

The Audit Quality of the Certified Public Accountants Effect on Stockholder Satisfaction of Accounting Firm in Thailand.

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ABSTRACT

Nowadays in the emerging market and after corporate scandals as well as financial crisis the issue of firm performance and ways to improve it are crucial for companies, investors and third parties. One of the ways that it can impact firm performance is audit quality of CPA, Therefore, the purpose of this research is to examine the impact of audit quality of CPA on stockholder satisfaction of accounting Firm in Thailand listed companies for the period of 2003 to 2012. In this study, we use financial reporting quality, integrity, communications between auditors and audit committee and timely reporting as indicator for audit quality. Return on assets and Tobin's q are used as measures for stockholder satisfaction. We found that there is insignificant relationship between audit quality (financial reporting quality and communications between auditors and audit committee) and ROA. We also found that an integrity and timely reporting is significantly and positively related to Tobin's Q. However, communications between auditors and audit committee is insignificantly related to Tobin's Q.

Keyword: Audit Quality, Accuracy, Objectiveness, Stockholder Satisfaction,
The Certified Public Accountants

1. Introduction

What is audit quality of CPA which can effect on stockholder satisfaction? Audit quality defined as auditors use some technics to recognize misstatements in clients accounting system and report the misstatements such as integrity, communications between auditors and audit committee, financial reporting quality, and timely reporting. Audit quality is the controversial issues for the recent decades and most previous evidence suggests that lack of audit quality is among the most important reason for financial and corporate scandals (Soltani, 2014). Perior studies evidenced that audit quality as external corporote governance monotoring can enhance stockholder satisfaction. In this study two indicator for audit quality used and shows that how these indicator can effect stockholder satisfaction. The main motovation of this research is related to financial reporting quality. Proponents of financial reporting quality believed that Integrity and timely reporting can enhance stockholder satisfaction which effect on high audit quality and positively affect companies'

performance. However, opponents of audit quality of CPA believed that cost of audit rotation is more than its benefits (Sayyar et al., 2014). Therefore, this research attempt to recognize how audit quality can enhance stockholder satisfaction. This study examines the audit quality of CPA attributes that are perceived to be important in evaluating the quality of audit and in determining satisfaction with audit quality in the context of compulsory audit tendering (CPA). Audit quality is an increasingly important area of examination.

1.2 Research Objective

(1) To study the audit quality of the certified public accountants that affected to the stockholder satisfaction of the public accounting company in Thailand.

(2) To study the stockholder satisfaction of the public accounting company in Thailand.

1.3 Research Hypothesis

(1)The audit quality in financial reporting quality affected to the stockholder satisfaction of the public accounting company in Thailand.

(2)The audit quality in communications between auditors and audit committee affected to the stockholder satisfaction of the public accounting company in Thailand.

2. Literature Review

The literature review that involve this research related to the Stockholder Satisfaction concept and the audit quality concept as.

2.1 Audit Quality of the Certified Public Accountants

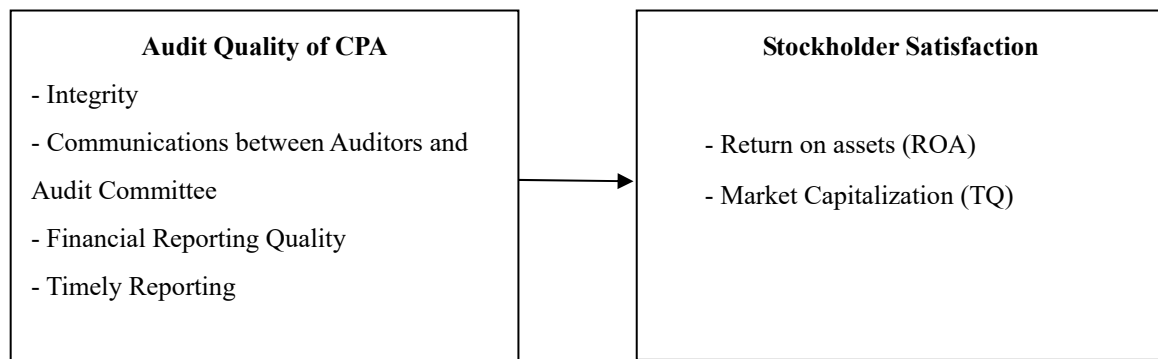
The literature on audit quality of the certified public accountants examines a number of attributes perceived to be associated with audit quality by financial statement preparers, integrity, communications between auditors and audit committee, timely reporting and other interest groups in different proximity to the audit process. Two main observations are made from this literature. The first is that audit quality attributes are often broadly referred to communications between auditors and audit committee attributes [2]. Integrity attributes are those that relate to the audit firm as an entity (e.g. location and size of audit firm offices, litigation the firm has been involved in). Communications between auditors and audit committee attributes are those concerned with the specific audit team assigned to the engagement (e.g. communication between the audit team and client management, level of partner/audit manager attention given to the audit) (Schroeder et al., 1986, p. 87). The majority of studies have found communications between auditors and audit committee attributes to be more important than integrity attributes in evaluating audit quality (Schroeder et

