Elina Haapamäki

Essays on Financial Reporting and Auditing Regulation

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Tämä väitöskirja käsittelee kahta laajaa kokonaisuutta laskentatoimen ja tilintarkastuksen tutkimuskentässä. Ensimmäinen aihe tarkastelee kansainvälisten tilinpäätös- ja tilintarkastusstandardien käyttöönottoa sekä kansainvälisten tilintarkastusstandardien tutkimussuuntauksia. Kaksi ensimmäistä esseetä tutkivat näitä aihepiirejä. Ensimmäisen esseen tutkimustulokset tunnistavat erilaisia maakohtaisia tekijöitä, jotka edesauttavat kansainvälisten tilinpäätös- ja tilintarkastusstandardien käyttöönottoa. Toisen esseen tulokset raportoivat tieteellisen viitekehyksen kansainvälisiin tilintarkastusstandardeihin liittyvistä tutkimussuuntauksista. Väitöskirjan toinen aihekokonaisuus tarkastelee vapaaehtoista ja lakisääteistä tilintarkastusta, ja kaksi jälkimmäistä esseetä keskittyvät näihin teemoihin. Kolmas essee laajentaa aikaisempaa tutkimustietoa tunnistamalla kattavan listauksen vapaaehtoiseen tilintarkastukseen vaikuttavista tekijöistä. Nämä tekijät voidaan luokitella yrityskohtaisiin tekijöihin, omistuksen ja valvonnan eriytymiseen liittyviin tekijöihin, agenttisuhdetekijöihin, johdon päätöksentekoon ja signalointiin vaikuttaviin tekijöihin. Neljännen esseen tulokset osoittavat, että neo-institutionaalisen teorian avulla voidaan selittää lakisääteisen tilintarkastusvelvollisuuden kysyntää Suomessa.

Kokonaisuutena tämän väitöskirjan tutkimustulokset hyödyttävät monia eri tahoja. Poliittiset päättäjät ovat maailmanlaajuisesti kiinnostuneita kansainvälisten tilinpäätös- ja tilintarkastusstandardien käyttöönottoon vaikuttavista tekijöistä. Tutkijat hyötyvät ISA-standardeihin liittyvien tutkimussuuntauksien identifioinnista ja lainsäätäjät saavat uutta tutkimustietoa koskien tilintarkastuksen sääntelyä.</td></tr>
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Abstract

This thesis investigates two broad topics in the context of accounting and auditing. The purpose of the first essay is to highlight the country-specific factors that can predict adoption of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). The second essay continues to examine ISAs by identifying a research framework for ISA-related research streams.

The second topic of this thesis is related to voluntary and statutory auditing. The third and fourth essays are under this theme. The third essay contributes to the voluntary auditing literature by providing a comprehensive list of factors affecting voluntary audit demand. The framework consists of firm attributes, separation of ownership and control attributes, agency relationship attributes, management attributes, and signaling attributes. According to the findings of the final essay, neo-institutional theory can explain the statutory audit requirement in the Finnish context. Hence, the fourth essay contributes to the literature by examining the value of statutory auditing for smaller companies.
Understanding the features of international standards and audit demand is important for academics, practitioners, regulators, and policymakers. For instance, the policymakers can benefit from understanding the factors behind the adoption of IFRS and ISAs. Furthermore, academics are interested in understanding the mechanisms linking the ISA-related research articles. Finally, legislators can utilize the attributes associated with financial reporting and auditing regulation.

Keywords

IFRS, ISA, voluntary audit demand, statutory audit

DEDICATION

This work is dedicated to my parents,

Päivi and Jarmo Haapamäki.

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Doctoral studies has been a hard-working adventure. First of all, the completion of this dissertation is a huge achievement in my life. Writing this thesis has taught me tremendous amount of things, for instance from an academic point of view – research is the key issue to make work life interesting. However, most importantly during this project I have learned things on a personal level. It is important to be optimistic, because optimism is the faith that leads to achievement. During the ups and downs of this journey, I have got support and encouragement from several individuals. In following paragraphs, I try to express my deepest appreciations for all those who have contributed my dissertation project.

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Vaasa, September 2019

Elina Haapamäki

Contents

Publications

This thesis consists of an introductory chapter and the following four essays:

1. Haapamäki, E. (2019). The role of country-specific factors and the adoption of a global business language. Nordic Journal of Business, 68;1, 34-52.[1]
2. Haapamäki, E. and Sihvonen, J. (2019) Research on International Standards on Auditing: Literature Synthesis and Opportunities for Future Research. International Journal of Accounting, Auditing and Taxation, 35(2), 37-56.[2]
3. Haapamäki, E (2018) Voluntary Auditing: A Synthesis of the Literature. Accounting in Europe, 15:1, 81-104.[3]
4. Haapamäki, E (2018). A critical analysis of raising the thresholds for audit exemption. Evidence from Finland. Proceedings of the 14th Workshop on European Financial Reporting.

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1 INTRODUCTION

This doctoral dissertation investigates various aspects of financial reporting and auditing through its four constituent essays. Specifically, the first essay examines the adoption of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). The second essay examines research articles on ISAs. The third and fourth essays investigate voluntary auditing and the statutory audit requirement.

During the last decades, internationalization has been a crucial development target for business practices worldwide (e.g. Hopper, Lassou and Soobaroyen, 2017). Accounting and auditing have attempted to facilitate this through the creation of an international regulatory framework (e.g., Roussey, 1992; Lopéz Combarros, 2000; Hodgdon, Tondkar, Adhikari and Harless, 2009; Fraser, 2010; Duhovnik, 2011; Kandemir, 2013; Kleinman, Lin and Palmon, 2014; Boolaky, Soobaroyen and Quick, 2018). This is due to globalization having highlighted the problems caused by differences in accounting reports used in different countries. The impact of harmonization of accounting and auditing on the global economy has increased dramatically in recent decades, because efficient corporate governance requires accurate financial information (Judge, Li and Pinsker, 2010). In addition, prior research emphasizes that comparable and transparent financial information is vital to the successful operation of global markets (Humphrey, Loft and Woods, 2009).

Dunn (2002) argued that firstly accounts must be prepared in accordance with an internationally accepted set of accounting standards to make comparability possible. This means that financial information is prepared using the International Financial Reporting Standards (IFRSs). Secondly, Dunn (2002) stated that accounts should be audited in accordance with a universally recognized set of audit standards, to advance comparability in relation to audit opinions. This means the adoption of the ISAs. By adopting IFRS and ISA, global markets are on the way to developing a universal business language. Although much has been learned about the importance of financial reporting quality (e.g., Johnson, Khurana and Reynolds, 2002; Chen, Hope, Li and Wang, 2011), prior literature has been silent on which factors are associated with global business language adoption. Therefore, the purpose of the first essay is to explore the attributes that predict the IFRS and ISA adoption on a worldwide basis.

Relatedly, Boolaky and Omoteso (2016) stated that ISAs are considered as essential as IFRS for the operation of global markets. While prior literature presents several literature reviews related to IFRS (e.g., Soderstrom and Sun, 2008; Pope and McLeay, 2011; Bruggemann, Hitz and Sellhorn, 2013; Ahmed, Chalmers and Khlif, 2013; De George, Li and Shivakumar, 2016), there has been no review of studies examining ISAs. The purpose of the second essay is to provide comprehensive synthesis of ISA studies. The auditing literature would benefit greatly from a framework categorizing the ISA-related research streams. Hence, the second essay develops a research framework to analyze the knowledge from ISA studies. A review of prior relevant literature is a crucial characteristic of any scientific research project because, an effective review creates a basis for advancing knowledge (Webster and Watson, 2002; Tranfield, Denyer and Smart, 2003; Massaro, Dumay and Guthrie, 2016). Furthermore, the second essay also conducts a citation analysis, which is important for investigating the most-examined and most-cited research streams (e.g., Guffey and Harp, 2017).

In addition to differences in financial reporting practices, companies around the world have divergent financial disclosure and auditing regulations (Minnis & Schroff, 2017). Statutory auditing is usually required by firms that are publicly listed. This is due to the agency problems introduced by the separation of ownership and control (Jensen and Meckling, 1976; Fama and Jensen, 1983). Prior research suggests that the agency problem can be resolved to some extent by an independent, external audit. However, the statutory audit requirement for smaller firms is not a fine line (e.g., Rennie, Senkow, Rennie and Wong, 2003; Allee and Yohn, 2009; Collis, 2010; Clatworthy and Peel, 2013; Dedman, Kausar and Lennox, 2014; Minnis and Schroff, 2017). Researchers have been interested in what happens when an audit is not an obligation, but a choice (e.g., Abdel-Khalik, 1993; Senkow, Rennie, Rennie, and Wong, 2001; Niemi, Kinnunen, Ojala and Troberg, 2012; Ojala, Collis, Kinnunen, Niemi and Troberg, 2016). Therefore, voluntary auditing has recently received increased attention among researchers (e.g. Kausar, Shroff and White, 2016; Weik, Eierly and Ojala, 2018).

The third essay examines voluntary auditing and the purpose of the third essay is to provide a comprehensive overview of the current academic knowledge about voluntary audits. Furthermore, the third essay aims to identify the main attributes related to demand for voluntary audits. To conclude, the third essay contributes to the literature by providing a list of factors that are associated with voluntary auditing. The framework consists of firm attributes, the separation of ownership and control attributes, agency relationship attributes, management attributes, and signalling attributes.

The fourth essay changes the research perspective from a global context to national analysis. The purpose of the fourth essay is to investigate and evaluate the amendment of the statutory audit requirement in Finland. The Finnish Ministry of Economic Affairs and Employment suggested increasing the audit exemption thresholds. A qualitative analysis is conducted to identify the extent of support, and arguments for and against the proposed strategic directions regarding the statutory audit requirement. This study attempts to find a link, if any, between the amendment of the statutory audit requirement and the views expressed by the stakeholders. Furthermore, the study exploits the neo-institutional theory to examine the research questions. To conclude, the fourth essay contributes to the literature by examining the value of statutory auditing for smaller companies.

To summarize, the purpose of this dissertation is to explore two broad topics in the field of accounting and auditing. The first topic is related to international accounting and auditing standards and the first and second essays examine this subject. The second research field is related to voluntary and statutory auditing; the third and fourth essays are under this theme. Understanding the features of the international standards is important for academics, practitioners, regulators, and politicians. For instance, policymakers can benefit from understanding the factors behind the adoption of IFRS and ISAs and academics are interested in understanding the mechanisms linking the ISA-related research articles. Furthermore, regulators can utilize the attributes related to voluntary auditing. Finally, national policymakers can benefit from understanding the reasons behind current audit exemption thresholds in Finland.

The remainder of this chapter is structured as follows. Section 2 presents the contribution of the dissertation as a whole and of each individual essay. Section 3 introduces the theoretical foundations of the dissertation, including the background of demand for financial information and auditing. Furthermore, Section 3 also discusses the role of auditing and presents information related to the IFRS and ISAs. Section 4 discusses the methodological considerations and philosophical assumptions. Finally, Section 5 summarizes the four essays that comprise the dissertation.

2 CONTRIBUTION OF THE DISSERTATION

This dissertation contributes to the international accounting and auditing literature by providing new evidence on various aspects of financial reporting and auditing regulation. The first essay seeks to explain why some countries have adopted IFRS and ISAs while others just have partially adopted them. Previous studies have not examined the adoption of these international standards and country-specific factors at the same time. The second essay approaches the global business language topic by examining the research themes related to ISAs, while the third essay examines the attributes related to the voluntary audit demand. Hence, the third study is based on prior studies examining the special case that, even without any specific obligation required by law, an external audit is conducted. The fourth essay shifts the focus from the global perspective to the national environment and examines the views related to audit exemption thresholds in Finland. Hence, the fourth essay contributes to the current policy discussion about the value of the small firm audit.

As a whole, this dissertation makes important contributions to the different streams of accounting and auditing literature. The first essay contributes to the literature in a number of ways. Firstly, it investigates simultaneously the predictors of IFRS and ISA adoption. Secondly, prior researchers have highlighted the significance of a political system to the accounting and auditing standards (e.g., Nobes 1998; Hope, Jin and Kang, 2006; Boolaky and Cooper, 2015; Boolaky and Soobaroyen, 2017); nevertheless, prior literature has been silent on how the political system of a country can either hinder or assist the process of adoption of IFRS and ISA.

The first essay contributes to the mainstream adoption of accounting and auditing standards literature by providing evidence on the specific political factors impacting universal business language adoption. The findings of the study reveal that the greater the voice and accountability that a nation experiences, the more complete the adoption of IFRS and ISAs. Moreover, the results indicate that the regulatory quality and control of corruption achieved within a national economy are predictive of the degree to which IFRS and ISA are adopted. These findings are vital to standard-setters, because a better understanding of the rationales for adoption will enable them to advance the global business language more effectively. For policymakers, the findings of this study suggest that country-specific pressures and good governance within an economy are the key contributors to IFRS and ISA adoption.

The second essay contributes to the existing literature by examining the ISA-related research streams. A growing body of literature has examined ISAs under different circumstances; however, prior literature has not provided a comprehensive overview of the topic. To my knowledge, the second essay is the first study to describe and synthesize the ISA-related literature. Instead, earlier review studies have discussed the effects of IFRS adoption and research opportunities related to IFRS (e.g. De George et al., 2016). Therefore, the second essay contributes by providing a cohesive picture of empirical archival literature and theoretical literature on ISAs. To conclude, the second essay identifies seven main research streams related to ISAs and these streams are: the development and history of ISAs; the adoption of ISAs; the association between national auditing standards and ISAs; financial reporting quality; audit reports; audit efficiency; and IFRS compliance.

Furthermore, the second essay conducts a citation analysis, which identifies influential authors. Hence, the second essay emphasizes that citation examination involves the statistical treatment of scientific publications, and it provides data on the level of activity in a certain research field, allowing the results to be used to analyze the performance of research streams, researchers, and scientific journals (e.g., Rosenstreich and Wooliscroft, 2009; Kenny and Larson, 2018). Methodologically, the second essay builds on previous literature to deepen our understanding of ISA research.

Prior studies have found that firms have incentives to purchase audits even in the absence of regulatory requirements to do so (e.g. Collis, 2012; Niemi et al., 2012; Ojala et al., 2016; Kausar et al., 2016; Weik et al., 2018). The third essay contributes to the strand of literature seeking specific explanations for non-mandatory auditing. Firstly, it explores the role of auditing in an environment where the external audit is not required by law. Secondly, the findings of the third essay yield insights into the various determinants that influence the demand for audit in the absence of regulation. The conclusions of this synthesis provide insight into auditing practices, which are important, given the significance of reliable financial information to the economy. The findings contribute to the work of standard-setters by assessing the impact of regulation on small businesses. To conclude, the third essay provides an extensive examination of attributes that affect voluntary audit demand.

Finally, the fourth essay contributes to the literature in the following ways. The essay adds to debate on statutory audit requirement and audit exemption thresholds by adopting a different angle. The fourth essay exploits the neo-institutional theory to examine and evaluate the amendment of the statutory audit requirement. This essay analyzes submissions to the Finnish Ministry of Economic Affairs and Employment's memorandum, which suggests an increase to the audit exemption thresholds. Prior studies have used neo-institutionalism as their theoretical framework for research on auditing, including research which focuses on audit practices (Robson, Humphrey, Khalifa and Jones, 2007), the regulation of statutory auditing (Baker, Bedard and Prat dit Hauret, 2014), the adoption of ISAs (Boolaky and Soobaroyen, 2017) and the auditing and reporting quality (Boolaky et al., 2018). However, prior literature has not examined audit exemption thresholds and the neo-institutional approach. Therefore, the fourth essay fills this gap in the literature.

The fourth essay conducts a qualitative analysis to identify the extent of support, and arguments for and against the proposed strategic direction regarding the statutory audit requirement. Exploiting the neo-institutional pressures, the fourth essay suggests that the Finnish audit regulatory arena is an undeniably complex one, including competing interests, tensions, and perspectives. By focusing on a wide range of arguments related to audit exemption stemming from prior literature, the findings of this study contribute to the literature by updating and extending the previous policy-based discussion about the statutory audit requirement in Finland and Europe. To conclude, the fourth essay reveals the associations between coercive, mimetic, and normative isomorphism and audit exemption thresholds.

3 BACKGROUND

3.1 Demand for financial information

Most commonly, prior literature has used the agency theory to explain the role of financial information. Jensen and Meckling (1976, p. 308) defined an agency relationship as 'a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.' Jensen and Meckling (1976) also stated that if both the principal and the agent are utility maximizers, there is a chance that the agent will not sincerely act in the best possible way to benefit the principal. In addition, Jensen and Meckling (1976) emphasized that the relationship between the shareholders and a manager of a corporation fit the definition of a pure agency relationship.

Relatedly, Eisenhardt (1989) demonstrated that agency theory is concerned with resolving two obstacles that can appear in agency relationships. The first problem occurs 'when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing' (Eisenhardt 1989, p. 58). In other words, the obstacle here is that the principal cannot verify that the agent has behaved appropriately. The second problem arises when there are different attitudes related to risk. To clarify, the quandary in this case is that the principal and the agent may not agree with the level of risk preferences.

According to the literature, the agency problem is considered as creating the demand for financial information. Furthermore, the prior literature reveals that reliable financial information provides an important starting point for decision-making. However, it is predominantly suggested that it is only accurate and truthful financial information that matters for decision-making for many different parties (e.g., Allee and Yohn, 2009). In addition, Allee and Yohn (2009, p. 2) stated that there are 'many forces besides firm size and the issuance of equity to outside shareholders that create a demand for financial statements.' Hence, they argued that the managers' decision-making needs and the needs of outside parties contracting with the firm can generate demands for financial information.

To conclude, financial statements are important to reduce information asymmetry between corporate managers and parties contracting with their firm (e.g., Christensen, Lee, Walker and Zeng, 2015). According to Christensen et al. (2015) the contracting parties may be shareholders, creditors, lenders, suppliers, customers, employees, and many other firm stakeholders.

3.2 Demand for auditing

Auditing plays an important role in verifying the financial statements. For example, requiring independent audits is an essential procedure for governments to regulate the supply of accurate financial information to investors (Barton and Waymire, 2004; Lennox and Pittman, 2011). Lennox and Pittman (2011, p. 1655) stated that 'information is a public good' and, 'as with all public goods, there is a concern that too little would be supplied under private contracting.' They demonstrated that due to this market failure reasoning, firms could be required to have their financial statements audited to ensure that investors, other stakeholders and the public get reliable financial information. However, from other point of view, they stated that 'requiring audits suppresses the signal that is conveyed when companies exercise their discretion in choosing whether to be audited' (Lennox and Pittman 2011, p.1656). Nevertheless, both the voluntary and mandatory audit improve the quality of the financial information.

Minnis (2011, p. 458) explicitly stated that 'verification of financial statements by an independent party is a fundamental aspect of financial reporting.' This is due to the fact that without an external audit the financial information used for decision-making lacks credibility. Moreover, Minnis (2011) argued that an external audit could be interpreted as a "hardening" of the financial information, thereby making the reports more useful for instance, in the debt pricing process. In other words, Minnis (2011, p. 460) provides 'empirical evidence that lenders rationally place more value on verified financial information because the audited statements provide higher quality information for assessing borrowers.'

To conclude, there are economic theories that can explain the demand for auditing. For instance, Vanstraelen and Schelleman (2017, p. 567) stated that these economic explanations for auditing posit that auditing can have an information or signaling role, an insurance role, an organizational control role, a confirmation role, and a risk management role. However, prior research suggests that the most vital requirement of the external audit is to increase the credibility and reliability of financial information generated from accounting numbers.

3.3 The role of auditing

The fundamental purpose of external auditing is to provide reasonable assurance that financial information published is fairly stated and free from material misstatements. Furthermore, an independent external audit is an essential service to provide users with assurance on entities' historical financial statements (e.g., Chow, 1982). It is also acknowledged that high-quality audits directly benefit businesses, economies, and societies (Fraser, 2010). Furthermore, statutory audits are considered to be vital to the effective functioning of capital markets (e.g., Vanstraelen and Schelleman, 2017). Therefore, the external audit is also a highly valued service which is suggested to provide improvements in entities' operations, risk management, and internal controls.

In addition, Van Tandeloo and Vanstraelen (2008, p. 450) stated that 'the statutory auditor is expected to provide different stakeholders of the company assurance concerning the accuracy of the financial statements, the non-existence of financial statement fraud and the going concern status.' Hence, they emphasized the role of external auditing. Relatedly, Dedman and Kausar (2012) provided large sample evidence that audits bring benefits to private companies. Their findings indicate that audits improve the quality of financial information and confer assurance. Most importantly, Dedman and Kausar (2012) reported that audited firms enjoy significantly higher credit scores compared with unaudited firms.

Furthermore, Dechow, Ge and Schrand (2010) suggested that auditors are crucial determinant of accounting information quality and trust. In relation to this, Dechow et al. (2010) stated that auditors have an important role in mitigating both intentional and unintentional errors in accounting information.

3.5 International standards

According to Daske and Gebhardt (2006, p. 461), 'the introduction of a uniform accounting regime is expected to ensure greater comparability and transparency of financial reporting around the world.' Hence, harmonized financial reporting under international standards aims to produce more comparable financial statements (e.g., Florou, Kosi and Pope, 2017). IFRS are accounting rules ('standards') issued by the International Accounting Standards Board (IASB), an independent organization (Ball, 2006). Furthermore, Ball (2006) stated that the purpose of IFRS is to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. DeFranco, Kothari, and Verdi (2011) argued that investors, regulators, academics, and researchers all highlight the importance of financial information comparability. Hence, Dunn (2002) suggested that comparable financial information means, for instance, that financial statements are prepared using international accounting and audited using international auditing standards.

3.5.1 International Financial Reporting Standards (IFRS)

Between 1973 and 2000, international accounting standards (IAS) were issued by the IASB's (International Accounting Standards Board) predecessor organization, the International Accounting Standards Committee (IASC), a body established in 1973 (Ball, 2006). Since April 2001, this rule-making function has belonged to the IASB. Therefore, IAS were published between 1973 and 2001, while IFRS standards were published from 2001 onwards (Ball, 2006).

Hope et al. (2006) highlighted the importance of IFRS in the context of global accounting standards harmonization. In addition, Hope et al. (2006) emphasized that the positive consequences of global accounting harmonization have been increasingly recognized by countries worldwide. Their study suggests that the adoption of IFRS is likely viewed as a means to improve disclosure policies and accounting systems. Hence, the adoption of IFRS aims at enhancing the integration of domestic markets into world markets and subsequently accelerating economic growth. Most importantly, Hope at al. (2006, p.17) argued that 'in order to improve financial reporting quality, the adoption of IFRS by a country is an important step.' Amstrong, Barth, Jagolinzer and Riedl (2010) supported this view. Amstrong et al.'s (2010) evidence reveals that investors expect net benefits from IFRS adoption. The authors suggested that IFRS adoption in Europe is associated with increases in information quality, decreases in information asymmetry, more precise enforcement of the standards, and implementation. Furthermore, Daske, Hail, Leuz and Verdi (2008) suggested modest but economically significant benefits due to the introduction of mandatory IFRS-reporting. The criticisms of IFRS have come from practitioners, who have argued against the fair value requirements and the clarity and governance structure of the board that issues the standards (De George et al., 2016).

3.5.2 International Standards on Auditing (ISA)

As mentioned earlier, ISAs are appraised as being as important as IFRS for the functioning of global markets. Hence, ISAs are professional standards for the performance of a financial reporting audit. Furthermore, ISAs are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). Prior literature has emphasized that ISAs play a key role in contributing to the credibility of the financial statements (e.g., Fraser, 2010). This is due to ISAs being considered world standards, improving audit quality, and furthering the development of the IFAC as an organization advancing the global public interest (Humphrey et al., 2009).

The practical purpose of auditing standards is, for instance, to codify different processes such as audit planning, audit engagements, the gathering and evaluation of audit evidence, the review of internal control systems, and the content of audit reports (Mennicken, 2008; Boolaky and Soobaroyen, 2017).

4 METHODOLOGICAL CONSIDERATIONS

Methodology is a general approach to investigate academic research questions. In academic research, the term methodology refers to the approach that is used to conduct research, for example, qualitative and quantitative methodologies. Instead, research methods are tools or components of research; however, it is how the tools are used that determines the value in research (e.g., Massaro et al., 2016).

This dissertation has utilized both quantitative and qualitative methodologies. The hypotheses and research questions are addressed through the literature synthesis, one set of empirical data and one set of qualitative data. Hence, the following chapter discusses the philosophical assumptions, methodological choices and the research setting of this dissertation. Before describing the philosophical assumption of each essay in detail, the general philosophical assumptions in accounting research are discussed. Furthermore, the evaluation of research quality is conducted by discussing the validity and reliability.

4.1 Philosophical assumptions in accounting research

Academic research is based on some underlying philosophical assumptions about what constitutes valid and reliable research. In order to conduct and evaluate any research, it is therefore important to know what these philosophical assumptions are. According to Lukka and Modell (2010, p. 436) 'validation refers to the ways through which the credibility of a piece of research is developed and legitimized in front of relevant audiences.'

Academic research in finance and accounting is generally suggested as being social scientific, as appropriate standards of scientific inquiry are applied to social issues rather than natural phenomena (Ryan, Scapens and Theobold, 2002, p.9). Lukka (2010) suggested that conservatively accounting can be labeled as a single-paradigm discipline, either in principle or in practice because Lukka (2010) argued that accounting has been strongly dominated by one paradigm. He demonstrated that in practice such research is based on large archival data sets or analytical modeling referred as 'hard-core accounting research'. Palea (2017) also supported this view. The positivist view holds that there is a physical reality independent of human beings. Hence, reality is seen as objective (Searcy and Mentzer, 2003). The goal of the research within the positivist paradigm is to discover the objective reality in order to control and predict it (Ryan et al., 2002). Furthermore, Ryan et al., (2002) stated that there is no doubt that positivism has had a profound effect on the development of accounting research. Moreover, a vast majority of published accounting research is centered in the positivist paradigm (e.g., Searcy and Mentzer, 2003; Lukka, 2010; Modell, 2010; Baker, 2011; Palea, 2017).

However, Lukka (2010) highlighted that accounting researchers should pay more attention to the philosophical assumptions, which have been adopted in academic research. If researchers are relatively narrow in their theoretical underpinnings, for instance, they choose to follow only the theoretical ideas that they are most familiar with, then the researchers miss the opportunity to utilize the wide range of methodological approaches that they could have applied (Lukka, 2010). It must be emphasized that Hopper and Powell (1985) were the early researchers, who suggested that by using interpretive research methods, to study how accounting meanings are socially generated and sustained, a better understanding of accounting will be obtained. Furthermore, Hopper and Powell (p.447) stated 'by permitting research questions to emerge from the research process, rather than being predetermined at its outset, it is hoped that they will be more pertinent to the problems of the subjects.'

In addition, Lukka (2010, p.111) stated that 'keeping paradigm debates alive can have several consequences, which are likely to be healthy for the academy in the long run.' Lukka (2010) emphasizes that being conscious of the variety of available paradigms helps researchers to see other and new possibilities for conducting research. Furthermore, Searcy and Mentzer (2003) stated that research using different philosophical assumptions would enrich the accounting discipline by providing differing perspectives in order to understand, explain, and predict accounting phenomena fully.

Lukka (2010) discussed the alternative positions regarding paradigms within the accounting academia. Despite the dominating approach (positivist paradigm), there are alternative views which question the position of the mainstream, arguing that the notion of paradigm is an important issue in accounting research. These alternative views are largely inspired by the Burrell and Morgan (1979) framework. For Burrell and Morgan, the major alternatives to the mainstream accounting research (that seeks to provide essentially rational explanations to social phenomena, based on objectivism) are the interpretive paradigm and the critical paradigm. For instance, Searcy and Mentzer (2003) suggested that these different paradigms are fully capable of providing important insights into existing accounting phenomena.

The interpretive paradigm comprises subjectivist research, which takes seriously the subjective meanings that people attach to things (Lukka, 2010; Baker and Bettner, 1997). The interpretive paradigm recognizes that the world can be viewed as socially constructed. The term interpretive research reflects a methodological perspective. Baker and Bettner (1997, p.293) suggested that 'interpretive research attempts to describe, understand and interpret the meanings that human actors apply to the symbols and the structures of the settings in which they find themselves.' Lukka (2010) also highlighted that currently, there are a considerable number of accounting researchers who conduct their research in the spirit of the interpretive paradigm. To conclude, interpretive accounting research has evolved and made significant contributions to the understanding of accounting as an organizational and social practice (Lukka and Modell, 2017).

Furthermore, Chua (1986) provided discussions of the different views in accounting research. Using Chua (1986), Searcy & Mentzer (2003) and Lukka (2010), the following Figure 1 presents the paradigms and their interrelations in accounting research. These research paradigms are suggested to formulate the worldviews to the academic accounting research.

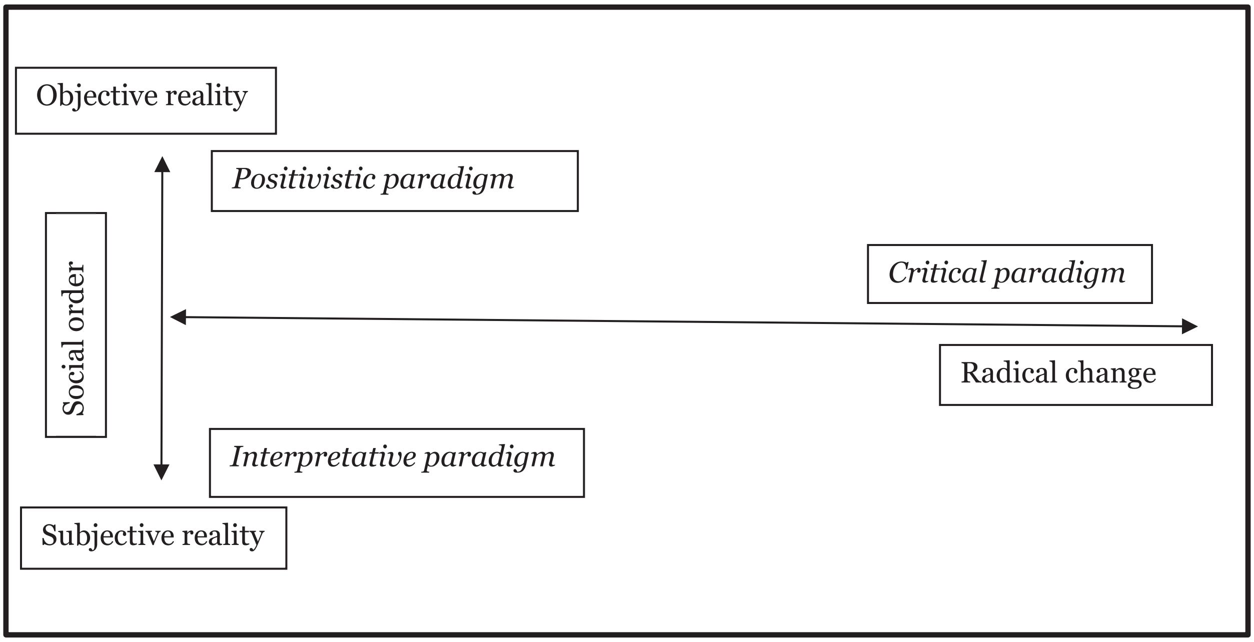

Figure 1. Research paradigms using Chua (1986), Searcy & Mentzer (2003) and Lukka (2010).

