**Determination and Prioritization of Auditor choice criteria by companies**

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**ABSTRACT**

Companies free in choosing auditors, definitely consider a variety of criteria to select an audit institution. It is clear that these characteristics can be different in any society. This paper is looking for pleasant and satisfying characteristics of an audit institution in view of Iranian companies. To analyze the research hypotheses and questions, the square-χ test (χ²) and to compare the important criteria for choosing auditor, the Freedman test has been used. Results of the present paper that has been distributed using the questionnaire among research population including 195 companies of those accepted in Tehran stock exchange with auditors other than audit organization in 1390 shows that auditor's capability in providing supplementary services, auditor's approval by third party people, quality and reputation of audit firm, work relationships of employer with partners and audit team and having proficiency and familiarity with employer's industry are of important factors on audit choice.

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**INTRODUCTION**

The audit thought of economic units in Iran hasn’t had reasonable movement and hasn’t originated from economic changes in the country, and despite different legal obligation of professional audit has developed slowly in Iran. The flowering of audit occurred when a number of the largest foreign audit firms established branches in Iran with selecting Iranian formal accountants as partner and they did the audit engagement of big companies. The fundamental changes in Iran's economy occurred during last decade, caused more attention to this profession in Iran [1].

Today, because of qualitative growth of audit firms and professional employees, competitive pressure among corporate has been increased and unfortunately sometimes moral and professional principles are ignored since competition to attract clients leads to weakening professional ethics connected with advertisement and the way of treating client's demands. In the meantime, economical stagnancy governing society increases this commotion [2].

One of the most obvious outcomes of such conditions is making tender for selecting auditor and more worse is the existence significant relationship between auditor's comments and received payments and as client's satisfaction is one of auditor's objectives, they occasionally accept these demands [2]. The interested features of active companies in every society and their motivations regarding select or change audit can be different from each other. Therefore, it is important to do these kinds of researches in every society that deals with audit profession, since audit environment is very sensitive due to the competitive pressure, fee problem and slow growth of engagement.

In order to successful competition in this environment audit firms should try to satisfy the client's expectations and maximize his/ her consent [4]. The goal of this research is to study the effective factors on auditor selection decision in a country that has experienced significant changes in its economic environment and as a result in audit profession. In this research we want to find the desirable features of an audit firm in terms of Iranian companies. The questions that raise here are as follow: what characteristics an Iranian company considers in selecting auditor? What characteristics cause discouragement and dissatisfaction of client and lead to change auditor?

**Research literature and Hypothesis:**

Research literature and hypotheses formulation it can be said certainly that audit profession, audit firms and their characteristics have never attracted so much attention to themselves in Iran because current competitive pressure regarding historical movement has been unprecedented. Of course, outside Iran, during the recent 30
years various studies on audit's choice and change have been done for example studies in the Us, England and Australia. The most interesting point is that by 1995 no experimental and systematic research has been done on this ground in England, and except one study in 1998 by Craswell in Australia [5], the experimental research existing on this ground have been largely conducted in the Us but despite these research, the results are not to be generalized to other countries because social and environmental, conditions especially economical and legal conditions of any society is different from other societies and has its own conditions [6].

So doing such research in any society dealing with audit seems necessary, since audit environment due to competitive pressure, payment and slow progress of work is very sensitive and for successful competition in this environment, institutions should make continuous attempt to meet the client's expectations and maximize his satisfactions, although to get along with client, finding out the characteristics of client satisfaction is too important for the audit firm[7]. The first experimental research carried out on audit selection and change, was the research collecting managers and employer's reason and comments through open questionnaires[8, 9, 10, 11, 12, 13]. Although the results are not overlapped totally so some of the stated reasons of employers and managers are repeatedly seen in these researches.

In other words, a series of factors making motivation to change the auditor has been mentioned in all conducted studies[12].

