

## **Study of the Strategies of Measuring and Controlling Occupational Risks for an Auditor and their Impact on the Auditing Quality from the Viewpoint of the External Auditor**

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### **Abstract**

*This study aimed to examine the strategies of measuring and controlling vocational risks for an auditor and their impact on the auditory process quality from the viewpoint of Jordanian authorized auditors whose number amounts to 347, according to the Jordanian Authorized Auditors Society statistics. 208 auditors were targeted. These auditors work for major auditing bureaus and audit the accounts of general incorporated companies in Jordan. Questionnaire forms were distributed to them, 200 forms of which were returned. The questionnaires, which were valid for statistical analysis, were analyzed according to the statistical program SPSS.*

**Key Words:** Vocational risks for auditors, auditing tasks quality.

### **Introduction**

Local and international changes to the contemporary business environment have imposed on companies the adoption of modern technical and administrative methods to enable them to confront and cope with these changes, so that they can grow and survive. The tremendous increase in competition among companies has led to an increase in pressures on the external auditor to influence his/her attitude towards the fairness of the financial data, and consequently caused an increase in risks to which auditing bureaus are exposed to.

The necessity for a comprehension assessment for the strategies of meaning and controlling vocational risks for an auditor, and their impact on auditing tasks quality has recently become essential; and accordingly, it must be given special attention in a way that allows for studying, defining and controlling it. As a result, the standard of auditing quality of an auditor is improved. An auditor plays an important role in the business environment in modern organizations. Several parties depend on the services offered by the auditing process in taking decisions related to the business of these organizations. Auditing process quality represents and axis for many studies, systems and legislations issued by vocational organizations with the purpose of improving and maintaining this quality.

### **Study Problem**

Legislations and regulations issued by international vocal organizations have not yet given enough attention to researches and studies. In the meantime, there is more and more attention towards the study of auditing process quality in general. This urged the two researchers to cast light on the strategies which are utilized to control and measure these risks as one of the main reasons influencing the auditing tasks quality, especially the continuous changes and developments in recent business environment have a major role in influencing the auditing program in general. The purpose of the study can be achieved through the examination of the strategies of meaning and controlling vocational risks for an auditor, and their impact on the auditing process quality.

### **The Aim of the Study**

This study aims to examine the strategies of measuring and controlling vocational risks for an auditor and their impact on the quality of auditing tasks from the point of view of the external auditor. It endeavors to identify the degree of identity between the reality of vocational risks and the theoretical framework in the area of auditing.

### ***The Importance of the Study***

This study derives its importance from its being a modest attempt in the area of the study of the strategies of meaning and controlling vocational risks for an auditor, and their impact on the quality of auditing tasks from the viewpoint of the external auditor. Moreover, the study is considered a contribution to the identification of this quality in modern organizations. Consequently, it helps support studies and applied and theoretical researches in this field through the statement of the remarks and appropriate assessment which assist organizations in performing their role.

### ***The Study Hypothesis***

The study is based on a null hypothesis which shows that the strategies of meaning and controlling vocational risks for an auditor have no statistically significant impact on the quality of auditing tasks from the viewpoint of the external auditor.

### ***The Theoretical Framework***

As a result of intense competition and technological advancement in the area of auditing, the degree of risks auditing bureaus might face when selecting their clients has increased. The decision of accepting a client can be considered the first step to contain risks associated with the client's work, and carry out the auditing process itself and the tasks confined to the auditing bureau (Ababneh, 2003, P:63). Business risks are defined as those risks which make a company reviewed fail to achieve its goals (Beattie et al. 2002, P:7). They are also defined as risks suffered by a reviewer or a review bureau, resulting from their relationship with the client even if the review report is correct (Arens & Loebbecke, 2004, P:44).

Business risks are represented by the losses and damages sustained by the auditing bureau or auditors as a result of factors related to the auditing process, or engagement with the client. An auditor may be exposed to risks, not as a result of failure auditing process not confirming to moral and vocational criteria, or the inaccuracy of the reports he/she prepares, but these risks are due to factors relating to the relationship between the auditor and the client (Bushong & Weatherhold, 2001).

Business risks are due to disorder with the engagement with the client; and in this case, the auditing process itself will be exposed to a loss caused by this engagement with the client. In other words, this audit will not be profitable to the auditor or auditing bureau, or both will be sued in the future (Houston et al., 1999, P:281). The two researchers believe that risk is a concept which is used to express the uncertainty state about the events or results with material effects on the organization's goals. This is made clear through the previous concepts which have in common the existence of negative effects of risks on the organization's various transactions and assets, or the existence of uncertainties or instability in terms of the organization's business and results. These do effect the organization's goals, which is the ultimate goal for most organizations: the goal of gaining profits.

