

# The Role of Culture in Auditors' Social Norms and Audit Quality in Iran's Environmental Conditions

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Received 2021 December 15; Accepted 2022 January 22.

## Abstract

**Background:** The quality of auditing and how it is performed has always been the subject of audit research. Quality of audit is important because of the increased reliability of the financial results. The quality of auditing is remarkable because it can have a tremendous impact on the decisions of investors, employees, and employees.

**Objectives:** The purpose of this study is to investigate the role of culture in auditors' social norms and audit quality in Iran's environmental conditions.

**Methods:** The research method was descriptive and structural equations. The statistical population of this study consisted of all auditors working in member firms of auditors in Iran. According to the unlimited statistical population, with the help of Cochran's formula, a sample size of 384 was obtained, and finally, by sampling in a questionnaire, 380 were collected. The research tools included innovative questionnaires for activating social norms, audit quality, and auditor culture. Analytical analysis methods were used for the data.

**Results:** The fit indices of the research model were in good condition. Activation of social norms (ethical reasoning, responsibility, honesty, and fairness) significantly affected audit quality. The mediating role of culture in auditors' social norms and audit quality has also been investigated. Among the hypotheses of mediator sub-relationships, the mediating role of ethical culture (ethics at work) in the relationship between (activating the auditor's ethical reasoning and audit quality) and the mediating role of Islamic culture in the relationship between (auditor's sensitivity in accountability and audit quality) became.

**Conclusions:** The activation of social norms significantly affected audit quality. The auditor culture had a significant effect on the relationship between the activation of social norms and audit quality.

**Keywords:** Audit Quality; Culture; Social Norms; Accounting; Iran

## 1. Background

The financial crisis of the past few decades and its aftermath has led to the bankruptcy of large companies. One of the issues that has played an important role in the recent event is the quality of audit services in corporations/companies (1). Given the sensitivity of audit services, it is essential to find an effective way to improve audit quality (2).

Advanced audit quality increases confidence in the accuracy of reported financial results, while low levels of audit quality reduce profit quality. Low audit quality leads to various negative consequences that affect investors, employees, customers, and suppliers and consequently cause huge losses for countries and individuals. For this reason, how to achieve audit objectives and improve audit quality has always been the focus of audit research (3, 4).

One of the issues that can jeopardize the quality of auditing is the negligence of auditors in following social norms during the audit process. This negligence can be attributed to ineffective audit behaviors (5).

In recent years, the ethical behavior of auditors in the accounting profession has become a contentious issue. Improving the attitude and behavior of auditors in conducting audits is an issue that can be effective in improving the quality of auditing. Ethics plays an important role in auditing activities. If the auditor has personal characteristics such as competence, experience, independence, professional care, and honesty, but does not follow ethical principles, the auditor can continue to commit fraud (4, 6).

Auditor culture is one of the deterrents to immoral behavior in an audit firm. According to Hofstede, a culture



is the common thought of a group that sets it apart from other groups. Culture in the organization includes laws related to encouraging ethical behaviors and punishing immoral behaviors, as well as the extent to which the managers of the organization pay attention to ethical behaviors as a model for employees. There must be cultural principles in the auditing profession to promote compliance with legal requirements and regulations by instilling and strengthening a sense of self-control. Despite the establishment of rules and standards in this regard, non-cultural behaviors still occur among auditors (7-9).

It is assumed that if ethics increase, the quality of the auditor will also increase. If the auditor follows ethical principles during the audit process, the audit report provided will be of the required quality. If the auditor always follows the principles of professional ethics, the results of the audit will be consistent with the financial statement (10).

## 2. Objectives

Examining the factors that affect the quality of the audit can be very important for the beneficiaries of the financial statements. In our model, the variables of social norms (ethical reasoning, auditor sensitivity in responsibility, auditor sensitivity in honesty, and auditor sensitivity in mutual fairness) on audit quality are examined.

## 3. Methods

The present study is descriptive-analytical cross-sectional. The statistical population included all auditors working in auditing firms who are members of certified public accountants in Iran. Using Cochran's formula, the sample size was 384 people. In the present study, finally, 380 people were selected as a sample (it should be noted that in the research because there was a possibility that not all questionnaires were completed, 420 questionnaires were distributed in the statistical population, and 380 questionnaires were collected).

Simple sampling method was used to collect data. Data

were collected using a questionnaire. The research questionnaire consisted of 2 parts. The first part of the auditors' demographic information (gender, age, length of service, education level, and occupation) was questioned. The second part includes three questionnaires: a) Activation of social norms, b) Audit quality and c) Auditor culture. Cronbach's alpha method was used to determine the reliability of the questionnaire in the present study ( $\alpha \geq 0.7$ ).

The main hypotheses of the research were as follows:

H1: Activation of social norms has a significant effect on audit quality.

H2: Auditor culture has a significant effect on the relationship between activation of social norms and audit quality.

The analyzes were in two separate sections: descriptive statistics and analytical statistics. In the descriptive section, tables and graphs were used to describe and identify the study population. In the analytical section, the research hypotheses were tested with SPSS and Amos software.