The most important reasons are: changes in management of high ranks in company, client's need to extra services reception, non – satisfaction of employers from quality and type of receiving services, high salary asked by auditor, big moneylenders' influence because of client need to financing, integration of client firm with another firm, the weak communication of company's partners and audit team with managers and staff, lack of technical agreements, change in audit institutions, lack of technical agreements, change in audit institutions and auditors should both provide the client's satisfaction and make their sincere attempts in giving right comments to society[1]. At present, because of quantitative development of audit firms and professional employees, competitive pressure among firms has increased and unfortunately, sometimes ethical and professional principles are ignored, because competition in a attracting client lead to loosening the ethical principles of profession about advertisement and the way to treat client's demand and this is when economical stagnancy dominant on society adds to this chaos[12]. One of the most obvious outcomes of such conditions is firms' tenders in choosing auditors and more worse is the existence of significant relationship between auditor's comments type and received payment and since client's satisfaction is one of the auditor's goals, they sometimes accept these requests[5]. The expected qualities of active companies in any society and their motivation for choosing or changing auditor can be different, So conducting such research in any society dealt with audit is considered necessary since audit environment due to competitive pressure, fee and slow progress of work is very sensitive and for successful competition is such places, audit firms should make continuous attempt to meet client's expectations and maximize their satisfaction.

Independent variables in this study are auditor's ability in providing non – audit services, auditor's approval by third party groups, auditor's specialty and knowledge of employer's industry, quantity and reputation of audit firms and employer's work relationship with partners and audit's company. According to the above text and results of the research conducted in other countries which stated the above – mentioned reasons as the most important reasons for auditor change, so this research will study the following hypotheses to recognize effective factors on auditor change in Iran.

**Hypothesis 1**: There is a significant relationship between auditor's ability in providing non – audit services and audit's choice.

**Hypothesis 2**: There is a significant relationship between auditor's approval by their parties and auditor's choice.

**Hypothesis 3**: There is a significant relationship between auditor's specialty and his familiarity with employer's industry and auditor's choice.

**Hypothesis 4**: There is a significant relationship between quality and reputation of audit firm and auditor's choice.

**Hypothesis 5**: There is a significant relationship between employer's work conditions with firm's partners, audit team and auditor's choice.

**Research method**: In this research, accepted companies in Tehran stock exchange with audits other than audit association in 2011 were considered as statistical population. After sufficient studies, results showed that 195 firms out of accepted firms in stock exchange in 2011 had auditors other than audit association, so because of relatively low number of statistical population and non – assistance of some companies, we ignored sampling.

To collect data required for research's hypotheses test, questionnaire was used. Questions include 1 central questions (the last degree and course) and specified questions.

Specialized questions include 18 questions made based on likert five – option model which the above – mentioned question are has been repeatedly revised and the final conducted questionnaire has Cranach’s alpha0. 882. These questions are of closed kinds which the respondent express degree he agrees or disagrees to the
subject. The digital value of each response considered 1 to 5 (Totally disagree= 1, disagrees 2, no idea= 3, agree = 4 and totally agree= 5. The summary for data of questionnaire's specialized items has been presented by separation of each research hypothesis in table 1.

<table>
<thead>
<tr>
<th>Question number</th>
<th>The number of question</th>
<th>Research hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4</td>
<td>4</td>
<td>1. There is a significant relationship between auditors in providing complementary services and auditor's choice.</td>
</tr>
<tr>
<td>5-8</td>
<td>4</td>
<td>2. There is a significant relationship between auditor's approval by third parties and auditor's choice</td>
</tr>
<tr>
<td>9-11</td>
<td>3</td>
<td>3. There is a significant relationship between having specialty and familiarity with employer's industry and auditor's choice</td>
</tr>
<tr>
<td>12-14</td>
<td>3</td>
<td>4. There is a significant relationship between audit quality and auditor's choice</td>
</tr>
<tr>
<td>15-18</td>
<td>4</td>
<td>5. There is a significant relationship between employer's work conditions with firm's partners, audit team and auditor's choice</td>
</tr>
</tbody>
</table>

The questionnaire was distributed between population of 195 firms which out of this number 153 questionnaires were received after completion out of this number, 6 questionnaire was omitted because of not answering to all questions and finally 147 questionnaire were used for test hypotheses which 75. 38% is the answering coefficient for distributed questionnaires.

