

CPAs' Perceptions of Factors Influencing the Quality of Financial Statement Audits: Substandard Performance and Impaired Independence

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The purpose of this research study is to examine factors related to the gradual deterioration in quality of financial statement audits. This study explores two areas: substandard audit performance and impaired auditor independence. Using logistic regression models, we investigate six factors that may contribute to auditors recognizing the existence of substandard performance in financial statement audits. Also, we examine five other factors that may be indicative of the auditor's independence being impaired during financial statement audits. Both substandard audit performance and impaired auditor independence impact the overall quality of financial statement audits. Certified Public Accountants (CPAs) working in both public accounting and industry were asked to respond to an audit questionnaire. The respondents were assured of complete anonymity. The study was conducted prior to the Enron collapse and related scandals; hence, subjects' responses are unbiased by these scandals. The three following conditions may contribute to auditors realizing substandard performance exists in financial statement audits: (1) lack of adequate technical competence, (2) impaired auditor independence, and (3) lack of due diligence. In addition, the following five conditions may contribute to the problem of impaired auditor independence: (1) auditor's excessive personal loyalty to audit client, (2) auditor's fear of losing client to a competitor CPA, (3) auditor's fear of lawsuit pending withdrawal from the audit engagement, (4) auditor's fear of harming client with an audit opinion other than an unqualified, and (5) auditor's conflict in providing both consulting and auditing services to same client.

INTRODUCTION

This study examines the perceptions of Certified Public Accountants (CPAs) concerning the overall quality of financial statement audits by exploring two areas: substandard audit performance and impaired independence. Six factors are investigated that may contribute to auditors recognizing the existence of substandard performance in financial statement audits.