## 4. Results

13.16% (58 participants) of the sample were female, and 86.84% (330 participants) were male. 164 participants (43.15%) had a master's degree and the lowest number of 66 (17.37%) had a doctorate. Most of the sample had a were more than 10 years of employment (70.78%). Regarding employment, the highest sample was 130 (34.21%) in the category of auditor, and the lowest number of 24 (6.16%) were in the category of supervisor.

### 4.1. Correlation Matrix Between Variables

Since the correlation matrix is the basis for the analysis of causal models, especially structural equation modeling, so before examining the theoretical model, the correlation matrix between the research variables with their significance level is given in Table 1.

**Table 1.** Correlation Matrix Between Research Variables with Their Level of Significance

Variables	1	2	3	4	5	6	7	8	9
Ethical reasoning (1)	1	**0.404	**0.33	**0.30	**0.63	**0.15	**0.25	0.03	**0.20
Auditor sensitivity to accountability (2)	-	1	**0.49	**0.51	**0.80	**0.48	**0.44	0.10	**0.38
Auditor's sensitivity to honesty (3)	-	-	1	**0.47	**0.78	**0.37	**0.30	0.02	**0.30
Auditor sensitivity to mutual fairness (4)	-	-	-	1	**0.79	*0.14	**0.37	-0.09	**0.19
Social norms (5)	-	-	-	-	1	**0.38	**0.46	**0.02	**0.33
Quality audit (6)	-	-	-	-	-	1	**0.16	**0.20	**0.26
Ethical culture (ethics at work) (7)	-	-	-	-	-	-	1	-0.07	**0.65
Islamic Culture (8)	-	-	-	-	-	-	-	1	**0.71
Auditor culture (9)	-	-	-	-	-	-	-	-	1

The results show that there is a significant direct relationship between social norms and its subscales (ethical reasoning, auditor sensitivity in responsibility, auditor sensitivity to honesty, and auditor sensitivity to mutual fairness). There is a significant direct relationship between auditor culture and its subscales (ethical culture (ethics at work) and Islamic culture) and audit quality.

4.2. The Main Hypotheses

To test the first and second main hypotheses of the research, a conceptual model was drawn based on theoretical foundations, then the proposed model was examined by structural equations modeling using the maximum probability method. Figure 1 presents the main concep-

tual model of the research (standard-non-standard) and finally, after examining the degree of fit of the tested model, the results of examining the main hypotheses of the research are presented.

To test the structural model, the indicators proposed by Giffen et al. (2000) were used. These indicators include the following:  $\chi^2/df$ , where values less than 3 are acceptable, adaptive fit index (CFI) and incremental fit index (IFI), where values greater than 0.9 are acceptable, Normal fit index (NFI) where values greater than 0.8 indicate fit Are suitable for the pattern and the squared mean squared error (RMSEA) whose values less than 0.08 indicate the proper fit of the pattern. Table 2 shows the fit indices of the tested research model.

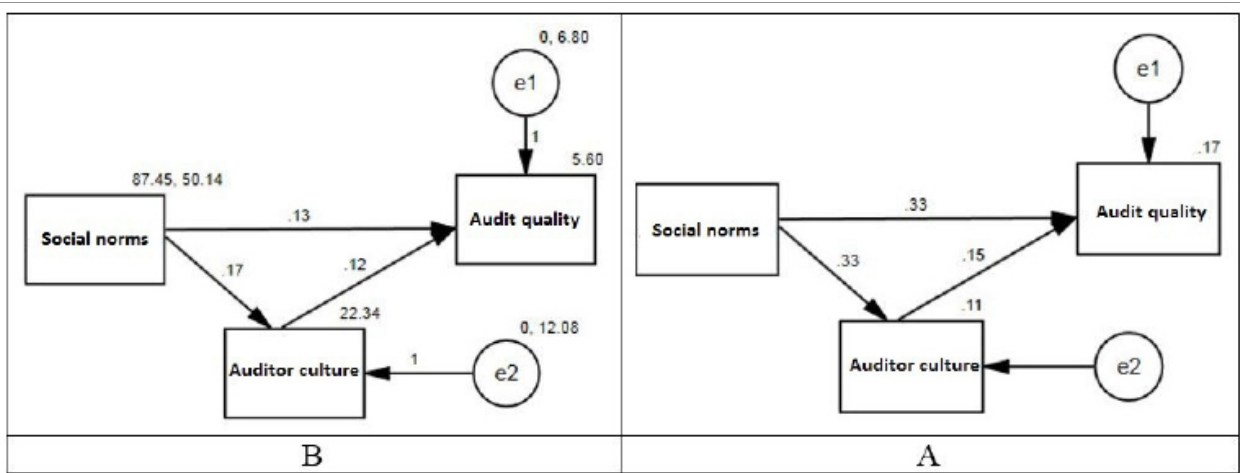


Figure 1. Conceptual model of the main hypothesis with path coefficients (A) standard and (B) non-standard

Table 2. Indicators of Fitting the Conceptual Model of the Main Research Hypotheses