al., 1986; Carcello et al., 1992), and overall stockholder satisfaction with audit quality of CPA (Behn et al., 1997). While, overall stockholder satisfaction encompasses satisfaction with attributes of both the return on assets (ROA) and Market Capitalization (TQ), the financial reporting quality attributes are more important because the integrity is a sub-set of financial reporting quality, and, as Behn et al. (1999, p. 594) note, “management’s primary impressions of the timely reporting likely come from its interactions with the members of the audit quality of CPA”.

2.2 Stockholder Satisfaction

There are numerous studies investigating the relationship independent variables and stockholder satisfaction. Moutinho Cerqueira, and Brandão (2012) investigated the relationship between audit quality of CPA and stockholder satisfaction. They use sample of U.S. public companies for the period of 2000 to 2008. This paper use both empirical and theoretical relationship between audit quality of CPA and stockholder satisfaction. The result shows that there is a negative relationship between integrity to auditors and stockholder satisfaction. Integrity to audit have been potentially privileged position to expect the company’s economic condition. According to Bell et al. (2008) “the risk-based approach of audit planning and financial reporting quality means that clients perceived by the financial reporting quality are typically assigned more efforts, which in turn results in higher timely reporting”. So, communications between auditors and audit committee are estimated to be signal of current and future performance (Stanley, 2011). Martinez and de Jesus Moraes (2014) examined the relationship between audit quality of CPA and stockholder satisfaction of Brazilian listed companies from 2009 to 2010. They argued that communications between auditors and audit committee as a signal to market which companies that lead to enhance stockholder satisfaction. However, they use Tobin’s q as a measure of stockholder satisfaction and return on assets (ROA) of stockholder satisfaction. Their result showed that there is a positive relationship between financial reporting quality and firm value. Brown and Caylor (2004) suggested that company has a formal policy on audit quality of CPA is positively related to return on assets (ROA) as a proxy for stockholder satisfaction. Carey and Simnett (2006) examined the association between audit quality of CPA and stockholder satisfaction. They said that rotation of financial reporting quality is one of the main policy initiatives that have implemented in many jurisdictions around the world to deal with concern about audit quality. Their results show that there is significant of an association between of audit quality of CPA and stockholder satisfaction either the communications between auditors and audit committee or timely reporting absolute amount of abnormal working capital accruals with long audit partner tenure.

2.3 Conceptual Framework



3. Research Methodology

Population was a group of stockholder of the accounting firm in Thailand for total sampling size is 278 in 2012 which obtained a license from Minister of Finance, not under leave condition, and other causes, with amount of 918 public accountants. Furthermore, samples are selected randomly in reference to formula of Slovin Umar (2000:68) as many as 278 public accountants. This study uses primary data in form of a public stockholder's perception of financial reporting quality, integrity, communications between auditors and audit committee and timely reporting as a audits quality. Data were collected through questionnaires. Respondents is provided five qualitative alternative answers, then it be quantified by giving a score to each answer using a Likert scale, from strongly agree (5) to strongly disagree (1) (Sekaran, 2006). Data Analysis Techniques Hypotheses 1 through 2 are tested by Partial Least Square (PLS). Response bias, validity, reliability, linearity, and goodness of fit models is tested before stepwise multiple regression analysis be done.

4. Result

The result of correlation matrix for all independent and dependent variables used in stockholder satisfaction model. In this study the correlation matrix displays that multicollinearity is not a problem. The highest pairwise correlation among variable is 23.9% between LNASSET and LEV and the remaining variables are less than 14%. In the model the correlation matrix shows that including all the independent and control variables would not cause multicollinearity problem.

Table 1 Stockholder Satisfaction Correlation Matrix

Variable	LNAFEE	AUDROT	ROA	TQ	LEV	LNASSET	SG	B
LNAFEE	1							
AUDROT	-0.035**	1						
ROA	0.091***	-0.059***	1					
TQ	0.005	-0.007	0.276***	1				
LEV	0.17***	0.0127	-0.097***	-0.212***	1			
LNASSET	0.578***	-0.082***	0.218***	-0.021	0.239	1		
SG	-0.005	-0.007	0.161***	0.059***	0.057***	0.072***	1	
B	0.090***	-0.003	-0.089***	-0.113***	0.095***	0.144***	0.006	1

***are significant at $p < 0.01$, ** are significant at $p < 0.05$ and * are significant at $p < 0.10$.

The regression shows the results of multivariate regression for ROA model with audit quality variable (LNAFEE) and all variables. According to the result the validity of the model has been confirmed by the significantly of F-statistics at $p < 0.001$. The Adj R2 indicated that 10.6% of audit quality variable (LNAFEE) and all control variables can be explained ROA model.

