

***The Impact of Culture on the Financial Audit Mission Quality:
The Case of Deloitte Nearshore Morocco, Deloitte France,
Deloitte USA***

***Wpływ kultury na jakość audytu finansowego:
studium Deloitte Nearshore Maroko, Deloitte France,
Deloitte USA***

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Słowa kluczowe

audyt, jakość audytu, firmy audytorskie, kultura, wymiar kulturowy

Abstract

Many studies defined and determined factors influencing the audit quality; researchers, in these studies, have agreed that auditor's behavior has a strong role in influencing the external financial audit quality in an audit firm. Auditor's behavior itself can be impacted by many factors such as audit fees, audit firm size, and obviously culture. The latter has a crucial role in orienting, influencing and predicting the professional and the personal behavior in an organizational context. Although, many studies tackled culture's influence on accounting standards, studies on culture's impact on audit quality are still very rare. Therefore,

the aim of this study is to investigate the role of culture in determining and predicting the audit quality using Hofstede's cultural dimensions framework. Data collection and data analysis of this study are based on quantitative approach using a questionnaire. Forty participants in this survey are auditors working for an international audit firm (one of the Big Four); they use the same IT and the same audit procedures, but they work in different countries. The participants were chosen randomly from Deloitte Nearshore Morocco, Deloitte France, Deloitte USA. The data analysis was done through a linear regression. The results confirmed that the audit quality depends on culture. Auditors- adopting cultures encouraging Collectivism, Uncertainty Avoidance and Masculinity- tend to deliver good audit mission quality. However, more efforts should be done by the audit firms to avoid the negative impact of excess of Individualism and Femininity dimensions on the audit quality.

Abstrakt

Wiele badań jasno określa czynniki wpływające na jakość audytu; badacze zgadzają się, że zachowanie biegłego rewidenta ma znaczący wpływ na jakość zewnętrznego audytu finansowego w firmie audytorskiej. Na samo zachowanie audytora może wpływać wiele czynników, takich jak wynagrodzenie, wielkość firmy audytorskiej i oczywiście kultura. Ta ostatnia odgrywa kluczową rolę w zrozumieniu i przewidywaniu zachowań zawodowych i osobistych audytorów w kontekście organizacyjnym. Chociaż przeprowadzono wiele badań dotyczących wpływu kultury na standardy rachunkowości, badania nad wpływem kultury na jakość audytu są nadal bardzo rzadkie.

Dlatego celem niniejszego artykułu jest zbadanie, zgodnie z modelem Hofstede'a, roli kultury w określaniu i prognozowaniu jakości audytu. Gromadzenie i analiza danych opiera się na podejściu ilościowym z wykorzystaniem kwestionariusza. Czterdziestu uczestników tego badania to audytorzy pracujący dla międzynarodowej firmy audytorskiej (jednej z Wielkiej Czwórki); używają tego samego IT i tych samych procedur kontrolnych, ale pracują w różnych krajach. Uczestnicy zostali wybrani losowo z Deloitte Nearshore Maroko, Deloitte France, Deloitte USA.

Analiza danych została przeprowadzona metodą regresji liniowej. Wyniki potwierdziły, że kultura ma wpływ na jakość audytu. Audytorzy – umocowani w kulturze zachęcającej do kolektywizmu, unikania niepewności i męskości – zwykle zapewniają dobrą jakość przeprowadzonych kontroli. Jednak firmy audytorskie powinny dołożyć większych starań, aby uniknąć negatywnego wpływu nadmiernego pierwiastka indywidualizmu i kobiecości na jakość badania.

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Introduction

The concept of auditing has gradually spread to a whole series of areas such as financial audit, internal audit, social audit and even information systems audit; its propagation corresponds to a fundamental change in governance models of advanced industrial societies. Financial audit holds a crucial importance in the economic life of countries, the reason why several researchers have been interested in the study of the factors that impact its quality in order to push audit firms to master them to certify companies' accounts with more certainty.

