agency cost of control and losses, the authors attempt to understand which conditions will cause agents to function as stewards.

Authors of stewardship theory do not seek to determine the criteria for completely selfless agents, but to find the conditions where the agents are at least partially motivated by the interests of the principals (Schillemans, 2013). . Some self-severing aspect will always motivate the agents. Even when acting strictly on the behalf of the principal, the

agent will gain personal and professional growth, satisfaction, and belonging (Schillemans, 2013). The emphasis of the stewardship authors is that the goals of the principal and agent coincide, rather than collide, as is the case with agency theory.

Much like stewardship theory opposes the key tenets of agency theory, stewardship theory also counters the position agency theory authors take on CEO duality. A study conducted on the benefits of CEO duality determined that the benefit to the shareholders, of such shared responsibility, outweighs the negative impact of compensation driven choices (Donaldson & Davis, 1991). Donaldson and Davis's study shows that CEOs, with all of the decision making power and little oversight, still serve the shareholders.

Mansouri and Rowney (2014) conducted a study pertaining to the accountability and autonomy of medical professionals, but several of their findings can be applied to the field of business as well. Medical professions, when operating on a patient, are charged with making autonomous decisions for the patient's well-being every minute. The medical professional could easily make decisions that will not benefit the patient and require additional medical care, to the benefit of the medical professional. If it is assumed that the medical professional will make decisions that are beneficial to the patient it can also be assumed that business professions, charged with the care of their shareholders wealth, would make the decisions most beneficial to the shareholder. The belief that management will make the decisions best for the business and shareholders, rather than the decision that most benefits themselves, is the underlying argument of stewardship theory. Mansouri and Rowney (2014) argued that intrinsic motivators, such

as respect and moral values, might better promote the managers to make appropriate decisions rather than controls dictating the proper decision.

O'Leary, Boolaky, and Copp (2013) conducted research to determine if additional legislature would improve stewardship. Based on the core concept that stewards are acting on behalf of the principals for an intrinsic reward, legislature changes will not be able to improve the steward relationships. O'Leary, Boolaky, and Copp (2013), focusing on directors and audit committees, determined that these groups do not perceive any benefit of additional legislature to govern steward arrangements.

Corporate Governance

Researchers have studied the topic of corporate governance as a derivative of agency theory because the structure of the company and processes exemplify the key tenets of agency theory (Donaldson & Davis, 1991; Saltaji, 2013; Wiseman et al., 2012). Building proper corporate governance is important to ensure the agents are controlled and operating, as the principals would desire (Saltaji, 2013). The concepts to be considered for corporate governance are (a) financial statements, (b) management, (c) internal audit, (d) director independence and board structure, (e) owner and management relations, (f), organizational structure, and (g) audit committees.

Financial Statements. Financial statement accuracy is important because there are many users of these statements, including investors, managers, board members, and other stakeholders. A study examined the correlation between financial statement aggressiveness and three particular governance mechanisms, audit, directors, and shareholders (Abdel-Meguid, Ahmed, & Duellman, 2013). The researchers also factored

in the SOX, because this act has a relationship with the governance mechanisms. The researchers found a relationship between auditor dependence and aggressive financial statements. The researchers expounded on this concept attributing the relationship to poor governance mechanism prior to the issuance of SOX, as well as subsequent to the release of the act. The researchers also indicated that regulations in corporate governance, SOX, for example, are not an adequate substitute for corporate governance mechanisms. Internal audit processes or an active committee can serve as the needed corporate governance mechanisms to ensure accurate financial statements. Internal audits can be used to review the financial reporting module to ensure accurate reporting and disclosures (Badea, Elefterie, & Spineanu-Georescu, 2014). Companies with involved audit committees produced higher quality financial statements than companies with no audit committee or an uninvolved audit committee (Ghafran, & O'Sullivan, 2013). Some corporate structures include a role of chief audit executive to oversee the entire audit process (Shelton, 2013).

Ramanan (2014) also examined the effect of an independent board versus a board with insiders on the financial statements. The researcher found that a board composed of company executives or senior management is more likely to have accurate financial reports, while a company with an independent board is more likely to have conservative financial statements. The researcher attributed this to the inherent conservatism of an auditor. There is no penalty for a conservative approach to reporting, while there are many issues resulting from aggressive reports. The researcher also posits that when insiders are present on the board the company will create more accurate statements

because the board while have more intimate knowledge of the company's operations and results.

Management. The next concept in building a corporate hierarchy that promotes corporate governance deals with management. Managers will act in their own best interest, rather than that of the company and its investors, when a metric is used to value the manager for compensation (Saltaji, 2013). Managers will inflate importance or contribution to the company in order to receive maximum compensation, thereby leading to reporting issues and inaccurate financial statements (Saltaji, 2013). The evaluation system of the management is important as well (Jensen & Meckling, 2009). Basing incentives on corporate performance is a contributing factor to fraud because the management team uses earning management to maximize incentive earnings (Soltani, 2014). Objective market-based compensation packages increase incidents of earnings management, indicating that an objective incentive structure alone is insufficient (Baker, Gibbons, & Murphy, 1994; Soltani, 2014). A typical form of compensation is the issuance of stock options to management (Sun, 2012). The value of stock options is based on the value of the company. This is an example of a market value-based compensation system that is very commonly associated with earnings management (Sun, 2012).

Internal audit. The next concept in the corporate governance is the impact of an internal audit department. Internal audit functions are interdependent with corporate governance (Florea & Florea, 2013). Internal audit is the first line of defense in risk mitigation (Badea et al., 2014). Internal audit is valuable in corporate governance

because it can determine the method by which management achieved a goal (Badea et al., 2014). Internal audit can also review the financial reporting module to ensure accurate reporting and disclosures. Internal audit can aid corporate governance by promoting moral and ethical values within the entity, increase management operation efficiency, increase risk mitigation communication, and stimulate communication between internal auditors, external auditors, management, and the board of directors (Badea et al., 2014).

The structure of the company is important in ensuring that the correct parties receive internal audit reports timely (Yuedong, Dong, & Xingyu, 2014). A lag in internal audit reporting decreases among companies with (a) fewer directors, (b) more supervisors, (c) higher membership in the audit committee, and (d) fewer supervisory meetings (Yuedong et al., 2014). Companies with structures creating supervisor and director independence, frequency of director meetings, and CEO duality showed there was little or no effect in reporting lag (Yuedong et al., 2014).

The structure of the company is also important when assigning the direct management responsibility of the internal audit process (Florea & Florea, 2013). The benefits of having the internal audit process governed by the audit committee include ability to transcend all departments without limitation, presenting direct information to directors and audit committee members, resources not being restricted by management, and analysis of the internal audit process and fulfillment of control obligations for the board (Florea & Florea, 2013). The challenges of the internal audit process being governed by the audit committee include a sense of the auditors being considered outsiders and not involved in all data distribution, time required by the audit committee to

govern the process, and further involvement of the audit committee in the day to day aspects of the company, potentially sacrificing independence.

Other researchers have found that internal audit assessments can aid superiors and external audits to overcome data overload and focus on issues (Issa & Kogan, 2014). The researchers proposed a model that could serve as a quality review tool, increasing audit efficiency and promoting expert knowledge (Issa, & Kogan, 2014). The model also proved effective in allowing auditors to focus on issues in audits increasing the likelihood of accurate financial statements (Issa, & Kogan, 2014).

Researchers have also examined the relationship between governance and internal audit report lag (Yuedong et al., 2014). The researchers found that lag decreased among companies having (a) fewer directors, (b) more supervisors, (c) higher membership in the audit committee, and (d) fewer supervisory meetings (Yuedong et al., 2014). The researchers also found that independence between supervisors and directors, frequency of director meetings, and CEO duality had little or no effect (Yuedong et al., 2014).

Director independence and board structure. The concept of duality of roles for the CEO of a company is the subject of many studies. One such study determined that companies with a CEO-only board structure were more capable of change with the evolution of the industry and regulatory changes (Joseph, Ocasio, & McDonnell, 2014). Khemakhem, Gélinas, and Baillargeon (2014) completed a study that investigated the impact of adoption of board governance best practices, such as board independence. The researchers found that management of companies that adopted the best practices were indistinguishable from companies subject to SOX compliance. The researchers also

found that boards with a greater concern for disclosure governance were more likely to adopt the best practices.

The board structure of companies influences the effectiveness of the company's audit committee and the quality of the financial statements in Spain (García-Sánchez, Frias-Aceituno, & Garcia-Rubio, 2012). Houssein Eddine (2015) found that companies can influence certain characteristics of board structures, which affect the audit process by testing the financial statements. These characteristics included the size of the board, the size of the audit committee, frequency of audit committee meetings, and financial literacy of audit committee members (Houssein Eddine, 2015). Each of these components improve the quality of the audit process and financial statements.

Researchers have found that improper board structures can lead to ineffective financial statement testing in the audit process (Skëndaj, Kraja, & Kalia, 2014). There are no requirements in Albania for all companies to have an audit committee, but such committees should be adopted by all companies to protect the shareholders and ensure an adequate audit process and quality financial statements (Skëndaj et al., 2014).

Researchers found that Canadian companies that adopted board structure best practice were indistinguishable from SOX-compliant companies (Khemakhem et al., 2014).

Researchers examined the relationship between audit committee structure and earnings management (He & Yang, 2014). The researchers found that CEO presence on the audit committee is positively related to earnings management in unregulated industries, industry experts on the committee is negatively related, committee member

tenure is negatively related in regulated industries and positively related in unregulated industries.

Researchers have also examined the relationship between audit quality and ownership structure in two Tunisian industries (Kouaib & Jarboui, 2014). The researchers found that auditor reputation has a negative relationship with earnings management. Skinner and Srinivasan (2012) found that subsequent to a publicized audit failure the Japanese affiliate of audit firm PricewaterhouseCoopers, ChuoAoyama, lost nearly 25% of its customers, due to the negative impact on their reputation. Kouaib and Jarboui (2014) also found that audit quality indicators and capital concentration affect industries differently, pertaining to earnings management. Lastly, the researchers found that external audit quality and institutional property negatively affected earnings management in some industries, while having no effect in others.

Owner and management relations. The separation of ownership and management can have an effect on the success of the company, depending on the strength of the governance (Srinidhi, Shaohua, & Firth, 2014). Family-run companies with strong governance reflect higher earnings quality, addressing the separation of ownership and control, while family-run companies without strong governance show similar earnings quality to non-family-run businesses (Srinidhi et al., 2014). Srinidhi et al. (2014) attribute the improvement to the commitment to select a specialized auditor with greater effort for accuracy and quality, while family-run companies without strong governance typically engaged an auditor with low effort or attention to quality. Specialized audit

partners also reduce the prevalence of abnormal accruals in client companies as well (Nagy, 2012).

Organizational Structure. The use of the accounting constructs is only useful if management is available and capable of making decisions based on this data. There are two arguments about how the structure of a company assists make these decisions efficiently. The company can either decentralize management or geographically group management together. When this decision is made, there is a trade-off of control costs and transfer costs (Christie, Joye, & Watts, 2003). Transfer costs occur when the manager with the knowledge must be sent to the site needing the expertise, while control costs occur when the company assigns a lower manager at the site with the rights to make decisions (Christie et al., 2003).

Decentralization of Management. Decentralization of management is the assignment of a key decision maker to each operational site or region (Brickley, Smith, Zimmerman, & Willett, 2013). The benefits of such a management distribution are use of specific local knowledge, conservation of remote, or senior, management's time, and training of local management (Brickley et al., 2013). This approach would result in multiple managerial accounting systems (MAS) instances within the company, one at each site or region where decision makers are located. The primary setbacks of this approach are costs to coordinate with remote sites and ineffective use of centralized data.

A role where there is an on-going debate to decentralize is the separation of the CEO and chairman roles. Combination of these roles exists in over 80 percent of U.S. based companies (Brickley et al., 2013). Brickley et al. (2013) found no data to show

that the combination of these roles is detrimental to the company. In fact, research has even found that no relationship exists between CEO-chairman duality and detriment to the company (Makni, Kolsi, & Affes, 2012).

Geographic Alignment. Centralizing management represents several efficiency opportunities for companies, but also represents several issues itself. In this model, there would be one large, unified MAS. Alignment also allows for various controls, such as related party transactions, which are a primary concern (Al-Sa'eed, 2013). Alignment allows for all of these transactions to be reviewed by a single central figure.