4.2 Philosophical assumptions and methodological approaches of this dissertation

4.2.1 Essay 1

Baker (2011) stated that accounting research following the scientific model, in which several hypotheses are proposed, numerical data are collected, and statistical analyses are performed to test the hypotheses is called positivist. Furthermore, Baker (2011) emphasized that this type of research is called positivist primarily because its underlying philosophical perspective is that the research should focus on measurable data (i.e. empirical).

Furthermore, Luft and Shields (2014) suggested that accounting research is generally labeled as positivist because the empirical analyses are aiming to validate general causal explanations of accounting-related phenomena. In other words, Luft and Shields (2014) noted that positivist research concentrates on examining causal explanations that apply to many instances of a given phenomenon. Furthermore, they stated this research aims at objectivity, in the sense that empirical results and the inferences drawn from them are meant to be independent of the characteristics of the individual researcher (Luft and Shields 2014, p. 550). In addition, Luft and Shields (2014) presented three attributes of the results conducted by the positivist researcher. Therefore, Luft and Shields (2014, p. 550) stated that results are intended to be: 'i) replicable by other researchers in the same setting; ii) reliable across settings that meet the conditions stated by the relevant theory; iii) persuasive within a community of researchers (that is, the results have the power to change the beliefs of other researchers in the community).'

Based on the above discussion, the philosophical assumptions behind the first essay can be described as positivist. This research approach is chosen because the role of country-specific factors and the adoption of a global business language is examined by using empirical model, numerical data and statistical analyses.

In addition, the methodology of the first essay can be classified as nomothetic research methodology. Kihn and Näsi (2017) applied a unique classification system for methodological approaches in accounting research. The earlier versions of this classification system have been introduced to management and accounting research, for instance by Neilimo and Näsi (1980) in Finland and, subsequently, in international publications by Kasanen, Lukka and Siitonen (1993). Kihn and Näsi (2017) stated that nomothetic research follows the Galileian tradition and hence, its principles are close to those of the natural sciences. The nomothetic approach is positivist-empirical and highlights the need for large samples of data. Hence, Kihn and Näsi (2017, p.137) presented that "causality, explanation, and verification are emphasised, as well as testing hypotheses and finding evidence." All these methodological characteristics can be found in the first essay.

4.2.2 Essay 2 and Essay 3

The second and third essays are utilizing literature synthesis as a research method. Research syntheses aim to identify, critically evaluate and integrate the findings of all relevant, high-quality individual studies addressing one or more research questions (Tranfield, Denyer and Smart, 2003). Massaro et al., (2016) offered essential insights for the application of literature syntheses into accounting studies. Furthermore, they stated that developing knowledge requires connecting new research with the past. Therefore, they suggested that literature syntheses contribute to the academic literature by developing research paths, which provide a foundation on which to build new discoveries (Massaro et al., 2016). Moreover, Tranfield et al., (2003, p. 207) highlighted that 'undertaking a review of the literature to provide the best evidence for informing policy and practice in any discipline, is a key research objective for the respective academic and practitioner communities.'

For instance, research syntheses contribute to understanding the development of knowledge dialogue since they involve an approach to what authors write (Masaro et al., 2016). However, Massaro et al., (2016) argued that it must be noticed that all literature reviews are biased due to the intervention of the researcher in simply choosing the body of literature to be reviewed. This can be considered as a limitation for literature syntheses studies.

Prior studies suggest that because research syntheses use an interpretative approach to analyze academic literature, reliability and validity should also be discussed (e.g., Shah and Corley, 2006, p. 1829). The role of reliability and validity in research synthesis is not uniformly recognized and is thus controversial. Research synthesis protocols have the aim of documenting the procedure followed, which is widely connected with the aim of increasing research reliability and validity (Massaro et al, 2016). Comprehensive literature synthesis should aim to involve a systematic search process to locate studies that address a particular research question. An electronic and manual search was conducted to identify all relevant articles for the analysis. The research synthesis protocols of the second and third essay are described in detail within the articles themselves.

Broad literature syntheses are suggested to formulate general statements or an overarching conceptualization. Hence, literature synthesis can answer much broader questions than single empirical studies can. This due to that literature syntheses are characterized by being objective, coherent and transparent (Webster and Watson, 2002). The research syntheses of this dissertation have different approaches on how they utilize prior studies. The second essay uses previous literature to identify research streams of ISA related studies, while the third essay identifies most examined factors related to voluntary audits.

4.2.3 Essay 4

The philosophical assumptions behind the final essay can be described as interpretive. Hence, under this paradigm the researcher relies on skills as well as intuition and filters data through an interpretive lens. Positive and interpretive paradigms explain worldview by examining the cohesiveness of the current social order and the need for regulation (Searcy and Mentzer, 2003 p.136). Moreover, it is suggested that interpretive researchers interpret the reality through a sense-making process rather than a hypothesis testing process.

Furthermore, the final essay falls into the category of qualitative research because it examines and evaluates the amendment to the statutory audit requirement by analyzing the submissions to the Finnish Ministry of Economic Affairs and Employment's memorandum. Qualitative research provides an opportunity to focus on different, often complex phenomena because many qualitative approaches are concerned with interpretation and understanding (Eriksson and Kovalainen, 2008). Furthermore, it is suggested that qualitative research is particularly relevant when prior insights under scrutiny are modest. This implies that qualitative research approach tends to be suitable to analyze and understand how the regulatory structures for statutory auditing for smaller companies have been evaluated.

In addition, the qualitative research strategy is suitable for the fourth essay because qualitative data facilitate relevant, well-grounded and rich explanation and descriptions (Miles and Huberman, 1994). According to Eriksson and Kovalainen (2008) qualitative data might provide unexpected interesting results, that might lead to new theoretical insights. As discussed earlier, the neo-institutional theory is utilized comprehensively to identify factors affecting audit exemption thresholds. To conclude, qualitative research aims to examine an understanding as a whole. Therefore, the interpretive paradigm is appropriate view for studies of complex social phenomena. Where positivism tests hypotheses, interpretivism investigates research questions. Hence, the philosophical assumptions behind the fourth essay can be described as interpretive.

However, qualitative analysis is often criticized for its subjectivity (e.g. Harris, 2000; Lukka & Modell, 2010). Further, de Loo and Lowe (2017) suggested that in interpretive research the findings should be considered carefully because other researchers could have drawn different inferences based on the same material. De Loo and Lowe (2017, p. 1813) stated that the intersubjective and provisional nature of the research findings should be emphasized in an interpretive research setting. Hence, they highlighted that a researcher should not claim that he/she has found out what "truly" happened in a particular situation (De Loo and Lowe 2017, p. 1813).

However, de Loo and Lowe (2017, p. 1813) presented that it should be accepted that knowledge is intersubjectively created, with all the intricacies this involves. They emphasized that it is precisely this view that encouraged the take up of interpretive research in accounting as a counter to the certainty of positivist research. To conclude, they highlighted when accounting is seen as a social and/or institutional practice, this must also hold for the accounting research that is produced.

5 SUMMARY OF THE ESSAYS

This dissertation includes the four related essays reviewed in the remainder of this section. The contribution of each individual essay is outlined below.

Essay 1: The essay is single-authored by Elina Haapamäki.

Essay 2: The main author of the essay is Elina Haapamäki, who is responsible for the research idea and writing the essay. Dr. Jukka Sihvonen contributed by providing valuable comments, suggestions, and guidance during the publication process.

Essay 3: The essay is single-authored by Elina Haapamäki.

Essay 4: The essay is single-authored by Elina Haapamäki.

5.1 The role of country-specific factors and the adoption of a global business language

The first essay examines the association between country-specific factors and the adoption of IFRS and ISA. Proponents of IFRS emphasize that the standards bring benefits, including improved transparency, global comparability, market efficiency and cross-national investment flow (Alon and Dwyer, 2014). Relatedly, the proponents of ISA suggest that financial statements audited under ISAs are considered reliable and of good quality; hence ISAs increase transparency for global investors (Humphrey et al., 2009). Therefore, previous studies have begun to examine the determinants of IFRS and ISA adoptions across countries (e.g., Hope et al., 2006, Judge et al., 2010, Alon and Dwyer, 2014, Boolaky and Soobaroyen, 2017).

Global accounting and auditing harmonization contributes to cost reduction because it makes it easier for international companies to comply by law. In addition, users of accounting information are entitled to feel confident that, regardless of where business activities are taking place, the same high-quality accounting and auditing standards are used (Fraser, 2010). Furthermore, it is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information gathered and audited according to a similar set of standards (Köhler et al., 2009). Therefore, understanding what affects the IFRS and ISA adoption process is important for global investors, regulators, and accounting and auditing professionals. Boolaky and Cooper (2015) stated that where IFRS is obligatory, it does not necessarily follow that ISA will also be mandatory. Thus, it is important to combine the two adoption decisions and examine the factors affecting the international accounting and auditing standards' adoption. The country-specific factors are divided into political, economic, and legal factors.

Consistent with prior IFRS adoption studies (e.g. Judge et al. 2010, Alon and Dwyer 2014), data on the level of adoption were obtained from an annual publication from D&T (Deloitte and Touche, 2012) which presents the status of IFRS adoption across different countries. In addition, consistent with previous ISA adoption studies (e.g. Boolaky and Omoteso, 2016, Boolaky and Soobaroyen, 2017), the source of data on ISA adoption is the IFAC Compliance Report 2012, which summarizes the current status of ISA adoption in 126 countries. Hence, these data sources were used to code the dependent variable, which measures the degree of adoption of IFRS and ISA. A low value suggests that the IFRS and ISA standards are not adopted and that domestic standards are utilized exclusively. Overall, 113 countries had data for all the variables considered in this essay. The empirical testing strategy is to conduct a comprehensive and robust statistical analysis; therefore, this study uses a variety of regression techniques to assess the country-specific factors of IFRS and ISA adoption.

Firstly, the essay uses simple Ordinary Least Squares (OLS) regression to conduct the empirical analysis. The findings reveal that three of the independent variables of interest are predictive of IFRS and ISA adoption. Specifically, voice and accountability is positively associated with IFRS and ISA adoption. Regulatory quality also provides support and positive pressure for global business language adoption. Furthermore, the results indicate that control of corruption is positively associated with global accounting and auditing standard adoption. The above findings therefore indicate that a country with a high level of voice and accountability is more likely to adopt the universal business language. Moreover, this essay suggests that a country with a government that has the potential to formulate and implement sound policies and regulations is more likely to adopt the universal business language. To conclude, the control of corruption within an economy is an important predictor of the adoption of global accounting and auditing standards.

To explore the robustness of the findings, the first essay uses a different regression specification to fit IFRS and ISA adoption and the six independent variables of interest. Because the modus of global business language adoption has five categories, the essay uses multinomial logistic regression to test the robustness of the results. The findings from the robustness test generally support the prediction found in the original regression model. Finally, the essay conducts the main regression model separately for IFRS adoption and separately for ISA adoption to investigate whether the same factors load, or whether there are different factors that affect ISA and IFRS adoption. When examining the ISA adoption results, the model also suggests other statistically significant factors that are associated with ISA adoption. The results reveal that import penetration and the strength of legal rights are positively related to ISA adoption.

5.2 Research on International Standards on Auditing: Literature Synthesis and Opportunities for Future Research

The second essay aims to provide an update to the ISA-related accounting and auditing literature, as it compiles a synthesis of 59 recent theoretical and empirical studies on the topic. Hence, the essay develops a framework to analyze the knowledge from extant research, revealing, for example, that the results for many drivers of adoption of ISAs are consistent across studies. To clarify, the essay is not focused on a particular ISA-related question or theme, or restricted to a specific geography. It aims to provide a relatively broad coverage of ISA research topics. Hence, the second essay presents a cohesive picture of the theoretical and empirical archival literature related to ISAs. In terms of structure, the essay is divided into sections based on the topics covered and it attempts to ensure that each section stands alone as much as possible. Therefore, academics or practicians working on specific ISA-related topics should be able to benefit by reading even a limited part of the essay. In addition, each section in the essay ends with a summary and suggestions for future research.

To review the extent of research on ISAs, a list of published studies was collected using the following methods. The articles reviewed are identified by a systematic process that combines electronic and manual search. An electronic search was performed using Scopus and the search included publications up to April 1, 2018. A manual search was conducted by tracking down references in collected studies to guarantee that all relevant papers were included in the analysis. Based on an initial review of each paper, notes were made about the research questions and hypotheses. Similarities and differences were examined among the papers, which resulted in the identification of several research streams. Within these streams, taxonomies were developed to characterize and synthesize the literature.

The second essay contributes to the existing literature by identifying seven main research streams related to ISAs. These research streams are categorized as the following themes: the development and history of ISAs; the adoption of ISAs; the association between national auditing standards and ISAs; financial reporting quality; audit reports; audit efficiency; and IFRS compliance. For each research stream, the main results are summarized. To clarify, the essay represents a historical record and an introduction for researchers aiming to investigate ISAs in the future.

To conclude, the second essay suggests that ISAs are positively affecting financial reporting quality, and audit efficiency is more observable when the audit is conducted using ISAs. ISAs promote auditor behavior that contributes to effective audits (e.g., Burns and Fogarty, 2010). For instance, ISAs have implications for increasing auditor skepticism. When examining IFRS compliance, prior studies have indicated that there is an association between IFRS compliance and the use of ISAs. However, previous studies have revealed that even though ISAs are adopted, several audit reports do not perfectly conform to the content and structure of reports standardized by the IFAC (e.g., Fakhfakh and Fakhfakh, 2010).

5.3 Voluntary Auditing: A Synthesis of the Literature

The third essay utilizes prior studies when examining the voluntary audit demand. It focuses on the key drivers of voluntary auditing. Voluntary auditing has received increased attention from researchers in recent decades (e.g. Abdel-Khalik, 1993; Senkow et al., 2001; Dedman and Kausar, 2012; Weik et al., 2018). Empirical studies examining the demand for voluntary audits suggest that regulatory intervention might not be necessary, though some argue that regulators protect society from market failure by demanding statutory audits (Barton and Waymire, 2004).

The main objective is to identify key attributes and issues that appear to affect the demand for voluntary audits. This essay suggests that it is important to examine voluntary audit demand, because the traditional role of the audit is to provide independent third party verification of a company's accounts and financial reports. This assurance has been found to provide direct benefits to companies; in some cases, these benefits are considered so valuable that companies voluntarily engage in audits, even though there is no requirement by law (e.g. Watts and Zimmerman, 1983; Seow, 2011; Dedman and Kausar, 2012).

When reviewing archival studies, a common methodology has been developed for examining attributes that are related to the demand for voluntary audits. Typically, researchers test the relationship between the variables of interest and the voluntary demand for auditing by estimating a probit model (e.g. Chow, 1982; Barefield, Gaver and O'Keefe 1993; Carey, Simnett and Tanewski, 2000;

Tauringana and Clarke, 2000; Collis, Jarvis and Skerratt, 2004; Haw, Qi and Wu, 2008; Collis 2012; Ojala et al., 2016). The estimated model is developed by regressing the voluntary choice of an audit against a variety of measures as surrogate attributes that are hypothesized to relate to the demand for voluntary audits, either negatively or positively. If the coefficients for the independent variables are significant, the hypothesized association with demand for voluntary audits is deemed to exist. In this way, the population of explanatory variables included in the empirical specification of demand for voluntary audits can be identified.

To summarize, this study contributes to the auditing literature by identifying the main attributes associated with the demand for voluntary audits. This framework consists of firm attributes, separation of ownership and control attributes, agency relationship attributes, management attributes, and signaling attributes.

5.4 A critical analysis of raising the thresholds for audit exemption. Evidence from Finland.

Voluntary auditing is related to audit exemption thresholds (e.g., Weik et al., 2018) and audit exemption has received attention from researchers very recently (e.g., Johansen and Christoffersen, 2017; Stewart, 2017; Bernard, Burgstahler and Kaya, 2018; Downing and Langli, 2019; Höglund and Sundvik, 2019). The final essay of the dissertation examines the statutory audit requirement and audit exemption thresholds in the Finnish context. Hence, the detailed research questions are: i) How do institutional and cultural factors affect audit exemption thresholds? ii) How is statutory auditing for smaller companies valued? iii) Why or why not should audit exemption thresholds be increased? iv) From the point of view of “public interest”, how are high vs. low thresholds motivated?

While the methodological approach of this essay is qualitative and descriptive, it is also analytical in that it seeks to illustrate the increasing degree of similarity or diversity towards the statutory audit requirement. Qualitative research methods are the most suitable for studies where the purpose is to comprehend the “how” and “why” of real-life practices (e.g., Dillard and Vinnari, 2017; Yapa, Ukwatte Jalathge, and Siriwardhane, 2017). Therefore, the qualitative technique was chosen. Furthermore, the qualitative approach is appropriate for providing in-depth awareness of the perspectives under discussion.

Using publicly available documents, the purpose of the final essay is to study the amendment to the statutory audit requirement by analyzing submissions to the Finnish Ministry of Economic Affairs and Employment's memorandum, which suggests an increase of the audit exemption thresholds. Based on an initial review of each submission, notes were made on various aspects, similarities, and differences among the responses resulting in a number of emerging views that could be concluded. The arguments were initially coded based on previous studies and were continually refined as emerging themes and phrases appeared in the data as the research continued. The conclusions of the textual analysis were accomplished by identifying patterns and themes throughout the transcription of data.

These publicly available submissions were chosen for the analysis because they will provide valuable insights into the current Finnish auditing environment and increase awareness of stakeholders' views on the statutory audit requirements. The submissions for and against the proposed strategic directions regarding the statutory audit requirement were examined by identifying conceptual frameworks which are stemming from prior literature, while adding cultural features. These conceptual frameworks utilize the neo-institutional theory (DiMaggio and Powell, 1983). When examining neo-institutional theory and auditing literature more carefully, Boolaky and Soobaroyen (2017, p. 62) highlighted that 'the neo-institutional theory is based on the belief that organizations respond to pressures from their institutional environments and adopt structures and/or procedures that are socially accepted as being the appropriate organizational choice.' Hence, the neo-institutional perspective is based on the premise that organizations operate by conforming to societal expectations in order to achieve legitimacy (Meyer and Rowan, 1977). Baker et al., (2014) interpreted that neo-institutional theory assumes that "organizations" are socially constructed, and that they are subject to pressures which influence their regulatory structures. To conclude, neo-institutional theory has offered a range of essential contributions and has drawn attention to the link between the individual organizational and broader field and societal environment (Alvesson and Spicer, 2019).

According to the results of the fourth essay, the majority of the submission did not support an increase of the audit exemption thresholds. Therefore, the essay argues that the Finnish audit regulatory arena is an undeniably complex one, including competing interests, tensions, and perspectives. From this essay, it can be inferred that considerable reliance is placed on the audited accounts of small firms in maintaining societal functionality. Trust and reliability are therefore vital for financial reporting quality in the Finnish culture, and policy-makers should not consider this as a self-evident. While examining the submissions that supported the increase, freedom of choice and over-regulation were highlighted. Thus, cultural and institutional factors influence the statutory auditing environment.

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The Role of Country-Specific Factors and the Adoption of a Global Business Language

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Abstract

The global business world requires precise, reliable financial information. It has been argued that the International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs) are important tools in developing a global business language. Historically, countries have developed and pursued their own accounting and auditing standards; however, as national markets grow into a global market, a common set of accounting and auditing standards is needed. Consequently, there is a trend towards IFRS and ISA harmonization worldwide. This study aims to investigate why some countries have adopted the IFRS and ISA standards while others have only partially adopted them. Moreover, previous studies have not examined the adoption of IFRS and ISA and country-specific factors simultaneously. This study suggests that *voice and accountability, regulatory quality,* and *control of corruption* achieved within a national economy are all predictive of the degree to which the IFRSs and ISAs are adopted across 113 jurisdictions.

Keywords:

IFRS; ISA; global harmonization

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1. Introduction

The globalization of the world economy and financial markets has highlighted the problems caused by differences in financial statements used in different countries (e.g. Samaha and Khlif, 2016). Therefore, the movement for international harmonization of accounting and auditing standards and practices has been widely accepted as appropriate and beneficial (e.g. Judge, Li and Pinsker 2010, Fraser 2010, Boolaky and Omoteso 2016, Samaha and Khlif, 2016, Boolaky and Soobaroyen 2017).

It has been argued that accurate, comparable, and transparent financial information is fundamental to the successful operation of global markets (Humphrey, Loft and Woods, 2009). Dunn (2002, p.267) suggested that there are a few steps in the quest for convergence. First, accounts must be prepared in accordance with an internationally acknowledged set of accounting standards to enable comparisons of financial information. This requires the adoption of International Financial Reporting Standards (IFRSs). Secondly, Dunn (2002) suggested that accounts must be audited in accordance with an internationally recognized set of auditing standards, to provide comparability in relation to audit opinions. This means the adoption of the International Standards on Auditing (ISAs). The process of preparing accounts using IFRSs and auditing them using ISAs should enhance the credibility of financial information; therefore, this process has been argued to be a road towards developing a universal business language. In addition, Francis, Khurana, and Pereira (2003) found that high-quality accounting and auditing are positively related to financial market development. Therefore, convergence enhances the need for strong accounting and auditing because the two are inextricably linked. Moreover, the positive effects of harmonizing global accounting and auditing practices have been increasingly recognized by countries around the world (e.g. Hope, Jin and Kang, 2006; Alon and Dwyer, 2014; Boolaky and Sooberoyen, 2017). Meanwhile, Boolaky, Krishnamurti and Hoque (2013, p.18) asserted that 'good accounting and auditing regulations facilitate transparency through better disclosure of information and easier cross-firm comparison.' The authors also argued that strong regulations motivate firms to provide valuable and relevant information for investors. Hence, Boolaky et al. (2013) stated that the relevant regulations in this context include common financial reporting requirements and auditing standards. If regulations are weak and open to interpretation, companies may disclose unreliable information. Therefore, Boolaky et al., (2013, p.18) stated that 'the risk arising from lack of transparency is relevant to governments as they seek to progress economically by making their countries attractive to investment.'

The accounting literature has begun to pay more attention the determinants IFRS and ISA adoptions across countries (e.g. Hope et al. 2006, Judge et al. 2010, Alon and Dwyer 2014, Boolaky and Omoteso 2016; Kim 2016; Boolaky and Soobaroyen 2017; Mantzari, Sigalas and Hines 2017; Sharma, Joshi and Kansal, 2017). The adoption of the IFRSs has been widely discussed and debated in the accounting literature (Samaha and Khlif, 2016). For instance, Hope et al. (2006) argued that the importance of the IFRSs in the context of global accounting harmonization is evident. Albu, Albu and Alexander (2014) supported this view, suggesting that the IFRSs are intended to be the global accounting language. To clarify, Hope et al. (2006) found that countries with weaker investor protection mechanisms are more likely to adopt the IFRSs; furthermore, their evidence is consistent with the view that countries can improve investor protection and make their capital markets more accessible to foreign investors by adopting the IFRSs. Similarly, Zeghal and Mhedhbi (2006) examined the adoption of the IFRSs and institutional factors. Their findings suggested that the developing countries with the highest literacy rates, which have capital markets, and an Anglo-American culture are the most likely to adopt international accounting standards. Zehri and Chouaibi (2013) obtained similar results. Their empirical analysis suggested that developing countries with a high economic growth rate, a high level of education and a common-law system are the most favorable to the adoption of the IFRSs. In addition, Judge et al. (2010) found that foreign aid (coercive pressure)[1], import penetration (mimetic pressure) and the level of education (normative pressure) attained within a national economy are all predictive of the degree to which the IFRSs are adopted across 132 economies. Finally, using a conceptual framework of the institutional framework and resource dependence, Alon and Dwyer (2014) proposed that the interaction between transnational forces and local factors influences the level of IFRS adoption.

ISA studies have suggested that the global auditing standards are considered as important as the IFRSs in providing an economy with a sound and stable financial system (e.g. Boolaky and Ometoso 2016). This is due to the fact that financial statements audited under the ISAs are considered reliable and hence ISAs increase transparency for global investors (Humphrey et al. 2009). Boolaky and Omoteso (2016) and Boolaky and Soobaroyen (2017) examined ISA adoption on a cross-country basis. Boolaky and Omoteso (2016) argued that political, economic, social and legal factors influence the ISA adoption in the International Financial Service Centers (IFSCs). Furthermore, Boolaky and Soobaroyen (2017) hypothesized and found that the protection of minority interests, regulatory enforcement, lenders/borrowers' rights, foreign aid, prevalence of foreign ownership, educational attainment and particular forms of political systems (levels of democracy) prevailing in a country are significant predictors of the scope of engagement to the adoption and harmonization of the ISAs. Similar to Judge et al., (2010), Boolaky and Soobaroyen (2017) used coercive, mimetic, and normative pressures as a starting point for their analysis. To conclude, their findings revealed the important fact that attempts by the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB) and other international agencies to implement the IFRSs and ISAs need to recognize a broad set of institutional determinants when improving the implementation process of these standards.

Hence, given the rise of the IFRSs and ISAs as the global universal business language benchmark, it is extremely timely to ask why this general tendency has occurred and, moreover, why some jurisdictions have resisted the adoption of global standards and why some jurisdictions have adopted the IFRSs but not the ISAs. For instance, Boolaky and Cooper's (2015) results revealed that, where the IFRSs are mandatory, it does not necessarily follow that the ISA are also mandatory. Thus, because of the above arguments, it is important to combine the two adoption decisions. This study joins this effort and addresses deficiencies by analyzing data on the adoption of the IFRSs and ISAs at the national level.

To summarize, this study examines the relationship between country-specific factors and IFRS and ISA adoption. This study contributes to the accounting literature following ways. First, it examines the predictors

[1] Coercive, mimetic and normative pressures are steaming from the neo-institutional theory (NIT). It is based on the assumption that organizations respond to pressures from their institutional environments and adopt procedures (e.g. adopt global standards) that are socially accepted as being the appropriate organizational choice (e.g., Carpenter & Feroz, 2001).

of IFRS and ISA adoption simultaneously. Second, prior studies have concentrated on the importance of the political system to the accounting and auditing standards and practices of a country (e.g. Nobes 1998, Hope et al. 2006, Boolaky and Cooper 2015, Boolaky and Soobaroyen, 2017). However, none has provided empirical evidence regarding how the country-specific factors are associated with the adoption process of the IFRSs and ISAs. This research, therefore contributes to the literature on accounting and auditing by providing evidence on the specific political factors exerting an impact on universal business language adoption. It contends that, in a country with high levels of voice and accountability, there is more freedom of choice, speech, and media, thus facilitating the universal business language adoption process. Moreover, this study suggests that the regulatory quality and corruption control achieved within a national economy are predictive of the degree to which the IFRSs and ISAs are adopted. These findings are essential to standard-setters because a better understanding of the motivations for adoption will enable them to promote the use of a global business language more efficiently. For policy-makers, the findings of this study suggest that the institutional forces and good governance within a country are the key drivers of IFRS and ISA adoption. Furthermore, the results provide insights that can help to explain and forecast future universal business language adoption within countries. This is due to the fact, that when adopting the IFRSs and ISAs, economies make accounting information more accurate, transparent, and reliable for global financial market actors and investors (e.g. Dunn 2002, Fraser 2010).

The remainder of the paper is organized as follows. Section 2 presents the relevant background information, and Section 3 develops the hypotheses. Section 4 describes the data and explains the methodology, and Section 5 presents the results. The paper concludes with comments on the contributions of the study and the implications of the results.

2. Background

2.1 IFRS and ISA adoption: global considerations

The IFRSs are a set of uniform, principle-based standards and developed by the International Accounting Standards Board (IASB), the aim of which is to establish a single, global set of financial reporting standards (Alon and Dwyer 2014). As discussed earlier, proponents of the IFRSs have suggested that the standards bring benefits, including improved accuracy, global comparability, market efficiency and cross-national investment flows (Alon and Dwyer 2014). The International Standards on Auditing (ISAs) are professional standards for the performance of financial information auditing. The ISAs are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB) (Fraser 2010). As the name implies, the ISAs are international standards aiming to harmonize auditing around the globe. The ISAs guide the auditor to add value to the assignment, thus building the confidence of investors (Köhler, Merkt and Wolfgang 2009, Kleinman, Lin and Palmon 2016). While the ISAs have been in use for much longer, the newest, “clarified” version of the standards was released in 2009 (Boolaky and Soobaroyen 2017). The clarification of the ISAs provided more relevance and clearer guidance on some of the purposes behind auditing.

2.2 Institutional determinants and the adoption of the IFRSs and ISAs

Investors tend to make their investment decisions based on financial statements (e.g. García Lara, García Osma and Penalva, 2016). In relation to this, Biddle, Hilary, and Verdi (2009) found that accounting quality improves investment efficiency. Currently, progress is being made toward the global comparability and harmonization of national accounting and auditing standards through the adoption of the IFRSs and ISAs (e.g. Judge et al., 2010, Boolaky, Soobaroyen and Quick, 2019). It has been argued that global accounting and auditing standards improve accounting quality. However, various national institutional factors may affect domestic regulators and play a significant role in the standards' adoption process (Touron 2005, Judge et al., 2010, Boolaky and Soobaroyen 2017).

Even though notable progress has been made towards the adoption of the ISAs, the world is still some way from having converged on them (Boolaky and Soobaroyen, 2017). The increasing globalization of financial markets and business practices has emphasized the limitations associated with national auditing standards and the difficulties created by the diversity of transnational auditing practices (Dellaportas, Senarath Yapa, and Sivanantham, 2008). Financial statements audited with national auditing standards lack global comparability, which in turn hinders the development of international financial markets (e.g. Dellaportas et al. 2008, Fraser, 2010). Though the audit is conducted on behalf of the members of the firm, it provides valuable assurance to the external users of financial statements, such as investors and other finance providers (Haapamäki, 2018). In general, ISAs have been argued to have a number of benefits, mainly related to the audit reports, which are used across different countries (Köhler et al. 2009, Kleinman et al. 2016). Further, the benefits are related to, for example, a reduction of the standards overload, an improvement in the quality of auditing, and a reduction of auditors' liability risk. In addition, Sami and Zhou (2008, p.142) emphasized that 'higher quality accounting and auditing standards improve market liquidity and benefit investors by providing enhanced comparability of financial information about investment choices.'

Accounting and auditing harmonization, in general, contributes to cost reduction because it makes it easier for companies in a global world to comply with the law (e.g. Barth 2008, Fraser 2010). Furthermore, it has been argued that international investors are more willing to diversify their investments across borders if they are able to rely on accounting information created and audited in accordance with a similar set of standards (Köhler et al. 2009, Fraser 2010). Therefore, understanding what affects the IFRS and ISA adoption process is vital for national regulators, international investors, as well as standard-setters, accounting and auditing professionals. For instance, political and economic environments have been found in previous research to affect the accounting and auditing development directly (e.g. Cooke and Wallace 1990; Gernon and Wallace 1995, Wood 1996, Ali and Hwang 2000, Jaggi and Low 2000,).

