

The Comparative Research of Factors Affecting Audit Quality in Mongolia

Damdindorj Nyam-Ochir¹, Undarmaa Enkhee²

Abstract

The audit is a relatively new and developing sector for the Mongolia, and the quality of the audit work is one of the key issues. Therefore, my aim is to determine the factors in Mongolia that influence the quality of the audit by the results of the survey and comparing the findings of other countries in the world and making recommendations on future actions.

Keywords: audit quality, affecting factor, reputation, knowledge, experience, quality control, service fee

¹ МУИС-ийн Бизнесийн Сургууль, Нягтлан бодох бүртгэлийн тэнхим
E-mail: damdindorj.n@num.edu.mn

² МУИС-ийн Бизнесийн Сургууль, Нягтлан бодох бүртгэлийн тэнхим
E-mail: undraa2010@gmail.com

Introduction

The audit quality is affected by many factors that former researchers in other countries have been trying to define, classify and assess in their papers but there are no major publication and papers in the Mongolia so far. Therefore, having implemented this research, to compare the affecting factors between Mongolia and other countries and to aim the obvious result. In our country, there are legal documents such as the “International Standard for Quality Control” approved by the authority, there are the “Quality Control Procedure for Auditing Legal Entities”³ and the “Temporary Procedure for Audit Quality Control”⁴, but those documents have been revoked by the Minister of Finance⁵ and the Ministry of Justice⁶. Therefore, it is important to take the results of this study into account when developing the next legal document and to gain a common understanding of the key factors that affect the quality of the audit.

Concept of Audit Quality

The purpose of financial statement audit is for the auditor to form an opinion on financial statement based on having obtained sufficient appropriate audit evidence about whether the financial statements are free from material misstatement and to report in accordance with auditor’s findings. The auditor's report is used directly by external and internal information users to make the decisions they need and the auditor assures the financial statement through responsible to client, third parties, law and ethics. Therefore, the audit quality is a major indicator of this service. The International

Auditing and Assurance Standards Board defines that the audit quality is “encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis”⁷. A quality audit is likely to have been achieved by engagement team that:

- Exhibited appropriate values, ethics and attitudes
- Was sufficiently knowledgeable, skilled, experienced and had sufficient time allocated to perform the audit work
- Applied a rigorous audit process and quality control procedures that complied with law, regulation, standards
- Provided useful and timely reports
- Interacted appropriately with relevant stakeholders.

Having affected the factors for audit quality are classified as inputs, process, outputs, interactions and contextual factors. The input factors include that exhibiting appropriate values, ethics, attitudes and being sufficiently knowledgeable, skilled, experienced and having sufficient time allocated to them perform the audit work. The quality audit involves auditors applying a rigorous audit process and quality control procedures that comply with laws, regulations, standards. The output factors are that auditor’s report is provided effectively and timely. These three types of factors may vary at the level of audit team, audit firm, and country.

While the primary responsibility for performing quality audits rests with auditors, audit quality is best achieved in an environment where

³ Minister of Finance, 109th order, 2017

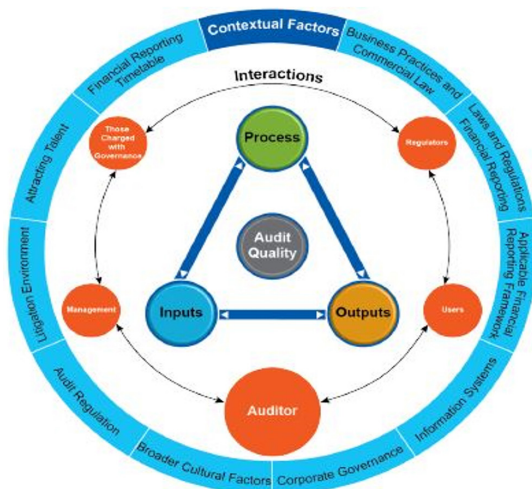
⁴ Financial Regulatory Commission, 209th order, 2011

⁵ Minister of Finance, 60th order, 2019

⁶ Minister of Justice, 1-1/887th order, 2017

⁷ IAASB, Framework for Audit Quality, 2014

Figure 1. Framework for Audit Quality



Source: IAASB (2014)

there is support from other participants in the financial reporting supply chain. Collectively, the contextual factors have the potential to impact the nature and quality of financial reporting and, directly or indirectly, audit quality. Where appropriate, auditors respond to these factors when determining how best to obtain sufficient appropriate audit evidence. Therefore, the following sections will examine how these factors are identified and ranked in foreign countries and what factors affect the audit quality in Mongolia.