Benefits of centralization. The benefits include coordination and specialization (Brickley et al., 2013). Combining management into a geographically centralized location removes the need for each manager to be a “jack-of-all-trades” and allows for specialized knowledge. Specialization comes with its own set of benefits and costs. The benefits of specialization are the comparative advantage and lower training costs. Comparative advantage refers to the expectation that one person will be more efficient if they have one task to focus on rather than multiple tasks (Brickley et al., 2013). The disadvantages of specialization are a loss of cross training, increased coordination costs, and silos or gatekeepers (Brickley et al., 2013). Cross training is very important to the workflow of a business because it allows for seamless transition during turnover or vacation. Another individual who is trained in the job functions can fill in for an absent co-worker. Silos refers to employees who focus solely on their own tasks and do not consider the impact of their actions on the company as a whole. The term “gatekeepers”

refers to employees who have sole access to data and require consultation in order to extract information from that dataset.

Costs of centralization. The costs of centralizing management include less effective use of senior management's time and issues coordinating the local unit with remote units. Senior management can often become tied up in tasks, which could be completed by lower management, thus distracting them from other, more important decisions, or tasks (Brickley et al., 2013). Additionally, if employees have access to decision-makers, they will try to influence the decisions being made, where possible (Milgrom, 1988).

The centralization vs. decentralization component of organizational structure focuses of the tradeoff made between knowledge transfer costs and control costs (Christie et al., 2003). The company must decide if they want to invest in controls to ensure the decisions being made remotely are the most beneficial to the company or invest in the costs to transfer the required information needed to make the decision to the centralized unit with the authority to make the decision.

The Decision-Making Process. The decision-making process is one of the most important facets of strategic planning; without the right decisions, by the right people, the strategic plan is moot. Factors requiring consideration in the decision-making process are (a) controls, (b) knowledge, (c) process speed, and (d) consistency.

Controls. Companies need to consider the time and effort involved in the decision-making process and where that responsibility should lie. If controls do not exist to limit the amount of discretionary decision an individual can make, problems will likely

result. For example, when a manager has a discretionary say on a decision, employees will attempt to coerce a favorable decision from the manager, wasting the time of both the employees and the manager (Milgrom, 1988). Another example is when a manager has discretionary say in a decision, the manager may override better judgment and lead to a poor outcome (Simkins, 2011). Plans and guidelines can help to steer the decisions in the right direction when discretionary decisions are unavoidable.

Knowledge. The key pieces of information required to make a decision are knowledge of product costs, knowledge of internal operations, and accounting data (Fotache, Fotache, Bucsa, & Ocneanu, 2011). Knowledge of product costs contributes to pricing decisions and product planning. Operational knowledge allows for organizational planning. Knowledge of accounting data contributes to profit planning and budgeting. Specialized knowledge of specific employees aids decision-making process (Brickley et al., 2013). The use of such knowledge can be very useful to the company and utilization of such employees built into the strategic plan.

Management's emphasis on knowledge presents most at the top tiers of companies. Many large companies are hiring an officer with specialized knowledge in planning (Strand, 2014). In most companies, the CEO and CFO of a company typically complete planning, but the installation of an individual bearing a title similar to chief sustainability officer has become more prevalent. The researcher found that there were several reasons these positions started appearing in large companies, including addressing a concern for future viability and proactively hiring someone to take advantage of an opportunity that may be missed otherwise.

Process Speed. Another factor to be considered in the decision-making process is decision process speed. In companies where decisions must be made at remote units, decisions made be made onsite, rather than waiting for a corporate office to get all the details and make an informed decision. In this case, consideration for specialized knowledge and discretionary decision-making is required. A study found that certain controls, decision process control, goal setting, and extrinsic incentives increased decision process speed, while two factors, conflict resolution and negative incentivization, had no effect, and finally one factor, strategic imposition, had a negative impact of decision process speed (Kownatzki, Walter, Floyd, & Lechner, 2013).

Consistency. Another factor of the decision-making process requiring monitoring is the consistency of decisions. Factors that contribute to erratic decision-making require accounting and mitigation. Metacognitive experience and a dynamic environment contribute to lowering erratic decisions, while hostile environments increase erratic decision prevalence (Mitchell, Shepherd, & Sharfman, 2011). Similar to discretionary decision-making, the prevalence of erratic decisions can negate a strategic plan.

Audit committees. The audit committee is one of the most influential components on a company's corporate governance (García-Sánchez et al., 2012). The more involved the committee is, the better the governance of the company (García-Sánchez et al., 2012). Countries, where audit committees are not required by regulation, tend to have weak governance systems (Skëndaj et al., 2014). Audit committees with greater independence or financial expertise seek a greater level of audit coverage and assurance (Ghafran & O'Sullivan, 2013). Such audit committees seek lower levels of

NAS from the audit firm (Ghafran & O'Sullivan, 2013). Such committee qualities are also viewed positively by investors and internal auditors (Ghafran & O'Sullivan, 2013).

Maintaining the independence of the audit committee is important. Companies with commonality between the audit committee and the compensation committee typically have weaker governance and lack the financial and committee resources, as well as lower earnings quality (Liao & Hsu, 2013). A study was completed examining the relationship between adoption of stringent governance policy, requiring audit committee members to be independent and financially "literate" (Feng & Yue, 2013). The researchers found that companies with low implementation costs and higher future financing needs were more likely to adopt the policy. The researchers found a positive relationship between adoption and value and a negative relationship between adoption and cost of equity capital.

Research has found that an effective audit committee can mitigate the risk of using an audit firm for services other than the audit (Lisic, 2014). The researchers determined that effective audit committees can reduce earnings management in tax expense if the audit committee had the opportunity to weigh and vote on the use of the audit firm for tax services. The research showed that knowledge of the client can dominate the potential loss of independence if the audit committee approving the activity is knowledgeable and involved.

A pair of researchers examined the relationship between compensation of board members and the prevalence of earnings management (Lynch & Williams, 2012). The researchers, ultimately, found little relationship between earnings management and direct

compensation or CEO duality. The researchers established a correlation between earnings management and short-term stock options. The researchers concluded that opportunities to benefit from short-term increases are responsible for this correlation and stock restrictions eliminate this issue.

Under certain circumstances, bypassing the audit committee can have benefits. Audit fees are lower when a CFO is more involved in the negotiations than the audit committee, in spite of regulation which dictates the audit committee independently engage the audit firm and negotiate the terms of the audit (Beck, & Mauldin, 2014). An active and knowledgeable audit committee can influence on shareholder wealth, performance, and financial reporting quality (Ionescu, 2014).

Audit Quality

The problem presented in the literature is the unknown effect of audit process inputs on a company and its stakeholders (Knechel et al., 2013). Additionally, the measure of what constitutes quality varies as well (Knechel et al., 2013). Audit quality has multiple meanings, depending in the population (Knechel et al., 2013). Users of the financial statements view audit quality as the absence of material misstatements. The auditor responsible to conducting the audit views audit quality as the completion of all mandated tasks. The audit firm strives for an audit that is defensible against inspection. Regulators view audit quality as an audit that is in compliance with all standards. A consistent, testable indicator for audit quality is not established and an outcome from a lack of quality is not immediately or directly observable (Ghany, 2012).

DeAngelo (1981) defined a quality audit as one where the auditor is able to locate and report on breaches in the client company's accounting system. An appropriate audit also requires the audit firm performing the audit to be completely independent (Arya & Glover, 2014). The problem with this aspect is maintaining this independence can be very difficult due to many factors (Arya & Glover, 2014). One such factor is the relationship between the audit firm and the client company is complicated by the vendor-customer relationship (Asthana & Boone, 2012). Audit firms may compromise the integrity of the audit or lower the audit quality in order to maintain the business with the client company (Fatemi, 2012; Schmidt, 2012). Paterson and Valencia (2011) and Hollingsworth and Li (2012), analyzed the effect of audit firms conducting NAS for clients, debating the costs and benefits the added dimension to the relationship may have on audit quality.

The Public Company Accounting Oversight Board (PCAOB, 2015) has identified numerous characteristics of the audit, including auditor professionalism, the audit process, and audit results that can be used as audit quality indicators. The PCAOB identified availability, competence, and focus as the key points of auditor professionalism. The PCAOB focused further on specific concepts, such as partner, manager, and staff workload; specialized skills and knowledge; experience; and industry knowledge. The audit process is further classified by the PCAOB into five categories, tone at the top and leadership, incentives, independence, infrastructure, and monitoring and remediation. The PCAOB further categorizes these concepts into audit fees and client risk, independence requirements, internal quality review, and PCAOB inspection

results. The final category, audit results, contains the subsets financial statements, internal control, going concern, communications between auditors and the audit committee, and enforcement and litigation. Examination of many of the concepts identified as audit quality indicators by the PCAOB exists in the coming sections of the literature review.

Authors of articles on audit quality indicated the lack of audit quality in perception is just as critical as in fact (Arya & Glover, 2014; Hollingsworth & Li, 2012). This is to say that the stakeholders' belief of the audit quality can affect the company, whether the audit firm has conducted a fully compliant or not. The lack of audit quality will, ultimately, have a negative effect on the company (Boone et al., 2012; Dandago & Binti Zamro, 2012; Tong, 2006). One such example of low audit quality resulting in the collapse of a company was Sentinel Management Group in 2007 (Cullinan & Rohland, 2014). The authors stated that the auditors performing the attestation service, Altschuler, Melvoin, and Glasser, LLP, did not test the classification of the company's assets or follow attestation standards. The firm, therefore, did not find material non-compliances with custody regulations. The company used client assets to qualify for a loan, using the attestation of the firm as support. Later demand of client assets caused a cash shortfall and ultimate bankruptcy.

Another aspect of audit quality tested for correlation is the use of transparency of reports in certain jurisdictions (Deumes, Schelleman, Bauwhede, & Vanstraelen, 2012). The researchers determined that transparency reports of audit firm governance do not

promote audit quality. The researchers found a weak positive relationship between the reports and internal control systems, but this did not translate to improved audit quality.

Studies, such as Elshafie & Nyadroh (2014), use discretionary accrual identification as the proxy for audit quality. It is, therefore, important to determine if this measure is appropriate. Elshafie and Nyadroh (2014) found that there is a positive correlation between discretionary accruals identification and going concern findings. This correlation does determine that discretionary accruals are a practical indicator of audit quality.

Research has shown that opinion shopping can have an effect on the cost and quality of the audit (Dao, Raghunandan, & Rama, 2012). The researchers found that audit fees are higher for companies in which a shareholder vote occurs to ratify the audit firm. The results of the study also showed that companies who have stopped shareholder voting have seen a decrease in audit fees. Lastly, the researchers found that restatements and abnormal accruals are less frequent in audits where shareholders of the client company voted on the firm.

Auditor Independence

Financial controversies have fueled the debate about auditor tenure and auditor independence (Anis, 2014). Acts, such as SOX, contain language to limit the amount of time a partner can serve on a client's account before requiring to be replaced by another partner (Anis, 2014). Prior to these controversies and the issuance of SOX, there were warning signs, as well as a need to continually monitor for now signs of issues (Franzel, 2014). Along with audit quality, audit independence at the forefront to ensure investor

protection as well as safeguarding public interest (Franzel, 2014). Research has determined that auditor independence is key to the ability to act upon a finding as well (Knechel et al., 2013). Additionally, objectivity and professional skepticism are important to the independence (Knechel et al., 2013). In audits where the risk is perceived as high by the audit firm, the approach is predominantly presumptive doubt, rather than a neutral approach (Quadackers, Groot, & Wright, 2014). The perception of increased audit quality makes the users of the general-purpose financial statements more confident with the statements' contents. Following sections will analyze the differing approaches of rotating the partner in charge and rotating the entire audit firm.

Researchers have examined the audit market of Malaysian banks (Dandago & Binti Zamro, 2012). The researchers found that there has been little change in the annual appointment of audit firms in a decade, raising the question of the audit independence of such a long-standing relationship. Without regulatory requirements for rotation, the researchers propose an evaluation of the impact rotation may have on audits and future financial statements (Dandago & Binti Zamro, 2012).

Fiolleau, Hoang, Jamal, and Sunder (2013) argued that an aspect of auditor independence is actually counterproductive to audit quality. The authors discussed regulation as it pertains to audit committee reforms and auditor rotation requirements. The authors argued that a primary tenet of these reforms is information is readily available and shared at will. In practice, this is not typically the case. The authors pointed out that companies do not tend to share information and documentation unless

requested by the audit firm, for fear of complicating the process or divulging potentially harmful information.