Criterion (200), which is related to watching auditing tasks quality, points out the aims and policies of monitoring quality in auditing bureaus. It also includes items related to the acceptance and maintenance of clients. According to these items, an auditing bureau must carry out the processes of assessing potential clients and reconsidering its relationship with the present clients continuously. When it comes to the decision of accepting or maintaining a client, the auditing bureau has to take into account the degree of independence and tendency to serve the client properly. It is also necessary for the auditing bureau to consider honesty, credibility and trust on the part of client management (Fenwick & Jacobs, 1991, P:37).

The researchers suggest that an auditor has to consider the highest level of auditing risks allowed for by the established auditing criteria, and then, and based on his professional criteria, he/she tries to minimize this level as he/she ensures that business risks associated with the auditing process have been adequately assessed. The effect of business risks is manifested by damages to the auditor's career and moral reputation, nothing to say of the danger of being sued or exposed to penal punishments, whether imposed by special or public associations. Studies have pointed out that there is a positive relationship between the auditor's career reputation and independence on the one hand and the performance quality of his/her occupation. So many external parties view the auditor's vocational performance quality on the basis of his/her occupational reputation (Lys & Watts, 2004, P:66; IFAC, 1998; Wilson & Grimlund, 2004, P:43; Moizer, 2007, P:62; Khurana & Raman, 2004, P:474).

You can also refer to (Benston et al., 2003, P:42; Ruddock et al., 2002; Brumfield et al., 2003, P:61; Messier, 2000, P:16). The evidence given by these studies is considered to be essential in terms of Earnings Management, Corporate Governance, and the auditor's role in adding more confidence and credibility to accounting information offered by the management. The key determiners of the relationship between suing risks and financial report quality can be defined (Heninger, 2000; Krishnan, 2004; Palmrose & Scholar, 2000; Barron et al., 2001). In view of the business risks prevailing in the current business practice environment, there is a host of strategies that help measure and control the risks in auditing business. These strategies can be divided into (Awadh, 2004, PP:77-96; Woo & Koh, 2001, P:133):

**Firstly**, strategies of measuring business risks. These are represented by the strategy of the legal auditor's opinion in which the auditor aims to maximize the financial benefits in terms of financial revenues resulting from keeping the present clients and trying to attract other clients, extending the services offered to them.

1. There are also non-financial revenues resulting from the reviewers' ability to retain his name and occupational reputation. This can be achieved by giving an appropriate opinion of the financial lists being audited. This will help the auditor avoid auditing risks he has to face when he/she fails to be reserved in his/her report.
2. There is also the strategy of financial straits where the auditor follows several methods to maintain financial luxury for himself; for example, the procedures he follows in working out auditing costs/fees, which include the investment revenues average, history of losses and the proportion of fast liquidity, and financial leverage.
3. There are other strategies related to the auditing business such as the replacement of the auditor, the fraud strategy and the inevitable risk strategy which are connected with events not included in the auditor's report; the possibility of having faulty financial lists prior to auditing, the thing which results in judicial disputes risks afterwards. This enhances the manager's desire to replace the auditor in order to improve the auditing process quality, or settling the points of differences between the manager and the auditor at the end of the auditing process report (Marshall et al., 2008, P:63).

**Secondly**, the strategy of controlling business risks. This is exemplified by the strategy of depending on vocational guidance in making legal decisions. The American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC) believe that the auditor is responsible for reporting information in the light of the established criteria related to both accounting and auditing (Hell a& Danner, 1998, P:50).

1. Concerning the strategy on the part of the accounting and auditing bureaus' responses and reactions, this strategy has resulted from the increasing vocational risks and lawsuits as well as the threat of legal responsibility, which the auditor can transcend by being independent, neutral and capable of understanding the nature of the client's activities and transactions; by keeping the privacy of the client, obtaining the contract letters; representation and documenting the auditing process properly; and conforming to the criteria of quality and keeping to the established vocational standards, and the like (Marshall et al., 2008, P:63).
2. There are two strategies, the first of which is reforming the auditor's legal system, and the second is stating the aspects of defending the plaintiff at court against lawsuits. The first strategy was adopted by the International Federation of Accounts (IFAC), which formed a committee to study the world's attitude towards this responsibility. In addition the AICPA in England and Wales has indicated the danger of imbalance between risks and compensations, the thing which threatens the public interest of society (Zavgren & Dugan, 1999). The second strategy represents the basic underlying requirements for bringing a lawsuit against the auditor (Abdel-Khalik and Solomon, 2003).

The two researchers believe that there is an increase in the auditor's legal responsibilities, and that the auditor has to take more precautions to reduce the possibility of being exposed to lawsuits. The auditor should not concentrate on the avoidance of responsibility. Rather, he/she should have an insurance system to which they can refer in the case of not being able to avoid lawsuits.