After the proliferation of financial scandals, especially the Andersen-Enron affair, many questions about "audit quality" have been raised. Researchers began to see with precision the various determinants of audit quality; the independence of the auditor (DeAngelo, 1981), the audit fees (Hategan, 2019) are examples of factors impacting the audit quality which are raised by researches. From another perspective, our study focuses on investigating the impact of Hofstede's cultural dimensions on the audit quality.

Background

The literature discussing the quality of the audit and its measurement is ample; however, its definition and the different factors that impact it are considered as subjects that arouse the interest of several researchers around the world. Among the first definitions of the quality of audit, the one given by DeAngelo, who specifies that, the quality of audit is: "the probability that an auditor will discover and report a breach of regulations in the client's accounting system. The discovery of distortion depends on the quality and volume of knowledge gained and the auditor's capacity, while the reporting of distortion depends on the auditor's motivation to disclose it" (1981, p. 186). DeAngelo insists that the quality of the audit is related to the auditor: Auditor's motivation, independence and knowledge.

Other studies done by Craswell et al. (1995) and Becker et al (1998) show that even the size of the audit company can affect the quality of audit. Audit

service providers, with a larger market share, carry out higher quality audit missions; they develop a very strong structure, offer a higher quality services and make of their reputation the main objective. These companies risk much loss if their reputation is affected rather than by losing customers. And so, the risk of influencing the independence of auditors is lower in big audit structure than small companies of audit.

Malihi et al. (2013) have agreed with the definition of DeAngelo and considered that the quality of audit depends on the auditor knowledge and his ability to express an independent opinion. On the other hand, DeFond and Zhang (2014) have focused on the main objective of a financial audit mission, that is to say, guaranteeing the faithful image of the financial situation of the audited structure. But, they have insisted on the main role of the auditor to show the real financial situation of the audited structure.

Therefore, we can see that since the funding of DeAngelo in 1981, a multitude of research has been done and still been done to identify various factors that impact the quality of an audit mission. Several researchers have tried to define the audit quality. However, so far, this concept has not been united yet.

To add, Lin and Tepalagul (2015) consider that Independence is a key factor in maintaining the ethical behavior of the auditor and so, maintaining the audit quality and it can be affected by the duration of the audit mandate. Hategan (2019) agreed with DeAngelo and found that the quality of audit depends on the auditor behavior, and the most important variable is the audit fees. When the audit company increases the audit fees, auditors are motivated. However, this policy can push the auditors to be dependent of the client to maintain the mandate and then their retribution.

Dunakhir (2016) has worked on an emerging market (Indonesia) and considered that the competence factor, (seen by the auditor as their capability to audit the financial accounts of the audited and seen by the client as the reputation of the audit company) is the main determinant of the audit quality. However, and according to the author, it cannot be assumed that audit stakeholders around the world would have the same perception of what factors mostly affect audit quality.

As discussed above, most researches focus on the auditor as the main factor to predict the quality of audit. Indeed, the audit behavior and opinion are not random, but rather impacted by several factors which go beyond the institutional and structural aspect. Gaddour (2016) made a mathematic model based on a Seemingly Unrelated Regression (SUR) to show the different correlations between the audit quality and factors that may impact it chosen from a large literature review. Her study was based on a questionnaire which was sent to senior auditors who work in the large auditing networks

constituting the main actors of the audit market in France. She has proved that the audit quality depends on the performance and the behavior of the auditors which depend on two main elements: The structure of the company and the management style.

The opinion and the independence of auditors are the results of their convictions and their behavior; therefore, many researchers have investigated the link between cultural context and auditors. Naslmosavi et al (2014) investigated the effect of culture on independent auditor's opinion. Their study was based on quantitative approach. Data-collection was done through questionnaires sent to auditors with at least 6 years of experience in a total of 259 private audit firms in Iran. The authors found that there is a correlation between culture and independent auditor's opinion. In fact, there is a relationship between culture and the whole profession.