It has been suggested that, due to the scope of globalization, increasing amount of countries are opening their doors to foreign investment and expanding their businesses across borders (e.g. Barrett, Cooper and Jamal 2005). Therefore, the public and private sectors are identifying the important benefits of having a globally understood financial reporting framework supported by strong, internationally spread auditing standards (e.g. Humphrey et al., 2009). However, before the advantages can be realized fully, there must be greater convergence to and implementation of one uniform set of globally accepted high-quality accounting and auditing standards.

3. Hypotheses

There are a number of studies on the environmental and institutional determinants influencing accounting and auditing practices (Cooke and Wallace 1990, Gernon and Wallace 1995, Nobes 1998, Zeghal and Mhedhbi 2006, Nobes 2006, Boolaky 2012, Nurunnabi 2015, Boolaky and Omoteso 2016, Boolaky and Soobaroyen 2017). For example, Hope et al. (2006), Zeghal and Mhedhbi (2006), Judge et al. (2010), Alon and Dwyer (2014) and Boolaky and Soobaroyen (2017) provided a list of factors affecting accounting and auditing development, including the decision to adopt the IFRSs and ISAs. Over time, industrialized jurisdictions have developed their own local accounting and auditing standards (Boolaky and Omoteso 2016). However, with globalization, which has simplified capital mobility across the world, nations have moved towards the adoption of the IFRSs and ISAs. Therefore, this study suggests that it is important and timely to examine the factors that influence the universal business language adoption decision.

3.1 Political factors

3.1.1 Voice, accountability and regulatory quality

Accounting and auditing standards have been suggested to be the products of political decisions (Belkaoui, 1983; Larson and Kenny, 1995; Boolaky and Omoteso, 2016; Boolaky and Soobaroyen, 2017). For instance, Belkaoui (1983) argued that civil freedom is an important part of the development of accounting practices. According to Belkaoui (1983), a low level of political freedom is related to a low level of democracy. Further, an insufficient level of democracy constrains people's freedom of choice in all forms. These forms include freedom of expression, freedom of association and free media (Houqe, Van Zijl, Dunstan and Karim 2012; Boolaky and Omoteso 2016). Freedom of association includes the freedom of a country to associate with international bodies, such as the IFAC and IASB, to adopt global standards (e.g. Boolaky and Omoteso, 2016). Moreover, governance quality is the basis of a nation's political and legal institutions, and policies that formulate the governance infrastructure of a country (e.g. Globerman and Shapiro 2003, Baird 2012, Alon and Dwyer 2014). Globerman and Shapiro (2003) suggested that a strong governance infrastructure includes an effective and transparent legal structure, credible and stable public institutions, and free and open authority policies. A country's political stability has been asserted to have a positive impact on the economy and, accordingly, both its accounting development and auditing development (e.g. Larson and Kenny 1995, Boolaky and Omoteso 2016). Moreover, as suggested by Simunic, Ye and Zhang (2016), adopting standards without a sufficient legal enforcement system will not automatically improve the audit quality.

Because of the arguments above, this study suggests that a country with a high level of voice and accountability is more likely to adopt the universal business language than those that are low on the scale. Moreover, it could be assumed that a country with a government that has the ability to formulate and implement sound policies and regulations that permit and promote private sector development, is more likely to adopt the universal business language. Therefore, this study tests the following hypotheses:

> **Hypothesis 1.** *The greater the voice and accountability that a nation experiences, the more complete the adoption of global accounting and auditing standards.*

> **Hypothesis 2.** *The greater the regulatory quality that a nation experiences, the more complete the adoption of global accounting and auditing standards.*

3.1.2 Corruption

It has been argued that economic conditions are a major determinant of the development of a country's accounting and auditing system (e.g. Zeghal and Mhedhbi, 2006, Hassan, Rankin and Lu 2014). For instance, in countries where the level of economic growth is relatively high, the social function of the audit as a tool of communication has been suggested to be important (Lopez Combarros 2000). However, it has been argued that corruption hinders sustained economic development. For instance, Jeppesen (2018) stated that systematic corruption is generally seen as the main problem for economic and political development in any country where corruption exists. This is because corruption has many consequences, which include a loss of government revenue, costs for companies and businesses that engage in corruption, and missed chances for those that do not (Everett, Neu and Rahaman 2007a). Furthermore, 'corruption is said to distort standards of merit, erode the respect of law and result in higher public investment and lower quality of infrastructure' (Everett et al. 2007a, p. 513). Corruption is believed to hinder political and economic advance (Everett, Neu and Rahaman 2007b), promote the illegal export of resources, encourage conspicuous consumption and generate distrust. Hence, Everett et al. (2007a, 2007b) examined the global fight against corruption. These studies emphasized that the accounting profession must be at the forefront of the fight against domestic and international corruption. Therefore, it has also been suggested that auditors and auditing work are significant elements in reducing fraud and corruption (e.g. IFAC, 2017). For instance, Jeppesen (2018) highlighted the role of auditing in the fight against corruption. He argued that auditing needs to gain a more prominent role in this battle. From the practice point of view, he asserted that auditing standards must include corruption in the definition of fraud and that auditors need to collaborate and exchange information. Finally, Jeppesen (2018) stated that auditing techniques to detect corruption should be employed.

To conclude, countries that want to fight against and prevent corruption and furthermore, to improve their accountability systems should work toward adopting and applying global accounting standards (e.g. Thurston 1997, Torres 2004, Iyoha and Oyerinde 2010). Eventually, Everett et al. (2007a) argued that the harmonization of accounting and auditing standards should be the top priority for accountants who are interested in the prevention process of corruption. Therefore, this study tests the following hypothesis:

Hypothesis 3. *The greater the controls of corruption within an economy, the more complete the adoption of global accounting and auditing standards.*

3.2 Economic factors

3.2.1 Economic growth

There is an association between economic development and financial reporting quality (e.g. Nobes 1998, Zeghal and Mhedhbi 2006, Ding, Hope, Jeanjean and Stolowy 2007). For instance, Zeghal and Mhedhbi (2006) found a link between a country's economic growth and the adoption of international accounting standards. Furthermore, Ding et al. (2007) suggested that the economic development of a country shapes its accounting and auditing standards. Therefore, Zeghal and Mhedhbi (2006) suggested that in countries where the level of economic development is relatively high, the social function of accounting is essential. Within this context, Zeghal and Mhedhbi (2006, p. 377) 'emphasize that business and economic activities will reach a size and complexity that requires a sophisticated, high-quality accounting system and standards.' Furthermore, they argued that where information plays a crucial role, the accounting system will undergo remarkable changes in response to the demands of the changing economic conditions of a more dynamic business world. In the same way, Boolaky and Omoteso (2016) found that economic growth is associated with the adoption of ISAs. Hence, these views lead to the argument that the decision to adopt a global business language is a response to recorded economic growth. Hence, this study suggests that the more developed a nation is, the more likely it is that it will adopt international accounting and auditing standards. Specifically, the following hypothesis is tested:

> **Hypothesis 4.** *The higher the economic growth within an economy, the more complete the adoption of global accounting and auditing standards.*

3.2.2 Import penetration

Barth (2008) stated that proponents of the IFRSs argue that, by adopting global accounting standards, countries can expect to lower the cost of financial information processing. Thus, if the adoption of the IFRSs and ISAs is expected to lower the information costs to financial markets, this study expects countries to be more dependent on foreign capital and trade. When a country is relatively open to the international economy, it is exposed to the norms and practices of global firms (Judge et al., 2010). Therefore, the presence of international trade partners in a country could accelerate the distribution of the IFRSs due to imitation (Albu et al. 2011, Hassan et al., 2014). Similarly, Judge et al., (2010) suggested that, when there is extensive import penetration in a domestic economy, the nation is more likely to be exposed to and emulate the accounting standards of the multinational firms involved. Moreover, Judge et al. (2010) suggested that *import penetration* shows a relatively strong and consistent positive effect on IFRS adoption. Boolaky and Sooberoyen (2017) hypothesized that import penetration as an institutional pressure is associated with ISA adoption. They argued that a country's commitment to ISA adoption and harmonization could be influenced by the presence of foreign trading partners. Therefore, consistent with prior studies, this study hypothesizes the following:

> **Hypothesis 5.** *The higher the import penetration within an economy, the more complete the adoption of global accounting and auditing standards.*

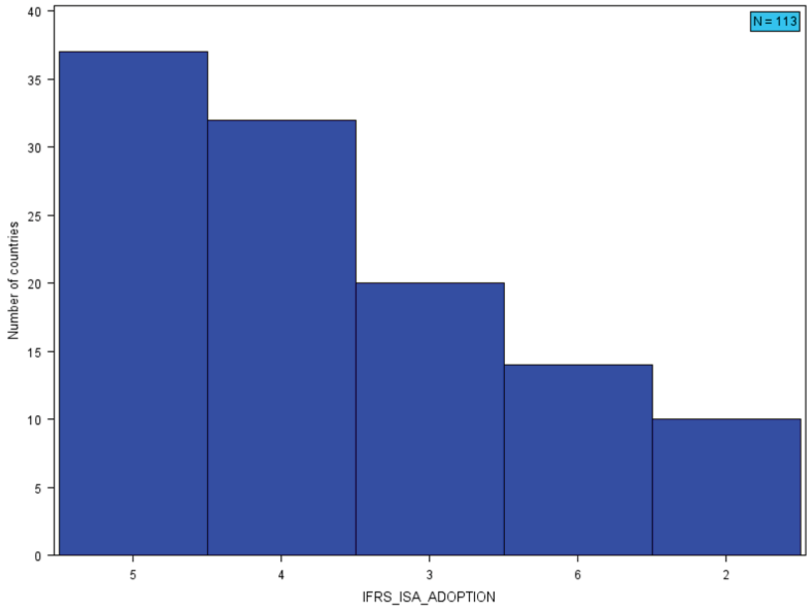
3.3 The legal factor

3.3.1 The strength of legal rights

The legal structure in a nation exploits mechanisms in the form of laws to discipline managers and diminish the risk of insider dealings (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997, 2000, Leuz, Nanda and Wysocki 2003, La Porta, Lopez-de-Silanes and Shleifer 2006, Daske, Hail, Leuz and Verdi 2008, Francis and Wang 2008). For example, corporate laws worldwide require directors to prepare and disclose a true and fair financial statement to the shareholders (lenders as well) at the annual general meeting (Boolaky and Omoteso 2016). Furthermore, the law usually requires an independent external auditor to express a professional opinion about the truth and fairness of the financial statements disclosed. Hence, this paper argues that the adoption and implementation of global standards is crucial to gain the confidence of lenders. For instance, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) argued that lenders rights' are more complicated than shareholders' rights because there might be creditors with overriding rights. In addition, Boolaky and Sooberoyen (2017) suggested and found evidence that there is a positive relationship between lenders' and borrowers' rights and the extent of the commitment to ISA adoption and harmonization. Therefore, this study proposes that a country with a strong legal rights index is more inclined to adopt the IFRSs and ISAs, because, by so doing, lenders will feel more confident in and assured about the quality of the financial statements. To conclude, this study hypothesizes the following:

> **Hypothesis 6.** *The greater the strength of the legal rights index within an economy, the more complete the adoption of global accounting and auditing standards.*

Figure 1. Pareto analysis of global business language adoption.



4. Research design

This study hypothesizes relationships between selected macro factors and the level of IFRS and ISA adoption. Next, this study defines the variables and the sample.

4.1 Dependent variable – extent of the adoption of the IFRSs and ISAs

Consistent with prior IFRS research (e.g. Judge et al. 2010, Alon and Dwyer 2014), data on the level of adoption were obtained from an annual publication by D&T (Deloitte & Touche 2012), which identified the status of IFRS adoption across different countries. This study recognized three discrete levels of IFRS adoption. The Deloitte & Touche 2012 report provided data on whether countries required, permitted, or did not allow the IFRSs. Therefore, the IFRS adoption level was coded as "3" if IFRS adoption is required for all domestic listed companies or for firms in some industries, "2" if the IFRSs are permitted (but not required), and "1" if the IFRSs are not permitted and domestic accounting standards are utilized exclusively. In addition, consistent with previous ISA adoption studies (e.g. Boolaky and Omoteso 2016, Boolaky and Sooberoyen 2017), the source for the ISA adoption comes from the compliance report of the International Federation of Accountants' (IFAC) (2012), summarizing the current status of ISA adoption in 126 countries. Similar to IFRS adoption, this study recognized three distinct levels of ISA adoption. Thus, ISA adoption was coded as "3" if ISAs are required by law or regulations, "2" if ISAs are adopted by standard-setters or adopted with modification and "1" if ISAs are not adopted.

After the category analysis for both IFRS and ISA adoption, the above data sources were used to code the dependent variable, which measures the degree of adoption of the IFRSs and ISAs. Thus, the IFRS and ISA adoption levels have been added together, given that the minimum and maximum values for the dependent variable are 2 and 6, respectively. To conclude, a low value means that the IFRSs and ISAs are not permitted or adopted and domestic standards are utilized exclusively. In contrast, a high value signifies that the IFRSs and ISAs are widely adopted within the country. Figure 1 presents a Pareto analysis of global business language adoption.

4.2 Independent variables

4.2.1 Voice and accountability

Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government as the level of freedom of expression, freedom of association, and free media. The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution that is, ranging from approximately -2.5 to 2.5 for the year 2012 (source: World Bank).

4.2.2 Regulatory quality

Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The estimate gives the country's score on an aggregate indicator, in units of a standard normal distribution that is, ranging from approximately -2.5 to 2.5 for the year 2012 (source: World Bank).

4.2.3 Control of corruption

Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "the capture" of the state by elites and private interests. The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution that is, ranging from approximately -2.5 to 2.5 for the year 2012 (source: World Bank).

4.2.4 GDP growth

Gross domestic product (GDP) growth is the annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. It is obtained for the year 2012. Source: World Bank.

4.2.5 Import penetration

The data used to capture the variable 'import penetration' are from the World Bank's World Development Indicators. It is computed as the value of imported goods and services sold as a proportion of the GDP for the year 2012 (source: World Bank).

4.2.6 Strength of legal rights index

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 12, with higher scores indicating that these laws are better designed to expand access to credit. The strength of legal rights index was not available for the year 2012. However, while examining the stability of the measure over the years available, it was apparent that the values were stable. Therefore, this study uses the strength of legal rights index for the year 2013 (source: World Bank).

4.3 Data

The sample was formulated by overlaying the different databases mentioned above. Countries that had missing values for any of the variables were excluded from the analysis. Overall, 113 countries had data for all of the variables examined in this study. The countries ranged from developing and emerging countries to developed nations and are located all over the world. Together, they formulate a comprehensive overview of countries in the world in terms of institutional settings.

Table 1. Descriptive statistics for variables used in the analysis, n=113

VARIABLES	MEAN	STD.	MIN	MAX
Global standards adoption				
IFRS adoption	2.442	0.812	1.000	3.000
ISA adoption	1.778	0.651	1.000	3.000
IFRS and ISA adoption (Global business language)	4.221	1.147	2.000	6.000
Independent variables				
Voice and Accountability	0.165	0.914	-2.006	1.764
Regulatory Quality	0.306	0.890	-1.878	1.973
Control of Corruption	0.104	1.048	-1.340	2.404
GDP Growth	2.892	3.676	-7.300	15.046
Import Penetration	51.591	30.724	12.941	224.431
Strength of Legal Rights	5.070	2.614	0.000	12.000

Notes: IFRS adoption is the level of IFRS adoption by 2012; ISA adoption is the level of ISA adoption by 2012; IFRS and ISA adoption is a sum variable of the degree of IFRS and ISA adoption within a country. Voice and Accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5; Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5; Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. GDP (gross domestic product) growth is annual percentage growth rate of GDP at market prices based on constant local currency; the variable Import Penetration is from the World Bank's World Development Indicators. It is computed as the value of imported goods and services sold as a proportion of GDP; Strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 12, with higher scores indicating that these laws are better designed to expand access to credit.

4.4 The empirical model

The empirical testing strategy is to conduct a comprehensive and robust statistical analysis; therefore, this study uses a variety of regression techniques to assess the country-specific factors of IFRS and ISA adoption. Specifically, this study first treats IFRS and ISA adoption as an ordinal variable with categories ranging from "no" adoption to "substantial" adoption and uses simple Ordinary Least Squares (OLS) regression to fit it. Moreover, because the modus of global business language adoption has more than two categories, it can be defined as a multinomous variable, thus allowing the use of multinomial logistic regression. Therefore, this study uses multinomial logistic regression to test the robustness of the OLS results. In addition to the main analysis, the study examines the empirical model separately for IFRS adoption and ISA adoption. Thus, it can be seen whether the same factors load or whether there are different factors that affect ISA and IFRS adoption.

5. Results

5.1 Descriptive statistics

Table 1 reports the descriptive statistics on the variables of interest. First, it should be noted that the mean of IFRS adoption is 2.442 and the mean of ISA adoption is 1.778 with a minimum of 1.00 and a maximum of 3.00. This finding suggests that the IFRSs are more widely adopted than the ISAs. In addition, the mean of global business language adoption is 4.221 with a minimum of 2.00 and a maximum of 6.00. On the basis of Table 1, it is also worth noting that the sample's voice and accountability average is 0.165, with a minimum of -2.006 and a maximum of 1.764. In addition, the jurisdictions under review have an average regulatory quality of 0.306, with a minimum

Table 2. Verifying multi-collinearity

INDEPENDENT VARIABLES	TOLERANCE	VARIANCE INFLATOR FACTOR (VIF)
Voice and accountability	0.252	3.959
Regulatory Quality	0.139	7.188
Control of Corruption	0.167	5.979
GDP Growth	0.816	1.224
Import Penetration	0.856	1.167
Strength of legal rights	0.843	1.186

Notes: Value less than 0.1 for the tolerance indicates presence of multicollinearity and VIF value above 10 also indicates multi-collinearity; in this case there is no concern of multicollinearity because both values (tolerance and VIF) are within acceptable levels (e.g. Dormann et al. 2013).

rate of -1.878 and a maximum rate of 1.973. The control of corruption average is 0.104, with a minimum value of -1.340 and a maximum value of 2.404. Examining the GDP growth, the average is 2.892 percent, with a minimum rate of -7.300 percent and a maximum rate of 15.046 percent. Moreover, the sample's import penetration average is 51.591, with a minimum of 12.941 and a maximum of 224.431. Finally, it is noticeable that the strength of legal rights index's average is 5.070, with a minimum of 0.00 and a maximum of 12.00.

While examining the correlations between several independent variables, it must be mentioned that they are relatively high. However, conclusions about the presence or the absence of multicollinearity that are based solely on a simple correlation between explanatory variables must be made with care. Therefore, collinearity diagnostics based on the variance inflation factor (VIF) and tolerance are carried out to measure the degree of collinearity. The values calculated indicate that collinearity between the independent variables does not distort the analyses (see Table 2). Values of VIF that exceed 10 are often regarded as indicating multicollinearity; in addition, it has been suggested that a tolerance value of less than 0.1 should be investigated further (e.g. Dormann et al. 2013). Nevertheless, the highest VIF is 7.18, which can still be considered to be quite high as a VIF given that the sample size is relatively small. As a further examination, the Durbin–Watson (D–W) test is conducted on the variables as part of the regression to detect the presence of multicollinearity.

5.2 Model testing

Table 3 contains the main regression model for the hypothesis testing, in which three of the independent variables of interest are predictive of IFRS and ISA adoption. The overall model fit is 30 percent, measured using the adjusted R-squared. Specifically, voice and accountability are positively associated with IFRS and ISA adoption ($t = 3.45$, $p<.01$); thus, Hypothesis 1 is supported. Regulatory quality also provides support and positive pressure for IFRS and ISA adoption ($t= 1.67$, $p<.10$); therefore, Hypothesis 2 is supported. The model also suggests that control of corruption is positively associated with IFRS and ISA adoption ($t = 2.29$, $p<.05$). This finding provides relatively good empirical support for Hypothesis 3. However, the analysis does not show statistical support for Hypotheses 4, 5 and 6. Nevertheless, the above findings indicate that a country with a high level of voice and accountability is more likely to adopt the universal business language. Moreover, this study suggests that a country with a government that has the ability to formulate and implement sound policies and regulations is more likely to adopt the universal business language. Finally, the control of corruption within an economy is an important predictor of the adoption of global accounting and auditing standards.

Table 3. Results of the regression model, n=113

Model: $IFRS\_ISA\_ADOPTION_i = \alpha_0+\alpha_1 VOICE_i+\alpha_2 REGQUALITY_i+\alpha_3 CORR_i+\alpha_4 GDP_i+\alpha_5 IMPORT_i+ \alpha_6 STRENGTH_i+ \varepsilon$

VARIABLES	EXPECTED RESULTS	COEFFICIENT	WALD STATISTICS
Intercept		3.602	14.27***
VOICE	+	0.683	3.45***
REGQUALITY	+	0.457	1.67*
CORR	+	0.485	2.29**
GDP	+	0.003	1.21
IMPORT	+	0.004	1.24
STRENGTH	+	0.039	1.05
R^2			0.333
Max-rescaled R^2			0.295
F-value			8.84***
The Durbin–Watson test			2.286
N			113

Notes: ***Significant at level 1%, ** significant at level 5%, *significant at level 10%, See Table 2 for variable description.

Table 4. Multinomial logistic regression model, n=113, Dependent variable = IFRS_ISA_ADOPTION

PARAMETER	FUNCTION NUMBER	ESTIMATE	CHI-SQUARE	PR > CHISQ
Intercept	1	5.9749	8.75	0.0031
	2	4.7010	6.28	0.0122
	3	5.7705	10.17	0.0014
	4	4.2588	5.95	0.0147
VOICE	1	4.1228	10.40	0.0013
	2	3.8670	7.91	0.0049
	3	4.1499	11.74	0.0006
	4	2.7361	5.70	0.0170
REGQUALITY	1	4.9434	6.92	0.0085
	2	5.1357	8.26	0.0041
	3	5.0660	8.26	0.0041
	4	2.5277	2.14	0.1434
CORR	1	4.0512	7.99	0.0047
	2	2.9879	5.82	0.0158
	3	3.4188	8.99	0.0027
	4	2.8710	7.82	0.0052
GDP	1	0.0858	0.36	0.5467
	2	0.0311	0.07	0.7944
	3	0.0198	0.03	0.8598
	4	0.0559	0.29	0.5898
IMPORT	1	0.0496	4.11	0.0425
	2	0.0183	1.51	0.2193
	3	0.0268	3.76	0.0523
	4	0.0167	1.88	0.1708
STRENGTH	1	0.3255	1.88	0.1698
	2	0.2451	1.71	0.1915
	3	0.2965	2.75	0.0972
	4	0.1144	0.50	0.4794

Notes: See Table 2 for variable description.

To explore the robustness of these results, this study uses a different regression specification to fit IFRS and ISA adoption and the six independent variables of interest. Because the modus of global business language adoption has five categories, the study uses multinomial logistic regression to test the robustness of the results. Table 4 presents the multinomial logistic regression and the Wald estimates and significance levels. The findings from the robustness test in general support the prediction found in the original

Table 5. Results of the regression model, n=113
Model: $ISA\_ADOPTION_i = \alpha_0+\alpha_1 VOICE_i+\alpha_2 REGQUALITY_i+\alpha_3 CORR_i+\alpha_4 GDP_i+\alpha_5 IMPORT_i+ \alpha_6 STRENGTH_i+ \varepsilon$

VARIABLES	EXPECTED RESULTS	COEFFICIENT	WALD STATISTICS
Intercept		1.327	8.19***
VOICE	+	0.394	3.34***
REGQUALITY	+	0.001	0.41
CORR	+	0.212	1.68*
GDP	+	0.001	0.07
IMPORT	+	0.003	1.85*
STRENGTH	+	0.062	2.77***
R^2		0.2643	
Max-rescaled R^2		0.227	
F-value		6.35***	
The Durbin–Watson test		2.162	
N		113	

Notes: ***Significant at level 1%, ** significant at level 5%, *significant at level 10%, See Table 2 for variable description.

regression model. Voice and accountability remains statistically significant, and as can be seen from Table 4, three of the estimates are statistically significant at the strictest level of significance ($p< .01$) and one estimate at the level of significance ($p<.05$). The results from Table 4 also indicate support for Hypothesis 2; three of the estimates are statistically significant at the level of significance ($p<.01$). Eventually, control of corruption remains statistically significant; all the estimates are statistically significant at least at the level of significance ($p<.05$).

5.3 Additional analyses

In addition to the main analysis, this study examines the regression model separately for IFRS adoption and ISA adoption to investigate whether the same factors load or whether there are different factors that affect ISA and IFRS adoption. These results are reported in Table 5 for ISA adoption and in Table 6 for IFRS adoption.

When examining the ISA adoption results, the model also suggests other statistically significant factors that are associated with ISA adoption. The overall model fit is 23 percent, measured by the adjusted R-squared. Voice and accountability are positively associated with ISA adoption ($t = 3.34$, $p<.01$). Control of corruption also suggests support and positive pressure for ISA adoption ($t= 1.68$, $p<.10$). However, regulatory quality has lost its significance. The model also implies that import penetration is positively associated with ISA adoption ($t = 1.85$, $p<.10$) and the

Table 6. Results of the regression model, n=113
Model: $IFRS\_ADOPTION_i = \alpha_0+\alpha_1 VOICE_i+\alpha_2 REGQUALITY_i+\alpha_3 CORR_i+\alpha_4 GDP_i+\alpha_5 IMPORT_i+ \alpha_6 STRENGTH_i+ \varepsilon$

VARIABLES	EXPECTED RESULTS	COEFFICIENT	WALD STATISTICS
Intercept		2.369	12.32***
VOICE	+	0.288	1.91*
REGQUALITY	+	0.456	2.19**
CORR	+	0.273	1.69*
GDP	+	0.002	0.10
IMPORT	+	0.001	0.18
STRENGTH	+	0.011	0.78
R^2		0.2265	
Max-rescaled R^2		0.1827	
F-value		5.17	
The Durbin–Watson test		2.180	
N		113	

Notes: ***Significant at level 1%, ** significant at level 5%, *significant at level 10%, See Table 2 for variable description.

strength of legal rights is positively associated with ISA adoption (t = 2.77, p<.01). This finding is interesting and important, because Boolaky and Sooberoyen (2017) reported for the first time in the auditing literature that lenders' and borrowers' rights are statistically positively associated with ISA adoption. Therefore, the findings of this study support Boolaky and Sooberoyen's (2017) results and suggest the robustness of this relationship. Moreover, as import penetration shows moderate pressure for ISA adoption, this finding is also interesting and important, because contrary to their expectations, Boolaky and Sooberoyen (2017) did not find that import penetration is significantly associated with ISA adoption.

Regarding the IFRS adoption, the results remain similar to the initial results reported in Table 3. However, the statistical significances have changed a little. The overall model fit is 18 percent, measured by the adjusted R-squared. Specifically, voice and accountability are positively associated with IFRS adoption (t = 1.91, p<.10). Regulatory quality also shows support and positive pressure for IFRS adoption (t= 2.19, p<.05). The model also suggests that control of corruption is positively associated with IFRS adoption (t = 1.69, p<.10). These findings provide moderate empirical support for the suggestion that that voice and accountability, regulatory quality and control of corruption are associated with IFRS adoption across 113 jurisdictions.

6. Conclusions

Over recent decades, as the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) have been formally adopted by many jurisdictions, the topic of the national-level adoption choice of these standards has become of greater academic interest (e.g. Nurunnabi 2015, Kim 2016, Sharma et al. 2017). While there is substantial variation between countries in their accounting and auditing standards and practices, the various economic systems are converging around the IFRSs and ISAs (e.g. Judge et al., 2010, Boolaky and Soobaroyen 2017). The value of having a shared body of accounting and auditing standards has been argued to be far-reaching. For instance, the IFRSs and ISAs were developed specifically for wide international use (e.g. Nobes 2006, Fraser 2010). Supporters of the IFRSs and ISAs argue that, by adopting a global accounting and auditing standards, countries can expect a cost reduction for information processing. Furthermore, users of financial reports and accounting information can be expected to become familiar with one common set of global standards than with various local accounting and auditing standards. Previous studies have suggested that corporate governance is influenced by the institutional structures within countries (e.g. Judge et al., 2010). Therefore, this study seeks to identify and describe the country-specific predictors of the adoption of IFRSs and ISAs simultaneously. This study suggests that the *voice and accountability, regulatory quality*, and *control of corruption* achieved within a national economy are all predictive of the degree to which the IFRSs and ISAs are adopted across 113 jurisdictions.

However, as with any other study, this study has some limitations. First, the study accesses IFRS and ISA adoption data published by Deloitte and Touche (2012) and in the IFAC's (2012) compliance report. Second, the data are based exclusively on archival sources, which can be considered to be limiting in scope. However, this approach is the dominant practice for studying cross-national differences in accounting and auditing harmonization (Judge et al., 2010; Boolaky and Soobaroyen 2017). However, field research on the actual process of adopting and implementing the IFRSs and ISAs should be conducted. Thus, it would be interesting to learn how the enforcement of those new standards unfolds. The third limitation of the study is the heavy reliance on the World Bank database. While there is no evidence of systematic bias in their data collection, this study does not have any certainty regarding the reliability and validity of their national ratings. Despite the limitations discussed above, this study provides a comprehensive and beneficial theoretical framework to examine national differences in the adoption of a global business language. Moreover, international harmonization of accounting and auditing standards is beneficial to the development of efficient global financial markets through accurate accounting information (e.g. Zeghal and Mhedhbi 2006, Fraser 2010, Boolaky and Sooberoyen 2017). Thus, it is extremely important to examine the country-specific factors that affect the adoption process of a global business language.

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Research on International Standards on Auditing: Literature synthesis and opportunities for future research

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ABSTRACT

Research on International Standards on Auditing (ISAs) would greatly benefit from a research framework that categorizes the research streams related to ISAs and suggests areas for future research. This paper reviews the current research related to ISAs and develops a framework for analysis going forward. We identify seven main research streams: the development and history of ISAs; adoption of ISAs; association between national auditing standards and ISAs; financial reporting quality; audit reports; audit efficiency; and International Financial Reporting Standards (IFRS) compliance. For each research stream, the main results are summarized. At the conclusion of our literature reviews for each research stream, we suggest areas requiring further examination.

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1. Introduction

Researchers are increasingly focusing on International Standards on Auditing (ISAs), and prior research suggests that ISAs are as essential as International Financial Reporting Standards (IFRS) in ensuring that a country's financial system is sound and stable (Boolaky & Omoteso, 2016; Boolaky & Soobaroyen, 2017; Fraser, 2010). However, no comprehensive review of ISA research currently exists. This paper develops such a review to analyze the knowledge from ISA research, revealing, for example, that the results for many drivers of adoption of ISAs are consistent across studies. This synthesis also suggests that ISAs are positively affecting financial reporting quality, and audit efficiency is more observable when the audit is conducted using ISAs. ISAs promote auditor behavior that contributes to effective audits (e.g., Burns & Fogarty, 2010). For instance, ISAs have wider implications for increasing auditor skepticism. When examining IFRS compliance, prior studies indicated that there is an association between IFRS compliance and the use of ISAs. In addition, previous studies revealed that even when ISAs are adopted, several countries' audit reports are not perfectly conforming to the content and structure of reports standardized by the International Federation of Accountants (IFAC) (e.g., Fakhfakh & Fakhfakh, 2010). This can be due to the inconsistent implementation of ISAs.