A researcher found a positive relationship between audit quality and audit independence (Ojo, 2014). The researcher states that the audit market should be wary of audit concentration, stating that even Big 4 firms are not too big to fail. The researcher argued that mid-tier firms could have higher objectivity and independence, improving the quality of audit received from these firms.

Auditor Size

Another factor that has a lot of prior research relative to audit quality is the size of the audit firm. Research has shown that Big 4 audit firms issue fewer restatements than the smaller firms (Eshleman, & Peng, 2014; Yahn-Shir, Joseph, Mei-Ting, & Ping-Sen, 2013). Another research group had the same finding, but also determined that companies with restatements tend to have more subsequent restatements, unless the audit firm is changed after the first restatement (Files, Sharp, & Thompson, 2014). Other researchers supported the subsequent restatement prevalence, terming this phenomenon a contagion effect (Francis & Michas, 2013). The researchers examined years in which there were clients with financial restatements to determine if there was a prevalence of other clients with restatements in that year. Francis and Michas compared the results to a control year with no restatements. The researchers found that there was contagion within the years of restatements, which multiple clients needed to restate. Another pair of researchers determined that clients with restatements are more likely to switch audit firms (Mande & Myungsoo, 2013). The researchers also found that the likelihood of firm change

increased with the severity of the restatement. The researchers also found that stock prices were more likely to rebound after a restatement if a firm change took place. Other researchers found that individual auditors within the audit firms affect audit quality (Gul, Donghui, & Zhifeng, 2013). Auditors with Big N audit firm experience provide a higher quality audit (Gul et al., 2013). A group of researchers found that one method, a joint audit approach, showed higher audit quality than a single Big N firm (Zerni, Haapamäki, Järvinen, & Niemi, 2012).

Ebrahim (2014) found that compliance with Egyptian regulatory requirements was positively related to the use of an audit firm with international affiliations. This also reflects that size is a factor for the audit process, showing that larger international firms are holding their clients to regulatory compliance while smaller, local firms are not. The lack of conformance to local regulations makes the financial statements reviewed by these smaller firms unreliable for investors (Ebrahim, 2014).

A study regarding the workload of the auditors found that higher workload negatively influence audit quality (Lopez & Peters. 2012). The researchers found that companies with a typical calendar fiscal year have a higher likelihood of abnormal accruals. This is due to the higher concentration of audits being conducted at the same time, increasing the workload on auditors. This work overload can bypass the firm's quality control mechanisms and hinder the audit quality at the engagement level. Another pair of researchers supported this theory. Sundgren and Svanström (2014) examined the relationship between the auditor-in-charge's (AIC) portfolio and audit quality, as proxied by a going-concern finding, or opinion of stability or distress. The

researchers found that an AIC's number of engagements negatively impacts the number of going-concern findings issued. This suggests that the AIC is not as thorough to compensate for a higher workload, or willfully overlooks negative information to avoid the issues involved in a going-concern finding.

Partner Rotation

Researchers have found a need to compare differing regulations pertaining to audit partner rotation across different countries (Daugherty, Dickins, Hatfield, & Higgs, 2013). Researchers studied the effects of mandatory auditor rotation on audit quality, both directly and indirectly (Daugherty et al., 2012). The direct effects included independence, perspective, and client specific knowledge, while the indirect include relocation and training. The researchers also found that longer audit tenure contributed to quality and client knowledge. Alternatively, those surveyed indicated that rotation contributes to independence, in fact and perception. The surveyed partners also articulated a belief that rotation decrease inappropriate client attachment, but felt there was no benefit to accelerating the rotation schedule or extending the cool off period. Additionally, the researchers discussed the auditor quality of life. The concept that a firm may have limited partners in a geographic region, requiring relocation and training of partners at the rotation period can contribute to audit partner discontent and lower audit quality (Daugherty et al., 2012). Each of these concepts, direct and indirect, affect the audit process and the financial statement review, thus affecting the quality and accuracy of the statements. Researchers have also concluded that partner rotation results in higher ex-ante costs and diminishes audit quality (Azizkhani, Monroe, & Shailer, 2013).

Other researchers conducted a study to measure the relationship between audit partner tenure and a going concern finding (Monroe & Hossain, 2013). The researchers used a previous study as a baseline for comparison. The previous study found a negative correlation between partner tenure and issuing a going concern finding. The completion of the prior study was before the implementation of a mandatory partner rotation. The research conducted by the authors in the current study found a correlation between audit partner tenure and the issuance of a going concern finding. The authors articulated a belief that the change is due to the implementation of the mandatory partner rotation.

Another study examined the prevalence of audit adjustments in the last year of a partner's tenure and the first year of a partner's tenure (Lennox, Xi, & Tianyu, 2014). The study showed that adjust are more frequent in these two circumstances than in interim periods of an audit partner's tenure. The researchers indicated that this increase is due to the knowledge that another auditor was, or will be, involved in the audit, prompting a more thorough review. A more thorough review results in a higher quality audit for the client, supporting partner rotation. Luminita (2014) supported this research, also finding that audits have a higher quality in the final year of tenure and in the first year of tenure than any other years. This is because in the final year of tenure the engagement and review partners are more stringent, knowing that other auditors will be reviewing their work the following year. In the first year of tenure, the quality is higher because there is a new perspective on the presentation and controls. This new analysis causes the client to review long-standing procedures for compliance with regulations.

One researcher determined that there were internal control weaknesses in the first couple years with a new partner (Nicolaescu, 2013).

Firm Rotation

Dandago and Binti Zamro (2012) conducted research to determine if a mandate to change audit firms at a prescribed interval would have a beneficial or adverse effect on auditor independence and audit quality. Several countries have adopted regulations that require audit firm rotation (Anis, 2014). Anis found that auditors believe mandatory auditor rotation will increase audit quality. The researcher also found that auditors indicated an average tenure requirement of 3.8 years to establish acceptable audit quality and the perception of auditor rotation increases auditor independence, but at the cost of client specific knowledge.

Inversely, researchers in Spain found that audit quality does not increase with longer audit tenure (Blandon & Argiles Bosch, 2013). Spain has a regulation requiring termed contracting of audit firms, between three and nine years, without the allowance of the reelection of the same firm (Blandon & Argiles Bosch, 2013). The researchers also discussed the specific trade-off that audit firms are attempting to balance, loss of client versus lawsuit or defamation, which can contribute to the audit quality and financial statement review.

A group of researchers conducted a study to determine the factors that are most likely to lead to the retention of an audit firm by a client (Butcher, Harrison, & Ross, 2013). The researchers determined that the highest-ranking factors were audit quality, based on expertise, and service, based on responsiveness to the client's needs.

Communication showed positively in the evaluation, as a component of responsiveness. Conversely, client knowledge, audit costs, regulations, and market concentration are significant factors related to audit rotation (Daugherty, Dickins, Higgs, & Tatum, 2013). The authors reinforced the concern that auditors have about losing audit quality due to audit change and loss of client knowledge (Daugherty, Dickins, Higgs, et al., 2013). The knowledge that the firm acquires over a period of time working with a client is lost during rotation, requiring rebuilding (Daugherty, Dickins, Higgs, et al., 2013). Expanding on this concept, the authors addressed the concept of audit costs. Firms will incur additional costs while a new auditor learns about a client due to a required rotation (Daugherty, Dickins, Higgs, et al., 2013). The firm passes these costs to the client, driving up the audit fees. The authors also addressed the adequacy of current rotation regulations. The authors argued that Sarbanes-Oxley (SOX) sufficiently addressed shareholder distrust by promoting audit committee responsibility to protect shareholder interests (Daugherty, Dickins, Higgs, et al., 2013). If there are few firms in a given region, a client company will be required to engage a less adequate firm upon force rotation. The resulting audit quality will suffer due to the insufficient knowledge and expertise held by the new firm (Daugherty, Dickins, Higgs, et al., 2013).

The author of another article articulated that firm rotation should result in professional skepticism, independence, and objectivity (Kroll, 2012). The author also contrasted the current regulations in the US with the regulations enacted in Europe, which has a six-year rotation requirement with a possible two-year extension. The author also argued that firm rotation would result in higher quality audits, because the current firm

will be more thorough in identifying issues if they know another firm will be reviewing their work.

Researchers of another study compared a period of time when audit firm rotation was mandatory with companies who had long-tenured firms prior to implementation and companies who voluntarily rotated after the removal of the regulation (Soo Young, Youngdeok, & Simnett, 2014). The researchers found no material difference in the quality of the audits provided in the three circumstances. The researchers did note a significant increase in audit fees after the implementation, which rose even more after removal of the regulation.

Another author indicated several issues to the proposal of firm rotation, including the untested value of such rotation, lack of options for some companies, loss of corporate knowledge, and NAS (Hollein, 2012). A company that operates multi-nationally has very few options for audit firms, which causes additional issues if the company must rotate firms on a regular schedule (Hollein, 2012). Researchers have also addressed the concepts of client knowledge, audit costs, regulations, and market concentration as related to audit rotation (Daugherty, Dickins, Hatfield, et al., 2013).

Non-Audit Services (NAS)

The next aspect of an audit, which compromises or negatively effects the audit, is NAS (Hollingsworth & Li, 2012; Paterson & Valencia, 2011). The difficulty is determining the effect of an audit firm conducting NAS is the process of isolating the NAS from the audit (Gaver & Paterson, 2014). Gaver and Paterson indicated that the only way to isolate the effect on audit quality is to hold the NAS quality constant, which

is impractical, but the quality of the NAS varies as much as the audit itself. The client and customer conflict is complicated because it can cause the audit firm to choose between continued revenue streams from the customer, but compromised regulatory obligations as a client. If the client company does not like the result the audit firm is providing the client can threaten to take their business elsewhere (Tong, 2006). The firm then has to choose between the revenue generated from the client and the requirements prescribed by the governing bodies, such as the SEC.

Causholli, Chambers, and Payne (2014) found that high NAS fee growth clients are more likely to have earnings management, suggesting that the quality of the audit is lower for clients with higher future NAS fee income potential for the audit firm. Another group of researchers found that institutional monitoring is an important aspect when a client uses their audit firm for services other than the audit (Lim, Ding, & Charoenwong, 2013). The researchers found that clients with low institutional monitoring sacrificed audit quality by using the firm for additional services, while clients with high monitoring did not lose any audit quality.

SOX limited the type of NAS an audit firm may provide to an audit client (Prawitt, Sharp, & Wood, 2012). Prior to the issuance of SOX, it was most beneficial to use a single Big N firm for both the audit and NAS, creating the independence issues which led to the high-profile collapses (Prawitt et al., 2012). The use of another Big N, non-Big N, or in-house NAS management were less effective options, increasing restatement risk.

Auditor independence is a common concern when it pertains to conducting NAS for an audit client (Schmidt, 2012). Audit litigation and NAS are positively related, showing that the lawsuits against the audit firm commonly occur if the company required a restatement (Schmidt, 2012). Additionally, a positive relationship exists between litigation and the ratio of NAS fees to total fees (Schmidt, 2012).

Fee Structure

Researchers have found that audit restatements are a result of low audit effort or underestimating the risk associated with the audit (Blankley, Hurtt, & MacGregor, 2012). The researchers found in this study that abnormal fees are negatively related to audit quality. The researchers of an additional study examined the relationship between audit experience and audit fees and audit quality (Cahan & Sun, 2015). Audit quality was proxied in this study as the existence of discretionary accruals, where accruals equated to lower quality. The researchers found that experience is positive related to fees and negatively related to the presence of accruals. Additionally, the researchers found that a number of other factors could be indicators of audit quality, including auditor gender, tenure, specialization, education, and client importance. Johnstone, Chan, and Shuqing (2014) conducted research on the relationship of fees and quality, specifically pertaining to the audit firm's industry knowledge of the client's business ().

A group of researchers found that audit fee disclosure timing can improve company performance (Hackenbrack, Jenkins, & Pevzner, 2014). The researchers found that audit fee fluctuation positively relates to negative results (Hackenbrack et al., 2014). The reporting lag of the audit fees is, therefore, detrimental to investor knowledge and

decision-making (Hackenbrack et al., 2014). Another group of researchers conducted a study that analyzed the length of a relationship between auditor and client and the likelihood of a going concern modified (GCM) finding (Blay & Geiger, 2013). Blay and Geiger found that the issuance of a GCM is greatly reduced in circumstances where the audit has significantly higher future fee revenue from the client.