LNAFEE is significantly and negatively related to ROA ($p < 0.001$). In a poor economic state, the stockholder are perceived as riskier and as such attribute more financial reporting quality, resulting in timely reporting, thus it can say that audit quality of CPA are related to weak firm performance. This result is consistent with previous studies (Alali, 2011; MoutinhoCerqueira, and Brandao, 2012; Stanley, 2011).

And shows the results of multivariate regression for TQ model with audit quality variable (LNAFEE) and all control variables. According to the result the validity of the model has been confirmed by the significantly of F-statistics at $p < 0.001$. Adj R2 indicated that 6.1% of audit quality variable (LNAFEE) and all variables can be explained TQ model and consistent with previous study (Martinez and de Jesus Moraes, 2014).

Table 2 Multivariate regressing for Audit Quality and ROA Model

Variable	ROA	TQ
	Coefficient (t-statistics)	Coefficient (t-statistics)
Intercept	-0.170 (-8.78)***	0.583 (4.78)***
LNAFEE	-0.005 (-2.1)***	0.037 (2.57)***
LEV	-0.094 (-11.75)***	-0.810 (-16.03)***
LNASSET	0.023 (17.32)***	0.009 (1.01)
SG	0.052 (11.68)***	0.150 (5.33)***
B	-0.024	-0.131

	(-8.61)***	(-7.41)***
N	5420	5420
<hr/>		
	ROA	TQ
Variable	Coefficient (t-statistics)	Coefficient (t-statistics)
Prob > F	0.000	0.000
R-squared	0.107	0.062
Adj R-squared	0.106	0.061

According to variables, all variables are significantly related to TQ except LNASSET. Regarding to audit quality of CPA, financial reporting quality is significantly and positively related to firm value (at $p < 0.001$), suggesting that companies with having higher financial reporting quality are more likely to have higher firm value. In other hand, higher timely reporting supposed aggregate value to the company (Martinez and de Jesus Moraes, 2014). The positive relationship of financial reporting quality and firm value shows that financial reporting quality are increasing in the number of stakeholders in the company, because usually they are looking for reliable financial information (Cassell et al., 2014). According to the variables, LEV is significantly and negatively related to TQ ($p < 0.001$) suggesting that companies with having higher debt ratio are more likely to have lower firm value. SG is positively and systematic risk is negatively related to firm value, suggesting that companies with having higher sales growth and higher risk are more likely to have higher and lower firm value respectively.

5. Conclusion

Using sample of companies in Thailand the results showed that in regression audit fees is significantly and negatively related to return on assets as a measure of stockholder satisfaction. However, result of lagged regression shows that audit quality of CPA is a positively but insignificantly related to return on assets. It means that weaker performance companies are more demand for high audit quality resulting higher financial reporting quality. In addition higher communications between auditors and audit committee is encourage auditors for better auditing their clients' financial statements, it also encourage to improve company's performance by transferring their knowledge to company and give appropriate recommendation to companies for achieving their goals. In contrast, integrity is significantly and positively related to firm value as a measure of stockholder satisfaction. This result

consistent with signaling theory which suggests that companies make a signal to market that their companies audited with high integrity audit quality that lead to enhance market value. These results also consistent with the previous studies related to audit quality and firm performance (Martinez and de Jesus Moraes, 2014; Moutinho Cerqueira, and Brandao,2012). We also found that timely reporting is significantly and negatively related to return on assets and insignificantly related to firm value, suggesting that companies with having timely reporting are more unlikely to have lower return on assets. These results suggest that current auditors are more likely to improve financial firm performance rather than new auditors, resulting of having previous experience and familiarity with their stockholder. The results are consistent with previous studies who claim that long term audit-client relationships enhance client specific knowledge (Ghosh and Moon, 2005; Mansi et al., 2004; Myers et al., 2003; Wang and Huang, 2014). In contrast, according to result of lagged regression, there is insignificant relationship between audit quality of CPA and three measures of stockholder satisfaction, showing that switching of audit quality of CPA is important factor for enhancing firm performance. In a relation to audit quality the findings of this study provide a guideline for companies in terms of the extent to which the rotation of audit quality of CPA can affect stockholder satisfaction. The result of this research also can be useful for regulators to consider to issuing mandatory audit quality to enhance stockholder satisfaction. This research recommended for future studies investigate other proxies of audit quality and examine that how firm performance can be influences by other proxies of audit quality such as industry specialist auditors and type of audit firm.

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