Similarly, Christine Nolder and Tracey J. Riley (2013) indicated, through the literature review they made, that culture can impact only auditors' confidence, risk and probability judgments, risk decisions, conflict decisions, and ethical judgments. The differences of culture among auditors can affect their judgments and therefore question their independence. This conclusion has confirmed several studies e.g. Cowperthwaite (2010), Tsui (1996).

Since the 1990s, researchers have tried to provide an answer to the issue related to determination of audit quality. Initially, researchers predicted the quality of the audit based on the ability of the auditors to achieve the objectives behind an audit mandate; the focus was on the competence of the auditors and their independence, which guaranteed an ethical opinion on the financial accounts of the audited company. After this first step, researchers started considering that the opinion of auditors can be determined by their behavior and even more by their convictions. This step allowed researchers to consider the behavior of auditors not only as explanatory variable but also as a variable that should be explained. Currently, researchers have started investigating different explanations of the behavior of the auditors and their opinion; among of which the style of management, the retribution, the size and structure of the audit firm and the cultural context.

From here, we can notice that we do not have a model that links the culture directly to the audit quality. Our job is to develop a model that will allow us to predict the quality of the audit the cultural context. Our study will, thus, serve as a reference for both researchers and companies; audit firms will have the possibility of predicting the level of the quality of audit which will be impacted by the culture of the country of implementation, and therefore a global knowledge of the tools they will need to properly prepare the audit missions.

Hofstede's Theory of Cultural Differences

According to Hofstede (2011), culture is a "mental programming" that distinguishes members of one culture from the other. Each culture operates according to its own value system and its members behave according to the rules that are appropriate in a given situation. Between 1967 and 1972, Hofstede carried out a survey within the American multinational IBM to establish a comparison between cultures and to show that this "mental programming" has an impact on the management and the organization of a business. According to Hofstede's model, there are six dimensions to compare one country to another:

1. Power Distance Index (PDI),
2. Individualism vs. Collectivism (IDV),
3. Uncertainty Avoidance Index (UAI),
4. Masculinity vs. Femininity (MAS),
5. Long-term Orientation vs. Short-term Orientation (LTO),
6. Indulgence vs. Restraint (IND).

Hypotheses

According to Cowperthwaite (2010) culture influences all professional domains, but people are less aware that even their professional actions are influenced by culture. In the same vein, Naslmosavi et al (2014) believe that culture influences the auditor's opinion. This shows that there is a strong correlation between culture and the behavior of auditors. On the other hand, Belkaoui (1995) and Karacaer et al. (2009) consider that culture cannot affect the way auditors behave including their opinion. It just influences the integrity of accounting profession. Hence, the purpose of our study is to test the following hypotheses:

H0: There is no significant correlation between culture and audit quality.

H1: There is a significant correlation between culture and audit quality.

Method

The data collection and data analysis of this study are based on a quantitative approach; data collection was done through a questionnaire (primary data). The study is made on auditors working in three firms belonging to Deloitte network worldwide: Deloitte France, Deloitte USA, Deloitte Nearshore Morocco. The number of auditors is 40, they were chosen randomly from all auditors practicing in these three firms. Our research is based on the analysis

of auditor behavior and its impact on their opinion on the quality of a legal audit mission. That's why we've been interested in both behavior and opinion.

The questionnaire is sent in anonymous mode. For each firm chosen, the 1/3 of the 40 people making up the sample represents at least 14% of the total auditors (Representative sample). We set up the preliminary statistical tests and we proved mathematically that the model is globally significant, which is why we continued our study.