Another group of researchers examined the effect of CEO turnover on audit fees (Hua-Wei, Parker, Yun-Chia Anderson, & Yi-Hung, 2014). Hua-Wei et al. determined that forced turnover of the CEO positively related to increased audit fees. The researchers stated that forced turnover of the CEO is a risk for the audit. The researchers found no prevalence of increased fees for voluntary turnover or no turnover.

Client and Customer Dynamic

The relationship between the audit firm and its client is another source of issue in the audit process (Asthana & Boone, 2012; Hollingsworth & Li, 2012). The NAS provided by the audit firm can include many services, one of which being advisory services (Fatemi, 2012). This can compromise the independence of the audit firm because the firm is telling the client company how to handle a certain set of circumstances, the implication of this action is the auditor loses objectivity.

Audit firms will sometimes offer an introductory fee structure in order to acquire a client company, but studies have found that audit quality has suffered due to this (Asthana & Boone, 2012). The audit firm must find ways to cut cost to avoid or mitigate a loss at the lower revenue, often resulting in cutting staff hours and decreasing the testing. Beck and Mauldin (2014) found that companies, where the CFO is more

prominent in the audit fee negotiation, have lower fees than companies where this is handled by an audit committee.

The penetration an audit firm has into the company's business model also contributes to the retention rate (Butcher et al., 2013). Treating the client like a customer and providing as many services as possible reflects positively on the firm during the renewal process. However, an over-reliance on a single customer for a significant portion of revenue has a negative perceptual effect on the client's investor base, resulting in concerns and heightened potential for firm rotation (Hollingsworth & Li, 2012).

Other studies have found multiple aspects of the client-auditor relationship that affect auditor independence and audit quality. In one such study, the researchers determined that audit engagement bidding, engagement length, NAS, firm size, industry expertise, and former employees of the client working for the audit firm all affect audit quality (Hoa, Pesi, Thanh, & Sang, 2014). The researchers determined that engagement length, firm size, and industry expertise are all positively related to audit quality, while employment of former audit personnel is negatively related to audit quality (Hoa et al., 2014).

Market Concentration

Market concentration is another aspect of the audit process that may have an effect on the audit (Boone et al., 2012). Researchers examined the relationship between audit market concentration and earnings management tolerance (Boone et al., 2012). The researchers found the increased concentration contributed to higher earnings management precedence. The researchers indicated that increased concentration, meaning fewer

competitive local audit firms, can result in complacency, leniency, and less professional skepticism.

Researchers in China have examined the relationship between auditor industry expertise and audit quality and restatements when an auditor is used that is common to many members of the company's supply chain (Yu-Ting, Zishang Liu, & Ya-Fang, 2014). The researchers found that an incumbent audit firm with industry expertise is negatively associated with discretionary accruals and restatements (Yu-Ting et al., 2014). An incumbent audit firm alone does not have the same effect on audit quality, but an incumbent or expert firm has a negative relationship with restatement (Yu-Ting et al., 2014).

Other researchers have shed a negative light on market concentration. Researchers investigated the theory that the domination of the audit market by the Big 4 is harmful to audit quality (Francis, Michas, & Seavey, 2013). The supporting argument is founded on the premise that if a company has few options for audit firms, they will not be able to push the audit firm to conduct a quality audit. Without options and competition, the Big 4 can conduct audits at whatever quality level they like and not fear losing clients (Francis et al., 2013). The researchers also examined the effect of cross-border audits. While the researchers did not find any evidence that Big 4 dominion negatively affected audit quality, they suggest continuous monitoring (Francis et al., 2013). Researchers conducted a study to determine if local auditors conduct higher quality audits (Choi, Kim, Qiu, & Zang, 2012). For the study, an auditor was qualified as local if their offices are in the same metropolitan statistical area or within 100 kilometers

of the client's offices. The researchers found that local auditors do conduct higher quality audits (Choi et al., 2012). This is significant for companies with remote main offices where there is no a lack of a local auditor. Newton, Wang, and Wilkins (2013) found that market concentration is positively related to restatements.

Sarbanes-Oxley Act of 2002 (SOX)

Abdel-Meguid et al. (2013) and Kao et al. (2013) conducted research to determine the effect SOX has had on audit quality (). One particularly closely examined aspect of SOX is section 404, which covers internal controls. Specifically, SOX section 404 requires a company to disclose an assessment of the company's internal controls over financial reporting as well as the audit firm's assessment of such controls (Erickson, Lukes, & Weber, 2014). Many companies challenged this section due to the excessive cost of compliance (Shaw & Terando, 2014). According to Beattie, Fearnley, and Hines (2012), the primary mandates made by SOX section 404 were process and compliance related, which produced little benefit for companies with very high costs. One of the focuses of these controls relates to information technology (IT) aspects. Companies with significant IT controls reduce risks and mitigate audit fee increases (Yunhao, Smith, Jian, & Weidong, 2014). Researchers have also found that SOX successfully reduced earnings management in companies with a Big-4 audit, but did not affect the level of earnings management in other companies (Rutledge, Karim, & Xiaoqin, 2014).

SOX established the partner tenure rules and cool down periods in effect in the United States (Litt, Sharma, Simpson, & Tanyi, 2014). Litt et al. determined that audit quality is higher in the final two years of their tenure than that of the first two years. The

researchers posited that auditor knowledge is one factor affecting the findings, as well as the awareness that a new auditor would be reviewing their work in the coming years.

The researchers determined that the effect is amplified in larger companies.

The PCAOB created SOX and acts as one of the primary oversight entities in the United States (Palmrose, 2013). One of the standards proposed by the PCAOB was Audit Standard No 5. The standard, titled *An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statement*, was proposed in an effort to reduce audit costs, while maintaining audit quality (Dechun & Jian, 2012). The authors found that the standard reduced costs by making audits more efficient, while making no material change to the audit quality. Many audit partners feel that the PCAOB is mostly focused on locating deficiencies and PCAOB inspections are invasive and increase litigation risk (Houston & Stefaniak, 2013).

Wedemeyer (2014) argued that audit quality, in terms of standards and compliance, has increased greatly since the inception of SOX and the creation of PCAOB. The author stated that audits have become more expensive, raising audit fees, due to the incorporation of reviews of internal controls for financial reporting, increased review requirements, and other quality control activities. The author also states that the creation of the PCAOB has increased the likelihood of the review of a given audit, even when no sign of deficiency or error is present.

Others have questioned the enactment of SOX and if the enactment occurred without true consideration for the ramifications (Gupta et al., 2013). The authors support this question by articulating that two acts, the 2010 Dodd-Frank Wall Street Reform and

Consumer Protection Act and the 2012 Jump Start Our Business Startups (JOBS) Act, exempted SEC filers from required compliance of specific SOX requirements. The authors articulated the public perceived these two acts as attempts to hedge the impact of SOX, therefore acknowledging the oversights made by hastily mandating internal control reporting.

Another researcher found benefits and drawbacks to the enactment of SOX. The researcher examined the relationship between management communication and the implementation of SOX (Oi Lin, 2014). The researcher found that the implementation of SOX increased the comprehensibility and truthfulness in the discussion of the company's operations. The researcher also determined that SOX lowered legitimacy. The researcher concluded that companies are making statements that are factual and understandable, but using distractions to draw the attention from issues.

Transition

The first section of this qualitative case study included the (a) background of the problem, (b) problem statement, (c) purpose statement, (d) nature of the study, (e) research question, (f) interview questions, (g) conceptual framework, (g) operational definitions, (h) assumptions, limitations, and delimitations, (i) significance of study, and (j) literature review. The literature identified many studies previously completed on specific components of the audit process, as well as several components found to affect audit quality. The focus of the study was to examine what strategies can client managers and boards use to facilitate an engagement, provide relevant evidence, and support management assertion.

In this section I articulate the basis for the study, as well as justified the need for this research. The varied findings in the literature review supported the selection of an in-depth study design, justifying a qualitative case study, rather than other methods or designs. The literature review provided additional insight to the possible factors affecting audit quality, but also contained studies with contradictory findings.

In the next section of this study, I provide the structure for the research, as well as the analysis method. The sections includes (a) the role of the researcher, (b) participants, (c) further justify the research method and design, (d) participants, (e) data collection and analysis, and (f) reliability and validity.

In the final section I present the findings of my research, as well as professional and social implications of the findings. The section also includes recommendations for future actions and additional research. Finally, the section contains a summary and conclusion of my study.

Section 2: The Project

In this study, I used open-ended questions, along with directed follow-up questions, to explore the participants' views of the audit process and to determine where breakdowns exist. In this section, I will articulate the structure of the study as well as how this structure achieved the goals of the study. This section will include (a) the purpose statement, (b) role of the researcher, (c) participants, (d) research method, (e) research design, (f) population and sampling, (g) ethical research, (h) data collection instruments, technique, organization, and analysis, and (i) reliability and validity.

Purpose Statement

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. The population included individuals that make up the audit team who are involved in the annual financial statement audit for a Connecticut-based public company. Data collection included open-ended interviews and public data available on the company. The implication for positive social change includes the potential to have a better insight to audit processes. Improved insight to the audit process may promote investor confidence in the financial statements and economic growth through capital spending.

Role of the Researcher

The role of the researcher is to collect data through face-to-face interviews and secondary sources and thematically analyze the findings for recurring responses and

trends (Anderson, 2010). In a case study, the researcher is attempting to create an in-depth understanding through an exhaustive study of the problem in its natural setting (Anderson, 2010). I have worked as an audit liaison within two separate companies, providing me with knowledge of the topic as a researcher. The participants were all members of a company at which I have professional contacts.

I did not utilize any participants whom are part of a protected class to ensure no ethical issues as identified in the Belmont Report (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). The Belmont Report identified three components of protection of human participants: (a) beneficence, (b) justice, and (c) respect for persons (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979).

Beneficence is the concept related to minimizing potential risks in order to do no harm. This is accomplished by outlining a plan to protect the participants' rights and taking any necessary measures to ensure these rights are protected. Justice refers to the fairness of treatment of participants and dissemination of research findings, irrelevant of the research expectations or goals. Respect for persons pertains to the voluntary nature of participation by all subjects and withdraw from the study at any time as well as provide informed consent to participate.

Anderson (2010) indicated that bias is mitigated by isolating prior knowledge of the problem and focusing solely on the responses given in the interviews and the secondary sources. If responses in the interviews were ambiguous, follow-up questions determined the respondent's intent (Doody & Noonan, 2013). I did not use secondary

sources without concise articulation of finding, unless other sources could frame the information, providing clarification.

The use of an interview protocol facilitates flexibility in the interview process and allows for a smooth process in the course of interviewing participants (Abdulai & Shafiwu, 2014). Wang, Xiang, and Fesenmaier (2014) suggested that an interview protocol helps maintain consistency among the interviews. Thus, I used an interview protocol as a guide to my interviews (Appendix E).

Participants

A case study is limited in scope to a particular issue at a specific site (Diefenbach, 2009). Qualitative case studies require using participants with previous experience of knowledge of the problem (Yin, 2014). Englander (2012) highlighted the importance that participants have experienced the researched phenomenon. Thus, I restricted my data collection to a single company in New London County, Connecticut. The eligibility criteria consisted of individuals with direct involvement in the audit process within one small organization in Connecticut and its audit firm. The participants were all members of a company at which I have professional contacts, granting me access.

Establishing a comfortable interaction with the participants promoted detailed responses to questions (Doody & Noonan, 2013). Seidman (2013) advocated conferring the method of confidentiality and anonymity maintenance as a means of building trust. To establish this comfortable interaction, I encouraged potential participants to ask questions about the research study and process prior to consenting to participating. Due to ease of access, many of these conversations were face to face, with some occurring

through email. Once a participant agreed to participate in the study, I asked that they complete a consent form. Upon completion of the consent form, the participant and I agreed to a mutually acceptable time and place for the interview, which provided privacy for the interview duration.

Following the guidance of Rowley (2012), interviews were conducted face to face and, with each participant's approval, recorded for accuracy. This format allowed for flexibility of follow-up questions for further probing and helped to accommodate the interviewee. Additionally, I took notes during the interviews about any observations during the interviews. Interviews continued until the study reaches data saturation, interviewing all participants cyclically. Saturation occurs when the participants offer no new ideas or emergent patterns (O'Reilly & Parker, 2012).