This literature synthesis has three primary objectives. The first is to provide a comprehensive overview of current academic knowledge about ISAs. The second is to identify key topics and issues that appeared in the previous literature. Finally, the third objective is to suggest fruitful future research opportunities. The remainder of the paper is organized as follows. Section 2 presents relevant background information on the topic. Section 3 presents the definition of ISAs and explains the method used to conceptualize this synthesis. Section 4 presents the examination of the theoretical and empirical literature

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and provides a comprehensive list of topics examined in prior studies. In Section 5, the citation analysis is presented. Finally, Section 6 summarizes the conclusions.

2. Background

Why synthesize studies related to ISAs? As globalization expands, the need for commonly understood financial information increases (Fraser, 2010). High quality audits may increase the credibility of financial statements, and may reduce agency costs and the cost of capital (Minnis & Shroff, 2017; Vanstraelen & Schelleman, 2017). Burns and Fogarty (2010, p. 311) argued 'many elements lead to quality audits; however, the development and existence of appropriate, high-quality standards is the first step on the road.' In addition, Boolaky and Soobaroyen (2017, p. 59) support the harmonization of accounting and auditing standards as 'beneficial to the development of an effective and efficient global economy through the provision of relevant and credible accounting information to users and markets.' Furthermore, Leuz and Wysocki (2016, p. 538) argued that 'disclosure regulation or reporting standards need to be enforced and hence are unlikely to be effective without reliable auditing.' Therefore, it can be cautiously suggested that reliable auditing can be achieved by harmonizing auditing practices, and the process of harmonization and implementation of ISAs has culminated in significant attempts at convergence around the world in the last decade (Boolaky & Soobaroyen, 2017). However, relatively little research exists on the adoption and the degree of commitment to international auditing standards and, specifically, ISAs (Needles, Ramamoorti, & Shelton, 2002; Simunic, Ye, & Zhang, 2017), even though ISAs are considered a key standard for sound financial systems. In this context, it is vital to synthesize the previous ISA-related literature published in peer-reviewed high-quality accounting and auditing journals.

3. Terminology and methodology

3.1. Definition of ISAs

ISAs are professional standards for the performance of financial audits of financial information. These standards are issued by the IFAC through the International Auditing and Assurance Standards Board (IAASB). The aim of the ISAs is to serve the public interest by enhancing the quality and uniformity of audit practices throughout the world and strengthening public confidence in the global auditing and assurance profession. The final set of clarified standards comprises of 36 ISAs.

3.2. Method

To introduce, summarize, and analyze the extent of research on ISAs, a list of published studies was collected using the following methods. The articles reviewed were identified by a systematic process that combines electronic and manual research. Combinations of keywords used to search for relevant studies include: "International Standards on Auditing", "international auditing standards," and "ISA/ISAs." An electronic search was performed using Scopus. The search included publications up to April 1, 2018. We also conducted a manual search by tracking down references in collected studies to guarantee that all relevant papers were included in the analysis.

Our search identified 59 papers related to ISAs published between 1992 and 2018. Table 1 provides a count of the studies reviewed, grouped by source journal, while Table 2 presents the key research findings of the papers we identified. As shown in Table 1, the papers were published in a wide group of journals, including many prominent accounting journals, such as *Accounting, Organization, and Society*; *Contemporary Accounting Research*; *The International Journal of Accounting*; *The International Journal of Auditing*; and *Australian Accounting Review*. The highest number of ISA-related studies is published in *the Managerial Auditing Journal*. The acceptance of ISA-related studies in major accounting and auditing journals emphasize its significance in accounting and auditing literature. Fig. 1 presents trends of ISA-related studies in accounting and auditing literature over the period between 1992 and 2017.

After the articles were identified, we carefully read each article. Since our research goal was to review research on ISAs, we had no predispositions as to the topics that might be studied. Based on an initial review of each paper, we made notes about their research questions and hypotheses. Then we searched for similarities and differences among the papers, which resulted in the identification of several research streams. Within these streams, we then developed taxonomies to characterize and synthesize the literature. Fig. 2 presents the research streams identified, and it also presents the number of articles within each stream. These research streams should not be considered as isolated from each other; they are overlapping, but each section stands alone as much as possible.

4. Previous theoretical and empirical literature

We identified seven research streams, based on our analysis of the 59 articles reviewed. We aim to provide a context for understanding the issues examined in the ISA studies and to evaluate the contributions of that literature. Thus, this section concentrates on the research streams identified, and it also provides a useful framework of the most frequently examined ISA research topics in the accounting and auditing literature. Within the seven research streams identified, a wide variety of issues are investigated. The aim is to describe the research conducted in each area with the goal of developing a cohesive

Table 1
Journals where reviewed studies published.

Managerial Auditing Journal	13
The International Journal of Accounting	6
Australian Accounting Review	4
International Journal of Auditing	4
International Journal of Disclosure and Governance	3
Journal of International Accounting, Auditing and Taxation	3
Abacus	2
Accounting, Organizations and Society	2
Asian Review of Accounting	2
Auditing: A Journal of Practice and Theory	2
Contemporary Accounting Research	2
European Accounting Review	2
International Journal of Accounting, Auditing and Performance Evaluation	2
Accounting, Auditing and Accountability Journal	1
Accounting Horizons	1
Accounting in Europe	1
Advances in Accounting Behavioral Research	1
Advances in International Accounting	1
Behavioral Research in Accounting	1
International Journal of Accounting and Information Management	1
Journal of Accounting, Auditing and Finance	1
Journal of Accounting and Public Policy	1
Journal of International Accounting Research	1
Journal of International Financial Management and Accounting	1
The Accounting Review	1
Total	59

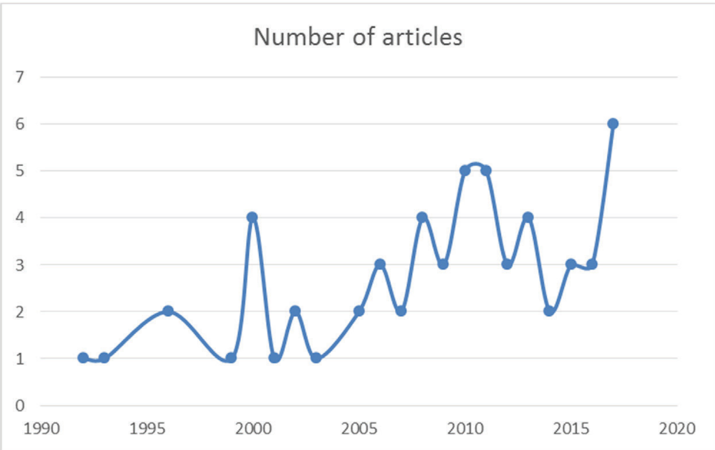

Fig. 1. Trends of ISA related studies in accounting and auditing literature over the period of 1992-2017.

taxonomy. As each section presents the results and implications of prior studies, each section also ends with suggestions for fruitful future research. Table 3 summarizes the ideas for future studies.

4.1. Development and history of ISAs

Early studies focused on the importance of ISAs and on the development and history of auditing standards harmonization. Roussey (1992) argued that there is an obvious need for auditing standards that can be used for international investment and other multinational business purposes. In 1991, the IAPC (the International Auditing Practices Committee, the IAASB's predecessor) voted to enter into a major project to "codify" the ISAs. Roussey (1996, p.138) suggested that the purpose of codifying the ISAs was to 'identify and highlight the basic principles and essential procedures contained in the existing standards, including rewriting to conform to the new codification format.' The codifications actions described by Roussey (1996)) had a profound impact on the accountancy profession by completing the basic body of standards suitable for use in auditing financial statements and creating a more user-friendly and useful set of standards. Roussey (1996, p. 146) predicted that 'these actions would encourage national accountancy bodies to take new action on the acceptance of ISAs as national standards or as a basis for developing national standards.' Moreover, Loft, Humphrey, and Turley (2006)) analyzed how

Table 2
Studies on International Standards on Auditing.

Author(s)	Research topic	Type of the paper	Findings/Conclusions that are related to ISAs
Panel A. History and development of ISAs			
Roussey, 1992	Developing international accounting and auditing standards for world markets	Research note	Concluded that harmonization of accounting and auditing standards is a worthwhile goal.
Roussey, 1996	New focus for the ISAs	Research note	Discussed some important changes that happened in the development of ISAs and the effect on the auditor performing audits in accordance with these standards for national or for international purposes in the 1990s. These changes created a useful set of standards.
Lopéz Combarros, 2000	Accounting and financial audit harmonization in the EU	Research note	Revealed that the move towards internationally harmonized reporting requires auditing to be harmonized throughout Europe, which means adopting ISAs. This can increase credibility to accounting information and stimulate confidence.
Loft et al., 2006	Changing governance and accountability structures at the IFAC	Qualitative review of official reports, consultation documents and related responses	Concluded that governance of auditors who use ISAs has become a matter of global importance and therefore governance structures should be reconfigured.
Fraser, 2010	A single set of worldwide auditing standards: The road is long . . .	Research note	Explored the case for convergence on ISAs and encouraged national regulators and others involved in the standard-setting process to support ISA harmonization.
Panel B. Adoption of ISAs			
Boolaky, 2011	Auditing and reporting in Europe: an analysis using country-level data.	Empirical study using regression analysis	Found that not all EU countries are fully compliant with ISAs.
Boolaky & Cooper, 2015	Comparing the strength of auditing and reporting standards and investigating their predictors in Europe and Asia.	Empirical study using regression analysis	Aimed to compare the strength of auditing and reporting standards (SARS) in Europe and Asia. Found that where IFRS is mandatory, ISA is not always mandatory. Countries in Europe are ahead of Asia in terms of IFRS and ISA adoption.
Boolaky & Omoteso, 2016	ISAs in the international financial services centres: What matters?	Empirical study using regression analysis	Investigated factors influencing ISA adoption. Revealed that political, economic, social and legal factors influence ISA adoption.
Boolaky & Soobaroyen, 2017	Adoption of ISA: Do Institutional Factors Matter?	Empirical study using regression analysis	Using neo-institutional theory, investigated determinants of ISA adoption. Concluded that coercive, mimetic, and normative pressures significantly influence ISA adoption.
Yapa et al., 2017	The professionalization of auditing in less developed countries: the case of Sri Lanka	Qualitative study using interviews and documentary review	Found that the local professional accounting body, the Institute of Chartered Accountants of Sri Lanka (CASL) is actively involved in the adoption of ISAs.
Panel C. Association between national auditing standards and ISAs			
Wallage, 1993	Internationalising Audit: A study of audit approaches in the Netherlands'	Qualitative study using questioners and documentary review	Suggested reasons for significant differences in implementation of ISAs in the Netherlands.
Lin & Chan, 2000	Auditing standards in China - A comparative analysis with relevant international standards and guidelines.	Qualitative study using documentary review	Analyzed motivations for the development of auditing standards in China. Concluded that Chinese standards most closely resembled ISAs on many important dimensions.
Brody et al., 2005	Auditing standards in Poland: past, present and future	Qualitative study using documentary review	Highlighted the importance of education in the process of audit harmonization and argued that audit regulatory structures must be conducted by parallel improvements in the rules and practices of other professions.
Dellaportas et al., 2008	Internationalizing auditing standards: stakeholder views on Australia's strategic directions.	Qualitative study using questioners and documentary review	Internationalization of Australian auditing standards examined using stakeholder submissions to the SDP (strategic directions paper) and comparing the proposed and approved strategic directions frameworks of the AUASB. The approved strategic directions are consistent with the majority of respondents' views, which supported minimal divergence from ISAs.

Table 2 (*Continued*)

Author(s)	Research topic	Type of the paper	Findings/Conclusions that are related to ISAs
Mennicken, 2008	Connecting worlds: The translation of international auditing standards into post-Soviet audit practice	Qualitative study using interviews and documentary review	Analyzed the use and distribution of ISAs within a Russian audit firm, as it confronts the obstacles of the global harmonization. Described this process as one of "connecting worlds" and translation.
Samaha & Hegazy, 2010	An empirical investigation of the use of ISA 520 "analytical procedures" (APs) among Big 4 versus non-Big 4 audit firms in Egypt	Empirical study using questionnaire survey	Found that ISA 520 was not that effective in stimulating significant change for the use of APs. This was due to lack of training and awareness of auditing standards, insufficient materials about auditing standards taught at universities, and poor English skills.
Duhovnik, 2011	Time to endorse the ISAs for European use: the emerging markets' perspective	Qualitative study using documentary review	Examined the endorsement of the ISAs in Slovenia, an emerging market economy. Emphasized importance of a unified audit approach for the overall quality of auditing and argued that the clarified ISAs are the best instrument available to unify auditing in Europe.
Samsonova-Taddei, 2013	Social relations and the differential local impact of global standards: The case of ISAs.	Qualitative study using interviews and documentary review	Documented three types of responses by local audit firms to the implementation of ISAs in Russia, namely: (1) those that claim to follow the national auditing standards modelled on ISAs and mandated by audit law; (2) those that voluntarily provide ISA audits in accordance with original ISAs; and (3) those that provide pseudo audits ('black audits') and ignore auditing standards.
Panel D. Financial reporting quality and ISAs			
Favere-Marchesi, 2000	Audit quality in the Association of Southeast Asian Nations (ASEAN).	Empirical study using questionnaire survey	Suggested audit quality could be improved in many ASEAN countries by requiring the use of ISAs.
Needles et al., 2002	The role of international auditing in the improvement international financial reporting.	Qualitative study	Suggested that the regulations and control of the quality of audits is the critical factor in achieving high-quality financial reporting. They argued that ISA adoption improves financial reporting quality.
Carson et al., 2006	Financial reporting quality in Australia	Empirical study using annual report data	Examined consequences when Australia revised audit reporting standard AUS 702 to align with many ISA concepts ISAs (ISA 700). Indicated that the changes to the audit reporting standards had a significant and desirable effect of improving disclosures in financial statements.
Zhou, 2007	Auditing standards, increased accounting disclosure, and information asymmetry: Evidence from an emerging market.	Empirical study using regression analysis	Found that the cost of information asymmetry was substantial in Chinese order-driven emerging markets. Results highlighted that auditing regulation can permanently reduce long-run information asymmetry risk in capital markets.
Sami & Zhou, 2008	Do auditing standards improve the accounting disclosure and information environment of public companies? Evidence from the emerging markets in China.	Empirical study using regression analysis	Examined the impact of increased accounting disclosure following the implementation of the first set of auditing standards in China modelled after ISAs. Revealed a decrease in earnings management, implying an increase in earnings quality.
Humphrey et al., 2009	The global audit profession and the international financial architecture: Understanding regulatory relationships at a time of financial crisis.	Research note	Argued that to achieve financial stability IFRS and ISAs should be adopted. The use of IFRS and ISA for the preparation and audit of financial reports is expected to increase transparency for global investors.
del Corte et al. 2010	Effective use of qualitative materiality factors: evidence from Spain.	Empirical study using questionnaire survey	Showed that the majority of auditors and preparers agree on the issuance of qualified audit reports when the financial statements contain uncorrected misstatements that are below the materiality levels but are related to qualitative materiality factors included in ISA 450.
Coram et al., 2011	The Communicative Value of the Auditor's Report	Verbal protocol analysis (VPA), for some of the participants a questionnaire/ interview approach was used	Suggested that auditors' reports are important to analysts in that they signal a level of reliability in the financial statements. However, the content of the auditor's report, including the additional content of the recently issued longer form auditor's report (ISA 700, ASA 700), generally was not used by Australian analysts.

Table 2 (*Continued*)

Author(s)	Research topic	Type of the paper	Findings/Conclusions that are related to ISAs
Gold et al., 2011	The ISA 700 Auditor's Report and the Audit Expectation Gap – Do Explanations Matter?	Experiment study	Found that explanations of the ISA 700 auditor's report do not result in a smaller expectation gap and suggested that the audit opinion alone may signal sufficient relevant information to users, and despite the underlying objective of the revised ISA 700, the presence of the (quite extensive) ISA 700 explanations do not affect the expectation gap.
Kleinman et al., 2014	Audit quality: A cross-national comparison of audit regulatory regimes	Qualitative study using questionnaire survey	Examined the audit regulatory practices of public company auditors and discussed the obstacles to engage in intra-national audit, cross-national audit, and the challenges posed by differences in auditing standards. They included the effects of national culture, investor legal protection, economic development, and varying financial standard sources.
Simunic et al., 2015	Audit Quality, Auditing Standards, and Legal Regimes: Implications for International Auditing Standards	Analytical study	Argued that optimal auditing standards for a country are a complex function of its legal system, and audit quality depends on the legal system and the characteristics of auditing standards under which auditors operate.
Simunic et al., 2017	The joint effects of multiple legal system characteristics on auditing standards and auditor behavior.	Analytical study	Derived the impacts of legal system characteristics and auditing standards on auditor behavior (audit quality) and provided implications for the adoption of ISAs.
Lento & Yeung, 2017	Earnings benchmarks, earnings management and future stock performance of Chinese listed companies	Empirical study using regression analysis	Found higher levels of income increasing discretionary accruals around the earnings level benchmark relative to the earnings surprises and earnings changes benchmark. Found also a negative relationship between abnormal stock returns and firms with low earnings and higher discretionary accruals. Results indicate that even after the adoption of IFRS and ISA, the managers employ earnings management strategies in order to meet key earnings benchmarks.
Noh et al., 2017	The effect of the dependence on the work of other auditors on error in analysts' earnings forecasts	Empirical study using regression analysis	Found a positive relationship between dependence on the work of other auditors and error in analysts' earnings forecasts, suggesting that more dependence on the work of other auditors decreases the quality of the audit of consolidated financial statements.
Boolaky et al., 2018	The Perceptions and Determinants of Auditing and Reporting Quality in the Asia-Pacific Region	Empirical study using regression analysis	Concluded that IFRS adoption is having a significant impact on auditing and reporting quality (ARQ). However, adoption of ISAs is only moderately significantly associated with ARQ.
Panel E. Audit reports and ISAs			
King, 1999	The measurement of harmonization in the form and content of the auditor's report in the European Union	Empirical study using annual report data	Determined the degree of harmonization in the form and content of the auditor's report in the EU and used the basic elements of the auditor's report listed in the ISAs.
Gangolly et al., 2002	Harmonisation of the auditor's report	Empirical study using annual report data and survey data	Examined the association between the ISA 13 and the harmonization of the audit report standards and the audit reports issued. The results suggested a less cohesive cluster structure for the post-ISA 13 reports and that the harmonization of the audit report increased since the issuance of ISA 13.
Farrugia & Baldacchino, 2005	Qualified audit opinions in Malta	Empirical study using annual report data	Concluded that Maltese companies, which were required to be audited, have an apparently high rate of audit qualifications and auditor's reports of non-Big4 audit firms are often deficient or even incompatible with the wording of the ISAs.
Fakhfakh & Fakhfakh, 2007	The wording of Tunisian audit reports: a comparative study with international principles	Empirical study using annual report data	Showed that Tunisian audit reports are not perfectly compliant with the content and structure of reports standardized by the IFAC. This difference can be explained by the attributes of the Tunisian accounting and auditing environment.

Table 2 (*Continued*)

Author(s)	Research topic	Type of the paper	Findings/Conclusions that are related to ISAs
Fakhfakh et al., 2008	The impact of harmonisation by the IFAC: An empirical study of the informational value of Tunisian auditors' reports.	Empirical study using annual report data	Examined the impact of the Revised ISA700 in terms of the wording characteristics of Tunisian auditors' reports. The audit reports examined are not fully compliant with all the elements enumerated by this new standard.
Fakhfakh & Fakhfakh, 2010	The impact of Revised ISA 700: an international empirical comparison	Descriptive and analytical study	The new ISA on the auditor's report proposes a new wording of the auditing opinion to the accounting professionals and the users of the financial statements. Showed that the international audit report must be concretized by the reduction of informational asymmetry between users of accounting data.
Sormunen et al., 2013	Harmonisation of audit practice: Empirical evidence from going-concern reporting in the Nordic Countries.	Empirical study using regression analysis	Findings supported IFAC's concerns that local implementation of the ISA does not guarantee the development of consistent practice.
Fakhfakh, 2016	Linguistic performance and legibility of auditors' reports with modified opinions:An advanced investigation based on the ISAs on audit reports.	Empirical study using linguistic features and assisted by a text analysis software	Assessed the level of understandability of the modified audit reports recommended by the ISAs. From the perspective of linguistic performance, the international standardization of audit reports was not perfect.
Panel F. Audit efficiency			
Colbert, 1996	Colbert (1996) compared two concepts that crucial to planning and performing the audit work: audit risk and materiality	Qualitative study	Compared two concepts crucial to planning and performing the audit work: audit risk and materiality. Emphasized that the comparison between ISAs and US guidance indicates many similarities and a few differences between the standards.
Bedard et al., 2001	Auditor's consideration of fraud: How behavioural research can address the concerns of the standard setters	Literature review	Analyzed the extant behavioral literature on fraud according to four basic issues identified. Noted the importance of each issue, and how each is addressed in current U.S. auditing standards (SAS 82) and in the proposed revision of ISA 240.
McKee, 2006	Increase your fraud auditing effectiveness by being unpredictable!	Analytical study	Argued that some frauds more easily carried out because auditors are too predictable. Suggested that according to ISAs (ISA 240), one response to fraud risk is to incorporate an element of unpredictability in the audit plan.
Trotman et al., 2009	Impact of the Type of Audit Team Discussions on Auditors' Generation of Material Frauds	Experiment study	ISA 315 and ISA 240 similarly require audit team members to discuss the susceptibility of the entity's financial statements to material misstatement due to fraud or error. Their interacting group fulfils the requirement of the ISAs. They introduce the pre-mortem technique to the auditing literature as a form of interacting group. They examined its impact in a fraud detection situation but note that it has wider implications for increasing auditor skepticism.
Burns & Fogarty, 2010	Approaches to auditing standards and their possible impact on auditor behavior	Qualitative study	High-quality auditing standards promote auditor behavior that contributes to the effective audit. Suggested that standard setters should consider promoting the sound exercise of professional judgment.
Hellman, 2011	Chief Financial Officer Influence on Audit Planning	Qualitative study using semi-structured interviews	Argued that CFOs often assume the role of those charged with governance rather than the role of management during the audit-planning phase, which may have implications for ISA 300 (Planning an audit of financial statements).
Fukukawa et al., 2011	Client Risk Factors and Audit Resource Allocation Decisions	Empirical study using archival data	Found that individual client risks empirically group together in a way similar to categories discussed in recent auditing standards. Showed significant relationships between audit resource allocation decisions and broad risk factors.

Table 2 (*Continued*)

Author(s)	Research topic	Type of the paper	Findings/Conclusions that are related to ISAs
Miller et al., 2012	Do auditors assess inherent risk as if there are no controls?	Experiment study	Contrary to auditing standards' definition of inherent risk, it appears that auditors presume some level of expected control effectiveness when assessing inherent risk and they may increase the risk of material misstatement in response to internal control deficiencies. Such a presumption is inconsistent with ISA 200's definition of inherent risk.
Morrill et al., 2012	Internal Control Assessment and Interference Effects	Experiment study	Auditors who identified risks first identified more, and more important, internal control deficiencies than did auditors identifying controls first. The number of risks identified was not significantly different between the two groups. Suggested that audit efficiency and effectiveness depend on the sequence in which internal control evaluation subtasks are performed.
Kandemir, 2013	The EU law on auditing and the role of auditors in the global financial crisis of 2008	Research note	Argued that auditors could avoid misconduct transactions through their role of professional skepticism. The ISAs state that it is the auditor's responsibility to obtain reasonable assurance for financial statements that are free from material misstatement caused by fraud or error (ISA 240).
Stewart & Kinney, 2013	Group Audits, Group-Level Controls, and Component Materiality: How Much Auditing Is Enough?	Analytical study	Their Bayesian group audit model formally incorporated group auditor knowledge of group-level structure, controls, and context as well as component-level constraints imposed by statutory audit or other requirements. Results suggested group-level controls and structured subgroups of components are central to efficient group audits.
Ruhnke & Schmidt, 2014	Misstatements in Financial Statements: The Relationship between Inherent and Control Risk Factors and Audit Adjustments	Empirical study using regression analysis	Showed that audit adjustments vary systematically, as proposed by the audit risk model. Specifically, the integrity and competence of the client's management, economic position, entity-level control strength, and internal control system are associated with the number and relative magnitude of audit adjustments.
Alles, 2015	Drivers of the Use and Facilitators and Obstacles of the Evolution of Big Data by the Audit Profession	Qualitative study	Indicated that ISAs, technological advances, and market forces are some of the facilitators and obstacles that will determine the use of Big Data by auditors.
Lee & Park, 2016	Characteristics of the internal audit and external audit hours: evidence from S. Korea	Empirical study using regression analysis	Found that the number of internal auditors relative to the number of employees is associated with the number of external audit hours. This suggests that the greater the availability of internal auditors, the greater their contribution will be to the financial statement audit and the more efficient the audit.
Sunderland & Trompeter, 2017	Multinational Group Audits: Problems Faced in Practice and Opportunities for Research	Research note	Concluded that when a global firm is involved in multinational group audits, it is important for auditor judgment in other countries to be consistent with the home country of the parent entity.
Panel G. IFRS compliance and ISA			
Street & Bryant, 2000	Disclosure level and compliance with IASs: A comparison of companies with and without U.S. listings and filings	Empirical study using regression analysis	Revealed that greater disclosure is associated with an accounting policies footnote that specifically states that the financial statements are prepared in accordance with IASs and an audit opinion that states that ISAs were followed when conducting the audit.
Glaum & Street, 2003	Compliance with the disclosure requirements of Germany's new market: IAS Versus US GAAP.	Empirical study using regression analysis	IFRS compliance is associated with references to the use ISA in the audit opinion.
Hodgdon et al., 2009	Compliance with International Financial Reporting Standards and auditor choice: New evidence on the importance of the statutory audit	Empirical study using regression analysis	Suggested that IFRS compliance was positively related to the choice of auditor after controlling for firm size, profitability, leverage, degree of international diversification and whether a firm has a U.S. listing or was audited according to ISAs.

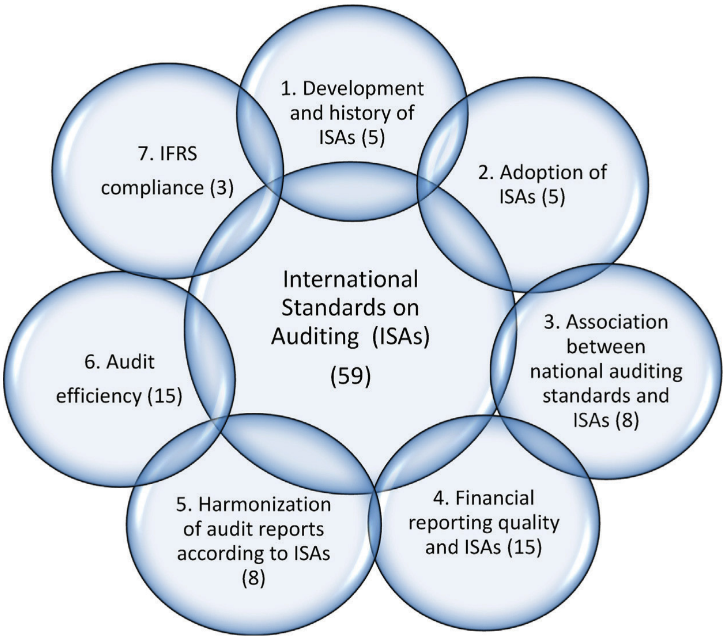

Fig. 2. Research streams identified and number of articles within each stream is in parentheses. 59 articles fulfilled the selection criteria.

successful IFAC is as an international standard setter with an established place in the global financial infrastructure, and reveals the increasing reliance on governance by experts, together with a growth in influence of the large, multinational accounting firms. They concluded that governance of auditors had become a matter of global importance.

Lopéz Combarros (2000) reviewed the evolution of financial reporting in the European Union (EU) and its likely impact on auditing in the future. The analysis posits that harmonization of financial reporting standards also requires harmonization of auditing standards throughout Europe (i.e., the adoption of ISAs). In addition, Lopéz Combarros (2000, p. 654) stated that the adoption of ISAs 'lends credibility to financial information and inspires confidence in national and international users of financial information, regardless of the nationality of the company issuing the information or of the auditor auditing it.' Lopéz Combarros (2000) concluded that unless financial statements are both prepared and audited in a standardized manner, it will be difficult to truly harmonize financial information in the EU.[1] Fraser (2010) analyzed the very practical implications of a changing world on the evolution of audits and auditors, specifically within the contexts of ISAs. Fraser (2010) highlighted the consequences of the coexistence of many national auditing standards and related legislation, and agreed that harmonization of ISAs contributes to cost reduction by facilitating compliance with the law in a global world, particularly for transnational audits. Fraser (2010) emphasized that investors are more likely to diversify their investments across borders if financial information is reliable by being audited using ISAs.

To summarize, several corporate scandals around the world proved the investor's need for accurate financial information. Even if ISAs gained global convergence, it should be questioned how this convergence is impacting on auditing in practice. Moreover, confirming the benefits of improved comparability, it should be also questioned whether the benefits of ISAs are sustainable. Development and history of ISAs in the EU have been examined; however, the history and development of ISAs in emerging and developing countries have not received the same attention. This should be the interest of researchers because it is often claimed that the international harmonization of auditing standards can be extremely beneficial to the development of a country (Boolaky & Soobaroyen, 2017). Future research could pay more attention to emerging and developing economies in this regard. Moreover, how can IFAC develop governance of auditors as a matter of global importance? Future studies could also address this research question.

[1] The EU Audit Reform, effective June 2016, renewed the mandate of the European Commission to adopt ISA at the EU level. While member organizations and regulators in EU Member States have adopted ISA at a national level, the prospect of EU wide adoption of ISA will further promote consistency and reduce the patchwork of rules within the region (IFAC, 2017).

Table 3
Suggestion for future research organized by research stream.