The questionnaire in this study aims to question auditors in order to assess their opinion; the idea is to encourage auditors to position themselves in relation to the cultural dimensions proposed by Hofstede (2011) and then to ask them about their perception of the quality of the audit assignments they perform. Six main questions were asked in this questionnaire:

- Power Distance Index (PDI): Scale of 5, where 5 represents the acceptance of hierarchical differences.
- Individualism vs. Collectivism (IDV): Measurement scale of 5, where 5 represents a strong sense of collectivism.
- Uncertainty Avoidance Index (UAI): Measurement scale of 5, where 5 represents a maximum degree of preparation for the future.
- Masculinity vs. Femininity (MAS): Scale of 5, where 5 represents a total preference for femininity.
- Long-term orientation vs. Short Term Orientation (LTO), Measurement scale of 5, where 5 represents total preference towards modernization.

The sixth question is related to auditors' opinion about audit quality. The answers to this question are coded: 0 (for bad quality) and 1 (for good quality). We have implemented only two options to avoid neutral responses. We need to know the perspective of the listeners. In legal audit, we find a good or bad quality mission.

There is also a question relative to the country of residence (home firm) to check the number of answers per country.

For the empirical study, we used linear regression. The ANOVA Test, F-test and other pre-tests are conducted to validate the model overall.

Data analysis

Récapitulatif des modèles^b

Modèle	R	R-deux	R-deux ajusté	Erreur standard de l'estimation	Changement dans les statistiques					Durbin-Watson
					Variation de R-deux	Variation de F	ddl1	ddl2	Sig. Variation de F	
1	,932 ^a	,869	,854	,19338	,869	58,102	4	35	,000	1,644

Table 1: Regression model

We have a test $DW = 1.644$ close to 2, so we can conclude that there is no autocorrelation between the residuals.

The correlation coefficient $R = 0.9$ which is close to 1, so it can be concluded that there is a correlation between the quality of the audit and the cultural dimensions of Hofstede.

The $R^2 = 0.869$, so we can say that the variables explain 80% of the variable that we want to explain.

The significance of the F-statistic is $0.000 < 0.001$ which means that the model is valid (the level of error is less than 1%).

		Audit_quality	Power_Distance	Individualism	Uncertainty_Avoidance	Masculinity	LT_ORIENTATION
Corrélation de Pearson	Audit_quality	1,000	,000	,751	,851	-,751	,000
	Power_Distance	,000	1,000	-,250	-,050	,050	1,000
	Individualism	,751	-,250	1,000	,599	-,599	-,250
	Uncertainty_Avoidance	,851	-,050	,599	1,000	-,599	-,050
	Masculinity	-,751	,050	-,599	-,599	1,000	,050
	LT_ORIENTATION	,000	1,000	-,250	-,050	,050	1,000

Table 2: Correlations

Based on the second table, we can have two conclusions:

- There is a strong correlation between audit quality and individualism, uncertainty avoidance and masculinity.
- There is no correlation between audit quality and Power Distance Index (PDI) and long-term orientation vs. Short Term Orientation (LTO).

Modèle		Somme des carrés	ddl	Moyenne des carrés	D	Sig.
1	Régression	8,691	4	2,173	58,102	,000 ^b
	Résidu	1,309	35	,037		
	Total	10,000	39			

Table 3: ANOVA

As a reminder, we observe that the significance of the F- statistic is less than 0.05% and therefore our model is globally significant, and we reject the H_0 hypothesis.

We retain that there is a relationship between audit quality and the cultural dimensions we use as variables.

Coefficients^a

Modèle	Coefficients non standardisés		Coefficients standardisés	t	Sig.	Statistiques de colinéarité	
	A	Erreur standard	Bêta			Tolérance	VIF
1 (Constante)	,011	,140		,079	,937		
Individualism	,080	,022	,319	3,714	,001	,506	1,977
Uncertainty_Avoidance	,128	,021	,510	6,166	,000	,547	1,828
Masculinity	-,065	,021	-,260	-3,147	,003	,547	1,828
LT_ORIENTATION	,030	,016	,118	1,853	,072	,915	1,093

Table 4: Coefficients

The quality of the audit mainly depends on three cultural factors: (IDV), (UAI) and (MAS). The MAS index varies in the opposite direction from the quality of the audit. The IDV and UAI indices vary in the same direction as the audit quality.