Upon receiving Walden University and IRB approval, I visited the target company to discuss, with the executive team, the purpose of the research, criteria for participation, and confidentiality and informed consent process. Once the company agreed to participate and made employees, who met the criteria, available for interviews, I provided the company with a prepared Data Use Agreement form (Appendix A) and asked for a Letter of Cooperation from a Research Partner (Appendix B) signed by an officer of the company. The company provided me with the contact information for the individuals meeting the criteria for participation. The next step was to contact each of these individuals, explaining to them the purpose of the research, criteria for participation, and confidentiality and informed consent process. I obtained as many

participants as available from the company's listing as well as from the company's audit firm.

Research Method and Design

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. I interviewed the employees of a company located in New London County, Connecticut and its audit firm to build an in-depth analysis of the audit process characteristics that affect audit quality. During a review of the available methods and designs, I determined the appropriate structure for this study was a qualitative case study. A qualitative case study fits the approach for this study, which was interviewing employees about the problem in its natural setting, using an exhaustive in-depth interview process.

Research Method

Selection of the appropriate research method is important to obtaining valid results (Fassinger & Morrow, 2013). The three method of research are (a) qualitative, (b) quantitative, and (c) mixed method. The selection of the appropriate method is based on three components, a research-worthy problem, substantive peer-reviewed literature, and data (Yilmaz, 2013). The chosen method for this study was qualitative because I focused on the thematic issues that surfaced during the literature review and research phase of the study. Qualitative methodology was appropriate for this study because it is the standard for the conventional ways of doing in-depth interviews (Barnham, 2012).

A quantitative study is appropriate when determining the significance of a relationship between reduced variables (Yilmaz, 2013). The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. Additionally, a quantitative method typically tests an existing theory, rather than build an understanding of a phenomenon (Fassinger & Morrow, 2013).

A mixed method study involves the use of both qualitative and quantitative research traits, benefiting from the strengths of each (Venkatesh et al., 2013). A mixed method study was also not ideal because the depth involved in this study requires focus on a singular site in its natural setting, while the quantitative portion of a mixed method study would require a wider spectrum of information for evaluation (Fassinger & Morrow, 2013). A mixed method approach to this study was inappropriate due to the inclusion of quantitative components inconsistent with the research purpose.

Research Design

The design of a study is determined, in large part by the data being collected (Aastrup & Halldorsson, 2003). The design types, within the qualitative method chosen include (a) case study, (b) phenomenological, (c) ethnography, and (d) action research (Kramer-Kile, 2012). The design for this research was a case study. A case study has a singular setting or targeted focus (Løkke & Sørensen, 2014). A case study was appropriate for this study because turnover within companies can limit the knowledge

base of employees, pertaining to the history of the company. Thus, in-depth research of the company's public documents and lengthy interviews was required. Methodological triangulation ensured claims were evidence based (Anderson, 2010). I achieved saturation by cyclically interviewing the participants until no new themes or codes emerged (O'Reilly & Parker, 2012).

A phenomenological study, involving several sites, would have required very lengthy interviews to evaluate the detailed topics this study covered, rather than focusing on one unique case (Small, 2009). Additionally, as subsequent interviewees reveal new concepts, the previous interviewees needed re-interviewing about these concepts (Small, 2009). With a single-site case study, the interviewees were all located together making the interview process feasible.

Ethnography studies focus on an in-depth qualitative investigation of a problem within a group sharing a common culture (Small, 2009). Ethnography often provides a chronology of the group or culture and the research problem (Small, 2009). An ethnographic study was inappropriate because the study addressed a business problem that exists worldwide and is not be limited to one ethnicity or culture.

Action research identifies and investigates a localized practical problem in an effort to find a solution (Ellis & Levy, 2009). In action research, the researcher is typically a practitioner facing the problem and is in a position to create a solution and test the results, noting the outcomes and repeating as necessary (Ellis & Levy, 2009). Action research was not appropriate for this study because the problem exists worldwide and I could not implement and test solutions.

Population and Sampling

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. Resembling a study by Sheeran et al. (2012), I used census sampling, targeting all appropriate individuals made available by the target company, with a base knowledge required to adequately answer the interview questions in order to acquire the required data from the interviews. Census sampling is appropriate when interviewing the total population for a bound system is feasible (Sheeran et al., 2012). Nonprobabilistic sampling allows the qualification of participants to ensure such a base knowledge, while probabilistic sample requires random selection (Daniel, 2012). The sample population for this study was a single public company in New London County, Connecticut and its audit firm. The financial statements of the selected company showed several historic events have occurred with this company consistent with the theories offered in the literature review. Such events include deregistration from the SEC since the issuance of SOX, a financial restatement, an audit partner rotation, and an audit firm change.

Dissimilar to quantitative research, participants in qualitative studies are not collected to gather a count of opinions or people or another quantifiable number (O'Reilly & Parker, 2012). Instead, qualitative studies focus on the range and representation of the opinions and issues, providing rich data (O'Reilly & Parker, 2012).

Interviews continued until the study reached saturation. Saturation occurred when the participants offered no new ideas or emergent patterns (O'Reilly & Parker, 2012).

Similar to Alfonso, Nicholson, and Cohen (2012), I conducted in-depth interviews and reviewed additional data. In-depth interviews with all employees and auditors involved in the audit process, from various levels within the company, provided rich data regarding many audit process input characteristics. These interviews, coupled with research on the company, provided a holistic view of the target company. The criterion for eligibility to participate in this study was prior experience in audit process from the client or auditor side. Provided the varying nature of experience and knowledge of the participants and the in-depth nature of the interviewing process, all available individuals involved in the audit process provided enough substantive data to evaluate. Saturation occurred by continuing interviews until themes offered were repetitive, producing no new information or themes, and did not provide any new insights, views, or opinions (O'Reilly & Parker, 2012). I discussed each employee for whom the company offered contact information with my organizational contact I worked with, to determine if the individual was appropriate for the study. I then contacted each participant appropriate for the study to participate.

Ethical Research

Upon receiving Walden University and IRB approval, I visited the target company to discuss, with each potential participant, the purpose of the research, criteria for participation, and confidentiality and informed consent process. Walden University's approval number for this study is 03-28-16-0290102. I encouraged potential participants to

ask questions about the research study and process prior to consenting to participating. Due to ease of access, many of these conversations were face to face with some occurring through email. Once a participant agreed to participate in the study, (s)he completed a consent form face to face (Appendix D). Study participation was voluntary at all times and provided no incentives to participate.

The consent form included (a) researcher contact information, (b) sponsoring institution contact information, (c) purpose of the study, (d) voluntary nature of the study, (e) ability to withdraw from study, (f) confidentiality safeguards, and (g) storage and disposal of study materials. Participants signed, dated, and returned the consent form and had the opportunity to ask questions, face to face, at that time. If a participant wished to withdraw from the study at any time, they needed to notify me of such desire. To protect the participants' identities, each participant received a number. I placed all correspondence and interview information in password-protected files and saved on a flash drive. I will securely maintain the data for a 5-year period before destruction.

Researchers have a responsibility to the study participants to protect the confidentiality of the participants and obtain informed consent from each participant (Yin, 2014). Researchers must identify themselves, the purpose of the research, and provide assurance of confidentiality (Rowley, 2012). Additionally, the researcher must adhere to the rules of research for human subjects set forth by the Belmont Report (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). These rules include mitigating risk, fair treatment, and informed consent. In order to ensure comprehensive knowledge of the rules governing research

involving human subjects, I obtained certification from the National Institute of Health Office of Extramural Research (Appendix C).

Data Collection Instruments

The primary data collection instrument in a qualitative research study is the researcher, who gathers data through interviews and interactions (Houghton, Casey, Shaw, & Murphy, 2013). Seidman (2013) also identified the researcher as the primary data collection instrument. The interface for data collection was semistructured interviews. Semistructured interviews allow flexibility of follow-up questions for further probing and help to accommodate the interviewee (Rowley, 2012). Seidman (2013) indicated that semistructured interviews allow the participants to guide the direction of the conversation, revealing the information they feel is relevant. Interviews began with introductions, including my background and overview of the research topic, as well as the background of the interviewee. Doody and Noonan (2013) stated that an interview protocol can promote consistency of interaction between participants and add to the structure (Appendix E). I asked the participant to review the consent form and ask questions prior to signing. The participant received a copy of the consent form, if desired, and reminded that participation was voluntary and can be withdrawn at any time. I informed the interviewee that the interview would be recorded and notes would be taken. The duration of interviews were approximately 30 minutes, addressing the seven interview questions and relevant follow-up questions. Member checking enhanced the accuracy of interpretations of the information provided by the interviewees. I made a follow-up meeting with the participant to review the interpretations of the interview for

accuracy and completeness, which required no more than 5 minutes of the participant's time.

Years of experience in accounting and working with auditors prepared me for the face-to-face interviews, allowing me to engage the participants and follow up their responses to the open-ended questions with directed questions to better understand their positions and perceptions. In the process of identifying interview questions (Appendix F), I assessed any preconceptions I may have had about the topic in order to recognize and mitigate personal bias. Similar to Diefenbach (2009), I recorded interviews, and complemented recordings with notes taken during the interviews to reflect non-audio cues of the interviewees. The use of member checking increased the accuracy of interview data. Member checking involves presenting interpretations of the interviews to participants to receive feedback and reduce potential misinterpretation (Harper & Cole, 2012). Similar to Wang et al. (2014), each participant had the opportunity to review the interview transcript to ensure no data was taken out of context and all interpretation of statement was accurate.

In addition to the interviews, data collection from public records, including annual reports, quarterly reports, press releases, audit reports, and financial statements, added to the data analysis. The final source of data was internal documents, requested from company officials, such as audit engagement letters, internal financial reports, communications between the company and auditors. Using sources to supplement interviews in a case study adds depth and texture to the analysis and findings.

Data Collection Technique

The first collection step I took was researching the company's financial statements, press releases, and any other public documents that may have provided insight or context to participants' responses. Gaining an understanding of the subject matter prior to initiating interviews is a strategy supported by Aastrup and Halldorsson (2003). Having a background of the company and knowledge of the historic data allowed me to better engage the participants and be prepared with follow-up questions. Background knowledge allows an interviewer to identify times when an interviewee may be fabricating or guessing an answer they are unsure of (Podsakoff, MacKenzie, & Podsakoff, 2012).

The next step was conducting the interviews using open-ended questions. Open-ended questions allow the participant to answer, in their own words, their perception on the topic (Diefenbach, 2009). Using short open-ended questions was advantageous because this approach mitigated the potential for leading or bias, therefore increasing the likelihood the participants were giving truthful answers from their own experiences (Podsakoff et al., 2012). Open-ended questions, however, can lead to unconsciously biased answers from interviewees due to influence of cultural scripts, dictating the appropriate way to respond to a topic (Diefenbach, 2009).

Resembling studies by Alfonso et al. (2012) and Agustinus (2013), in-depth interviews were the primary means of data collection. The interviews were at the company location. Each interview opened with a brief introduction and statement about the purpose of the study and the participant's role in the study. I recorded each interview

for accuracy, with the participant's permission, and notes were taken during the interview. Audio notes, created after each interview, emphasized certain points or factors for review in the analysis stages. Member checking verified the interpretation of the interview data from the participants. This was done after the completion of interviews but before the analysis process.

Data Organization Technique

I created electronic summary transcriptions of each interview, similar to a study by Covell, Sidani, and Ritchie (2012). Such transcriptions were in Microsoft Excel, adding in notes taken during or after the interview and isolating key terms and concepts. I met with the interviewees to review the transcription to ensure accuracy of concepts provided in the interview and interpretations of the narrative. Secondary data collected from public sources and saved for reference and other documents, requested from the company to substantiate the interview responses, provided triangulation to the data. Triangulation is accomplished through one of four methods (Yin, 2013). The use of data sources is data triangulation, the use of different evaluators is investigator triangulation, the use of multiple perspectives of the same data is theory triangulation, and the use of methods is called methodological triangulation. Bekhet and Zauszniewski (2012) defined methodological triangulation as the use of multiple sources or methods to verify information is correct, reducing the weakness of a single source. I used methodological triangulation for this study, utilizing semistructured interviews, public company documents, and internal documents supplied by the company. Data triangulation provides validity to research findings (Barusch, Gringeri, & George, 2011).

I created an Excel spreadsheet tracking the recurring themes of the transcriptions, notes, and secondary source data to track the commonality and prevalence of each theme. I reviewed each source cyclically to extract common themes, until all repetitive concepts are noted and accounted for in the spreadsheet. Data is securely maintained for a 5-year period before destruction.