Research stream	Suggestions for future research
1. Development and history of ISAs	- How is the global convergence of ISAs impacting on auditing in practice? - How can IFAC develop the governance of auditors as a matter of global importance? - Are the benefits of ISAs sustainable (if the benefits of improved comparability are confirmed)? - How have the development and history of ISAs in emerging and developing countries happened? - Has the international harmonization of auditing standards been beneficial to emerging and developing countries?
2. Adoption of ISAs	- Which environmental and institutional factors are hindering the adoption and implementation process of ISAs? - Are there more convincing identification strategies when analyzing the capital market or macroeconomic effects of ISA adoption? - What are the consequences of ISA adoption? - How does the adoption of ISAs affect country's economic growth and/or stock market development? - What is the role of adoption of ISAs in financial crisis? - Are there any unintended consequences of ISA adoption?
3. Association between national auditing standards and ISAs	- How is the implementation process of ISAs planned, carried out and evaluated in different countries? Are there wide-ranging differences between jurisdictions? What is the role of institutions in this process? - Does the implementation bring tangible benefits? For instance, has the adoption of ISAs improved global comparability and increased cross-border information transfers? - Has the adoption of ISAs increased competition? - What are the ISA implementation effects in the long run?
4. Financial reporting quality and ISAs	- What is the role of the measure of financial reporting quality in ISA literature? For instance, could prior studies be replicated by using other measures for financial reporting quality? - What are the benefits of ISAs in different economies (i.e., open and developed economy versus closed economy)? - Does ISA adoption improve forecast accuracy? - Why having a single set of auditing standards is desirable from different perspectives?
5. Harmonization of audit reports according to ISAs	- How does the lack of homogeneous information affect investors' behavior? - What does the incompleteness of auditing harmonization signal to all users of financial statements? - How the incompleteness threaten the quality of the financial audit? - How could the compliance of audit reports be improved in countries where ISAs are adopted? - How could IFAC improve the policy of standardization?
6. Audit efficiency	- How should auditors enhance their performance in the light of professional skepticism and how could group audits performance be improved? - Has ISA implementation increased the audit efficiency remarkably? - Can more convincing identification strategies be developed when analyzing client risks? - How can Big Data opportunities improve the audit efficiency and audit quality? - How do audit standards encourage the use of Big Data?
7. IFRS compliance and ISAs	- How important is the auditor choice on IFRS compliance? - How important is the role of international auditing firms, auditing profession and quality audits in the implementation and compliance process of IFRS?

4.2. Adoption of ISAs

The second research stream focuses on the adoption of ISAs. In general, this research stream concentrates on identifying the determinants of ISA adoption and commitment to ISA harmonization. For instance, Boolaky (2011); Boolaky and Cooper (2015); Boolaky and Omoteso (2016), and Boolaky and Soobaroyen (2017) empirically investigated the determinants of ISA adoption and commitment to harmonization on a cross-national basis. By contrast, Yapa, Ukwatte Jalathge, and Siriwardhane (2017)) examined factors influencing the adoption of ISAs in a single country. According to Boolaky (2011), not all EU countries are fully compliant with ISAs, making it more difficult for international investors to rely on information provided by companies. Boolaky (2011) suggested that basing audit practices on the ISAs would increase investor confidence and trust in financial information from EU companies. Hence, improved investor confidence could lead to an increase in investments. Boolaky (2011) classified jurisdictions into four grade categories: A, B, C, and D. Category A includes countries where ISAs are required by law. Category B describes countries where standard setters adopted ISAs. Countries whose national standards are ISAs belong to category C. All other countries belong to category D. Boolaky (2011, p. 42) suggested that 'investors can use this cluster analysis as a basis for determining the reliability of financial information for investment decisions.'

In contrast, Boolaky and Cooper (2015) evaluated and compared the strength of auditing and reporting standards (SARS) in 72 countries. They identified significant differences between Europe and Asia in SARS and the type and magnitude of predictors of SARS. They observed that ISA was not mandatory in all countries where IFRS was mandatory. Moreover, ISA adoption appeared to be more advanced in Europe than in Asia. 'SARS scores were higher in countries where ISAs had generally been adopted as the national standard but not in countries where ISAs were mandatory by law' (Boolaky & Cooper, 2015 p. 304). Boolaky and Omoteso (2016) continued to examine predictors of ISA adoption. They aimed to investigate the influence of international financial services centers (IFSCs) on the adoption of ISAs by countries belonging to the IFAC and assess the factors influencing ISA adoption in these centers. They argued that political, economic, social, and legal factors impact on ISA adoption by IFSCs. Therefore, Boolaky and Omoteso (2016) highlighted that Gross Domestic Product (GDP) was the most significant predictor of ISA adoption, followed by educational attainment. However, enforcement of securities and exchange regulations was positioned as a moderately significant predictor of ISA adoption. They argued that if an IFSC has a strong system of securities exchange regulations, it will be more likely to adopt ISAs. Finally, their findings suggested that if the IFSC is more democratic, then it is more likely to adopt ISAs.

Boolaky and Soobaroyen (2017) extended this investigation of ISA adoption on a worldwide basis. Informed by the neo-institutional perspective, they empirically investigated the determinants of ISA adoption and commitment to harmonization in 89 countries. Boolaky & Soobaroyen (2017, p. 59) 'reveal that the protection of minority interests, regulatory enforcement, lender and borrower rights, foreign aid, the prevalence of foreign ownership, educational attainment, and particular forms of political systems (i.e., the level of democracy) prevailing in a country are significant predictors of the extent of commitment to the adoption and harmonization of ISAs.' Their statistical analysis suggested that coercive, mimetic, and normative pressures have significant impacts on ISA adoption. Their findings imply that institutional factors are essential in the development of audit policymaking, practice, and regulation worldwide. Therefore, Boolaky and Soobaroyen (2017) findings are relevant to practitioners and academics currently debating how to address cross-country variability in the adoption of ISAs, as well as to professional educators responsible for providing ISA education and training. In contrast, Yapa et al. (2017) examined ISA adoption in a single country, Sri Lanka. Their findings suggest that the local professional accounting body, the Institute of Chartered Accountants of Sri Lanka (CASL), is actively involved in the auditing sector and the adoption of ISAs. CASL considered adoption of ISAs as a global trend and supported the adoption decision.

Our review identified studies analyzing the environmental and institutional factors influencing the harmonization of auditing practices. For instance, prior studies provide lists of factors positively affecting the adoption of ISAs. However, future studies could investigate in more detail which factors are the most significant obstacles or barriers to harmonization. National culture is argued to be one of the internal local factors that could affect the differences in national financial reporting (Nobes, 1998). Alon and Dwyer (2014) found that the adoption decision of IFRS is associated with a proxy for the level of nationalism, and a strong nationalistic atmosphere can signal that the society is cohesive and takes pride in its country and its local institutions. Therefore, it could be theoretically assumed that more nationalistic countries, especially among the developing countries, might resist adoption of ISAs. Moreover, future studies could look further into the economic significance of these examined factors, as well as in the magnitude of differences for these factors. We encourage researchers to develop more convincing identification strategies when analyzing the capital market or macroeconomic effects of ISA adoption. In addition, it would be very interesting to find answers to the following questions: What are the consequences of ISA adoption? How does the adoption of ISAs affect the country's economic growth or stock market development? Finally, how could future studies address whether there are any unintended consequences of ISA adoption?

4.3. Association between national auditing standards and ISAs

The third research stream relates to the association between national auditing standards and ISAs, and includes the following topics: 1) the development of auditing standards in European countries (Brody, Moscove, & Wnek, 2005; Duhovnik, 2011; Wallage, 1993), Russia (Mennicken, 2008; Samsonova-Taddei, 2013), and in China (Lin & Chan, 2000); 2) the differential local impacts of ISAs and internationalization of Australian auditing standards (Dellaportas, Senarath Yapa, & Sivanantham, 2008); and 3) the implementation of ISAs in Egypt (Samaha & Hegazy, 2010). Many of the studies analyze a specific country's implementation of ISAs. In one of the earliest studies of ISAs implementation, Wallage (1993) examined ISAs in the Netherlands. Wallage (1993, p. 556) identified factors influencing ISA implementation that could also be applied in other European countries: (i) the drive for more effectiveness and efficiency in auditing firms, as a consequence of increasing litigation and competition; (ii) the growing need for harmonization as a consequence of the internationalization of business; (iii) the existence of an expectations gap; and (iv) the increasing threat of intervention by government in the audit profession. He concluded that significant differences exist in the degree to which the ISAs are implemented in the audit approaches. Further, Wallage (1993) suggested that there are differences in effectiveness and efficiency in auditing practice, and called upon IFAC and the national audit regulators to reduce this expectations gap.

Brody et al. (2005) highlighted the importance of education in the process of ISA adoption in Poland, and further emphasized the difficulties in achieving successful practical implementation of audit standards in a way that benefits the economy. They clarified that it is not so much in the development and introduction of the necessary laws, because Brody et al. (2005, p. 46) noted that 'accounting and audit rules and practices can't be improved on their own, rather they have to be accomplished by parallel improvements in the rules and practices of other professions, such as law, banking, insurance, and financial services.' Moreover, Duhovnik (2011) had similar conclusions in his research in Slovenia and stressed the importance of a unified audit approach for the overall quality of auditing in Europe.

Other studies investigate ISAs in emerging markets. Mennicken (2008) examined interactions between processes of international rule-setting and local practices within a large post-Soviet audit firm. The research suggests that international accounting and audit standardization is not solely a top-down process, but is instead dependent upon networks of actors, instruments, and activities. Relatedly, Samsonova-Taddei (2013) explored variations in the adoption of ISAs in Russia by investigating the effects of social dynamics among audit firms on their attitudes towards auditing standards. Samsonova-Taddei (2013, p. 531) presented 'the local audit profession as a social network where the centre marks the starting point of standardization and is represented by the international audit firms that first introduced ISAs to Russia.' In contrast, Lin and Chan (2000) analyzed the motivations for the development of auditing standards in China. They compared Chinese standards and ISAs in five areas: the auditor and attest function, independence, ethical principles and enforcement, audit evidence, and audit report. They conclude that Chinese standards closely resemble ISAs largely due to the relatively recent development of the accounting profession in China, but note the shortage of qualified accountants in China as a limiting factor.

In contrast, Samaha and Hegazy (2010) examined the use of ISA 520 "analytical procedures (AP)" in Egypt. They found that adopting ISA 520 did not lead to significant change in the use of APs in Egyptian audit engagements. Similar to other studies, Samaha and Hegazy (2010) cite the lack of qualified accountants as a limiting factor in fully implementing ISAs. Further, they highlighted the lack of adequate training and awareness of auditing standards, less qualified auditors, and more reliance on experienced ones.Finally, Dellaportas et al. (2008) examined the internationalization of Australian auditing standards by comparing stakeholder submissions to the strategic directions paper (SDP) of the Auditing and Assurance Standards Board (AUASB) and the AUASB's proposed and approved strategic directions frameworks. The approved strategic directions were consistent with the majority view of the respondents who supported the minimal divergence from ISAs. Dellaportas et al. (2008) argued that wholesale adoption of ISAs may undermine Australian standard-setting expertise and Australia's role in international standard-setting forums and discussions, but notes that this concern was not shared by the majority of the respondents.

To summarize and interpret from the above studies, education and knowledge are critical determinants that lead to successful adoption and implementation of ISAs in different countries. It would be very fruitful to know more about the implementation process of ISAs: how the implementation process is planned, carried out, and evaluated when it is finished. Moreover, this synthesis highlights the importance of institutions and their associations with the process of ISA implementation. However, the smooth transition of ISAs still leaves unanswered the questions of whether ISA implementation brought tangible benefits and, if so, at what cost. The scarce research in this field should motivate researchers to both replicate and extend these studies to different situations and diverse countries to determine the generalizability of the findings. For instance, has the adoption of ISAs improved global comparability and increased cross-border information transfers? Has the adoption of ISAs increased competition in ISA-adopting countries, especially for foreign firms? Finally, one available research opportunity lies in the examination of potential ISA implementation effects, using longer time series.

4.4. Financial reporting quality and ISAs

The fourth research stream analyzes the quality of financial information. More specifically, research on the financial reporting quality and ISAs has several parts: 1) the role of international auditing in the improvement of international financial reporting (Boolaky, Soobaroyen, & Quick, 2018; Carson, Ferguson, & Simnett, 2006; Favere-Marchesi, 2000; Humphrey, Loft, & Woods, 2009; Needles et al., 2002); 2) effective use of qualitative material factors and the quality of financial statements (del Corte, García, & Laviada, 2010); 3) the communicative value of audits (Coram, Mock, Turner, & Gray, 2011; Gold, Gronewold, & Pott, 2012); 4) auditing standards, increased accounting disclosure, and information asymmetry (Noh, Park, & Cho, 2017; Lento & Yeung, 2017; Sami & Zhou, 2008; Zhou, 2007); and 5) audit quality and a cross-national comparison of audit regulatory regimes (Kleinman, Lin, & Palmon, 2014; Simunic, Ye, & Zhang, 2015, 2017).

Favere-Marchesi (2000) examined audit quality in the Association of Southeast Asian Nations (ASEAN) and suggests that audit reports should follow ISAs and disclose the nature of the work performed, the standards applied, and the responsibilities attributed to financial statements. In addition, Favere-Marchesi (2000, p. 147) suggested that 'the regulatory bodies should consider mandating the use of standard reports to remove any ambiguity in the reporting output and enhance the quality of the audited information.' Favere-Marchesi (2000) concludes that audit quality could be improved in many ASEAN countries by bringing the audit reporting requirements up to par with ISAs. Needles et al. (2002) survey international auditing regulations and practices to discuss key conceptual issues surrounding international auditing harmonization and the implementation of ISAs. They concluded that regulations and audit quality control are critical factors for achieving high-quality financial reporting and argue that ISA adoption improves financial reporting quality. Supporting Needles et al. (2002) conclusions, Carson et al. (2006) analyzed financial reporting quality after adoption of AUS 702 (which aligned Australian auditing standards to ISAs). Their findings document a significant positive impact on disclosures in financial statements. del Corte et al. (2010) supports this conclusion, and also emphasized that most auditors agree on the issuance of qualified audit reports when financial statements contain uncorrected misstatements below the materiality levels but associated with qualitative materiality factors in ISA 450. Furthermore, they stated that this situation would have essential positive consequences on the development and results of current practice in auditing and on the quality of financial statements.

In contrast, Coram et al. (2011) examined the communicative value of audits as a crucial part of the audit process. Coram et al. (2011) assert that communication allows users of financial reports to assess the quality of the audit, which also contributes to their assessments of financial reporting quality. Their findings suggest that 'auditors' reports, per se, are important to analysts in that they signal a level of reliability in the financial statements. However, the actual content of the auditor's report, including the additional content of the recently issued longer form auditor's report (i.e., ISA 700, ASA 700), was generally not studied by the Australian analysts (Coram et al., 2011, p.235). Indeed, the researchers find that attention to content did not increase even when the participants were provided with a long-form auditor's report (as recommended by ISA 700). Therefore, the researchers conclude that users have a predetermined view as to what an unqualified auditor's report means. Gold et al. (2012) found similar results in their study of German auditors and financial statement users. They conducted an experiment where auditors and financial statement users read a summary of a firm's financial statements and an auditor's report, the latter manipulating the auditor's report to include the explanations mandated by ISA 700. Gold et al. (2012, p. 286) suggested that 'explanations of the ISA 700 auditor's report do not result in a smaller expectation gap.' Their findings highlight that the audit opinion alone may indicate adequate relevant information to users.

Zhou (2007) and Sami and Zhou (2008) examined the impact of increased accounting disclosure on the information environment, following the implementation of the first set of auditing standards in China. Zhou (2007) investigated the effects of implementing the new auditing standards on information asymmetry, as measured by the bid-ask spread in China, an emerging capital market in which ex-ante accounting disclosure was relatively low. The results highlighted that the cost of information asymmetry was considerable in China and the firms' experienced significant reductions in the bid-ask spreads after the adoption of the new auditing standards. In addition, 'the reductions in the bid-ask spreads were abrupt and permanent' (Zhou, 2007, p. 584). Zhou (2007, p. 584) stated that 'no significant result is found for firms in the control group with foreign ownership, whose financial statements were prepared in accordance with international accounting standards and were audited with international auditing standards.' Zhou (2007) concludes that auditing regulations can permanently reduce long-run information asymmetry risk in capital markets. Moreover, Sami and Zhou (2008) found that trading volume and price volatility increased after the implementation of the new auditing standards modeled after ISAs. Their results indicated that 'the informedness effect dominates the consensus effect when companies release public information under new auditing standards in an emerging market' (Sami & Zhou, 2008, p. 166). In addition, their analyses revealed a decrease in earnings management, implying an increase in earnings quality. Finally, they observed a decrease in the synchronicity of stock prices, suggesting an increase in the quality of firm-specific information available to investors.

Lento and Yeung (2017) examined whether Chinese firms use earnings management strategies after the adoption of IFRS, ISA, and the Split-Share Reform (SSR). They document 'significantly higher levels of income increasing discretionary accruals around the earnings level benchmark, relative to the earnings surprises and earnings changes benchmark' (Lento & Yeung, 2017, p. 503). The research reveals a negative and significant relationship between abnormal stock returns and firms with low earnings and higher discretionary accruals. Their findings indicated that even after the adoption of IFRS and ISA and the implementation of the SSR, Chinese-listed firm managers employ earnings management strategies to meet key earnings benchmarks. Lento & Yeung (2017, p. 503) suggested that 'recent regulatory reforms implemented by Chinese regulators have not eliminated or mitigated management's use of discretionary accruals to avoid reporting losses.' Thus, they argue that their findings are important and have significant implications for Chinese regulators contemplating the adoption of global standards. Noh et al. (2017) examined the association between dependence on the work of other auditors and error in analysts' earnings forecasts in Korea. Since 2014 in Korea, the new ISA no longer allows the principal auditor and other auditors to assume separate responsibilities; instead, the principal auditor is now required to be fully responsible for all audit work concerning consolidated financial statements.

Noh et al. (2017, p. 110) find 'a positive relation between dependence on the work of other auditors and error in analysts' earnings forecasts, suggesting that more dependence on the work of other auditors decreases the quality of the audit of consolidated financial statements.' However, they also find this relationship is weaker when the principal auditor is a Big 4 auditor or one with industry expertise, because such auditors provide higher-quality audit services. In addition, Humphrey et al. (2009) suggested that the use of IFRS in financial reporting and ISAs for the preparation and audit of financial reports would increase transparency for global investors. They argued that the inclusion of ISAs in the Financial Stability Forum's recommended list of standards was significant. Humphrey et al. (2009) stated that transparency is a key concept, which means that using international standards is essential to help prevent financial instability. They note that during the financial crisis, international regulators began to demand enhanced accounting capacity and capabilities in emerging and developing economies. Therefore, 'an agenda for future development began to emerge in terms of advancing ISAs as global standards, improving audit quality, and furthering the development of the IFAC as an organization serving the global public interest' (Humphrey et al., 2009, p. 813).A very recent study by Boolaky et al. (2018) echoes prior research and concludes that IFRS adoption is having a significant positive impact on auditing and reporting quality. However, they argue that adopting ISAs is less significant to audit and financial reporting quality than the adoption of IFRS.

Kleinman et al. (2014) extend the research to examine audit quality and does cross-national comparisons of audit regulatory regimes. They analyze the challenges in intra-national audits and cross-national audits, including the impacts of national culture, investor legal protection, economic development, and differing financial standard sources. While unable to document any impact on audit quality, they suggest the need for further research. In addition, Simunic et al. (2015) argue that uniform auditing standards may be less effective in cases where national legal systems vary.

Simunic et al. (2017) continued this line of research and analyzed the impacts of legal system characteristics and auditing standards on auditor behavior (as a proxy for audit quality). They posit legal regimes differ in the uncertainty concerning the outcome of legal proceedings (termed vagueness of legal systems) and in the average size of damage awards, which, in turn has implications for the adoption of ISAs. Therefore, they reason that countries where legal liability is high may be less likely to adoption ISAs because doing so may not induce optimal audit quality. Conversely, Simunic et al. (2017, p. 7) conclude that 'the adoption of ISAs by countries, such as China, where the legal system makes the recovery of damages from auditor's quite difficult, is not itself likely to result in a high level of audit quality.'

Studies to date address questions related to ISA adoption and financial reporting quality. However, future research may focus on detailed measures of both financial reporting and audit quality. Moreover, as the relationship between financial reporting and legal, cultural, and institutional factors indicates that the cost-benefit trade-off of ISA adoption is not uniform across countries. Future studies could address, for instance, if there are any benefits to using ISAs in a relatively closed economy. ISAs may prove to be economically beneficial by merely narrowing cross-country differences in financial reports and promoting international trade. However, the literature is silent as to why ISA adoption may improve analysts' forecast accuracy, how much comparability is optimal, and whether greater comparability necessarily promotes overall efficiency. As discussed earlier, financial reporting quality is determined not only by accounting and auditing standards, but also by a country's legal system, culture, and institutions. As a result, researchers should further examine the ability of global auditing standards, even if mandated, to achieve convergence in the quality of reported financial statements. So setting aside the achievability of global standardization, using different perspectives researchers should produce more evidence for why having a single global set of auditing standards is desirable.

4.5. Harmonization of audit reports according to ISAs

The fifth research stream examines harmonization of audit reports according to ISAs and concentrates on the degree of harmonization in the form and content of the audit report (Fakhfakh & Fakhfakh, 2010; Farrugia & Baldacchino, 2005; Gangolly, Hussein, Seow, & Tam, 2002; King, 1999). More precisely, on the wording characteristics of audit reports (Fakhfakh & Fakhfakh, 2007; Fakhfakh, Fakhfakh, & Pucheta-Martínez, 2008), the harmonization of audit reporting behavior in bankrupt companies (Sormunen, Jeppesen, Sundgren, & Svanström, 2013), and the linguistic performance and legibility of auditors' reports with modified opinions (Fakhfakh, 2016).

The harmonization of auditing reports is defined as 'the process, which aims at the reduction of the audit practices diversity and ensures their convergence in the matter of the audit communicative means' (Fakhfakh & Fakhfakh, 2010, p.276). According to this literature, the harmonization of auditing reports is important because it reduces informational asymmetry and the costs of information search (Fakhfakh & Fakhfakh, 2010). King (1999) determined the degree of harmonization in the form and content of EU auditor reports. The analysis used the basic elements of the auditor's report listed in the ISAs. The results revealed harmonization in three of the five elements of auditor reports related to form (i.e., appropriate title, date of the report, and listing of the location of the auditor's office). King (1999) suggested that adoption of the ISAs in the EU would accomplish harmonization of the form and content of auditor reports.

Gangolly et al. (2002) aimed to assess whether ISA 13 resulted in the greater international harmonization of audit reports. They surveyed IFAC members and analyzed the audit reports of 450 companies from 33 countries at two different points in time: pre- and post-ISA 13. The results suggested a less cohesive cluster structure for the post-ISA 13 reports. Based on this analysis, they concluded that the harmonization of audit reports increased after the issuance of ISA 13. Relatedly, Farrugia and Baldacchino (2005) examined Maltese companies and the harmonization of audit reports. The companies in their analysis were all required to be audited, irrespective of size, and had a high rate of audit opinion qualifications. They concluded that the auditor's reports of non-Big 4 audit firms are often deficient or even incompatible with the wording of the ISAs. In addition, Fakhfakh and Fakhfakh (2007) and Fakhfakh et al. (2008) examined the impact of Revised ISA 700 on the wording characteristics of Tunisian auditor reports. The audit reports examined were not fully compliant with all elements of Revised ISA 700. Fakhfakh and Fakhfakh (2010) conducted an international comparison of the impact of the Revised ISA 700. They studied the wording of 278 audit reports published in 41 countries and documented a lack of compliance, both in terms of form and content. For auditor's reports on consolidated financial statements, their results show that the accounting reports published in Greece, Lithuania, Luxembourg, and Poland reflect the highest conformity level to the international principles on audit reports. However, in both studies the authors find that the lack of conformity could be explained by the characteristics of certain countries' accounting models.

In contrast, Sormunen et al. (2013) studied the harmonization of audit-reporting behavior for bankrupt companies, for which going-concern opinions are expected in the auditors' reports. Their study, although limited to a particular standard, suggested that ISAs are inconsistently implemented. Sormunen et al. (2013) suggest the need for further research and investigation into the nature and magnitude of such differences and whether the identified cross-country differences are temporary or permanent. Their findings supported IFAC's primary concern that local implementation of ISAs does not guarantee the development of consistent practice. The recent study by Fakhfakh (2016) tried to assess the level of understandability of the modified audit reports that are recommended by the ISAs. From the perspective of linguistic performance, the international standardization of audit reports was not perfect. Moreover, it was found that the standardized illustrations of modified reports are not fully understandable by users of financial statements; thus, Fakhfakh (2016) suggested that this phenomenon should lead the IFAC to review its policy of standardization.

To date, the research has documented differences in both content and wording of audit reports. Future studies could address how the lack of homogeneous information affects the investors' behavior. The heterogeneity of audit reports can increase the informational asymmetry and produce unreliable information that affects the fairness of a financial situation. Thus, future studies could examine the following questions: What does the incompleteness of auditing harmonization signal to users of financial statements? Does the incompleteness of harmonization threaten the quality of the financial audit? How can the compliance of audit reports be improved in countries where ISAs are adopted? How could IFAC improve the policy of standardization?

4.6. Audit efficiency

The sixth research stream is related to audit efficiency, and includes: 1) studies that elaborate auditor behavior (Bedard, Simnett, & DeVoe-Talluto, 2001; Burns & Fogarty, 2010; Kandemir, 2013; McKee, 2006; Trotman, Simnett, & Khalifa, 2009), 2) audit risk assessment (Colbert, 1996; Fukukawa, Mock, & Wright, 2011; Lee & Park, 2016; Miller, Cipriano, & Ramsay, 2012; Morrill, Morrill, & Kopp, 2012; Ruhnke & Schmidt, 2014), 3) group audits (Stewart & Kinney, 2013; Sunderland & Trompeter, 2017); 4) big data (Alles, 2015); and 5) Chief Financial Officer (CFO) influence on audit planning (Hellman, 2011). Bedard et al. (2001) examined the issue of auditors' responsibility for financial statement fraud. Their study explored the actual and potential contribution of behavioral research in informing standard setters regarding auditors' consideration of fraud, and in assisting audit firms in implementing auditing standards in this area.

Bedard et al. (2001) analyzed the behavioral literature on fraud according to four basic issues: (1) the validity of the concept of a separate fraud risk assessment; (2) the identification and evaluation of risk factors in fraud risk assessment; (3) the effects of decision aids or decision aid design on evaluation of fraud risk; and (4) the relationship between a separate fraud risk assessment and other phases of the audit. They highlighted the importance of each issue, and how each is addressed in the proposed revision of ISAs (i.e. ISA 240). Burns and Fogarty (2010) suggested that high-quality auditing standards promote auditor behavior that contributes to effective audits. In addition, they stated (p.319) 'from a regulatory or standard setting perspective, it may be attractive to provide specific instruction with objective outcomes, but care must be taken to support and grow the auditor's ability to make sound judgments rather than to undermine it.' Finally, Burns and Fogarty (2010) concluded that ISAs need to assist auditors in identifying issues and making sound judgments.

Relatedly, Kandemir (2013) examined the EU auditing law and the role of auditors in the global financial crisis of 2008 to highlight the importance of professional skepticism in audit efficiency. The ISA 240 states that it is the auditor's responsibility to obtain reasonable assurance for financial statements that are free from material misstatement caused by fraud or error. Kandemir (2013, p. 222) concluded that 'the ISAs emphasize that auditors can't give absolute assurance to whether financial statements are free from material misstatement, but auditors should perform the audit in the light of professional skepticism.' In contrast, McKee (2006) argued that some frauds are more easily perpetrated or concealed because the auditors are too predictable. McKee (2006) suggested that, according to ISA 240, one response to fraud risk is to incorporate an element of unpredictability in the audit plan, and his study reviews a number of audit techniques which increase auditor unpredictability. The public expects the audit profession to do a better job at fraud prevention and detection. Finally, McKee (2006, p. 231) concluded that 'if all auditors routinely incorporate some elements of unpredictability into their audit approach, the audit profession will meet this expectation.'

Trotman et al. (2009) examined audit team discussions and auditors' generation of material frauds. They use a pre-mortem technique to analyze the impact of an interacting group in a fraud detection situation. They note that the technique has wider implications for increasing auditor professional skepticism. Trotman et al. (2009, p. 1115) stated 'ISA 315 and ISA 240 similarly require the members of the audit team to discuss, at the beginning of the audit, the susceptibility of the entity's financial statements to material misstatement due to fraud or error.' Hence, their interacting group fulfills the requirement of the ISAs. In contrast, Colbert (1996) compared two concepts that are crucial to planning and performing the audit work: audit risk and materiality. Colbert (1996) argued that differences between ISAs and US guidance implies that the two sets of standards require different levels of audit work; and this situation would be a concern to investors and auditors. However, Colbert (1996) comparisons indicate many similarities and few differences between ISAs and US guidance.

Fukukawa et al. (2011) used factor analysis to analyze how individual client risks are categorized into broad risk factors and the extent to which such broad risk factors are associated with audit engagement planning decisions. Thus, Fukukawa et al. (2011, p. 85) focused on audit planning at the engagement level and found 'that extracted client risk factors are largely consistent with a priori categorizations adopted by contemporary auditing standards and that all of the extracted factors have a significant impact on audit decisions.' However, Miller et al. (2012) examined whether auditors interpret the risk of material misstatement in accordance with current standards' definition of inherent risk. They surveyed and interviewed practicing auditors to gain an understanding of current risk assessment practice, and then evaluated whether these auditor's understanding of risk assessment is in line with current standards. Contrary to auditing standards' definition of inherent risk, they find that auditors presume some level of expected control effectiveness. Miller et al. (2012, p. 448) concluded that 'if auditors presume a level of control in assessing inherent risk, they may reduce audit effectiveness by estimating a lower risk of material misstatement that is appropriate.'ISAs require risk-based audits, where audit effort is concentrated on accounts and financial statement assertions where the risk of material misstatement is high, and assessing risk requires auditors to evaluate the auditee's internal control systems (Morrill et al., 2012). Morrill et al. (2012) argued that current standards and practice vary regarding the point at which risks are to be identified, but suggest that identification of more risks helps the auditor to identify more deficiencies in the control system. Overall, their findings suggest that 'audit effectiveness can be improved by identifying the risks to be addressed by the system before analyzing the controls' Morrill et al. (2012, p.88).

Ruhnke and Schmidt (2014) analyzed whether audit adjustments vary systematically with internal risk and control risk factors. Using proprietary data they extended the scope of prior studies by incorporating client-specific planning materiality in their design, thereby analyzing the relative magnitude of adjustments detected in the financial statement audits conducted by a Big 4 audit firm in Germany. Their findings indicate that audit adjustments vary systematically, as proposed by the audit risk model. Ruhnke & Schmidt (2014, p. 247) emphasized that 'the integrity and competence of the client's management, economic position, entity-level control strength, and internal control system are associated with the number and relative magnitude of audit adjustments.' They conclude that inherent and control risk factors are particularly strongly associated with income-affecting adjustments. Lee and Park (2016) study is motivated by ISA 610: "Using the work of internal auditors." This ISA guides external auditors in using the work of internal auditors to obtain audit evidence and consult internal auditors for direct assistance. Therefore, based on ISA 315 (2016) and ISA 610 (2016), they investigate how external auditors improve audit efficiency by using the work of internal auditors. Their results suggested that the greater the availability of internal auditors, the higher their contribution is to the financial statement audit, resulting in greater audit efficiency. Hence, their findings provide evidence that 'external auditors use the work of internal auditors with accounting and legal expertise to improve audit efficiency' (Lee & Park, 2016, p. 629).