Discussion

According to the results obtained, we find that the audit quality can be predicted based on the cultural dimensions adopted by the auditors participating in the realization of the legal audit mission.

Individualism vs. Collectivism (IDV): (5 points scale: 1 as a preference for individualism and 5 as a preference for collectivism):

The more the auditors tend to place pride in group life and community gain, the better the quality of the audit tends to be. Audit missions take place in most cases in teams, where the main objective is to succeed in the audit mission on time; therefore, people tend to make sacrifices to the detriment of their private lives. The more auditors prioritize the group, the better the audit mission takes place in good conditions and has better quality.

Uncertainty Avoidance Index (UAI): (5-point measurement scale: 1 as a preference for accepting uncertainty and 5 as a preference for planning for the future):

The more the auditors tend to avoid uncertainty and plan for the future, the better is the quality of the assignments delivered. The audit market is uncertain, and audit mandates must be prepared in advance. Thus, and during an audit mission, the deadlines for each job are fixed in advance. The work of the auditors is billed by the hour. It is for all these reasons that uncertainty avoidance and preparation for the future impacts the professional career of auditors, this, however, increases the quality of the audit.

Masculinity vs. Femininity (MAS): (5 point measurement scale: 1 as preference for masculinity and 5 represents total preference for femininity):

The more the auditors tend to prioritize quality of life to the detriment of competition, status and material gains, the lower is the quality of the audit. During the financial season, the work of auditors becomes stressful and demanding. A person who prefers quality of life is called upon to balance between private and professional life.

Recommendations

Audit firms established in countries with cultures that encourage collectivism, control over uncertainty and masculinity tend to deliver missions with better quality, because auditors adopt behaviors that are consistent with what firms' requirements.

In addition, with a culture encouraging femininity and individualism, firms will have to work better on their corporate cultures to try to create a balance between the personal culture of auditors and the elements that the audit activity needs to survive.

Audit firms working in culture encouraging collectivism, control over uncertainty and masculinity should work on all organizational sides to improve those values in auditors' daily professional life.

- Organization culture:

Audit firms should work on their cultures to avoid making contradictions with the auditors' values. The culture should encourage pragmatism, the group gain and mutual help.

- Evaluation criteria and reward:

To reward auditors, the firm should take into consideration the individual performance and the impact of the auditor on the group performance. Also, the audit firm should think in first place about increasing salaries, performance financial bonuses and promotions. In second place, with a good level of importance, the firm should think about ameliorating the work conditions and social climate.

- Team building and parallel activities:

The audit firm should organize daily team building activities, encourage team's rotation so that all auditors work with each other. This step will allow the company to improve values of collectivism.

– Work Objectives:

Planning to attend two types of objectives: Firstly, the prosperity of the audit firm, and secondly, every individual's objective. Personal objectives and global objectives should be attended equitably. This is the belief that should the company set.

– Personal relationships:

The audit firm should adopt and make auditors adopt a friendly behavior with all their colleagues. It should decrease formal procedures in RH policies without compromising audit procedures based on transparency and traceability.

On the other hand, audit firms working in culture with high level of femininity and individualism have to work more on their organizational cultures without compromising the native culture of people.

The audit firm should organize training sessions and courses to encourage individuals to know how to behave differently in a professional context.

All recommendations proposed for companies working in a favorable cultural context can be valid also for the other cultures that adopt contrary values of those needed to succeed the audit missions.

The main difference is that the first audit firms can implement those policies implicitly because they are in harmony with the nation's cultural dimensions. The other type of firms should do it in an explicit way; this is why we made of trainings our first and main proposition.

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