Data Analysis

The use of semistructured interviews allows for follow-up questions and adjusting the interview according to the data provided by the interviewee (Rowley, 2012). The interview questions used for this study, in order to answer the overarching question of what strategies client managers and boards can use to facilitate an engagement, provide relevant evidence, and support management assertions, are as follows:

1. What interactions exist in the audit process between the client and auditor?
2. What role does the client play in the audit process?
3. How does the client's interaction with the auditor affect audit quality?
4. What components of the audit process are within the control of the client?
5. What components of an audit are not within the control of the client?
6. What measures are appropriate in determining the quality of an audit?
7. What factors do you believe compromise the quality of the audit process?

Upon completing the interviews and collecting the data from public records to establish methodological triangulation, all information was entered in a singular database of an Excel spreadsheet. Excel tabulated the data entered and allowed for easy conversion to charts and tables for presentation. The database contained all of the themes

and concepts presented in the interviews or found in secondary sources. Counting the occurrences of a given theme established the prevalence of that given theme, confirming its relevance (Houghton et al., 2013). Comparison of the research study themes to the themes found in the literature review provides peer-review support for the individual findings of the study (Houghton et al., 2013). I added the narratives to the database connecting the themes and highlighting key findings. Rowley (2012) advocated this approach to data analysis stressing organizing the data, getting acquainted with the data, then classifying, coding, and interpreting the data, finally leading to presenting the data. I created a summary of findings to share with participants and community stakeholders who inquire about the results of the study, when providing access the complete study is not feasible.

Reliability and Validity

Reliability

Reliability is the consistency with which a study instrument yields repeatable results establishing stability (Fan, 2013). The primary method of reliability and credibility assurance for this study was member checking of data interpretation. Upon compiling all of the data from the interviews, a thematic review occurred (Rocha Pereira, 2012). To assure no concept or verbiage was taken out of context; the interview participants had the opportunity to review my interpretation of their statements. This mitigated any chance of error in the interpretation of the responses and assured that the data was accurate. Member checking was also used to enhance dependability of the

study (Anderson, 2010). Ensuring no application of bias or interpretation to the data analysis yielded accurate and repeatable results.

Qualitative studies focus on the range and representation of the opinions and issues, providing rich data (O'Reilly & Parker, 2012). Interviews continued until the study reached saturation. Saturation occurred when the participants offered no new ideas or emergent patterns (O'Reilly & Parker, 2012). Using a census sample helped to enhance saturation by including all parties involved in the audit process, ensuring all points of view are covered. Member checking and methodological triangulation also enhanced saturation and verified the data collected, providing credibility.

Validity

Validity refers to the alignment of the objective of the study and the research of the study, essentially questioning, "Did the study the study examine what it intended to?" (Drost, 2011). The primary issues for the validity of a study are transferability and confirmability (Aastrup & Halldorsson, 2003). Additionally, member checking of data interpretation enhances the validity of the analysis. Transferability refers to the ability to apply the findings of a study to other studies given similar circumstances and subject matter (Houghton et al., 2013). This study will be transferable to future studies by identifying trends within the findings. These trends can be tested on a broader or different population examining the applicability of the findings of this study elsewhere. This study also used multiple sources of data, company employees, audit employees, and public financial data to establish methodological triangulation of data to establish confirmability (Barusch et al., 2011).

Face validity refers to a superficial review of the reasonableness of the study (Drost, 2011). I applied this method in my study in the form of reviewing the interview questions and overall goals of the study to ensure alignment. Review of the questions occurred individually, in groups, and as a whole to ensure alignment and consistency.

Transition and Summary

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. This section included (a) the role of the researcher, (b) participants, (c) further justify the research method and design, (d) participants, (e) data collection and analysis, and (f) reliability and validity. In the next section, I provide (a) the findings of the research, (b) application to professional practices, (c) recommendations for action, and (d) recommendations for future research.

Section 3: Application to Professional Practice and Implications for Change

The purpose of this qualitative exploratory case study was to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. I collected data through review of the company's financial statements, press releases, and any other public documents that may provide insight or context to participants' responses and semistructured interviews. In Section 3, I provide (a) a presentation of the findings of the study, (b) applications to professional practice, (c) implications for social change, (d) recommendations for action, (e) recommendations for further research, and (f) summarize the conclusions of the study.

Overview of the Study

I conducted a qualitative exploratory case study to determine what strategies client managers and boards can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. I collected data through review of the company's financial statements, press releases, and any other public documents that may provide insight or context to participants' responses and semistructured interviews. I used census sampling, targeting all appropriate individuals made available by the target company, with a base knowledge required to adequately answer the interview questions in order to acquire the required data from the interviews. After completing the interviews I converted the interview recordings to text and analyzed

in Microsoft Excel. Member checking enhanced the accuracy of interpretations of the information provided by the interviewees. After analyzing the data, five themes emerged, including (a) communication, (b) documentation, (c) knowledge/experience, (d) character, and (e) procedural.

Presentation of the Findings

The overarching research question was: What strategies can client managers and boards use to facilitate an engagement, provide relevant evidence, and support management assertions? I conducted nine interviews with two client executives, three members of client management, and two members of the client's staff, as well as the audit firm's partner and manager. One of the client executives was previously an auditor for 8 years, and has been involved with audits from the client perspective for 23 years, providing insight from both perspectives. The other executive has been involved in audits at various levels of involvement for approximately 20 years. The three managers have been involved with audits, supplying documentation and assisting with data collection and validation for 6, 9, and 22 years. The two staff members who participated have been involved in the audit process for 16 and 21 years, ranging from liaising, to reconciling documents, and supplying data. The audit partner has been involved in audits for 30 years and the audit manager has been doing audits for over 10 years. The participants in the study are weighted more to the client side, because the focus of the study is strategies client managers and boards can use, but the wealth of audit process knowledge the audit team possesses could not be ignored in the data collection process.

The conceptual framework for this study was agency theory. I identified alignment between my research and the primary tenets of agency theory. The authors of agency theory articulated a belief that management agents will not act in the best interest of the principals without proper oversight to ensure such commitment (Jensen & Meckling, 2009). Several themes that emerged during my data analysis align with this opinion. Character, one of the themes, aligns because management with strong character and ethical behavior would act in the best interest of the principals inherently. Procedural issues or considerations align with the proper oversight discussed in agency theory. Communication is imperative to the relationship between principals and agents.

Following is a list of the interview questions and themes that emerged from each question, starting with the most prevalent theme for each question, then an analysis of the themes.

1. What interactions exist in the audit process between the client and auditor?
Communication, Knowledge/Experience, Documentation, Procedural
2. What role does the client play in the audit process?
Procedural, Documentation, Communication
3. How does the client's interaction with the auditor affect audit quality?
Procedural, Communication, Character, Knowledge/Experience
4. What components of the audit process are within the control of the client?
Procedural, Documentation, Character
5. What components of an audit are not within the control of the client?
Procedural, Documentation, Knowledge/Experience

6. What measures are appropriate in determining the quality of an audit?

Procedural, Documentation, Communication

7. What factors do you believe compromise the quality of the audit process?

Procedural, Character, Documentation, Knowledge/Experience

Theme 1: Communication

The participants emphasized communication in several different forms. Written communication, in hard copy and electronic formats, as well as verbal communication, were prominent in the responses. The aspect of communication was most prevalent in the question regarding interactions, but presented in four interview questions during analysis. This communication exists throughout the audit process, according to the participants. Participant 2 and 8 indicated that, initially, the client and firm discuss the terms of the engagement, fees, scope, exposure, deadlines, and obligations. As the audit commences, the firm and client must continue open communication to identify any operational, regulatory, or accounting changes, including any new pronouncements from regulatory agencies.

During my research, I found that the target company had a financial restatement of one of its prior fiscal years. I discovered that the company had this restatement due to a change in accounting methodology that was communicated to the audit firm, not due to any negligence on the part of the audit firm or fraud by the client. Participant 2 indicated that a restatement is not inherently indicative of a low quality audit and that the reason for the restatement must be determined in all cases.

This theme confirms the statements and findings of several sources throughout the literature review. Communication as a major theme conforms to the views of the PCAOB (2015), who identified communication a key audit quality indicator. Butcher et al. (2013) found that communication was a key subcomponent of perceived responsiveness, which often factored into a client's decision of whether or not to retain an audit firm. Communication is a fundamental benefit of internal audit as a component of corporate governance (Badea et al., 2014). Internal audit improved risk mitigation communication and increase audit firm communication. The component of communication from the literature review was from Oi Lin (2014) who found that SOX increased the comprehensibility and truthfulness in the discussion of the company's operations.

Theme 2: Documentation

The next theme, documentation, presented in six out of seven interview questions during analysis. Every participant indicated that supplying documents was the client's most frequent task during an audit. This ranges from supplying reconciliations of general ledger accounts to granting access to electronic accounts to supplying the financial statements. The audit firm may make numerous requests for documents and support during the audit, which the client must provide. The client is also responsible for maintaining their records and transaction history. Participants 1 and 4 indicated that direct access to records, supplying documents, accuracy of records, and record verification improve audit quality, while inaccurate and incomplete records hinder audit quality.

A common topic within the theme of documentation was the financial statements, as voiced by Participants 2, 4, 8, and 9. According to Participants 2, 8, and 9 financial statement accuracy is important because there are many users of these statements, including investors, managers, board members, and other stakeholders. Participants 2 and 4 indicated that clients must create and provide a fundamental summary of the financial statements, trends should be visible throughout, and the statements should be neither too aggressive nor too conservative. Further, Participant 2 indicated that the client's financial statements should include complete, appropriate, and accurate disclosures using concise language that reveals any nuances of accounting.

The theme of documentation was pervasive throughout the literature review in several formats. Fiolleau et al. (2013) indicated that clients would not supply documentation if the auditor did not make a request for the document. Many studies presented in the literature review focused on the financial statements. The focus of studies included:

- The relationship between aggressive financial statements and governance mechanisms (Abdel-Meguid et al., 2013).
- How internal audits can improve the accuracy of reporting and disclosures in the financial statements (Badea et al., 2014; Issa & Kogan, 2014).
- Involvement of the audit committee and financial statement quality (Ghafran, & O'Sullivan, 2013).
- The effect of board structure and independence on financial statements (García-Sánchez et al., 2012; Ramanan, 2014; Skëndaj et al., 2014).

- Manipulation of financial statements to receive higher compensation (Saltaji, 2013).
- Auditor size and financial statement conformance to regulations (Ebrahim, 2014).
- The effect of audit partner rotation of financial statements (Daugherty et al., 2012).

The inclusion of this theme aligns with the literature review.

Theme 3: Knowledge and Experience

The third theme found during analysis of the research data was the knowledge and experience of both the audit firm staff and client management. Bills, Jeter, and Stein (2015) indicated that industry specialization of the audit firm reduces audit costs without sacrificing audit quality. According to Participant 3, the client may be required to educate the audit firm staff about their product and industry in order to make the firm's review more targeted to the important topics. Knowledge of the client's industry and agencies that regulate the business by the audit firm staff and client management is very important to a quality audit. Bin, Lennox, and Qingquan (2015) found that audit firms could delegate less experienced partners to accounts that are not viewed as priority.

The target company withdrew as an SEC registrant subsequent to the release of the SOX regulations. During my research, I found that the company withdrew due to the lack of knowledge of their audit firm pertaining to the definitions of key terms used by the SOX regulation authors. The company was unwilling to attest lawfully to terms that could not be concisely defined.

Similar to the previous themes, knowledge and experience were common topics throughout the literature review. Ramanan (2014) indicated that accurate statements produced by a more intimate knowledge of the company's operations and results. The PCAOB (2015) focused on several characteristics of the audit firm that were key audit quality indicators, particularly specialized skills and knowledge, experience, and industry knowledge. Daugherty et al. (2012) analyzed direct and indirect effects of audit partner retention, including increased client specific knowledge. Johnstone et al. (2014) conducted a study specific to audit fees and quality, determining that client specific knowledge influence both. Litt et al. (2014) found that audit quality was higher in the 2 years prior to mandatory audit rotation, due in part to the accumulated client knowledge.