In contrast, the next two studies investigate group audits. Stewart and Kinney (2013) note that group auditors determine and implement appropriate component materiality amounts, which fundamentally affects group audit scope, reliability, and value. They develop a Bayesian group audit model that generalizes and extends the single component audit risk model to aggregate assurance across multiple components. Their results suggest group-level controls and structured subgroups of components are central to efficient group audits. Relatedly, Sunderland and Trompeter (2017) examined multinational group audits conducted in accordance with ISA 600. They analyzed information from auditors, regulators, and national standard setters to understand problems encountered in implementing the revised ISAs, and they find that ISA 600 is not well understood or consistently applied.

The final two studies are also related to audit efficiency, but take a different approach. Alles (2015) examines drivers of the use, contributors, and barriers of the evolution of "Big Data" by the audit profession. Hence, Big Data is argued to be one of the most significant developments in recent management practices. Given the growing importance of Big Data as a business instrument, Alles (2015) considers the extent to which Big Data will be embraced by the audit profession, and how usage will evolve. Alles (2015, p. 444) stated that 'given the concerns about the quality of Big Data, as compared to transactional data, ISA 200 provides an approach that can be adapted to establish the reliance auditors' place on Big Data analyses conducted by management; the sufficiency and appropriateness of audit evidence are interrelated.' Therefore, Alles (2015) suggested that ISAs may not hinder auditors from using Big Data, but neither do ISAs encourage them to go outside of their comfort zone. Alles (2015) concludes that ISAs are some of the facilitators and obstacles that will determine the use of Big Data by auditors.

Hellman (2011) investigates the involvement and influence of CFOs in audit planning meetings. Hellman (2011) argues that in empirical studies from the auditor perspective, the influence of clients is typically linked to aspects that threaten audit quality. He highlighted that clients may not necessarily have bad intentions when they seek to influence audits. The results suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit. Furthermore, Hellman (2011, p.247) concluded that 'the CFOs often tended to assume the role of those charged with governance rather than the role of management during the audit planning phase, which may have implications for ISA 300.'

The early research in audit efficiency with respect to ISA compliance focused on auditor's decisions. Future research may study Big Data in more depth. Research assessing the improvement (or lack thereof) of audit quality, audit efficiency, and professional skepticism after ISA adoption might also be interesting. Overall, although initial efforts tried to better understand the effects of the ISAs' mandate on auditors' decisions, this topic offers opportunities for future research. How should auditors improve their performance in the light of professional skepticism and how can we improve group audit performance? Moreover, by improving the monitoring and efficiency of decisions made by auditors, has ISA implementation increased the audit efficiency remarkably? We encourage researchers to develop more convincing identification strategies when analyzing client risks. Finally, future studies should concentrate on Big Data opportunities to improve the audit efficiency and audit quality, as well as how audit standards can encourage its use.

4.7. IFRS compliance and ISAs

The seventh and final research stream examines the relationship between ISA adoption and IFRS compliance. Hodgdon, Tondkar, Adhikari, and Harless (2009) suggested that audit quality should be higher when a large audit firm performs the audit, but that quality may also depend on the type of auditing standards employed. Prior studies indicated that IFRS compliance is also associated with references to the use of ISAs (Glaum & Street, 2003; Street & Bryant, 2000). For instance, Street and Bryant (2000) suggested that compliance is higher when a firm is audited using ISAs. They revealed that disclosure as well as International Accounting Standards (IAS)[2] compliance was positively associated with an accounting policy footnote specifically stating that the financial statements were prepared in accordance with IAS and an audit opinion stating that auditors followed ISAs.

Glaum and Street (2003) found that IFRS compliance was associated with references to the use of ISAs in the audit opinion, but was unrelated to industry, country of origin, profitability, multi-nationality, ownership structure, firm age, and growth. They found that the IFRS compliance level of the clients of non-Big 5 firms was significantly lower when the audit opinion referred to the use of ISAs or US GAAS than when no reference to these internationally recognized auditing standards was made. In addition, for companies audited by Big 5 firms, the reference to ISA or US GAAS had no discernible influence on

[2] IAS standards were published between 1973 and 2001, while IFRS standards were published from 2001 onwards.

Table 4
Citation analysis. 15 Most-cited articles in the field of ISAs.

Author(s)	Total citations (Google Scholar)	Total citations (Scopus)	Research stream
Alles, 2015	44	16	6
Favere-Marchesi, 2000	75	24	4
Glaum, & Street, 2003	331	89	7
Gold, Gronewold, & Pott, 2012	59	17	4
Hodgdon, Tondkar, Adhikari, & Harless, 2009	111	31	7
Humphrey, Loft, & Woods, 2009	223	85	4
King, 1999	22	11	5
Lin, & Chan, 2000	66	27	3
Loft, Humphrey, & Turley, 2006	118	55	1
Lopéz Combarros, 2000	44	5	1
Mennicken, 2008	130	56	3
Sami, & Zhou, 2008	42	14	4
Street, & Bryant, 2000	333	76	7
Trotman, Simnett, & Khalifa, 2009	45	22	6
Zhou, 2007	70	27	4

Notes: Research streams: (1) The development and history of ISAs; (2) adoption of ISAs; (3) associations between national auditing standards and ISAs; (4) financial reporting quality; 5) harmonization of audit reports according to ISAs; (6) audit efficiency; and (7) IFRS compliance.

the level of compliance. The role of the external auditor was also discussed in Hodgdon et al. (2009). Their results indicate that IFRS compliance was positively related to the choice of auditor after controlling for firm size, profitability, leverage, the degree of international diversification, and whether a firm had a US listing or was audited according to the ISAs. Thus, their findings indicate that while the significance of the coefficients of the other variables change depending on the model used, the coefficient of auditor choice is consistently significant in their models. Therefore, Hodgdon et al. (2009) provide evidence of the importance of auditor choice on IFRS compliance.

To conclude, empirical evidence on how ISAs affect IFRS compliance is very limited, and sample sizes are relatively small. Future studies could investigate more carefully how important the auditor choice is on IFRS compliance. Future studies should also examine, in more detail, the special role of international auditing firms and quality audits as a response to promote implementation and compliance with IFRS.

5. Citation analysis

Citation analysis is essential because it allows influential authors to be identified, which, in turn, provides researchers with a solid basis for positioning current contributions. Thus, we conduct citation analysis in the context of ISA-related studies. Google Scholar provides both citation counts and links to the sources of the citations (Kenny & Larson, 2018). We used Google Scholar to collect the number of citations for all 59 articles we reviewed. In total, the 59 articles are cited 2260 times. Twenty-two articles were cited between one and ten times, and three have yet to be cited. Fourteen articles were cited more than 40 times, with several each being cited over 300 times. The two most frequently cited articles both deal with IFRS compliance and ISAs (research stream 7), Street and Bryant (2000) and Glaum and Street (2003). The third most frequently cited study is Humphrey et al. (2009), which analyzes financial reporting quality and ISA adoption (research stream 4). Our observations regarding citation frequency are consistent with Kenny and Larson's (2018) conclusions that the development and adoption of IFRS is one of the most significant accounting developments in recent history. Table 4 lists the most frequently cited articles from our sample and also classifies them according to our taxonomy.

We also used the Scopus database to conduct another citation analysis. Scopus is the world's largest abstract and citation database of peer-reviewed research literature. Table 4 tabulates citation frequency according to Scopus data for all articles with more than 10 citations. The frequency of citations between Google Scholar and Scopus is largely consistent.

We were also interested to see if certain authors tended to focus on ISA research topics. Table 5 presents the authors with the most number of articles in the ISAs Literature. A frequency analysis by author of our sample's 59 articles found that 14 authors published two or more articles. The most prolific author is Pran Boolaky, with five publications. His studies have concentrated mainly on the adoption of ISAs on a cross-country basis. However, his studies are not the most frequently commonly cited, presumably because none were published before 2011. The second most prolific author is Mondher Fakhfakh, with four publications. His publications examined mainly audit report harmonization. Hamadi Fakhfakh and Roger Simnett share third place with three publications each. Other researchers presented in Table 5 have two articles published. Table 5 also presents the research streams where the most prolific authors do their research.

6. Conclusions

This literature review synthesized extant research on ISAs. Seven research streams related to ISAs were identified: (1) the development and history of ISAs; (2) the adoption of ISAs; (3) the association between national auditing standards and ISAs; (4) the financial reporting quality and ISAs; (5) the audit reports harmonization, according to ISAs; (6) the audit efficiency and ISAs; and (7) how ISAs are associated with IFRS compliance. Literature syntheses are important because they allow

Table 5
Authors with the most number of articles in the ISAs Literature.

Article	Number of publications	Total Citations of articles (Google scholar)	Research stream(s)
Boolaky, Pran	5	28	2, 4
Fakhfakh, Mondher	4	17	5
Fakhfakh, Hamadi	3	12	5
Simnett, Roger	3	67	4, 6
Humphrey, Christopher	2	341	1,4
Loft, Anne	2	341	1, 4
Mock, Theodore	2	63	4, 6
Park, Hyun-Young	2	1	4, 6
Simunic, Dan	2	7	4
Soobaroyen, Teerooven	2	3	2,4
Street, Donna	2	664	7
Yapa, Prem	2	11	2, 3
Ye, Minlei	2	7	4
Zhang, Ping	2	7	4

Notes: Research streams: See Table 4.

influential research streams to be identified, and their interrelations to be revealed. This provides researchers with a solid basis for positioning current contributions and detecting new lines to future research. The international harmonization of auditing standards can benefit the development of an effective and efficient global economy by ensuring that users and the market receive relevant and credible accounting information. Therefore, we argue that ISAs are important and serve the public interest. This synthesis suggests that the globalization of auditing standards is one of the most significant regulatory changes in auditing. Our study contributes to the accounting and auditing literature in several ways. First, it reviews research papers focused exclusively on ISAs. Second, this review is of timely importance for regulators and researchers. For regulators, this synthesis highlights institutional factors and their associations with the process of ISA adoption. For researchers, this synthesis highlights the need for more empirical research in many areas. For instance, whereas ISA adoption and the convergence of national auditing standards with ISAs suggest that ISAs are a high-quality set of auditing standards, the economic consequences of this change should be examined more carefully. Research on the effects of ISA adoption on contracting and decision-making is still in its infancy, and very few published studies exist. Moreover, more research is needed on the effects of ISAs on audit quality and audit behavior.

This study also suggests that citation analysis involves the statistical treatment of scientific publications and provides data on the level of activity in a certain research field, allowing the outcomes to be used to evaluate the performance of research streams, researchers, and journals. Methodologically, this study builds on previous literature to deepen our understanding of ISA research. Finally, this synthesis suggests that now is the appropriate time to evaluate what we know and, more importantly, what we do not know about ISAs and trace the development of the streams of research linked to ISAs. In so doing, this paper aims to stimulate research in this field to improve knowledge of the adoption, implementation, and economic consequences of ISAs. Overall, additional studies conducted across a variety of dimensions are required before researchers can claim an adequate understanding of the mechanisms by which ISAs affect the various facets of a business.

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Voluntary Auditing: A Synthesis of the Literature

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ABSTRACT Voluntary auditing has received increased attention from researchers in recent decades. Empirical studies that have examined demand for voluntary audits have suggested that regulatory intervention may not always be necessary, though some argue that regulators protect society from market failure by demanding statutory audits [Barton, J., & Waymire, G. (2004). Investor protection under unregulated financial reporting. *Journal of Accounting and Economics*, 38, 65–116]. To date, there has been no review of the literature on determinants of voluntary audits. I provide a research framework to categorize the attributes that affect demand for voluntary audits and identify areas that need further examination. While the given compact body of literature has served different purposes, two major reasons for voluntary auditing are apparent: the importance of audited financial statements to lenders and the intention to further deregulate audits for smaller companies to relieve cost burdens. However, I contribute to the auditing literature by identifying the main attributes associated with the demand for voluntary audit. In doing so, I develop a framework consisting of firm attributes, separation of ownership and control attributes, agency relationship attributes, management attributes, and signalling attributes.

Keywords: voluntary auditing, auditing practices, audit demand

1. Introduction

Voluntary auditing has received increased attention from researchers in recent decades. Empirical studies examining the demand for voluntary audits suggest that regulatory intervention might not be necessary, though some argue that regulators protect society from market failure by demanding statutory audits (Barton & Waymire, 2004).

To date, there has been no review of the studies on the attributes of voluntary audits. This research area would benefit greatly from a framework to categorize the attributes that affect demand for voluntary audits and identify areas that need further examination. This review develops such a framework and analyses what we know from extant research within this framework, suggesting that the many drivers of voluntary audit have consistent results across studies. In addition, this study also points out some areas where previous findings were not expected or were inconsistent.

This literature synthesis has three main objectives. The first objective is to provide a comprehensive overview of the current academic knowledge about voluntary audits. The second objective is to identify key attributes and issues that appear to affect demand for voluntary audits. Finally, the third

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aim is to suggest fruitful future research opportunities. This literature analysis has significant implications for audit research and practice. For instance, this synthesis details the benefits of the verification of financial statements for firms that are not required by law to be audited.

The remainder of the paper is organized as follows. Section 2 presents the relevant background information on the topic. Section 3 defines voluntary audit and explains the method used to conceptualize this synthesis. Section 4 presents the examination of theoretical and empirical literature and provides a comprehensive list of attributes of the demand for voluntary audits examined in prior studies. In Section 5, the conclusions are summarized, and in Section 6, future research topics are discussed.

2. Background

Why study voluntary audit? The traditional role of the audit is to provide the independent third-party verification of a company's accounts and financial reports. Though the audit is prepared on behalf of the members of the company, it provides valuable assurance to external users of financial reports, such as investors and other providers of finance. In addition, this assurance has been found to provide direct benefits to companies; in some cases, these benefits are considered so valuable that companies voluntarily engage audits, even though there is no requirement by law (e.g. Dedman & Kausar, 2012; Seow, 2001; Watts & Zimmerman, 1983).

There has been very active discussion around voluntary auditing and audit exemption in Europe over the last decade (e.g. European Commission, 2013a; Niemi, Kinnunen, Ojala, & Troberg, 2012; Ojala, Collis, Kinnunen, Niemi, & Troberg, 2016). This is due to European Union (EU) policy for small- and medium-sized enterprises (SMEs), which aims to ensure that EU policies and actions are friendly to small-business and help make Europe a more attractive place to set up a company and do business (European Commission, 2014a, 2014b). Therefore, the main argument to release small firms from a mandatory audit requirement is that audits are argued to be costly and burdensome (European Commission, 2010, 2013b; Tabone & Baldacchino, 2003). However, even though external audits are argued to be beneficial for companies, it is suggested to be beneficial also for regulators and society (Mustapha & Yaen, 2013). Thus, external voluntary audit may be a major contributor to the efficient management of a company, a significant deterrent to fraud and money laundering, a stimulus to openness and transparency, and a highly effective driver of the promotion of good corporate governance. Due to these benefits, it is extremely important for small companies to consider whether to undertake a voluntary audit (Niemi et al., 2012).

In prior research, an agency cost framework has been used to analyse the attributes of the voluntary demand for audit services (e.g. Barefield, Gaver, & O'Keefe, 1993; Carey, Simnett, & Tanewski, 2000; Chow, 1982). The extant literature identifies three classes of agency conflicts: owner–manager, manager–employee, and owner–creditor. The agency problems introduced by the separation of ownership and control may be resolved to some extent by an independent, external audit. This is now a general requirement for listed firms all over the world. However, researchers have been interested in what happens when an audit is not an obligation but a choice. Understanding the attributes and consequences of voluntary audits is vital to auditing profession, as well as regulators, governments, lenders, and other users of financial statements.

Why should one examine what affects demand for voluntary audit? While the compact body of existing literature on this topic has served different purposes, two major reasons are apparent; the importance of audited financial statements to lenders and the purpose of further deregulation of audits for smaller companies to relieve cost burdens (e.g Rennie et al. 2003). However, the costs of audits cannot be considered without regard to context. Naturally, there will be savings of audit fees if audit requirements are removed. On the other hand, the savings might not be significant (e.g. Collis et al., 2004). Savings from not having an audit in one year may lead to higher audit fees for the following year when an audit is requested, e.g. by business partners or lenders. This greater expense directly follows from the lack of audit history, which increases the costs of an audit. Because of these arguments, it is vital to examine the attributes affecting demand for voluntary audits.

When reviewing archival studies, a common methodology has been developed for examining attributes that are related to demand for voluntary audits. Typically, researchers test the relationship between variables of interest and the voluntary demand for auditing by estimating a probit model (e.g. Barefield et al., 1993; Carey et al., 2000; Chow, 1982; Collis, 2012; Collis, Jarvis, & Skerratt, 2004; Haw, Qi, & Wu, 2008; Ojala et al., 2016; Tauringana & Clarke, 2000). The estimated model is developed by regressing the voluntary choice for an audit against a variety of measures as surrogate attributes that are hypothesized to relate to demand for voluntary audits, either negatively or positively. The dependent variable takes a value of 1 if the company is audited voluntarily and 0 otherwise. If the coefficients for the independent variables are significant, the hypothesized relationship with demand for voluntary audits is deemed to exist. In this way, the population of explanatory variables included in the empirical specification of demand for voluntary audits can be identified.

3. Terminology and Methodology

3.1. Definition of Voluntary Audit

Even without any specific obligation required by the law, many entities have the necessity, or have the opportunity, to demand a qualified and independent professional judgment on their own financial reporting.

3.2. Method

To summarize and analyse the extent of research on demand for voluntary audits, a list of published voluntary audit studies was identified from a number of sources. The electronic search was made using ABI/Inform and EBSCO host, with keywords to relate to audit exemption, voluntary auditing, and small firms. The search included publications up to 28 February 2017. In total, this study reviews 27 studies related to the attributes of demand for voluntary audits and published over 30 years; the majority of the studies were published in prominent peer-reviewed accounting and auditing journals from 1982 to 2016. Table 1 provides a count of the studies reviewed, grouped by source journal. In addition, Table 2 presents the key research findings of the papers included in the synthesis.

4. Previous Theoretical and Empirical Literature

This section concentrates on the main attributes that affect demand for voluntary audit discussed in prior research, and it provides a useful framework of the attributes that are most frequently used to examine demand for voluntary audits. Table 3 summarizes the main attributes that are related to demand for voluntary audit.

4.1. Firm Attributes

4.1.1. Size

The most dominant determinant of demand for voluntary audits across all published studies is size, which is expected to have a positive relationship with demand for voluntary audits (e.g.

Table 1. Breakdown of studies reviewed.

Accounting and Business Research	4
Accounting and Management Information Systems	1
Auditing: A Journal of Practice and Theory	4
Contemporary Accounting Research	1
European Accounting Review	1
International Journal of Auditing	2
International Small Business Journal	1
Journal of Accounting, Auditing and Finance	2
Journal of Accounting and Economics	1
Journal of Accounting Research	2
Journal of Accounting and Public Policy	1
Managerial Auditing Journal	1
Malaysian Accounting Review	1
Research in Accounting Regulation	1
The Accounting Review	3
The Journal of Small Business Finance	1

Abdel-Khalik, 1993; Carey & Tanewski, 2013; Collis, 2010; Collis et al., 2004; Dedman, Kausar, & Lennox, 2014; Tauringana & Clarke, 2000). Size is typically measured as total assets, with some studies using turnover. The literature suggests a number of theoretical explanations. First, a firm's size is most often hypothesized to affect demand for voluntary audits, because when companies grow, the volume of their transactions also increases and errors are more likely to occur in financial statements. This leads to the need for financial statements to be examined voluntarily by an independent external auditor. Second, with increased size, it becomes more difficult for owners to oversee and be cognizant of the firm's entire financial operation. Hence there is a greater demand for voluntary auditing to compensate for the loss of control. Third, on the cost side, the marginal costs of having external audits decrease with firm size. Consequently, the association between firm size and the use of voluntary audits is in general positive and significant. Although these results are not a surprise, taken together they indicate that size is an extremely critical explanatory variable for any model of demand for voluntary audits.

4.1.2. Leverage

Theoretical discussions tend to support a positive association between level of debt and demand for voluntary external auditing (e.g. Carey et al., 2000; Carey & Tanewski, 2013; Chow, 1982; Dharan, 1992; Hay & Davis, 2004; Tauringana & Clarke, 2000). It is suggested that as the proportion of debt in a firm's capital structure increases, shareholders may have greater incentive to transfer wealth from the bondholder, and this increases the likelihood that the organization will demand a voluntary audit. Consequently, researchers generally expect to find a positive association between the leverage of a company and a demand for voluntary audits. The most common proxy for leverage is the ratio of debt to total assets.

4.1.3. Presence of Debt Covenants

It has been argued that owner–creditor agency costs are expected to increase with the financial leverage of a firm (Barefield et al., 1993). Therefore, debt covenants designed by creditors to constrain managerial behaviour are often based on accounting numbers, and accounting numbers play a central role in many such debt covenants. For example, a firm's ability to pay dividends is usually tied to its accounting earnings. Therefore, for firms using more accounting-based covenants, one would expect a more important role for external auditors. Barefield et al. (1993) found

Table 2. Studies on voluntary auditing.

Author(s)	Research question	Sample and findings
Chow (1982)	What incentives influence voluntary demand for external auditing?	US firms. 1926. Chow (1982) suggested that leverage, firm size, and number of accounting-based debt covenants are predicted to increase the probability that a firm will voluntarily hire external auditing. Thus, the results supported the hypothesized effects of leverage and accounting-based debt covenants and moderately supported the predicted role of firm size
Dharan (1992)	How does voluntary auditing affect the borrowing decision of small firms seeking a bank loan?	US firms. Dharan (1992) examined the borrowing decisions of small firms when they can optionally hire, at a cost, an independent external auditor to convey their risk characteristics to lenders. The analyses show that a necessary condition for a potential borrower to prefer having an audit to not having an audit is that the borrower's debt to equity ratio must be above a certain minimum cut-off value. Hence, Dharan (1992) predicts that high-quality small firms purchase audits to signal quality to debt market.
Barefield et al. (1993)	What factors affect voluntary demand for attest services?	US firms. 1983, 1988–1989. Barefield et al. (1993) examined the demand for attest services. Their results suggest that client size and the presence of debt covenants based on accounting results are positively related to the demand for attest services. In addition, the percentage ownership of the firm by officers and directors is significantly negatively related to the demand for attest services.
Abdel-Khalik (1993)	Why do private companies voluntarily demand auditing?	US firms. Abdel-Khalik (1993) hypothesized that, in the absence of regulatory demand for audits, owners would voluntarily demand assurance for one or both of the following reasons: i) to compensate for the loss of control induced by organizational design, ii) to comply with constraints placed on the organization by creditors. Thus, Abdel-Khalik (1993) used a 'structure of organization approach' to examine the impact of the level of hierarchy (firm size) and debt. He found a correlation between voluntary demand for auditing and the extent of hierarchy (a measure of firm size), and only weak support for the impact of debt.

(*Continued*)

Table 2. Continued

Author(s)	Research question	Sample and findings
Blackwell, Noland, and Winters (1998)	What is the economic value of auditor assurance?	US firms. 1988. Blackwell et al. (1998) provided evidence on the economic value of services provided by independent auditors by analysing whether auditor association leads to reduced interest rates on revolving credit agreements. They analyse the relation between interest rates on revolving bank loans to small, private firms and the degree of auditor association with financial statements provided to the lender. They found that audited firms pay significantly lower interest rates than non-audited firms, and this benefit decreases nonlinearly as firm size increases
Carey et al. (2000)	What factors affect demand for internal and external auditing by family businesses?	Australian family firms. The results of Carey et al. (2000) support the hypothesized impact of the two agency proxies and firm debt on demand for external auditing. In an unregulated family-business environment, demand for external auditing is positively correlated with the proxies of agency conflict, the proportion of nonfamily management, and the proportion of nonfamily directors. They find also that demand for external auditing is positively correlated with the level of firm debt. This finding is consistent with the findings of prior studies (e.g. Abdel-Khalik, 1993; Blackwell et al., 1998; Chow, 1982). However, no empirical evidence was found that in an unregulated family-business environment, demand for auditing is positively correlated with firm size. This finding is not consistent with prior studies and is explained in part by the data set used
Tauringana and Clarke (2000)	What company characteristics affect demand for voluntary external auditing?	UK firms. 1996. Tauringana and Clarke (2000) examined, based on agency theory, four company characteristics and the probability that a company will be audited voluntarily. These company characteristics are managerial share ownership, company size (measured by turnover and total assets), gearing ratio, and liquidity ratio. According to the results, the smaller the manager's share ownership in the company, the higher is the probability that the company voluntarily engages external auditing. Their results also suggest that the higher the proportion of debt in a firm's capital structure, the higher is the probability that the firm voluntarily hires external auditing

Senkow, Rennie, Rennie, and Wong (2001)	What factors affect the audit retention decision?	Canadian firms. Senkow et al. (2001) suggested that the strongest predictors of audit retention are the prior existence of a lender agreement requiring an audit and the level of audit fees. It was found that a factor traditionally viewed as reducing shareholder demand for audits a high level of share ownership by management may be influential in increasing lender demand for audited financial statements. In particular, owner-managed companies were more likely to have such an agreement with lenders than were companies that were not owner managed. It was also found that the debt-to-asset ratio was not directly related to the retention decision, while it was related to the existence of a lender agreement requiring audited financial statements
Seow (2001)	What factors affect the demand for voluntary audit in the UK?	UK firms. Seow's (2001) findings reveal some support for the agency hypothesis for the demand for voluntary audits. However, it was found that companies that had non-director shareholders, remote from the day-to-day operations of the company, were more inclined to choose to engage audits. While the mere presence of debt in a company's capital structure was not found to affect this choice, there was evidence to suggest that managers chose to engage audits when lenders had a specific requirement or request for one. In addition, the results indicate that the cost of preparing an audit, both in monetary terms and in terms of management time, is a factor evaluated by small-company management when deciding whether to engage auditing
Rennie, Senkow, Rennie, and Wong (2003)	What are the consequences of deregulation in terms of audit retention or discontinuance?	Canadian firms. Rennie et al.'s (2003) respondents were asked to provide the most important reason for their company's decision to voluntarily continue the audit. The most cited explanations for audit continuance were lender and owner requirements for an audit. Other respondents wished to provide assurance or comfort about the credibility of the financial statements to users and/or management. Thus, a substantial majority of the companies responding to the survey did retain a financial statement audit. The most prevalent explanations for this choice were that lenders and/or owners needed audited financial statements

(Continued)

Table 2. Continued

Author(s)	Research question	Sample and findings
Hay and Davis (2004)	What factors are associated with voluntary appointment of an auditor?	Incorporated societies in New Zealand. Hay and Davis (2004) investigated the voluntary choice of an auditor of 'any level of quality'. They tested whether certain factors (size of the entity, salaries paid, debt, and source of income) were associated with voluntary appointment of an auditor. Their findings suggest that size, proportion of debt, and proportion of salaries are associated with voluntary appointment of an auditor. Thus, their results indicate that larger entities and entities with higher salaries as a proportion of revenues and higher debt as a proportion of assets are more likely to be voluntarily audited
Collis et al. (2004)	What factors affect the demand for audits in small companies in the UK?	UK firms. 1999. Collis et al. (2004) hypothesized that the likelihood of the directors choosing a non-mandatory audit increases with the size of the company, as measured by turnover, balance sheet total, and number of employees. For each measure of size, there was a significant association with the demand for a non-mandatory audit. The results suggest that the desire for a non-mandatory audit is associated with companies with agency relationships with lenders. This suggests that the cost of the audit in terms of time, money, and disruption is an agency cost accepted by directors to maintain good relations with lenders. In addition, the demand for the audit is associated with companies that are not wholly family owned. Finally, the analysis reveals that the demand for an external audit is driven by management-related factors.
Haw et al. (2008)	What is the economic consequence of voluntary auditing?	Chinese firms. 1996–1999. Haw et al. (2008) found that the choice of voluntary auditing is positively associated with percentage of tradable shares, profitability, and company size. In addition, the results suggest that the earnings-response coefficients of audited firms are higher than those of unaudited firms, especially when the audit is voluntary. Their findings are consistent with the theoretical propositions that managers voluntarily purchase external auditing to enhance the credibility of accounting numbers and that 'certified' information reduces information risk when investors assess the future cash flows of firms

Allee and Yohn (2009)	What are the potential benefits of voluntary auditing?	US firms. 2003–2004. Allee and Yohn (2009) examined the financial reporting practices of small privately held businesses that were not subject to SEC regulation. They examined the potential benefits afforded firms producing financial statements, having audited financial statements, and having accrual-based financial statements. Their results suggest that firms with audited financial statements benefit in the form of greater access to credit. Thus, they argue that firms with audited financial statements are significantly more likely to be granted credit than those without audited financial statements
Collis (2010)	What factors affect the demand for the audit in small companies in the UK and Denmark?	UK and Danish firms. Collis (2010) examined size, management, and agency factors and their associations with demand for voluntary audits in Denmark and the UK. The findings suggest that turnover alone can predict audit demand; however, it is not a full and sufficient surrogate for the motivation of the directors to opt for voluntary audit. The management factors determining voluntary audit are that cost is not considered a substantial expense and audit provides the benefit of improving the quality of the financial information. Moreover, the study suggests some support for the hypothesized effects of agency relationships. For instance, the benefit of audits in supporting agency relationships with the bank/lenders was a factor in Denmark, but was not significant in the case of suppliers/creditors. However, these two results were reversed for the UK companies
Kim, Simunic, Stein, and Yi (2011)	What is the economic value of voluntary auditing?	Korean firms. 1987–2002. Kim et al. (2011) find that private companies with voluntary audits pay significantly lower interest rates on their debt than do private companies with no audit. Thus, they provide evidence that voluntary audit is associated with interest cost savings. Moreover, their results suggest that voluntary audits play an important role helping credit stakeholders overcome uncertainty about the borrower

(*Continued*)

Table 2. Continued

Author(s)	Research question	Sample and findings
Minnis (2011)	What is the value of financial verification in debt financing?	US firms. 2001–2008. Minnis (2011) finds that voluntarily audited firms have a significant lower cost of debt and that lenders place more weight on audited financial information in setting interest rates. Moreover, Minnis (2011) provides evidence of a mechanism for this increased usefulness of financial statements: accruals from audited financial statements are better predictors of future cash flows
Lennox and Pittman (2011)	Does switching to voluntary auditing yield incrementally valuable information about the company's type beyond what could be already surmised during a mandatory regime?	Lennox and Pittman (2011) exploited a natural experiment in which voluntary audits replaced mandatory audits, and they analysed whether imposing audits suppresses valuable information about the types of companies that would voluntarily choose to be audited. Thus, to gauge whether voluntary audits reveal new information about the borrower's type, they examined the changes in credit ratings after the transition from mandatory audits to voluntary audits. They argued that when a company voluntarily chooses to remain audited, there is no change in audit assurance; such a company transmits a positive signal when it chooses to be audited voluntarily. Their results suggest that credit ratings rise for companies that continue being audited. They interpret this evidence as implying that these companies enjoy ratings upgrades because their decision to remain audited conveys an incrementally positive signal about their credit risk
Collis (2012)	What are the determinants of voluntary audit in micro- and non-micro small companies in the UK?	UK firms. 2006–2007. The findings of Collis (2012) suggest that the most powerful determinant of voluntary audit in non-micro small companies is turnover. The greater the company's sales revenue, the more likely it is to have a non-mandatory audit. This is followed by perceived demand for audited accounts from investors and perceptions that the cost of audit is not a major burden. However, the most powerful determinant of voluntary audits in micro-companies is taking the accountant's advice, followed by the perception that the cost of audit is not a major burden; perceived demand from investors; turnover; perceived demand from the bank/lenders; and the view that audit provides a check on accounting systems and records. Thus, the audit decision in micro-companies is driven by a wider range of benefits that include both management and agency factors

Dedman and Kausar (2012)	What is the impact of voluntary audit on credit ratings?	UK firms. 2005–2006. Dedman and Kausar (2012) examined the credit scores and financial reporting quality of UK private firms that qualified for audit exemptions. They find that, even though firms report lower average profits, companies that retain voluntary audits enjoy significantly higher credit scores than those that opt out of audits. The results of both conservatism and accrual-based tests indicate that opting out of audit is associated with less conservative financial reporting, and these findings also provide an explanation for why opt-out firms report higher profits but receive lower credit scores. Hence, their study contributes to an important policy debate by providing evidence that the voluntary audit does confer benefits to private firms in terms of financial reporting quality, assurance, and credit scores generated from the financial reports
Niemi et al. (2012)	To be or not be audited? What are the drivers of voluntary audit in Finland?	Finnish firms. Niemi et al. (2012) findings are in line with the view that factors relating to firm size, outside (bank) financing, the need to provide a check on internal controls, and the need to improve the quality of financial statement information are drivers of demand for voluntary audits. Their results are consistent with the view that outsourcing accounting functions to an external accountant creates an agency-type contracting relationship between the owner-manager and the accountant, thereby increasing the need for an audit. By contrast, companies that consider tax advisory services from an external accountant are less likely to hire an auditor if the audit is non-mandatory. Moreover, they find evidence indicating that prior conflicts attributable to qualified audit reports may reduce the willingness to hire an auditor. Finally, they find evidence indicating that financially distressed companies are more likely to hire auditors

(*Continued*)

Table 2. Continued

Author(s)	Research question	Sample and findings
Carey and Tanewski (2013)	What is the economic value of voluntary auditing?	Australian firms. Carey and Tanewski (2013) focused on incentives to audit arising from internal sources (owner–manager), controlling for traditional incentives arising from contractual constraints (i.e., debt), organizational characteristics (i.e., size) and agency conflict. The findings support the predicted impact of both size and debt on audit and further support the hypothesized impact of budgeting. Thus, they proposed that an owner–manager might demand an external audit to complement profit planning and control (budgeting). Hence, audits enhance the credibility of financial information used in the budgeting process, and auditors' expertise provides owner–managers with the opportunity to learn and improve processes
Clatworthy and Peel (2013)	What is the impact of voluntary audit and governance characteristics on accounting errors in private companies?	UK firms. Clatworthy and Peel (2013) examined the effects of voluntary external audit and found strong support for its great importance in determining accounting accuracy. They found that audited accounts are approximately half as likely as unaudited accounts to contain errors. Their results are likely to be of interest to policy makers considering removing mandatory audits for larger private companies. They directly tested whether private firms benefit from appointing an auditor through improved financial reporting reliability and examined whether the extra credibility given to audited financial statements by outside investors and/or credit rating agencies is warranted by the improved accuracy of accounting information. The evidence indicates that small private firms filing unaudited accounts are approximately twice as likely to file defective annual accounts as their counterparts opting to have their accounting audited
Mustapha and Yaen (2013)	What are the determinants of voluntary audit demand in small companies in Malaysia?	Malaysian firms. Mustapha and Yaen (2013) examined demand for voluntary audit by small companies in Malaysia. The results indicate that owners perceived that the voluntary audit would be able to improve the quality of their financial statements. Their findings are consistent with prior research, showing that the managerial ownership, perceptions of the managers, and total number of employees significantly influence the demand for voluntary audit.