We can say that in this age of suing, the prevention program against responsibility is considered indispensable, and the aim of this program is to increase the auditors' awareness of suing risks and protect them from their effects and consequences.

**Population and Sample of the Study**

The population of the study consists of the Jordanian legal auditors practicing auditing in Jordan – 347 auditors – according to the Jordanian Legal Accountants Society. Questionnaires were distributed to a sample of auditors (208) working for the most important auditing bureaus in Jordan who audit the accounts of the general incorporated companies in Jordan. These questionnaire forms were distributed to them for statistical analysis. 200 of these were returned.

**Statistical Methods Used in the Study**

The two researchers employed the statistical methods included in the Statistical Package for the Social Sciences SPSS to analyze data. They used the arithmetic means and standard deviations to identify the respondents’ assessments for each study item as well as One Sample T-Test to test the hypotheses. The consistency of the measuring instrument was verified by means of Cronbach’s Alpha test.

**Statistical Analysis of Null Hypothesis**

The table below (Table 1) shows the analytical results of the sample population’s responses to the nihilism hypothesis which stipulates that: There is no statistically significant effect for the strategies of meaning and controlling vocational risks on the auditing tasks quality from the viewpoint of the external auditor.

**Table (1): The Analytical Results of the Sample Population’s Responses**

No.	Statement	Arithmetic Mean	Standard Deviation
1.	Auditing tasks quality is affected by vocational risks relating to the mechanism of selecting a client as a result of competition and technological advances in the auditing process environment.	3.845	1.13464
2.	Auditing quality is affected by vocational risks related to losses or damages sustained by auditing bureaus as a result of factors associated with the auditing process or engagement with the client	2.8200	1.214068
3.	In order to maintain the auditing quality, an auditing bureau has to take into account independency and tendency to serve the client properly.	4.4050	0.90280
4.	In order to maintain the auditing quality, an auditing bureau has to assess potential clients and reconsider its relationship with the present clients all the time.	3.7800	1.24068
5.	In order to maintain the auditing process quality, an auditing bureau has to consider honesty, credibility and trust in dealing with clients.	3.4800	1.08419
6.	In order to maintain the auditing process quality, an auditing bureau has to assess risks for the contracted audit in an appropriate way.	4.4150	0.82838
7.	Vocational risks do affect auditing quality in terms of harming his/her vocational and moral reputation.	4.0850	1.04558
8.	Vocational risks affect auditing quality in terms of danger the auditor is exposed to like suing or penal punishment.	3.1800	1.21034
9.	Auditing quality is affected by measuring the vocational risks through the strategy of the auditor’s opinion who aims to maximize his/her benefits through financial revenues that result from his/her maintenance of the present clients and trial to attract other ones.	4.4300	0.69824
10.	Auditing process quality is influenced by vocational risks through the study of the financial straits where the auditor	3.6400	1.19480

	employs several methods to keep his/her financial luxury which is linked to the measurements used in the study of auditing costs like the financial leverage.		
11.	Auditing process quality is influenced by vocational risks through the study of the financial straits where the auditor employs several methods to keep his/her financial luxury which is linked to the measurements used in the study of investment revenue rate.	4.4800	0.82645
12.	Auditing tasks quality is influenced by vocational risks through the study of the strategy of financial straits in which the auditor uses several methods to maintain his/her financial luxury connected with the measurements employed in the study of auditing costs like the history of losses and proportion of fast liquidity.	3.6200	1.09618
13.	Auditing process quality is influenced by measuring the strategies related to the auditor's vocational tasks; for example, the strategy of measuring vocational risks – through the study of the strategy of fraud and inevitable risks relating to the auditor's report, or the possibility of the existence of material errors in the financial lists prior to the auditing process, leading to judicial disputes.	3.8700	0.96319
14.	Auditing process quality is influenced by the measuring of vocational risks through the study of the strategies of controlling risks of tasks which are based on the strategy of dependence on vocational guidance in taking legal decisions.	3.6500	1.04545
15.	Auditing tasks quality is influenced by the measuring of vocational risks through the study of the strategy of auditing and accounting bureaus' responses and reactions as a result of risks and judicial lawsuits as well as threatening the auditor's legal responsibility.	3.6600	.093744
16.	Auditing tasks quality is influenced by vocational risks through reforming the auditor's legal system which indicates the danger of imbalance in terms of the relationship between risks and compensations.	3.5450	1.23515
17.	Auditing tasks quality is influenced by vocational risks through defining aspects of the plaintiff's defense in judicial lawsuits, which refers to the basic and latest requirements for bringing a case in the court of law against the auditor.	3.7600	0.94704
18.	In order to lessen vocational risks and keep the auditing process quality, the auditor should not concentrate on the avoidance of responsibility. Rather, he/she should keep the insurance policy to which he/she can refer in cases where he/she is unable to avoid lawsuits.	4.0550	0.91989
	<b>Average</b>	<b>3.8178</b>	<b>0.49710</b>