Theme 4: Character

The next theme from the research was character. This theme alludes to the personal and professional ethics of the individuals and groups involved in the audit process. Most of the focus of this topic was on the ethics of the client's management, because perception indicates that the client has more to gain from hiding or altering records. Chinniah (2015) discussed the ethics of CFOs, controllers, and accounting staff in respect to the accurate recordation of transactions and preparation of the financial statements. Fiolleau et al. (2013) indicated that clients might not provide any documents beyond what the auditors request for fear of complicating the process or divulging potentially harmful information. According to Participants 6 and 7, in addition to hiding and altering records, client management can use ambiguity in regulations to apply discretion and improve the financial results. Khatri (2015) discussed the concept of

“creative accounting” in which management uses the flexibility within regulations and accounting principles to manage earnings and presentation.

Numerous authors discussed character throughout the literature review. The perception of the benefit client management can gain from hiding these records is higher compensation for better results, thus leading to manipulation of financial statements (Saltaji, 2013). Badea et al. (2014) indicated that internal audits can promote ethical behavior. Some participants specifically cited Enron for its documented ethical issues, which was supported by Kao et al. (2013). Another ethics issue identified by the participants was the client intimidating the audit staff. Dao et al. (2012) discussed a method of intimidation as opinion shopping. This act threatens the audit firm’s future revenue by indicating a willingness to change audit firms to acquire the client’s desired audit finding.

Theme 5: Procedural

The final broadest theme was procedural. The breadth of this theme allowed for the identification of several prominent topics. The topics that group into procedural are all of the concepts that pertain to the processes and procedures to conduct the audit, including structure and size of the audit firm, regulations, timing and scheduling, methodology of testing, and findings.

Size and structure of the audit firm. Audit firm size and structure was the focus of participant discussions during the interview process by Participants 2, 3, and 8, indicating that larger firms and smaller firms each have advantages to the client. Paunescu (2015) found that audit reports are materially weaker when small audit firms

performed the audit, while Bin et al. (2015) indicated that larger firms with larger staffing could delegate less experienced partners to certain accounts. Bills and Cunningham (2015) indicated that small firms could join associations to contend with the quality offered by larger firms at lower costs.

My target company used a large international audit firm when it was an SEC registrant, but switched to a smaller, regional audit firm once it withdrew from the SEC. According to Participant 2, the company indicated that they needed a “name brand” firm while they were an SEC registrant. Once the company withdrew from the SEC, the company decided to use a smaller and more cost efficient firm.

Several researchers within the literature review discussed topic of audit firm size. Eshleman and Peng (2014) and Yahn-Shir et al. (2013) found that larger firms, specifically Big 4 firms, issued less restatements, indicating higher quality audits. Gul et al., (2013) found that individual auditors with large firm experience provided higher quality audits. Ebrahim (2014) found that internationally affiliated audit firms are more likely to ensure their clients’ regulatory compliance than are local firms.

Regulations. Two major subjects emerged from the analysis of the participants’ responses regarding regulations: SOX and audit rotation. Participant 2 mentioned SOX because it added resource usage for both the audit firm and client. The participants also stated that SOX transitioned the focus of the audit to testing assertions, rather than a collaborative effort to create the most accurate financial statements.

Numerous researchers in the literature review supported the inclusion of SOX as well. Abdel-Meguid et al. (2013) and Kao et al. (2013) tested to determine if SOX

improved audit quality. Erickson et al. (2014) discussed the specific section of SOX 404, which requires a company to disclose an assessment of the company's internal controls over financial reporting as well as the audit firm's assessment of such controls, while Shaw and Terando (2014) discussed the excessive cost of compliance to this section alone. SOX established the partner tenure rules and cool down periods in effect in the United States (Litt et al., 2014).

The second topic that the participants discussed within regulations was auditor rotation, indicating that perception of firm rotation is increased audit quality. My research of the company found that in the 10 years preceding the study, the company had a firm rotation and a partner rotation. Bowlin, Hobson, and Piercey (2015) determined that the auditor's mindset influences the effect of auditor rotation. If the auditor approaches the audit skeptical of management's assertions, the audit quality is higher without rotating, while an auditor assuming honesty improves audit quality when a rotation occurs.

Many researchers in the literature review discussed auditor rotation, specifically separating partner rotation and firm rotation. Daugherty et al. (2012) found that longer audit partner tenure contributed to quality and client knowledge. Alternatively, those surveyed indicated that rotation contributes to independence, in fact and perception. Azizkhani et al. (2013) concluded that partner rotation results in higher ex-ante costs and diminishes audit quality.

Anis (2014) found that auditors believe mandatory auditor rotation will increase audit quality. The researcher also found that auditors indicated an average tenure

requirement of 3.8 years to establish acceptable audit quality and the perception of auditor rotation increases auditor independence, but at the cost of client specific knowledge. Inversely, researchers in Spain found that audit quality does not increase with longer audit tenure (Blandon & Argiles Bosch, 2013).

Timing and scheduling. The participants discussed several aspects of timing and scheduling that have an effect on the audit. Such aspects included meeting deadlines, time constraints, preparation, and audit within the budget as voiced by participants 3, 4, 6, and 7. The client company has a set deadline by which it must file its financial statements and complete the audit. Many auditors work on more than one client at a time, creating time constraints on their work. The audit requires preparation by both the client and the audit firm in order the audit to be completed. Finally, both the audit firm and the client have a budget for the audit to adhere to and monitor during the process.

Author cited in the literature review discussed the impact of auditor time constraints and budget considerations. The PCAOB (2015) identified workload as one of its key audit quality indicators. Lopez and Peter (2012) also supported this theory, who found that higher workload negatively influences audit quality.

Hackenbrack et al. (2014) found that timing of audit fee disclosure has an effect on company performance, thus audit fee reporting lag is detrimental to investor knowledge and decision-making. Cahan and Sun (2015) and Johnstone (2014) found that audit fees positively relate to audit quality. This is due to higher work and attention dedicated to the client, constituting a higher fee and resulting in higher quality. This is, however, in opposition to the prior topic of time constraints. Audit firms cannot dedicate

sufficient manpower or qualified partners to every client's audit. Clients also cannot have the audit timeframe increase to the aforementioned deadline for filing.

Methodology of testing. Several subjects pertaining to methodology of testing that participants mentioned were sampling, extent and structure of testing, consistency, processes and controls tested, and materiality. Participants 3 and 4 mentioned sampling as an audit method that can be misleading. Christensen, Elder, and Glover (2015) found that audit firms use different methods to drive sampling, resulting in different sample sizes for testing. Skëndaj et al. (2014) also discussed the concept of improper financial statement testing. Thus, the extent and structure of the testing can vary and be inconsistent. Participants 3, 4, and 9 also mentioned the need for testing of processes and controls. As mentioned previously, researchers in the literature review found SOX section 404 focused on this topic, but is very costly (Shaw & Terando, 2014). A significant topic from the literature mentioned by participant 8 was materiality. Throughout the literature, numerous researchers and authors discussed material errors (Liu et al., 2012), misstatements (Knechel et al., 2013; Ojo, 2014), aggressive financial statements (Abdel-Meguid et al., 2013), material mistakes (Skinner & Srinivasan, 2012), material non-compliances (Cullinan & Rohland, 2014), and material accuracy (Kleinman et al., 2014). The term material misstatements collectively identifies all of these concepts. The foundation of this term hinders on the establishment of materiality, in order to determine if a material misstatement has occurred, as defined by GAO (2003).

Findings. Participants 4, 5, 6, 8, and 9 identified several topics pertaining to audit findings. For example, the auditor identifies areas of concern and outstanding issues,

considers required adjustments and the complexity of judgment used by management in the financial statements, and ensures that management addressed issues identified in prior audits.

Participant 8 discussed complexity of judgment as an aspect that could compromise audit quality. The target company states in its financial disclosures that the use of estimates is required. Griffith, Hammersley, and Kadous (2015) stated that valuation allowances and impairments have become a critical aspect of financial statements, while the difficulty of establishing fair market value increases persistently. Many of the concepts reported by the participants are present throughout the literature review as well. Particularly, the reporting of issues (Franzel, 2014; Saltaji, 2013), compliance (Wedemeyer, 2014), and judgment, frequently in the form of discretionary accruals (Cahan & Sun, 2015; Elshafie & Nyadroh, 2014; Yu-Ting et al., 2014) all existed in the literature review.

Applications to Professional Practice

The success of every business hinges on its ability to implement sound business practices (Florea, Cheung, & Herndon, 2013). During the research, data collection, and data analysis phases of this study I found a significant amount of data pertaining to the quality of an audit. The findings of this study show the key areas where business professionals believe there are gaps in the current audit processes that could lead to low quality audits. The audit process is a procedural occurrence between two companies to satisfy a regulatory requirement, so it is not surprising that numerous aspects of process and procure were the focus of participants' comments.

The value of this study is primarily in the different approach of the study and secondarily in the consolidation and synthesis of data. Audit quality is the subject of numerous studies, but primarily from the standpoint of the auditor or the audit industry. This study focused on the client's perspective of the audit and the viewpoints the client has on how to improve audit quality. When all of the studies that exist are from the perspective of one party, it becomes commonplace to believe that perspective is universal. All of the studies taking the auditor's perspective reflect that the client is responsible for the data, the reports, and the regulatory concerns. The findings of this study show that the client company believes the relationship should be more collaborative. The secondary benefit of this study was the consolidation and synthesis of data. Of the many studies on the topic of audit quality, many accounted for a few aspects discussed in this study, but none discussed all of the aspects included in this study. This study consolidates all of the popular concepts from audit quality and synthesizes them into a cohesive view, in an attempt to capture a full picture of the concepts affecting audit quality. Business practice improves with greater knowledge and a more holistic viewpoint of the problem.

Implications for Social Change

The findings of this study can promote social change by enhancing knowledge of what role management can play in ensuring a high-quality audit. The consideration of the themes found in this study could help to identify improved standards to ensure higher audit quality and improve stakeholder confidence in the financial statements of companies. This increased confidence can help to ease the minds of company

shareholders, company employees, and ownership. Addressing the fundamentals of building a quality audit process will help to restore the confidence of the public in the way companies are managed, disproving that SOX was implemented too quickly and without research (Gupta et al., 2013). Additionally, the implementation of a quality audit process ensures the elimination of collusion between auditors and clients, adding to the confidence of investors and thereby contributing to social change.

Recommendations for Action

My observations confirm there is an existing gap between the client management and audit firms on to best promote audit quality. The recommendations that I offer from reviewing the results of this study derive primarily from the procedural, communication, and knowledge and experience components of the findings. Client management should conduct greater due diligence when researching an audit firm to potentially conduct its financial and operational audit. Management should determine if the firm has experience with the company's product and industry. Requesting references from the firm to confirm such knowledge and establish a history should be part of this research process. The client management should establish an open dialogue with the audit firm and communicate all issues as they occur throughout the year. Such communication will make the audit smoother and reduce workload during the audit period. Client management should be forthcoming with all information, with the objective of collaboratively creating financial statements that accurately reflect the position and future of the business. I also recommend that client management be educated on the regulatory bodies that govern the business and industry. This will allow management to guide the

audit firm to the most important aspects of the business, not spending the limited available time on trivial research and documentation.

Recommendations for Further Research

The primary recommendation for further research would be to conduct a similar study on a larger company. While the target company of this study experienced many of the issues identified in the literature as issues associated with audit quality, much more information may come from a larger company. The company has changed firm sizes, from a Big 4 to a smaller, regional firm; had a restatement; deregistered from the SEC; rotated audit partners; and rotated audit firms. I used census sampling for this study and interviewed all individuals involved with the audit on the client's side and the audit partner and manager on the audit side. Using a larger company would garner more individuals for participation in the study and potentially provide insight to a more defined finding.

I limited my research to a case study of a single Connecticut-based organization. A single case study limits the amount of data a researcher collects (Yin, 2014). Included in the limitations of my study results is participants may not have expressed comments reflecting best practices. While I took steps to eliminate my bias, the results may not be totally bias free. Using a larger company can expand the participant pool, but would not necessarily make the participants more knowledgeable or able to better recollect prior issues. A larger company would have more records to review for historic information, but feasibility of full review is lower. Lastly, while a researcher without direct

knowledge of the may be bias free, the researcher may not be able to interpret the collected data.

Reflections

I believe that a comprehensive, independent audit is the only true test of a company's statement of financial position. It is important to note that I believe the client is just as interested in a quality audit as the audit firm is. The company's agents have an obligation to function in the best interest of the principals at all times. The audit is the only tool available to determine whether this is truly occurring. I have worked for several companies and involved in many audits. Thus, I could talk endlessly about the audit process, the pitfalls that companies run into with ethical issues, and the inherent issues of audits. As that list would indicate, I was predisposed to speak primarily about issues negatively associated with companies and why audits are critical. Conducting this study from the viewpoint of "how can we improve audit," rather than my natural inclination of "why audits will never truly work" has been beneficial. The participants of the study showed an extensive knowledge on the subject and covered many topics I was hoping to hear about. I found myself smiling several times when I heard a participant bring up a subject I had hoped would be discussed. My interactions with the participants were insightful, enjoyable, and satisfying; as was my time on this study and the DBA Doctoral Study as a whole.