Results of study conducted in other countries

DeAngelo (1981) had published firstly the study on audit quality and this study found that the size of the audit firm influenced the quality of the audit work. Since then, many researchers have tried to identify the factors that affect the audit quality in their country. Table 1 shows that research outcomes of the Beattie *et al.* (2010) in UK, Kilgore & Martinov-Bennie (2014) in Australia, Dunakhir (2016) in Indonesia and Hai (2016) in Vietnam. As can be seen from the Table 1, common factors that affect the audit quality include the firm size, quality control and the knowledge, experience and independence of the auditor and audit team. However, there are specific factors due to differences in the level of audit development in these countries. In Vietnam, which is close to Mongolia in audit development, it is interesting to note that the audit quality is affected by the performance assessment of auditors and the frequency with which the auditor and audit team members receive training course.

In the UK and Australia, where audit

Table 1. List of factors

Country	UK	Australia	Indonesia	Vietnam	
Factors	1	Firm size	Firm size	Firm size	
	2	Quality control	Quality control	Quality control	
	3	Auditor independence	Auditor attitude	Auditor independence	Auditor knowledge experience
	4	Culture of audit firm	Auditor knowledge experience	Auditor skill	Audit fee
	5	Market competition	Audit team skill	Auditor experience	Non audit service
	6	Auditor replacement	Auditor qualification	Auditor responsibility	Performance assessment
	7	Regulation and law	Non audit service	Non audit service	Training course
	8	Activity of audit committee	Communication of client and firm		

Source: Beattie *et al.* (2010), Kilgore & Martinov-Bennie (2014), Dunakhir (2016), Hai (2016)

development is relatively high, the relationship between the client and the audit firm is affected for audit quality.

In addition, the researchers from Portugal (Hossienniakani *et al.*, 2014), Iran (Moeinaddin *et al.*, 2013), Jordan (Al-Khaddash *et al.*, 2013), and Albania (Sulanjaku & Shingjergji, 2015) have identified factors that affect the quality of their country's audits, and list common factors:

1. Auditor knowledge, experience
2. Reputation of auditor and audit firm
3. Audit fee, audit tenure
4. Non audit service

Comparing the results of all these studies, the main factors influencing the audit quality in foreign countries are input and process factors such as the size of the audit firm, reputation, auditor knowledge and experience, independence, and quality control in the audit work.

Result of study conducted in Mongolia

The legal basis for auditing in Mongolia is set out in the 1993 "Law on Accounting" and "Rules for the Accounting and External Auditing Organization" by Minister of Finance in 1993. In 1997, the Law on Auditing was first approved, and in 2015, this law was

revised and amended. In 2011 and 2018, the International Standards on Auditing were translated and published. Almost 30 years have passed since the establishment of audits in Mongolia, which is a short time compared to other developed countries, but legal and standard reforms are good. We need to assess urgently the implementation of law, compliance with standards and the quality of auditing. Therefore, a total of 24 questionnaires were developed and 38 auditors and 81 clients' management and accountants were surveyed.

As we can see in Figure 2, the client management and accountants identified input factors such as service fee, auditor's independence and audit team skills as the main factors influencing the audit quality but 15 percent of the respondents believe that the reputation of the audit company affects the quality of the audit.

Surveys which was taken by auditors rank the factors that may affect audit quality and then the rank was told that the auditor's knowledge and experience, the auditor's personal and technical skills, the audit team's expertise in the field, and the auditor's independence as shown in Figure 3.

The 50% of the surveyed auditors ranked knowledge and experience first, 32% of them ranked personal skills second, 29% of auditors ranked technical skills third, 6% of them ranked expertise in the field fourth, and 24% of surveyed auditors ranked auditors' independence fifth. The 16% of participants ranked first, second and third in the auditor's specialization (See Appendix 1).