Dedman et al. (2014)	What are the determinants of voluntary audit demand in private firms in the UK?	UK firms. Dedman et al. (2014) used agency theory and prior literature in the development of their hypotheses, which predict that companies are more likely to purchase a voluntary audit if they have higher agency costs, they are riskier, they will shortly require new capital, they purchase nonaudit services from the auditor, and they demonstrate a greater demand for audit assurance in the mandatory audit regime. Their empirical results provide support for each of their hypotheses. Thus, their results indicate that companies are more likely to purchase voluntary audits if they have greater agency costs, are riskier, wish to raise capital, purchase non-audit services from their auditor, and exhibit greater demand for audit assurance in the mandatory audit regime
Kausar, Shroff, and White (2016)	What are the real effects of the audit choice?	Using a natural experiment, Kausar et al. (2016) show that when external financiers observe a firm's choice to voluntarily obtain an audit, the firm obtaining an audit significantly increases its debt, investment, and operating performance and become more responsive to investment opportunities. Further, they found that these effects are stronger for firms that are financially constrained and weaker for firms with other means to reduce financing frictions. Overall, their evidence suggests that the audit choice conveys information to capital providers, which reduces financing friction and improves performance
Ojala et al. (2016)	What are the additional determinants of voluntary audit demand in micro-companies?	Finnish firms. Ojala et al. (2016) examined additional determinants of the demand for voluntary audit in micro-companies by investigating internal management factors. Their study contributes to the literature by extending theory on the demand for voluntary audit in micro companies and identifying new management drivers. Thus, the authors show that the drivers of voluntary audit are that the company is not in financial distress, management has a need for tax-reporting credibility, there is dispersed ownership, the company is growing, and management needs to ensure security of supply from trade creditors

Table 3. The main attributes related to demand for voluntary audits.

Firm attributes	Separation of ownership and control attributes	Agency relationship attributes	Management attributes	Signalling attributes
Size	Managerial share ownership	Lenders' demand or requirement for auditing	Voluntary audit is a beneficial check on internal books/ records	To signal quality to debt market
Leverage	Percentage ownership of the firm by officers and directors	Agency relationship with lenders	Agreement that voluntary audit improves quality of the financial information	To signal improved quality of the financial information (conservative reporting)
Presence of debt covenants	Family ownership	Agency relationship with suppliers and creditors		
Complexity		Greater access to credit		
Board size		Credit ratings		
Company risk		Non-audit services		
Capital raising				
Growth and profitability				
Qualified audit report and financial distress				

that the effect of presence of debt covenants on accounting results is significantly and positively related to demand for voluntary audits.

4.1.4. Complexity

Prior research suggests that companies that voluntarily purchase a financial statement audit are complex. For instance, Dedman et al. (2014) examined this issue and measured a company's complexity using the presence of subsidiaries to indicate a diversified company. Moreover, earlier studies also found that complexity increases demand for voluntary audits. For instance, Abdel-Khalik (1993) suggested that with a longer chain of command and decreased observability of subordinates' actions, there is more complexity, as well as a corresponding loss of control from the top, for which external audits can be demanded as a compensatory device. Hay and Davis (2004) determined that higher expenditures on salary relative to revenue by the entity indicate more staff and, therefore, more complexity. This indicates more levels of hierarchy, more levels of management, and thus greater possibility of loss of control.

4.1.5. Board Size

It has been hypothesized that companies that voluntarily purchase an audit have large boards (Dedman et al., 2014). This is due to the fact that large boards suffer problems of communication and coordination, which could be mitigated by a financial statement audit. Dedman et al. (2014)

measured board size as the total number of directors at the year's end. They found a positive and significant association between board size and demand for voluntary audits.

4.1.6. Company Risk
In addition, researchers have examined whether measures of company risk (financial performance, ability to service debts, proportion of balance sheet assets classed as 'risky', and age of the company) are associated with the voluntary audit purchase decision (Dedman et al., 2014). The results obtained by Dedman et al. (2014) suggest that company performance is negatively associated with voluntary audit, and their findings support the view that riskier companies have a greater demand for voluntary audit.

4.1.7. Capital Raising
It has also been hypothesized that companies are more likely to voluntarily purchase audits if they intend to raise equity capital in the future (Dedman et al., 2014). This is because external auditing can credibly certify the quality of a company's financial statements. This kind of certification can lessen uncertainty about future growth and/or company value, and investors will be relatively more confident in investing in the business. The results in Dedman et al. (2014) supported the stated hypothesis.

4.1.8. Profitability and Growth
Prior research suggests that firms that anticipate growth are more likely to have a voluntary audit. Ojala et al. (2016) suggested a positive association, and their results showed that the company's growth is a driver of voluntary audit. Moreover, Haw et al. (2008) hypothesized and found evidence for the fact that profitability is an important factor in the demand for voluntary audits. They suggested that voluntary external audits can credibly communicate firms' commitment to disclose accurate financial information to investors and regulators.

4.1.9. Qualified Audit Report and Financial Distress
Niemi et al. (2012) hypothesized, and found evidence suggesting, that prior conflicts attributable to qualified audit reports may reduce willingness to voluntarily hire an auditor. In addition, Ojala et al. (2016) hypothesized that voluntary audits are more likely for companies in financial distress. However, their findings indicate that micro-companies in financial distress are less likely to choose a voluntary audit. This is because financially distressed micro-companies cannot afford an audit.

4.2. Separation of Ownership and Control Attributes

Several studies have examined the separation of ownership and control and demand for voluntary audits (e.g. Carey et al., 2000; Senkow et al., 2001; Seow, 2001; Tauringana & Clarke, 2000). This reflects an agency perspective (Jensen & Meckling, 1976), in that the demand for audited financial statements arises from information asymmetry. The agency rationale is classically used for large firms where there are external shareholders and audited financial statements play an agency role in the relationship between shareholder (the principal) and director (the agent). Prior studies have used several proxies for separation of ownership and control.

4.2.1. Managerial Share Ownership
Managerial share ownership has been found to influence firms' decision to voluntarily engage an auditor, since the extent of such ownership gives the manager an incentive to allocate a firm's resources in a way that may not be consistent with the needs of non-managing shareholders

(Tauringana & Clarke, 2000). Therefore, managerial share ownership is commonly hypothesized to influence whether a company is voluntarily audited or not (Mustapha & Yaen, 2013). In general, the hypothesis is stated that the smaller the managers' share ownership in the company, the higher the probability that the company voluntarily engages in external auditing.

4.2.2. Percentage Ownership by Officers and Directors

Prior research has also used proxies for ownership dispersion. For instance, Barefield et al. (1993) hypothesized that percentage ownership of the firm by the officers and directors is significantly negatively related to demand for voluntary audits. Their empirical findings supported this view, suggesting that when the percentage ownership of the firm by officers and directors is high, the managers may behave as owners and thus no voluntary audit would be needed. By contrast, Senkow et al. (2001) and Seow (2001) found no statistically significant relationship between the percentage ownership of the firm by the officers and directors and the demand for voluntary audits.

4.2.3. Family Ownership

When the company is wholly family owned, prior studies suggest a negative association with demand for voluntary audits. Collis et al. (2004) and Collis (2010) found a negative relationship here, which seems logical, as the level of trust is likely to be higher among owners who are related and, therefore, know each other well. Collis (2010) and Collis (2012) hypothesized that voluntary auditing is positively associated with the company's having shareholders who are not involved in day-to-day management. In addition, these studies examined the hypothesis that voluntary auditing is positively associated with the perceived demand of existing investors. In both cases, the results supported these hypotheses, and the interpretation for the latter hypotheses implicates the demand of present investors, who may be minority shareholders exercising their statutory rights. Moreover, in an unregulated family-business environment, the demand for external auditing is positively correlated with the proxies of agency conflict, proportion of nonfamily management, and proportion of nonfamily directors (Carey et al., 2000). While Collis (2012) found an insignificant relationship between family ownership and demand for voluntary audits, other studies provide quite strong support for the association. Hence, it can be argued that when the company is wholly family owned, the likelihood to voluntarily hire an external auditor is moderate.

4.3. Agency Relationship Attributes

4.3.1. Lenders' Demand or Requirement of Auditing

Prior research suggests that firms voluntarily demand auditing to maintain agency relationship. For instance, accounts can be audited at the lenders' request (Abdel-Khalik, 1993; Rennie et al., 2003; Senkow et al., 2001). Therefore, evidence from the literature on lending shows that audited accounts are crucial in the bank lending decisions (e.g. Dharan, 1992). In addition, Seow (2001) concluded that the management of small firms chose to engage in audits when lenders made a request for one. Thus, voluntarily audited firms want to signal quality to the debt market.

4.3.2. Agency Relationship with Lenders

Collis et al. (2004) and Collis (2010, 2012) hypothesized that the likelihood of the directors voluntarily opting for an audit increases if the company has agency relationships with lenders. The results of these studies supported the hypotheses, and the results provide an important insight into the agency role played by the audited accounts, addressing information asymmetry problems. These findings suggest that the cost of audit in terms of time, money, and disruption is an agency cost that is accepted by the directors in order to maintain good relations with lenders.

4.3.3. Agency Relationship with Suppliers and Creditors

Security of supply refers to a company's need to ensure that goods and services required for the company's operations are available (Ojala et al., 2016). It is hypothesized that firms may opt for voluntary audits to signal credibility of their financial position and secure the continuity of supply (e.g. Collis, 2010, 2012; Ojala et al., 2016). These studies examined the relationship between agency relationships between suppliers or creditors and voluntary audits. The studies of Collis (2010, 2012) moderately supported the hypothesis. However, Ojala et al. (2016) concluded that the likelihood of voluntary audit was greater in companies that have a need for supply security.

4.3.4. Greater Access to Credit

As stated earlier, prior research has found the importance of voluntarily audited financial statements to lenders. Blackwell et al. (1998) found, on average, that firms purchasing voluntary audits pay lower interest rates after controlling for firm-specific risk factors and relevant loan characteristics. In addition, Kim et al. (2011) and Minnis (2011) provided similar results, concluding that private firms with voluntary audits pay significantly lower interest rates on their debt than private companies without audits. Moreover, Allee and Yohn (2009) found that firms with voluntarily audited financial statements benefitted, in the form of greater access to credit.

4.3.5. Credit Ratings

Lennox and Pittman (2011) exploited a natural experiment in which voluntary audits replaced mandatory audits, and they analysed whether imposing audits suppressed valuable information about the types of companies in their sample that voluntarily chose to be audited. Thus, to gauge whether voluntary audits revealed new information about the borrower's type, they examined the changes in credit ratings after the transition from mandatory audits to voluntary audits. They argued that when a company voluntarily chose to remain audited, there was no change in audit assurance; such a company transmitted a positive signal when it chose to be audited voluntarily. Their results suggest that credit ratings rise for companies that continue to be audited. The authors interpreted this evidence as implying that these companies enjoyed ratings upgrades, because their decision to remain audited conveyed an incrementally positive signal about their credit risk.

Moreover, Minnis (2011) reported that the actual verification of the information is important to users of the financial statements. Verification thus hardens information in financial statements. Minnis (2011) suggested a mechanism through which this hardening occurs: audited financial statements are better predictors of future cash flows. The expertise (and independence) extended by third-party accountants appears to be particularly fruitful in the accrual–estimation process. Hence, Minnis (2011) found that accruals are better predictors of future cash flow for audited firms. According to Dedman and Kausar (2012), by allowing progressive size-based audit exemptions for private firms, the UK has been steadily moving towards a largely audit-exempt private sector. Both audit professionals and credit-rating agencies have expressed concern over the effects of this policy on the standards of financial reporting and on credit ratings for unaudited firms. Dedman and Kausar (2012) provided evidence for the benefit of audit assurance to private companies. Employing two measures of financial reporting quality, they found evidence that opt-out firms report less conservatively than audited firms in the voluntary audit period. Opt-out firms recognize income-increasing events more quickly and income-decreasing events more slowly than audited firms. Similarly, opt-out firms report lower levels of income-decreasing accruals and higher levels of income-increasing accruals than those firms that retain audits. These findings provide a potential explanation for the superior credit scores of firms that retain audits compared to those that opt out. Credit-rating agencies seem to attach significant value to the assurances provided by audits. Dedman and Kausar (2012) contributed to the continuing voluntary audit policy debate and provided useful information to small-firm decision making, finding that when a company opts out of an audit, significant reductions occur both in the credit scores awarded by the external credit-rating agencies and in the quality of the financial reports upon which such agencies rely.

4.3.6. Non-audit Services

The relationship between non-audit services and voluntary auditing has also received attention from researchers (e.g. Dedman et al., 2014; Senkow et al., 2001; Seow, 2001). It has been suggested that the joint production of non-audit and audit services generates efficiency gains in the form of cost savings and knowledge externalities. For instance, Senkow et al. (2001) suggested that there may be possible benefits to the quality of management advisory services or tax services. Therefore, Senkow et al. (2001) argued that the likelihood of retaining audit voluntarily is increased when the auditing firm also provides other services to the company. However, neither Senkow et al. (2001) nor Seow (2001) found statistically significant findings to support this view. However, Dedman et al. (2014) suggested that voluntarily audited companies make significantly higher non-audit purchases, and their results showed that such companies are more likely to retain audits if they purchase other services from their auditor. Thus, their results suggest a significant and positive association between non-audit services and demand for voluntary audits. However, these studies have not been able to disentangle the cause of this relationship.

4.4. Management Attributes

4.4.1. Voluntary Audit as Beneficial Check on Internal Books/Records

The demand for an external audit may be attributable to management's need for a check on internal controls to reduce the chance of material misstatement. For instance, in small firms, the likelihood of a material misstatement (inherent risk) and the likelihood of the accounting control detecting any material misstatement (control risk) may be high. Prior research suggests that the information provided by an audit is useful to the business itself, which in turn suggests that the directors in such companies have a general perception that there are net benefits to having accounts audited. Specified reasons for having a voluntary audit include, for example, efficiency in running the company. Thus, audits represent discipline, good practice, and continuity with the past (Collis et al., 2004). Collis et al. (2004) found that the demand for voluntary audits is positively associated with the benefits of having an annual check on internal systems and records, as well as with the improved quality of the information in the accounts.

4.4.2. Agreement that voluntary audits improve the quality of financial information

Improved quality of financial information resulting from voluntary audits reduces information risk. For instance, the demand for voluntary audits may be attributable to management's need for a check on internal controls to reduce the chance of material error. Prior research suggests that it is management's responsibility to consider the costs and benefits of the financial reporting options available to the company, and it is logical to assume that this decision is based on economic rationality (Collis, 2010). Moreover, the literature suggests that voluntary small-company audits give the directors 'increased confidence in the reported figures, the financial position for making decisions, the reliability of the accounting system and the information it produces and the early identification of trends that could lead to failure' (Collis, 2010; Collis et al., 2004).

4.5. Signalling Attributes

4.5.1. To Signal Quality to Debt Market

Dharan (1992) examined auditing as a signal in small-business lending. This work followed a similar approach to that of Melumad and Thoman (1990), who analysed the choice within small businesses of having financial statements audited to signal the firm's characteristics to potential lenders. Dharan (1992) concluded that the signal can be used by firms above a certain debt-equity cut-off ratio.

4.5.2. To Signal Improved Quality of the Financial Information (Conservative Reporting)

Dedman and Kausar (2012) examined whether audits increase the quality of financial statements; if so, then the financial statements of firms retaining a voluntary audit will be of higher quality than those of firms that opt out of audit. Their results suggest that firms that withdraw from audit become less conservative in their accounting. Moreover, their tests of financial reporting quality consistently suggest that audit opt-out firms adopt different practices than firms that retain auditing. Thus, Dedman and Kausar (2012) suggest that once firms give up on audits, they appear to report income-increasing events sooner, and income-decreasing events later, than audited firms. In addition, opt-out firms also report fewer income-decreasing accruals and abnormal accruals.

In addition, Clatworthy and Peel (2013) examined the effects of voluntary external audits, finding strong support for their great importance in determining accounting accuracy. They find that audited accounts are approximately half as likely as unaudited accounts to contain errors. Their results are likely to be of interest to policy makers considering removing mandatory audits for larger private companies. Clatworthy and Peel (2013) directly tested whether private firms benefit from appointing an auditor through improved financial reporting reliability and examined whether the extra credibility given to audited financial statements by outside investors and/or credit-rating agencies is warranted in terms of the improved accuracy of accounting information. The evidence presented in their study indicates that small private firms filing unaudited accounts are approximately twice as likely to file defective annual accounts as their counterparts that opted to have their accounting audited. Thus, their findings suggest that proposals to relax mandatory audit requirements may lead to a doubling of accounting errors for those currently audited firms that take advantage of an extended audit exemption. Clatworthy and Peel's (2013) findings have relevance for policy makers as well as supporting the argument that voluntary audits are valuable in terms of measurable and observable benefits (higher quality information). Moreover, Dedman et al. (2014) concluded that companies will rationally select into audit when it is not a regulatory requirement.

Kausar et al. (2016) examined the real effects of the voluntary audit choice. They showed that when external financiers observe a firm's choice whether to voluntarily obtain an audit, the firms obtaining an audit significantly increase their debt, investment, and operating performance and become more responsive to investment opportunities. Furthermore, Kausar et al. (2016) found that firms that surpassed the audit exemption thresholds and were pushed back into the voluntary audit regime had reductions in debt and increases in cost of debt once their audit choice again became unobservable. Thus, their evidence suggests that voluntary audit choice conveys information to capital providers, which reduces financing friction and improves performance. Kausar et al.'s (2016) study contributes to the voluntary auditing literature by showing that, aside from the verification-related benefits of an audit, simply observing a firm's decision whether to subject itself to the audit can be informative to external investors.

4.6. Miscellaneous Attributes

In addition to the factors examined in the extant literature, companies have other characteristics that impact the decision to voluntarily hire an auditor. For instance, Niemi et al. (2012) concluded that companies considering tax advisory services from an external accountant are less likely to hire an auditor if the audit is non-mandatory. They also found evidence that prior conflicts attributable to qualified audit reports may reduce the willingness to hire an auditor. The most interesting finding of their study is that financially distressed companies are more likely to hire an auditor. This falls in line with the view of professional advice, which is that audits are useful for financially distressed small clients. Moreover, Carey and Tanewski (2013) propose that an owner–manager might demand an external audit to complement profit planning and control (budgeting). Hence, an audit will enhance the credibility of the financial information used in the budgeting process, and the auditor's expertise provides the owner–manager with an opportunity to learn and improve processes.

In an environment where demand for auditing is not compulsory, small firms can respond to pressure for monitoring by choosing between internal and external audits. However, it is unclear whether internal and external audits are primarily viewed as complementary or as substitute monitoring mechanisms. The complementary nature of the existence of these monitoring mechanisms may be enhanced by their substitution effect in effort, as would be evidenced by reduced external audit work resulting from reliance on internal audit. Carey et al. (2000) suggested that when family businesses engage in internal audit they are less likely to engage in external audit, and vice versa.

5. Conclusions

Prior researchers have found that firms have incentives to purchase audits even in the absence of regulatory requirements to do so (e.g. Collis, 2012; Niemi et al., 2012; Ojala et al., 2016; Kausar et al., 2016). The aim of this synthesis was to identify and evaluate existing evidence on the attributes of voluntary audits. The conclusions of this synthesis provide insight into auditing practices, which are important, given the significance of auditing firms to the economy. The findings may also be beneficial to standard setters in assessing the impact of regulation on small businesses. Concerns over the cost of regulation on small businesses have grown in recent years (European Commission, 2010). Obtaining an understanding of the impacts of regulation on small businesses must begin with an understanding of the assurance or audit that would be purchased by firms in the absence of regulation. Therefore, the findings of this study yield insights into the various determinants that influence the demand for audit in the absence of regulation.

Prior research highlights the importance of audited financial statements to lenders. For instance, Kim et al. (2011) and Minnis (2011) find that private firms that undergo voluntary audits pay significantly lower interest rates on their debt than private companies without audits. This source of demand for external audits should be kept in mind by practitioners, standard setters, and policy makers. The present study suggests that lenders continue to rely on external auditors to serve a monitoring role. Voluntary auditing is closely related to audit exemption thresholds (Kamarudin, Zainal Abidin, & Smith, 2012; Lopéz Combarros, 2000). Therefore, from a policy perspective, the debate on whether to increase the audit exemption thresholds is never-ending. When considering the policy implications of deregulation of the small-company audit, the concern of the accounting profession that increasing the thresholds will leave few businesses that need to be audited is actual (Seow, 2001). However, the underlying issue is the perceived usefulness of the small-company audit. Regulation should not give the impression that there is no benefit to micro-companies from filing full audited accounts (Collis, 2012). This issue transcends the debate on how and at what level to set audit exemption limits, which are necessarily arbitrary. In circumstances where external and internal users of audited financial statements recognize their benefits and require the assurance that an audit brings, the demand for audits will prevail, regardless of the size of the company, even in the absence of a regulatory requirement for them. Therefore, by giving small companies the freedom to choose whether to engage in auditing does not preclude the interests of shareholders, other users, or suppliers of the statutory audited financial statements from being served. This view is supported by Haw et al. (2008). Their results are consistent with the theoretical proposition that managers voluntarily acquire auditing services to enhance the credibility of accounting numbers and that certified information reduces information risk when investors assess firms' future cash flows. Moreover, Collis (2010) suggests that despite audit exemptions, the directors of a significant proportion of companies in Denmark and the UK predicted that the company would have a voluntary audit. Thus, the directors value voluntary audits and consider the benefits of external audits to outweigh the costs.

To summarize, this study contributes to the auditing literature by identifying the main attributes associated with the demand for voluntary audits. This framework consists of firm attributes, separation of ownership and control attributes, agency relationship attributes, management attributes, and signalling attributes.

6. Opportunities for Future Research

The limitations and practical challenges of voluntary audit indicated throughout this paper yield opportunities for future research, both quantitative and qualitative in nature. For example, it would be very interesting to determine the real consequences for small companies of abandoning audits after exemption. However, it is possible that, over time, 'audit inertia' may decline and more companies may eventually choose to discontinue audits. In contrast, other companies may find that it was a mistake to discontinue auditing and may re-engage their auditors (Senkow et al., 2001). Although these issues have been highlighted in some prior studies, there is still room for research. For instance, factors affecting the decision for audit retention still require more investigation.

Because voluntary audits are related to audit exemption thresholds,[1] more appropriate criteria for audit exemptions might be needed. For instance, policy makers may want to consider share ownership by directors as one of the criteria for audit exemptions (e.g. Seow, 2001, Tauringana & Clarke, 2000). More precisely, when examining shareholders in small companies that are not entirely family owned, there is a case for continuing to provide a statutory requirement for the audit if 10 per cent of shareholders require it (Collis et al. 2004). This is suggested to cover the needs of external shareholders in small companies, who are not involved in the day-to-day running of the business and require assurance for the same reasons as their counterparts in large companies (Collis et al., 2004). Collis et al. (2004) will also meet the needs of owner–managers of small companies that are not wholly family owned, where the independent assurance provided by the audit is also required if it is wanted. Surveys related to shareholder opinions about the audit requirement could be conducted to examine this research question.

In addition, Collis et al. (2004) suggested that a factor likely to influence the audit decision is the cost of the audit and its relation to the size of the company. It also seems likely that the directors' knowledge of the costs and benefits of the audit would be influenced by the accountant's view of the value of the audit to the business. Related to this is the question of eligibility for exemption, which would also require an accountant's advice. If the directors believe that the costs outweigh the benefits, proximity to the threshold may lead them to review their audit policy on an annual basis (Collis et al. 2004). These aspects offer fruitful avenues for future research. Moreover, future researchers may wish to examine the consequences of companies choosing to retain or opt out of audit.

To conclude, the most fruitful area for future research would be an examination of the consequences of different kinds of assurance. Thus, instead of a statutory audit requirement, a 'limited audit', 'statutory review', or 'extended review' could be accompanied by proportionate rules on quality control and oversight by audit regulators. This would allow small firms to reduce their administrative costs (European Commission, 2010). Extended review could mean an audit having a narrower scope than a full audit; this is usually confined to certain accounts or operations. For instance, it is argued that an extended review by the auditor will not be an audit in the form we know today, where the auditor performs, for example, control of the inventory. It will instead be work that is tailored to the requirements of SMEs (FEE, 2016). The auditor will primarily ensure, by means of analyses and inquiries, that the financial statements are free from material misstatement. In other words, this extended review could thus be more beneficial and useful for SMEs than voluntary audits (e.g. Vanstraelen & Schelleman, 2017). Surveys of owners on the benefits of extended review could be conducted to examine this research question.

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Note

[1]For example, in the EU Member States, limited liability companies are exempted from a statutory audit if for two consecutive years, two of three defined thresholds are not exceeded. In general, these thresholds are defined using balance sheet total, net turnover, and average number of employees during the financial year.

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A critical analysis of raising the thresholds for audit exemption.

Evidence from Finland.

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Abstract

The purpose of this paper is to examine and evaluate the amendment to the statutory audit requirement by analyzing the submissions to the Finnish Ministry of Economic Affairs and Employment's memorandum, which suggests an increase in the audit exemption thresholds. A qualitative analysis of the submissions to the memorandum is conducted to identify the extent of support, and arguments for and against the proposed strategic direction regarding the statutory audit requirement. This study attempts to find the link, if any, between the amendment to the statutory audit requirement and the views expressed by the stakeholders. The study exploits the neo-institutional theory to examine the research questions.

The majority of the submission did not support increasing the thresholds. However, this study suggests that the Finnish audit regulatory arena is an undeniably complex one, including competing interests, tensions, and perspectives. From this study, it appears that considerable reliance is placed on the audited accounts of small firms in maintaining societal functionality, meaning that trust and accuracy are vital for financial reporting quality in the Finnish culture, and policy-makers should not take this as a self-evident. While examining the submissions that supported the increase, freedom of choice and over-regulation were highlighted. Thus, cultural and institutional factors are associated with statutory auditing environment. To conclude, the findings of this study suggest that coercive, mimetic, and normative pressures affect audit exemption thresholds in Finland.

Keywords: audit exemption thresholds, harmonization, regulation

1. Introduction

While twenty years ago there were few common elements in the regulations across the European Union (EU), currently the most vital aspects of financial reporting and auditing are subject to EU Regulations and Directives (Maijoor & Vanstraelen, 2012). In addition, Maijoor and Vanstraelen (2012, p.117) stated that 'regulatory changes in accounting and auditing were part of a broader development of creating one institutional framework for an integrated EU financial market.' Despite the attempts of the harmonization process, statutory audit requirements vary significantly among EU member states (The Federation of European Accountants (FEE) 2016). In 2013, a new Accounting Directive (2013/34/EU, issued 26 June 2013) requiring statutory audits for the following categories of company became law: (i) public interest entities (PIEs; broadly, those traded in regulated markets and credit and insurance institutions) and (ii) medium-sized and large undertakings. Statutory audits are not explicitly required for companies defined as "small undertakings", and recital 43 of the EU Accounting Directive clarifies that this omission is intentional. However, member states can impose audits on small undertakings as a matter of national law, although the audit should be appropriate to the conditions and needs of the company and the users of its accounts.