Results:
In this study, 1.4 percent have doctoral degree, 27.2 percent of candidates have M.A degree, 65. 3 percent have bachelor's degree and 6.1 percent have higher diploma or below. Also distribution of frequency connected with subject's educational course shows that 49% have B. An in accounting, 27.9% management, 15% economy and 8.2% have different degrees.

To analyze questions and research hypotheses like previous study, \( \chi^2 \) test was used which the result of applying this test for research hypotheses is shown in table 2:

<table>
<thead>
<tr>
<th>Conclusion</th>
<th>Level of significance</th>
<th>( \chi^2 ) amount</th>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmation</td>
<td>0. 0001</td>
<td>71. 53</td>
<td>First</td>
</tr>
<tr>
<td>Confirmation</td>
<td>0. 0001</td>
<td>79. 43</td>
<td>Second</td>
</tr>
<tr>
<td>Confirmation</td>
<td>0. 0001</td>
<td>40. 45</td>
<td>Third</td>
</tr>
<tr>
<td>Confirmation</td>
<td>0. 0001</td>
<td>25. 16</td>
<td>Fourth</td>
</tr>
<tr>
<td>Confirmation</td>
<td>0. 0001</td>
<td>36. 78</td>
<td>Fifth</td>
</tr>
</tbody>
</table>

The date in table 2 and hypotheses analysis using \( \chi^2 \) indicates the strong relationship between variables. So with rejecting zero hypotheses one can conclude that there is a significant relationship between variables and auditor's choice and all hypotheses will be accepted.

In other words, in studying the average ranks of variables regarding first hypothesis it was found that auditor ability for delivering advisory service places in the first priority of respondents selection. After this, auditor ability for offering tax service, auditor ability for giving guidance in the field of employing accounting principles and finally the ability and interest of auditor in preparing finished price place in the other priorities of this hypothesis. In studying the average ranks of variables regarding second hypothesis it was found that certify ability of auditor by other creditors places in the first priority of respondent's selection. After this, certify ability of auditor by banks and lenders, certify ability of auditor by firm inspectors and finally certify ability of auditor by major stockholders place in the next priorities of this hypothesis. In studying the average ranks variables regarding third hypothesis it was found that lowering fee due to the expertise in the field of client industry places in the first priority of respondents. After this, the auditor of active companies in the same industry and finally the specialty of auditor in the field of client industry place in the next priorities of this hypothesis. In studying the average ranks of variables regarding fourth hypothesis it was found that good name of audit firm places in the first priority of respondents selection. After this, repute and credit of audit firms and finally technical competence of audit firm place in the next priorities of this hypothesis. In studying average ranks of variables regarding fifth hypothesis it was found that the auditor ability for doing audit engagement and tests properly and effective controls place in the first priority of respondents selection. After these, the auditor ability for discovering problems and solving them, the value of audit team and finally the experience of audit team place in the next priorities of this hypothesis.

The Current results are consistent with the results from previous studies in other countries on determining and prioritizing auditor's choice criteria by companies.

Using freeman test, one can compare the important criteria to choose auditors. The zero hypothesis and inverse hypothesis in this test are as follows:
Where Ho: Average of 5 criteria ranks important to candidates are the same and
H1: At least one pair of criteria has a different average rank.