Having looked at the ranking of the top 5 factors in the survey, 35 auditors ranked the auditor's knowledge and experience in the top 5, while the reputation of the audit

Figure 2. Factors – Client

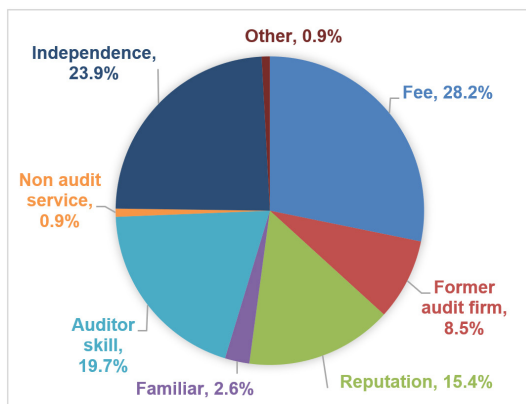


Figure 3. Sequence of factors - Auditor

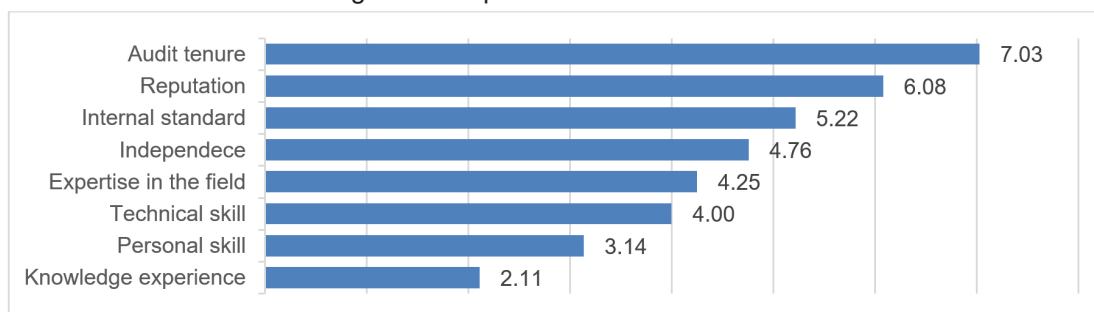


Table 2. List of factors and result

№	Factors	Client		Auditor		Total
		Quantity	Percent	Quantity	Percent	Percent
1	Auditor's knowledge experience	16	20	35	17	19
2	Auditor's independence	20	24	23	11	17
3	Audit fee	23	28			14
4	Reputation	12	15	13	9	12
5	Auditor's specialization			24	12	6

Source: Result of study

company was determined by 13 auditors in the top 5 factors. In addition, the auditor's specialization and independence, which are input factors that affect the audit quality, contribute 28 percent to the evaluation of the results.

Conclusions and suggestions

The results of the research in the above two chapters show that the auditor's knowledge, experience, independence and reputation of the audit firm are common factors that affect the audit quality in any country and it proves that reputation is the most important in this business. However, in Mongolia, we

have to focus on result which the quality of audit services is affected by audit fee but the quality control did not significantly affect the audit quality. It is possible that the surveyed accountants and managers of the client lacked knowledge about quality control.

- Provide training courses at the company and national levels to improve the auditor's professional and technical skills
- Audit service fees are set on an appropriate basis, to entrust control for the competent authority
- To monitor the auditor's compliance with laws, standards, and ethical principles with quality control rule.

№	Other countries	Mongolia
1	Audit firm's size and reputation	Auditor's knowledge, experience and independence
2	Auditor's knowledge, experience and independence	Audit fee
3	Quality control of auditing	Audit firm's reputation

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Appendix 1

Score	Knowledge, experience	Personal skill	Technical skill	Expertise in the field	Independence	Internal standard	Reputation	Audit tenure	Communication of firm, client
1	19	8	2	6	0	2	1	1	1
2	7	12	4	4	4	4	3	0	0
3	3	5	11	6	7	5	0	0	1
4	3	3	8	2	3	1	7	5	4
5	3	4	4	6	9	6	2	3	0
Top - 5	35	32	29	24	23	18	13	9	6
6	0	2	5	4	8	8	5	2	2
7	1	1	2	5	6	3	7	5	6
8	0	0	0	3	0	7	10	8	8
9	0	2	1	0	0	1	3	11	15
Percent	17%	15%	13%	12%	11%	10%	9%	6%	6%