Model	$\chi^2/df$	IFI	CFI	NFI	RMSEA
Acceptable limit	$\leq 3$	$0.9 \leq$	$0.9 \leq$	$0.8 \leq$	$\leq 0.08$
Tested model	0.41	1.00	1.00	1.00	0.000

According to Table 2, the chi-square/degree of freedom for the tested model was 0.41, which is less than the acceptable limit of 3. The IFI, CFI, and NFI indices were also equal to 1.00, which is more than acceptable. The RMSEA index was 0.000 for the tested model, which is less than the acceptable level of 0.08. These results show that all the indicators of the research model are in the desired

range. In general, fit indices are in acceptable ranges. According to these contents, the final research model has a fit (similar model). The value of R2 (adjusted coefficient of determination) for the above model is 0.17. This value indicates that 17% of the dependent variable is explained by independent variables. Table 3 reports the structural equation modeling results for this hypothesis.

Table 3. Structural Equation Modeling Results Related to the Main Hypotheses (Direct, Indirect, and Total Effects)

The Effect of Social Norms on	Direct				Indirect			Total Effect	
	Nonstandard	Standard	Cirtical Statistics	P-Value	Standard	Non-standard	P-Value	Standard	Non-standard
Auditor culture	0.17	0.33	6.20	0.000	-	-	-	0.17	0.33
Audit quality	0.12	0.15	2.82	0.005	-	-	-	0.12	0.15
Audit quality	0.13	0.33	5.96	0.000	0.05	0.02	0.001	0.38	0.015

According to Table 3, the activation of social norms on audit quality has an impact factor of 0.33 (standardized) that the critical statistic related to the direct effect of activation of social norms on audit quality (5.96) was positive. Because the observed significance level is less than 0.01. Therefore, the research hypothesis is confirmed with 99% confidence. That is, the activation of social norms has a significant direct effect on audit quality.

According to Table 3, the activation of social norms on the culture of the auditor has an impact factor of 0.33 (standardized) that the critical statistic related to the direct effect of the activation of social norms on the culture of the auditor (6.20) was positive. Because the observed significance level is less than 0.01. Therefore, with 99% confidence, activating social norms has a significant direct effect on the auditor culture. The indirect effect of social norms (0.05) on audit quality at the level of 0.01 is also significant. Bootstrap was obtained with 2000 sampling times. Because the minimum and maximum values of Bootstrap are 0.093 and 0.170, the number zero is not between the minimum and maximum. Therefore, with 99% confidence, the research hypothesis is confirmed, ie it can be concluded that the culture of the auditor plays a mediating role between social norms and audit quality.

## 5. Discussion

To test the main hypotheses of the research, the structural equation modeling method has been used. The result of Hypothesis H1 showed that the activation of social norms has a significant effect on audit quality. In interpreting the research results based on the effect of social norms on the quality of auditing, it can be said that improving the attitude and behavior of auditors in conducting audits in accordance with social norms, is a case that can be effective in improving audit quality.

In order to achieve the objectives of the audit and to improve the implementation of activities in the main direction of audit activities, it is necessary to have auditors who are aware of the capabilities of social norms and apply it. If social norms are activated, the quality of auditing can be improved to some extent. Improving social norms improves adherence to auditing norms and, consequently, leads to greater compliance with the code of professional conduct; Therefore, due to the sensitivity of auditors' responsibility to the public interest, it was necessary to examine the effect of social norms on increasing the quality of auditing (6, 11-14).

Purposeful implementation of audit plans by considering the norms of social norms and observing the public interest can be useful to reduce concerns related to the performance of ethical duties and social responsibilities. The auditor's job is to adhere to the norms of social norms for the sake of themselves, the organization in which they work, and the community. The ethical obligation of the auditor is to implement the highest standards of social norms, which include honesty, ethics, and

accountability in accordance with the ethical principles of the profession of accountants and accountable to the public, stakeholders, the auditing profession, and the organization. The results of this study are consistent with the results of the Blay et al., Abdelhak et al., Berglund et al, Davidson, and Kaplan et al. (6, 13-18).

The result of H2 hypothesis showed that the auditor culture has a significant effect on the relationship between activation of social norms and audit quality. In interpreting the results of the present study, it can be said that organizations and their culture have an important role in structuring professional working conditions. The values embedded in the auditor culture have received more attention from auditing firms, and many auditing firms have been involved in long-term cultural change projects. In 2014, the Accountants' Professional Association in the Netherlands stated that the quality of auditing did not meet public expectations. One of the main corrective measures proposed by this institution was to improve the audit culture. Culture influences attitudes and behaviors such as coaching, consulting, compliance, correction, innovation, and continuous improvement that are critical to audit quality. Similarly, the Audit Quality Framework of the Board of International Standards on Auditing and Assurance notes that values, ethics, and attitudes are influenced by a culture of factors that contribute to audit quality assurance (19-23).

In conclude, the activation of social norms has a significant effect on audit quality. the auditor culture has a significant effect on the relationship between activation of social norms and audit quality.

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