Results of using Freedman test have been reported in table 3. Results of this test show that there is a significant difference between rank of auditor's criteria, choice in view of respondent. According to this auditor's ability in providing complementary services with average 7.40 is if of first rank, among criteria of auditor "choice". Having specialty and familiarity with employers industry with 5.47 are the second rank, audit quality with 4.42 average marks are the fourth rank and finally employer's work relationship with audit firm's partners with 2.55 average numbers is the fifth rank in terms of auditor's choice criteria.

Tables 3: The study of results connected with prioritizing dimensions of research variable.

<table>
<thead>
<tr>
<th>Level of significance</th>
<th>Z amount</th>
<th>Average ranks</th>
<th>Research variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0001</td>
<td>373.85</td>
<td>7.40</td>
<td>Auditor's ability in providing complementary services</td>
</tr>
<tr>
<td></td>
<td>5.47</td>
<td>5.47</td>
<td>Having specialty and familiarity with employer's industry</td>
</tr>
<tr>
<td></td>
<td>4.42</td>
<td>4.42</td>
<td>Audit quality</td>
</tr>
<tr>
<td></td>
<td>3.94</td>
<td>3.94</td>
<td>Auditor's approval by third parties</td>
</tr>
<tr>
<td></td>
<td>2.55</td>
<td>2.55</td>
<td>Employer's work relationships with audit firm's partners</td>
</tr>
</tbody>
</table>

Discussion and conclusion:

Audit environment is very sensitive due to the competitive pressure, fee problem and slow growth of engagement. We should try to satisfy the client expectations continuously and maximize his/her consent in order to compete successfully in this environment of audit firms. Therefore, understanding the features of client consent is very important and vital for audit firms. By knowing about society expectations from audit firms, one can be informed of recognition level and kind of society attitude toward profession. Audit firms as providers of a kind of service, must know the needs and expectations of companies receiving services to take steps in fulfilling these demands.

In the present paper, the view of the accepted companies which in Tehran stock exchange in 2011 had audited different from audit institution has been studied.

The results of first hypothesis that states there is a meaningful relationship between auditor ability for delivering complement services and auditor selection resemble to the research results of Hill son Rackingly (1988), Clive Lennox (1984) and kith (2003) that dealt with studying relationship.

Between non audit services and auditor change. The obtained results from these studies show that there is a meaningful relationship between non audit services received by client and auditor change. They obtained evidence in their researches that showed the level of non-audit services offered to the client decreases the probability of auditor change. The results of second hypothesis state that "there is a meaningful relationship between auditor confirmation by major stockholders and auditor selection", resemble to the research results of Bi Ti and firmly (1995), Nichols et al (1983), Mahdi (2009), levinthal and Fichman (1988). The results of fourth hypothesis state that "there is a meaningful relationship between work relations of client to the partners of audit firm and auditor selection" resemble to those of Clive Lennox (1984).

Results shows that auditor's ability in providing complementary services, having specialty and familiarity with employer's industry, audit quality, auditor's approval by third parties, employer's work relations with audit firm's partners are of factors effective on auditor's and change.

Recommendation of the following research:

In this research, only view of Tehran stock exchange firms have been studied. In the next research, one can expand the range of research and analyze view of other users like potential and real investors, credit – givers, employers, government financial experts and even different sects of society or study other factors effective on auditor's choice and change, we can refer to some here:

Changes in higher levels of firm management, effect of main company on secondary company, company growth, company complexity, fee requested by auditor, audito's comments and others

Obstacles and limitations:

And ideas, because the best possible means in current situation of this research to collect data is questionnaire but according to experts, received responses are not over 40 to 50 percent, so this makes the generalization of results difficult. Also because auditor's choice requires freedom, the population under study only covers companies which are free in their decisions, on the other hand, due to the presence on important and
effective companies on society economy in Tehran stock exchange, the society is limited to firms accepted in Tehran stock exchange, on the other hand, the population understudy include those companies which:

1. Are accepted in Tehran stock exchange.
2. Are free I choosing auditors (non-governmental companies)

REFERENCES