Table (1) shows that the sample members' responses emphasize that auditing tasks quality is noticeably influenced by the proper assessment of business risks associated with the agreed auditing process. It has an effect on what the auditor is likely to be exposed to of vocational risks such as suing or penal punishments and his/her having an insurance system to which they can refer in case they lack the ability to avoid lawsuits. The responses had arithmetic means and standard deviations ranging between (3.1800), (1.21034), (1.21034) and (0.82645) respectively. The other responses sensibly emphasize that the auditing tasks quality is influenced by the measuring of vocational risks through the study of the auditor's opinion, by the strategies of his financial straits; defining the aspects of the plaintiff's defense in conforming judicial lawsuits against the auditor; and the strategies of fraud, inevitable risks, accounting and auditing bureau's responses and reaction.

The responses came up with arithmetic means and standard deviations ranging between (3.6200), (1.06918), (3.8700 and (0.96319) respectively.

**Results of the Null Hypothesis Test**

There is no statistically significant effect for the strategies of measuring and controlling vocational risks for an auditor on the auditing quality from the viewpoint of the external auditor. Table (1) above shows that the average arithmetic mean of the sample members degree of agreement that the strategies of measuring and controlling vocational risks for an auditor have an impact on auditing quality reaches (3.8178) with an average standard deviation of (0.49710). This degree of agreement is considered to be high. And by using One Sample T-test we come out with the following table:

**Table (2): Results of the Null Hypothesis Test**

Calculated T	Tabular T	Sig. T	Hypothesis Result
23.265	1.96	0.000	rejection

The online outcomes in Table (2) show that the value of calculated T = 23.265 is greater than its tabular value, and the null hypothesis ( $H_0$ ) is rejected if the value of calculated T is higher than that of tabular T. Hence, we reject null hypothesis and accept the alternative hypothesis which stipulates that: There is a statistically significant effect between the strategies of measuring and controlling vocational risks for an auditor and their effect on the auditing process quality from the viewpoint of the external auditor.

**Results of Measuring Instrument Test:**

**Table (3) shows these results by using Cronbach’s Alpha Test**

Alpha value	Measurement parentage	Result
0.801	0.60	Satisfactory

Table (3) shows the accepted measurement percentage is 60% and the  $\alpha = 0.801$ . Hence, the measuring instrument and its consistency can be reliable if  $\alpha >$  the accepted measuring percentage.

**Conclusions**

1. An auditor attempts to minimize his/her financial benefit by maintaining the present clients and trying to attract other ones and extending the range of services offered to them.
2. Auditing tasks quality is influenced by vocational risks connected with competition and technological development as well as the losses or damages sustained by the auditing bureau in the auditing process environment, as a result of practicing auditing or engagement with the client.
3. The auditor’s relationship with the client has a great effect on the review report. This will expose the auditor to different auditing risks caused by his/her lack of conformity with vocational and moral criteria or preparing inaccurate reports.
4. Business risks can expose the auditor to a loss caused by his/her engagement and relationship with the client, which has a negative effect on his/her independence.
5. Auditing tasks quality is influenced by the auditor’s independency and the level of his/her relationship with the client, and the degree of honesty, credibility and trust he/she has.
6. Auditing tasks quality is influenced by the measuring of vocational risks through defining the plaintiff’s aspects of diffidence in confronting judicial cases, which refers to the basic and underlying requirements for bringing a case against the auditor.

**Recommendations**

1. An auditor has to be highly capable of assessing risks associated with auditing, and measuring vocational risks as well so that he/she can maintain the auditing tasks quality and this can be achieved through the study of the strategies of:
  - Financial straits.
  - Fraud and inevitable risks which result in judicial disputes.

- Controlling business risks based on the strategy of dependence on vocational guidance in taking legal decisions.
  - Accounting and auditing bureaus' responses and reactions.
2. In order to overcome vocational risks and maintain auditing tasks quality, the auditor should not concentrate on avoiding responsibility. Rather, he/she should have an insurance system to which he/she can refer when they fail to avoid lawsuits.
  3. It is important that an auditor should enhance trust and credibility concerning the accounting information offered to the manage. This can be achieved by defining major determiners of the relationship between suing and the financial report quality.
  4. An auditor has to assess potential clients and the relationship with the current clients continuously. An auditor also has to concern with honesty, credibility and trust with the client in order to offer a proper auditing service and accounting review.
  5. An auditor has to maintain the quality of vocational performance by reducing the risks to which the auditor is exposed such as the risks of suing and penal punishments which directly affect his/her vocational and moral reputation and independency.

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