Conclusion

Companies control the wellbeing of numerous individuals, including employees, managers, owners, stockholders, and board members. In order to safeguard the well-

being of all of these individuals, controls must be in place to ensure the company operates in the best interest of everyone. Financial statement audits are the primary safeguard these individuals have to ensure the company reports its financial position fairly and free of material misstatements. In order to ensure the audit functions optimally, the company's management can implement strategies to facilitate an engagement, provide relevant evidence, and support management assertions. The emergent themes of my doctoral study include strategies a client firm can implement to enhance the quality of the external audit results.

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Appendix A: Data Use Agreement

DATA USE AGREEMENT

This Data Use Agreement (“Agreement”), effective as of (Date) (“Effective Date”), is entered into by and between Christopher Turner (“Data Recipient”) and (Company) (“Data Provider”). The purpose of this Agreement is to provide Data Recipient with access to a Limited Data Set (“LDS”) for use in research **in accord with laws and regulations of the governing bodies associated with the Data Provider, Data Recipient, and Data Recipient’s educational program.** In the case of a discrepancy among laws, the agreement shall follow whichever law is more strict.

Definitions. Due to the study’s affiliation with Laureate, a USA-based company, unless otherwise specified in this Agreement, all capitalized terms used in this Agreement not otherwise defined have the meaning established for purposes of the USA “HIPAA Regulations” and/or “FERPA Regulations” codified in the United States Code of Federal Regulations, as amended from time to time.

Preparation of the LDS. Data Provider shall prepare and furnish to Data Recipient a LDS in accord with any applicable laws and regulations of the governing bodies associated with the Data Provider, Data Recipient, and Data Recipient’s educational program.

Data Fields in the LDS. **No direct identifiers such as names may be included in the Limited Data Set (LDS).** In preparing the LDS, Data Provider shall include the **data fields specified as follows**, which are the minimum necessary to accomplish the research: Availability, at the Data Provider’s convenience, to employees for interviewing, access to financial statements and audits .

Responsibilities of Data Recipient. Data Recipient agrees to:

Use or disclose the LDS only as permitted by this Agreement or as required by law;

Use appropriate safeguards to prevent use or disclosure of the LDS other than as permitted by this Agreement or required by law;

Report to Data Provider any use or disclosure of the LDS of which it becomes aware that is not permitted by this Agreement or required by law;

Require any of its subcontractors or agents that receive or have access to the LDS to agree to the same restrictions and conditions on the use and/or disclosure of the LDS that apply to Data Recipient under this Agreement; and

Not use the information in the LDS to identify or contact the individuals who are data subjects.

Permitted Uses and Disclosures of the LDS. Data Recipient may use and/or disclose the **LDS for its Research activities only.**

Term and Termination.

Term. The term of this Agreement shall commence as of the Effective Date and shall continue for so long as Data Recipient retains the LDS, unless sooner terminated as set forth in this Agreement.

Termination by Data Recipient. Data Recipient may terminate this agreement at any time by notifying the Data Provider and returning or destroying the LDS.

Termination by Data Provider. Data Provider may terminate this agreement at any time by providing thirty (30) days prior written notice to Data Recipient.

For Breach. Data Provider shall provide written notice to Data Recipient within ten (10) days of any determination that Data Recipient has breached a material term of this Agreement. Data Provider shall afford Data Recipient an opportunity to cure said alleged material breach upon mutually agreeable terms. Failure to agree on mutually agreeable terms for cure within thirty (30) days shall be grounds for the immediate termination of this Agreement by Data Provider.

Effect of Termination. Sections 1, 4, 5, 6(e) and 7 of this Agreement shall survive any termination of this Agreement under subsections c or d.

Miscellaneous.

Change in Law. The parties agree to negotiate in good faith to amend this Agreement to comport with changes in federal law that materially alter either or both parties' obligations under this Agreement. Provided however, that if the parties are unable to agree to mutually acceptable amendment(s) by the compliance date of the change in applicable law or regulations, either Party may terminate this Agreement as provided in section 6.

Construction of Terms. The terms of this Agreement shall be construed to give effect to applicable federal interpretative guidance regarding the HIPAA Regulations.

No Third Party Beneficiaries. Nothing in this Agreement shall confer upon any person other than the parties and their respective successors or assigns, any rights, remedies, obligations, or liabilities whatsoever.

Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Headings. The headings and other captions in this Agreement are for convenience and reference only and shall not be used in interpreting, construing or enforcing any of the provisions of this Agreement.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed in its name and on its behalf.

DATA PROVIDER

DATA RECIPIENT

Signed: _____

Signed: _____

Print Name: _____

Print Name: _____

Print Title: _____

Print Title: _____

Appendix B: Letter of Cooperation from a Research Partner

Letter of Cooperation from a Research Partner

(Company Name and Address)

(Date)

Dear Christopher Turner,

Based on my review of your research proposal, I give permission for you to conduct the study entitled "An Examination of Audit Process Inputs and the Effect on Audit Quality" within (Company). As part of this study, I authorize you to interview company employees. Individuals' participation will be voluntary and at their own discretion.

We understand that our organization's responsibilities include: allowing employees to engage in a voluntary interview. We reserve the right to withdraw from the study at any time if our circumstances change.

I confirm that I am authorized to approve research in this setting and that this plan complies with the organization's policies.

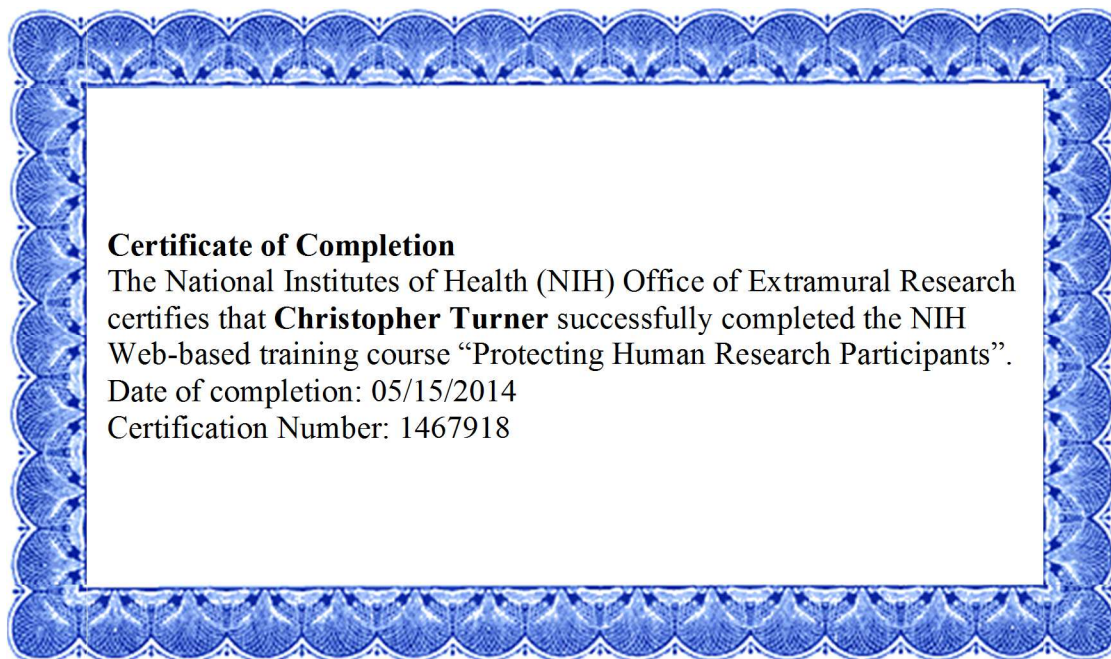
I understand that the data collected will remain entirely confidential and may not be provided to anyone outside of the student's supervising faculty/staff without permission from the Walden University IRB.

Sincerely,

(Executive), (Title)
(Company)

Walden University policy on electronic signatures: An electronic signature is just as valid as a written signature as long as both parties have agreed to conduct the transaction electronically. Electronic signatures are regulated by the Uniform Electronic Transactions Act. Electronic signatures are only valid when the signer is either (a) the sender of the email, or (b) copied on the email containing the signed document. Legally an "electronic signature" can be the person's typed name, their email address, or any other identifying marker. Walden University staff verify any electronic signatures that do not originate from a password-protected source (i.e., an email address officially on file with Walden).

Appendix C: Certificate of Ethical Compliance



Appendix D: Consent Form

You are invited to take part in a research study of what strategies client managers can use to improve audit quality. The researcher is inviting you to participate in this study because the company's executive team has identified you as a professional with prior experience in audit process from the client or auditor side. This form is part of a process called "informed consent" to allow you to understand this study before deciding whether to take part.

This study is being conducted by a researcher named Christopher Turner, who is a doctoral student at Walden University. You may already know the researcher as a controller, but this study is separate from that role.

Background Information:

The purpose of this qualitative exploratory case study was to determine what strategies client managers can use to facilitate an engagement with an audit firm and effectively carry out their responsibility to provide effective relevant evidence and support for their management assertions as outlined in the engagement letter. **Procedures:**

If you agree to be in this study, you will be asked to:

- Take part in one approximately 30 minute interview to answer several interview questions in your office or a private conference room at your company's headquarters.
- Take part in one approximately 5 minute follow-up meeting to verify the interview transcript and interpretation in your office or a private conference room at your company's headquarters.

Here are some sample questions:

1. What interactions exist in the audit process between the client and auditor?

2. What role does the client play in the audit process?
3. How does the client's interaction with the auditor affect audit quality?

Voluntary Nature of the Study:

This study is voluntary. Everyone will respect your decision of whether or not you choose to be in the study. If you decide to join the study now, you can still change your mind later. You may stop at any time without fear of adverse effects, personally or professionally.

Risks and Benefits of Being in the Study:

There are no known risks for participating in this study. If you are uncomfortable responding to some of the questions, please inform me and we can either stop the interview or skip a question. Being in this study would not pose risk to your safety or wellbeing.

While there are no direct benefits to participants, your participation will provide insight to the researcher regarding what client managers can control in their interaction with the auditor to affect the quality of the financial statement audit.

Payment:

Participants will not be awarded gifts, compensation, or paid to participate in the study.

Privacy:

Any information you provide will be kept confidential. The researcher will not use your personal information for any purposes outside of this research project. Also, the researcher will not include your name or anything else that could identify you in the study reports. Data will be kept secure by issuing participants an identification number by which each participant will be referred. Data will be kept for a period of 5 years, as required by the university.

Contacts and Questions:

You may ask any questions you have now. Or, if you have questions later, you may contact the researcher via email at christopher.turner@waldenu.edu. If you want to talk privately about your rights as a participant, you can call Dr. Leilani Endicott. She is the Walden University representative who can discuss this with you. Her phone number is 1-800-925-3368 ext. 312-1210. She can be reach by email at irb@waldenu.edu. Walden University's approval number for this study is **03-28-16-0290102** and it expires on **March 27, 2017**.

The researcher will give you a copy of this form to keep.

Statement of Consent:

I have read the above information and I feel I understand the study well enough to make a decision about my involvement. By signing below, I understand that I am agreeing to the terms described above.

Printed Name of Participant

Date of consent

Participant's Signature

Researcher's Signature

Appendix E: Interview Protocol

1. The participant was asked to review the consent form and ask questions prior to signing.
2. The participant was given a copy of the consent form and be reminded that participation was voluntary and could be withdrawn at any time.
3. The interviewee was notified that the interview would be recorded and notes would be taken.
4. The duration of the interview was approximately 30 minutes, addressing the seven interview questions and relevant follow-up questions.
5. A follow-up 5 minute meeting was made with the participant to review the interview transcription for accuracy and completeness.

Appendix F: Interview Questions

8. What interactions exist in the audit process between the client and auditor?
9. What role does the client play in the audit process?
10. How does the client's interaction with the auditor affect audit quality?
11. What components of the audit process are within the control of the client?
12. What components of an audit are not within the control of the client?
13. What measures are appropriate in determining the quality of an audit?
14. What factors do you believe compromise the quality of the audit process?