In 1978, the Fourth Directive introduced an audit requirement but gave member states the option to exempt certain companies from it. However, member states did not take advantage of this opportunity immediately (Collis, 2010). For instance, in the UK, the audit exemption thresholds were raised many times until the EU maxima were adopted in 2004 (Collis, 2012), while Finland and Denmark waited until 2006 before introducing the audit exemption at all, and started with very low thresholds compared to other EU countries (Collis 2010; Niemi, Kinnunen, Ojala, & Troberg, 2012; Vantraelen & Schelleman, 2017). Sweden and Norway adopted the audit exemption thresholds in 2011 (Sundgren & Svanström 2014; Langli 2015; Vanstraelen & Schelleman, 2017). To clarify, audit exemption thresholds in Scandinavian countries are relatively much lower in comparison with the average thresholds in the EU (Accountancy Europe, 2018). According to the new 2013 EU Accounting Directive, companies exceeding two of the following criteria must be audited: turnover of 6.0 million euros, balance sheet of 12.0 million euros, and an average number of 50 employees. Individual member states can set exemptions below this level. Table 1 presents the EU maxima for the audit exemption for 2003, 2008 and 2013. Moreover, Figure 1 presents turnover thresholds for the audit exemption threshold for EU member states in 2016. Greater harmonization regarding statutory audits may be desirable to reduce barriers to intra-European trade in professional services (Baker, Mikol & Quick, 2001). In addition, relaxation of the regulatory burden also rests on the assumption that the reduction of statutory audit requirements for small companies will boost the economy of Europe (European Commission, 2010). Moreover, attempts to reduce the administrative requirements should strengthen companies' competitiveness and help more companies to grow and employ more people. However, at the same time while, small firms' financial reporting and auditing requirements are lightened, politicians and regulators are showing an increasing amount of interest in the accounting and auditing profession, given its importance within capital markets, and therefore tightening the requirements for this sector (e.g. Ball, 2009). This can, in turn, be interpreted as reinforcing audit's broader role in society.

The discussion around small firms' audit has been very active during the last decade in Finland and other Scandinavian countries (e.g., Niemi et al., 2012; Ojala, Collis, Kinnunen, Niemi, & Troberg, 2016; Accountancy Europe, 2018). For instance, policymakers in Finland suggested that the requirement for auditing in small firms has been increasingly identified as an administrative burden. Therefore, the Ministry of Economic Affairs and Employment in April 2016 established a working group to examine inter alia auditing and statutory audit requirement for small firms in Finland. In January 2018, the Ministry of Economic Affairs and Employment released a memorandum[1] suggesting that audit exemption thresholds should be increased. After the publication of the memorandum, the Ministry of Economic Affairs and Employment circulated the proposal to different official quarters for comment. The deadline for comments was mid-March 2018; overall, 43 submissions to the memorandum were received. These documents are publicly available which provides an opportunity to examine,

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[1]The memorandum in Finnish is available at:

http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/160475/TEMjul_1_2018_Tilintarkastus.pdf?sequence=1&isAllowed=y

analyze and review the content. Therefore, this study aims to conduct a qualitative research which examines following theoretical and practical research questions:

i) How do institutional and cultural factors affect audit exemption thresholds?
ii) How is statutory auditing for smaller companies valued?
iii) Why or why not should audit exemption thresholds be increased?
iv) From the point of view of "public interest", how are high vs. low thresholds motivated?

INSERT TABLE 1 HERE
INSERT FIGURE 1 HERE

2. Background

2.1 Theoretical framework

According to Andersen, Francis and Stokes (1993), in line with agency theory (Jensen and Meckling, 1976), information asymmetry and the demand for external monitoring are among the reasons for conducting an audit (Tabone and Baldachino, 2003). Relatedly, Minnis and Schroff (2017, p. 479) suggested that 'one of the primary purposes of auditing is to reduce agency problems among the many stakeholders in a company.' Hence, Minnis and Schroff (2017) argued that when companies obtain net benefits from getting an audit, these benefits provide sufficiently strong incentives that firms get an audit voluntarily, thereby making statutory audit requirements unnecessary. The authors presented economic justifications for financial reporting and auditing regulation. Minnis and Schroff (2017, p. 479) presented that economic justifications 'are related to the premise that the market solution is unlikely to result in the socially desirable level of disclosure and transparency.' Thus, they highlighted the costs and benefits of private company reporting regulation; however, it was not clearly asserted which solution would be preferable in terms of maximizing social welfare. Finally, Minnis and Schroff (2017) concluded that institutional features vary by country and future studies need to take these characteristics into account.

In contrast, Baker, Bédard and Prat dit Hauret (2014) discussed and analyzed the recent evolution of statutory auditing regulation from a neo-institutional theory perspective. They examined the regulation of statutory auditing in the USA, France and Canada. Baker et al., (2014, p. 371) highlighted 'the increasing apparent similarity in the regulatory structures for statutory auditing in these three countries is the result of external pressures from global capital markets for standardized regulatory practices'. Most importantly, they stated that the regulation of statutory auditing is vital to society to provide accurate and reliable information for the general public. Therefore, they underlined the practical implications of their result which suggested that gaining a better understanding of the regulatory structures for statutory auditing advances the public interest. Hence, Baker et al., (2014, p. 372) stated 'while the avowed purpose of the regulation of statutory auditing is to protect the public interest, the way in which this purpose has been organized and articulated has varied from country to country.'

Examining neo-institutional theory and auditing literature more carefully, Boolaky & Soobaroyen (2017, p. 62) illustrated that 'the neo-institutional theory is based on the belief that organizations respond to pressures from their institutional environments and adopt structures and/or procedures that are socially accepted as being the appropriate organizational choice.' Hence, the neo-institutional perspective is based on the premise that organizations operate by conforming to societal expectations in order to achieve legitimacy (Meyer & Rowan, 1977). To summarize, various aspects of neo-institutional theory have provided a theoretical framework for research in auditing, including research which focuses on the audit practices (Robson, Humphrey, Khalifa & Jones, 2007), the regulation of statutory auditing (Baker et al., 2014), adoption of International Standards on Auditing (Boolaky & Soobaroyen, 2017) and the auditing and reporting quality (Boolaky, Soobaroyen & Quick, 2018). Baker et al., (2014, p. 373) also emphasize that 'one of the basic premises underlying neo-institutional theory is that "organizations" are socially constructed, and that they are subject to pressures which influence the design and operation of their regulatory structures'. Similarly to Baker et al., (2014), this study uses the word "organization" to mean the "regulatory structures for statutory auditing". This study brings the elements of neo-institutional theory namely, isomorphism to understand and evaluate how regulatory structures for statutory auditing and audit exemption are directed. Therefore, this study investigates the statutory audit requirement and audit exemption thresholds through institutional lenses in Finland.

The influence of the cultural environment on accounting and auditing practices has been examined in several studies (e.g. Hofstede, 1980; Doupnik & Salter 1995; Jaggi & Low 2000; Zeghal & Mhedhbi, 2006). Therefore, cultural variables contribute to the values and orientations of persons and groups, within and outside organizations, professions, standard-setting bodies and government towards accounting (Gernon & Wallace, 1995). This study thus also examines the association between cultural factors and statutory audit requirement.

2.1.1 Neo-institutional theory

According to DiMaggio and Powell (1983) there are three elements of isomorphism within the neo-institutional theory. These different elements can be classified into coercive, mimetic and normative pressures. The first pressure, "coercive" isomorphism stems from resource dependency and legitimacy concerns (Judge, Li, & Pinsker, 2010). Following this coercive logic, one of the main influencers of the audit exemption thresholds could be the presence of institutions that can pressure and/or influence governmental actors to conform to international auditing practices. For instance, jurisdictions can be forced to conform to international auditing practices due to powerful institutions outside the economy (Boolaky & Soobaroyen, 2017). Moreover, Boolaky and Soobaroyen (2017, p. 62) demonstrated that 'higher level institutions (e.g. societal and global) formally propose models and standards which form and restrain actions at lower levels.' In practical words, the higher level environment (European Union) might affect the lower level institutions (member states) in the case of audit exemption thresholds. For instance, Albu, Albu and Alexander (2014) stated that the coercive objectives and pressures are result of the political field (EU membership). Albu and Albu (2012) argued that the decision regarding IAS/IFRS adoption was the result of external, coercive pressures from EU regulation in Romania. Furthermore, Mantzari, Sigalas, and Hines (2017) found that acquiescence to accounting practices is based primarily on the coercive pressures of EU regulation.

The second type of isomorphism identified by DiMaggio and Powell (1983) is identified as "mimetic" isomorphism. Judge et al., (2010, p. 163) presented that mimetic isomorphism 'refers to the tendency of social actors to imitate those other social actors (i.e., individuals, organizations, jurisdictions) which are viewed as successful and legitimate.' Furthermore, Boolaky et al., (2018) argued that mimetic pressures occur when a jurisdiction mimics the behavior of other successful jurisdictions in a bid to improve its own legitimacy and acceptance. Albu, Albu, Bunea, Calu, & Girbina (2011) suggested that mimetic isomorphism is seen as adopting the best practices in order to be more legitimate or successful.

The final pressure, normative isomorphism, refers to the collective values that entail conformity of thought and deed within institutional environments (DiMaggio & Powell, 1983; Judge et al., 2010). Notably, Boolaky and Soobaroyen (2017, p. 64) suggested that 'the two key institutions through which collective values and conformity of thought and deed could be enacted are the educational system and the political system.' For instance, Parboteeah, Cullen, Victor, and Tomoaki (2002) compared the national culture of accounting firms in Japan and US. The authors concluded that the norms of the accounting profession have a more significant influence on accounting practices than the national cultures. Their findings suggested that consistent with neo-institutional theory, institutional pressures (represented by the governing bodies of the accounting profession) may exist to counterbalance for cultural forces that are potentially dysfunctional to the accounting practice (Parpoteeah et al., 2002, p. 476).

2.2 Prior academic research related to audit exemption

Minnis and Schroff (2017) highlighted that private firms have divergent financial disclosure and auditing regulations around the world. For example, many small firms with limited liability in Europe are required to disclose financial information publicly, and they are required to have their financial statements audited (Minnis & Schroff, 2017; Vanstraelen & Schelleman, 2017). By contrast, in the US and Canada, private firms generally have much lower statutory requirements. Prior researchers have reviewed the arguments for and against financial reporting regulation (e.g., Lennox & Pittman, 2011; Minnis & Schroff, 2017). However, Minnis and Schroff (2017, p. 474) concluded that 'the extent to which each of the benefits and costs weighs into a country's culture and institutional framework is likely to shape the country's level of regulation.'

Prior literature has examined views relating to regulatory relaxations for small companies and voluntary auditing (e.g. Carey, Simnett & Tanewski 2000; Tauringana & Clarke, 2000; Chung & Narasimhan, 2001; Seow, 2001; Collis, 2003; Allee & Yohn, 2009; Minnis, 2011; Kim et al., 2011; Niemi et al., 2012; Ojala et al., 2016, Vanstraelen & Schelleman, 2017, Weik, Eierle & Ojala, 2018). Prior literature suggests that audits bring benefits to small firms. For instance, Blackwell, Noland and Winters (1998), Kim et al. (2011) and Minnis (2011) suggested that financial statement verification influences lenders' pricing decisions. Minnis (2011) argued that firms with audited financial statements are expected to have a lower cost of debt than firms with unaudited financial statements. Hence, Minnis (2011, p. 460) provided evidence 'that lenders rationally place more value on verified financial information because the verified statements provide higher quality information for assessing borrowers.' To conclude, Vanstraelen and Schelleman (2017, p.578) emphasized that 'private company audits generate real economic benefits in the form of lower interest rates on debt, higher credit ratings and better access to credit.'

When reviewing the literature related to directors and owners of small companies and their views on audit exemption thresholds in different institutional settings, interesting observations can be made. For instance, the findings of Collis (2003) suggested that while directors of small companies can see benefits in retaining the audit and having an independent check on their accounts, they support the proposal to increase the audit exemption threshold in the UK. The main arguments against the statutory audit were that there would be no benefit in having the accounts audited or that there would be cost savings from discontinuing the audit. Moreover, Collis, Jarvis, and Skerrat (2004) investigated whether the three size criteria in company legislation are appropriate proxies for the demand for audit. In each measure of size, they found a significant association with the demand for a non-mandatory audit. Thus, Collis et al., (2004) concluded that the larger the company, the more likely it is that the directors will choose to have the company's accounts audited.

Collis (2010) has analyzed the empirical data of the directors of small companies in Denmark and the UK. The focus of the British survey was on the impact of raising the thresholds for audit exemption to the EU maxima, whereas the Danish survey focused on first time adoption of the audit exemption. The empirical results indicated that the directors of a significant proportion of companies in both countries (43% and 41% respectively) predicted the company would have a voluntary audit. Collis (2010, p. 226) argued that 'this behavior could be explained as the influence of traditional action on economic rationality but the study identified other determinants.' The results revealed that while turnover alone can predict audit demand, it was not suitable for the motivation of the directors to opt for a voluntary audit. Moreover, the findings indicate that reducing information risk, inherent risk and control risk is more important in Denmark than in the UK.

In addition, Marriott and Marriott (2000) examined professional accountants and the development of a management accounting service for small firms in the UK. The owner-managers of 15 smaller companies were asked to participate in semi-structured interviews, and they were asked whether their accounts were audited. In the cases where the audit exemption had been taken to use, the owner-managers reported that they had not benefited from a reduction in the fees. Clatworthy and Peel (2013) used a sample of UK private companies to examine the effects of voluntary audit on the likelihood of errors occurring in published annual accounts. Clatworthy and Peel (2013, p. 1) presented that 'audited accounts are approximately half as likely as unaudited accounts to contain errors.' Hence, they argued that their results should be of interest to policymakers, who are considering exempting more private firms from the statutory audit requirement because exempting more companies from the statutory audit may result in poorer accounting quality.

In addition, studies using datasets outside the UK give us essential aspects to consider. Kamarudin, Zainal Abidin, and Smith (2012) examined audit exemption among SMEs in Malaysia. Based on their results, factors such as audit value, audit burden, and audit costs have been shown to exert a significant influence on the acceptance level of audit exemption. Since the majority of SMEs would opt for audit exemption where it is available, Kamarudin et al.'s (2012) results indicate that SMEs do not perceive the value of the audit. Thus, SMEs in Malaysia may think that they are obligated to have audited accounts due to the regulations and not because of the value of the audit and the benefits offered. Kamarudin et al. (2012, p. 161) concluded that 'the problem is not whether an audit is desirable or valuable for companies but whether the balance of costs and benefits of having an audit will bring advantages to the company.' Even though prior studies have suggested that auditing brings benefits for small companies (e.g., Dedman & Kausar, 2012; Dedman, Kausar, and Lennox, 2014; Vanstraelen & Schelleman, 2017), these results raise questions for instance, how the companies themselves might more clearly see the benefits of the statutory audit.

The latest study conducted by Weik et al., (2018) extends the previous studies by using data from Germany. They found evidence that the legal form in which a firm operates, the status as a subsidiary, and outsourcing are also factors impacting on voluntary audit decision. Moreover, by examining the professional qualifications of those to whom accounting tasks are outsourced, Weik et al. (2018, p. 2) revealed that 'outsourcing accounting tasks to an external tax advisor decrease the likelihood of a voluntary audit, whereas outsourcing accounting tasks to an external auditor increase the likelihood of a voluntary audit.'

In summary, previous studies have extensively discussed issues such as financial disclosure and auditing regulations, the drivers of the voluntary audit, the benefits and costs of audit exemption, obstacles and problems related to statutory versus voluntary audit. However, this paper takes a new approach to the topic.

3. Statutory auditing in Finland

Corporations and foundations must appoint an auditor and conduct an audit in accordance with the Finnish Auditing Act, the Finnish Accounting Act and any acts applicable to the corporation or foundation in question. The smallest corporations are exempted from the statutory audit obligation. An auditor in Finland must be a natural person or an authorized firm of auditors. An auditor must have such knowledge and experience about accountancy, economic and legal affairs, and auditing as is necessary considering the nature and the scope of the activities of the corporation. A person lacking full legal capacity, in bankruptcy, or banned from business operations may not be elected as an auditor (The Finnish Auditing Act, 1141/2015).

3.1 Current audit exemption thresholds

According to the current Finnish Auditing Act, an entity is exempt from a statutory audit if two of the following criteria are met for the two previous financial periods:

i) Total balance sheet is under 100,000 euros,

ii) Turnover or equivalent is under 200,000 euros

iii) Number of personnel is under three.

A statutory audit must, however, be performed if the main business of the entity is the ownership and governance of financial securities or the entity has significant influence over the business or financing of another entity.

3.2 New audit exemption thresholds proposed by the Ministry of Economic Affairs and Employment

The Ministry of Economic Affairs and Employment is responsible for developing auditing legislation in Finland. The Ministry of Economic Affairs and Employment in January 2018 released a memorandum that suggests increases in audit exemption thresholds. The proposed amendments would expand the scope of the current rules, and if enacted, would be effective from 2020. The proposed new audit exemption thresholds are higher than the current ones. An entity is exempt from a statutory audit if one of the following criteria is met for the two previous financial periods:

i) Total balance sheet is under 350,000 euros,

ii) Turnover or equivalent is under 700,000 euros

iii) Number of personnel is under ten.

The Ministry of Economic Affairs and Employment argued that the change would remove a limit value from the legislation, increase the businesses' freedom and responsibility to decide on their matters in a way that suits them best, and decrease the annual administrative costs for the smallest companies.

3.3 Recent audit exemption discussion in other countries

It is cautiously suggested that the discussion on whether or not to increase the audit exemption thresholds is never-ending (e.g., Clatworthy & Peel, 2013; Haapamäki, 2018). For instance, Collis (2012, p. 463) stated that 'regulation should not give the impression that there is no benefit to micro-companies from filing full audited accounts'. Moreover, confidence in smaller companies' performance is argued to be an essential societal benefit (e.g. Baket et al., 2014; Accountancy Europe, 2018). Relatedly, Sweden and Italy have very recently evaluated the appropriateness of their audit exemption thresholds. Sweden concluded that the exemption of small firms from the statutory audit was unsuccessful. The costs of audit exemption to society outweigh the benefits. The

Swedish National Audit Office published a report[2] (2018) that made an impact assessment of the regulatory change; it demonstrated that the statutory audit of small companies is valuable both to the companies themselves and to the society. The main findings of the report outlined numerous concerns in relation to abolishing the statutory audit requirement for smaller companies. For instance, companies' competitiveness and growth have not improved following the increase of the audit exemption thresholds. The report highlighted that those companies which opt out of the audit do not have higher growth rather the opposite. When evaluating the cost savings of those companies that opt out of the audit, these savings were relatively small. Moreover, the profitability of the small firms did not improve as expected Furthermore, the report emphasized the increased risk of economic crime and tax evasion, and mistakes in accounting for companies which were not audited (The Swedish National Audit Office Report, 2018). Based on this evidence, the Swedish Government has decided not to increase the audit exemption thresholds (Accountancy Europe, 2018).

Italy has also been evaluating the audit exemption thresholds as a part of a business insolvency legislation reform. The main reason for this evaluation was the recognition that smaller companies which were not subjected to any audit or control system were the first to become insolvent. Therefore, Italy lowered the audit exemption thresholds: the new law was approved in October 2017 (Accountancy Europe, 2018). Hence, it can be interpreted that Italy noticed that a certain level of controls could be useful to avoid business failures and therefore, the control level (statutory audit) is for to the public good.

4. Research design

Using publicly available documents, this paper seeks to understand how the regulatory structures for statutory auditing for smaller companies have been evaluated. While this methodological approach is qualitative and descriptive of what has taken place in these documents, it is also analytical in that it seeks to illustrate the increasing degree of similarity or diversity. Qualitative research techniques are most appropriate for studies where the purpose is to comprehend

[2] A summary of the report in English is available at: https://www.riksrevisionen.se/en/about-the-swedish-nao/communication-and-media/nyhetsarkiv-eng/2018-02-05-the-audit-obligation-for-small-companies-should-be-reintroduced.html

the “how” and “why” of real-life practices (e.g. Yapa, Ukwatte Jalathge & Siriwardhane, 2017). Hence, qualitative research is appropriate for providing in-depth awareness of the perspectives under discussion, and this study therefore uses the qualitative approach. The official quarters that have drawn up the statement regarding audit exemption thresholds are presented in Table 2. As discussed earlier, the neo-institutional theory is utilized comprehensively to identify factors affecting audit exemption thresholds.

4.1 Data for analysis

The Ministry of Economic Affairs and Employment received 43 submissions[3] to its memorandum. The received statements are mainly from official quarters, but there are a few individuals who wanted to comment on the issue. The submissions were divided into three different groups according to the views in relation to the statutory audit requirement: the first group was against or did not support the increase in audit exemption thresholds; the second group supported the increase; and the final group made no comment on the increase issue. The submissions are inter alia from Big 4 audit firms, mid-tier audit firms, recognized supervisory bodies, governmental departments, investor bodies, individuals and other stakeholders. To summarize, ten of the submissions supported the view of increasing the audit exemption thresholds[4], while 21 were against the increase. The last group consists of statements that do not comment directly on the issue. After the categorization of the statements, they were carefully read and analyzed, in an inductive manner. Through a neo-institutional lens, the overall purpose is to introduce, summarize, and analyze the extent of the submissions on audit exemption thresholds. This study had no predispositions to the issues that would be covered.

Based on an initial review of each document, notes were made on various aspects, similarities, and differences among the responses resulting in a number of emerging views that could be concluded. The arguments were initially coded based on previous studies and were continually refined as emerging themes and phrases appeared in the data as the research continued. Drawing conclusions of

[3]The submissions in Finnish are available at:
http://tem.fi/hankesivu?tunnus=TEM031:00/2016%20

[4]The Federation of Finnish Enterprises (Suomen Yrittäjät) and The Federation of Finnish Financial Administration (Taloushallintoliitto) produced one statement together.

textual analysis was accomplished by identifying patterns and themes throughout the transcription of data.

INSERT TABLE 2 HERE

5. Findings

This paper relies on a qualitative analysis of the submissions. A content analysis of the submissions will determine the extent of disagreement or support for the proposed audit exemption thresholds. A research approach relying on content analysis involves an element of subjectivity when interpreting messages (Dellaportas, Senarath Yapa & Sivanantham, 2008). However, subjectivity in this paper is minimized with submissions explicitly responding either positively or negatively to proposed increases in audit exemption thresholds. In addition, this paper conducted an interpretative textual analysis of these submissions examining the textual message within these three groups.

5.1 Evaluating the submissions against the increase of audit exemptions thresholds

The submissions against the increase of audit exemption thresholds were examined by identifying a conceptual framework stemming from prior literature while adding cultural features. Table 3 presents the conceptual framework utilizing the neo-institutional theory and the main arguments against the increase. The majority of submissions (86 percent) argued that the working group's case for limiting the requirement for the small company audit appears to be motivated solely by the desire to reduce cost burdens that are not defined precisely. This can be interpreted as coercive pressure. As mentioned earlier, the European Commission has suggested that the regulatory burdens should be reduced and the Ministry of Economic Affairs and Employment aims to follow this guidance.

In addition, 57 percent of the submissions stated that statutory audits create positive externalities because of their incremental contribution to the strength of the information environment where companies operate. Thus, without mandatory audit, the proportion of firms opting to undertake this exercise will be suboptimal. Hence, confidence and trust in smaller companies' performance were highly respected and valued. The respondents highlighted the societal value of the audit in the Finnish context, and stressed that statutory audit is a useful safeguard to ensure the accuracy of the financial information. Therefore, it can be interpreted that reliable and accurate accounting information is seen as a foundation pillar for Finnish business as it is for any business. Thus, 86 percent of the submissions clarified that reliable financial information and auditing play a critical role in advancing the public interest. However, 43 percent of the respondents suggested alternatives to the statutory audit. They recommended that small firms should benefit from simplified auditing requirements. Therefore, an alternative to the statutory audit could be a review, which is a lighter version of the audit. This would allow small firms to reduce their administrative costs. An extended review could mean an audit having narrower scope than a full audit; this is usually confined to specific accounts or operations. Furthermore, it should be tailored to the requirements of small firms. In addition, some respondents raised concerns about the future of the auditing profession if the thresholds are raised. Concerns were related to the availability of audit services and the general importance of the auditing profession for the society. Relatedly, they suggested that the supply of audit services can be limited in a thinly populated area. In addition, the respondents acknowledged that audit firms have an essential role as employers and trainers in Finnish society. These above arguments can be interpreted as mimetic isomorphism.

Although there has been much debate about potential cost saving for small firms, 81 percent of respondents were skeptical that these cost savings are as significant as they are argued to be. Therefore, based on the submissions, the benefits of audited accounts should be highlighted more to the firms themselves because it seems that Finnish small firms do not recognize the value of the audit. Small firms perceive auditing just a statutory requirement. However, 62 percent of the respondents suggested that there are benefits of having an auditor. These benefits are, for instance, that an auditor is a reliable and objective partner who might prevent frauds and other material errors. Further, the independent auditor helps to identify weaknesses in the business and suggests improvements for the future. Auditors' advice can cover the suitable level of internal controls for the small firm. Specifically, errors in accounting information may prohibit business owners from making the best decisions. Business owners can find it challenging to review historical financial data and discover trends if errors are in place. Moreover, 62 percent of the respondents argued that the audited financial statements of small firms are crucial for potential lenders. Particularly, the audited accounts are vital to the bank's lending decision. The respondents also assumed that the audited accounts increase the willingness to lend to small business and were therefore against the increase. As discussed earlier, the third type of institutional pressure within neo-institutional theory is called normative isomorphism. This type refers to collective values that bring out conformity of thought and deed within institutional surroundings (DiMaggio and Powell, 1983). Further, Mir and Rahaman (2005) suggested that normative pressures result primarily from professionalization, and Hassan (2014) emphasized that normative pressures result from the norms and values of the profession that influence the degree to which a nation will adopt accounting practices. Thus, these above statements can be identified as normative isomorphism.

Finally, respondents suggested that many small business owners do not have an in-depth understanding of accounting principles. Professional auditors can audit financial information and provide business owners with insight as to the accuracy and validity of the accounting information. Valid accounting information can help business owners secure external financing, and this is usually extremely important for small businesses. The respondents agreed that the greater level of assurance remains one of the key benefits of an annual audit. They acknowledged that a good accountant will always carry out a certain level of checks to satisfy themselves that the accounts are not misleading, but this is not the same as an audit, and unaudited accounts do not convey the same degree of assurance as audited accounts. Moreover, the performance of accountants and accounting firms is not regulated and monitored like auditors' performance in Finland. This was a particular concern in 38 percent of the submissions. To conclude, respondents valued that an auditor is independent, responsible for the work conducted and under official supervision. For the public interest, these are unquestionably essential.

In addition, many of the respondents required more research and evidence on the previous change in audit exemption thresholds in Finland that came into effect 2007. What were the consequences of this previous regulatory change? For instance, the growing risk of the increase in the grey economy was emphasized. Furthermore, fears about reduced tax revenue, increased economic crime, and poorer accounting quality were raised in 86 percent of the submissions. The respondents suggested that a lack of audit reduces the opportunities for control and transparency in small companies. Therefore, another threat is that there might be a higher risk of errors in annual reports and irregularities occurring in small firms if the statutory audit requirement is modified. This situation might lead to a serious concern since in Finland there are currently no procedures that would rectify such misstatements. This is problematic since various stakeholders have a justified need for accurate financial information for the assessments they make in their operations. Thus, based on the discussion above, it can be cautiously interpreted that cultural features also affect statutory audit requirement and audit exemption thresholds.

INSERT TABLE 3 HERE

5.2 Evaluating the submissions supporting the increase in audit exemption thresholds

The submissions supporting the increase in audit exemption thresholds were examined by identifying a conceptual framework which stems from prior literature while adding cultural aspects. The conceptual framework also exploits neo-institutional pressures. Table 4 presents the main arguments supporting the increase in current audit exemption thresholds. Firstly, the respondents within this group acknowledged that auditing is an important process and companies can benefit from having an auditor. However, it was clearly interpreted from the submissions that this does not imply that auditing should be mandatory for all small companies. The respondents suggested that regulation directed at holding big business to account often creates a lot of paperwork for a small company whose transgressions are unlikely to impact the broader economy. Therefore, 50 percent of the submissions suggested that harmonization of the statutory audit requirement is desirable and audit exemption thresholds could be increased because Finland should follow guidelines for international auditing practices. Moreover, the statutory audit requirement for small companies was argued to be over-regulated because it might hinder economic growth and to impede smaller firms' innovation and ability to hire more staff. Hence, the above discussion implies that coercive pressures are influence audit exemption thresholds.

Similarly, 50 percent of the respondents supported the argument that low audit exemption thresholds do not give entrepreneurs the opportunity to evaluate the costs and benefits of auditing themselves. The decision to hire an auditor should be a voluntary decision and not forced by law. Therefore, if the benefits of the audit outweigh the costs, the audit is demanded voluntarily. The respondents also suggested that small firms require for fewer rules, more flexibility, and freedom in their decision-making. To summarize, these arguments can be interpreted as mimetic pressure.

Finally, the respondents argued that the cost of the universal application of the requirement to have the accounts audited falls disproportionately on small companies, particularly if the accounts are of little use for external users. This argument indicates normative pressure; however, a closer look at the argument offers further insights into the nature of the means of cultural features for the adoption of audit exemption thresholds. It seems logical that family-owned firms which do not have external funding might not benefit directly from the audit. Therefore, 50 percent of the submissions clarified that the current governmental trend in Finland should focus on removing norms.

The statutory audit requirement is argued to be unnecessary protectionism that affects smaller firms' competitiveness in international markets. Respondents highlighted that according to the Accounting Directive, member states should release small companies from the statutory audit requirement if there is no specific justification to demand it i.e., special circumstances, or needs of companies or users of financial information. Thirty percent of the respondents suggested that, in Finland, these kinds of particular reasons do not exist. For instance, the respondents argued that financial crime and the grey economy in Finland is not at such s high level that this protectionism is justified. It must be noted that the auditor is not a tax or financial crime inspector, they concluded. The purpose of an audit is for an independent third party to examine the financial statements of an entity. Hence, the principal objective of an audit is for the auditor to report to the shareholders on the truth and fairness of the accounts. For these reasons, the respondents stated that the proposed increase in audit exemption thresholds is very moderate and is therefore supported. Overall, and in line with the results, the conceptual frameworks highlights the importance of EU regulation and other coercive reasons that might affect audit exemption thresholds.

INSERT TABLE 4 HERE

5.3 Evaluating the statements that did not comment directly on the issue

The respondents within this group did not comment directly on whether they supported the proposed increase. Thus, this section highlights the main general arguments related to the topic that this group brought up in their submissions. The respondents presented a solid discussion of the importance of a financial statement audit. Within this group, it was also mentioned that the review could be a relevant alternative for the statutory audit. However, the respondents stated that audit exemption thresholds are political decisions made by governments and therefore these decisions should be made with care.

6. Conclusions

Baker et al. (2014) used the neo-institutional theoretical framework to examine the regulation of statutory auditing. Therefore, this study also utilizes the neo-institutional theory to examine audit exemption in Finland. In recent years, more EU countries have increased limits to the mandatory audit for limited liability companies (FEE, 2016). This illustrates that the EU has recently adopted an approach which attempts to reduce the administrative requirements for small companies. Weik et al. (2018, p. 1) emphasized that 'this approach assumes that small entities carry a disproportionately high burden of administrative costs, covering, for instance, the preparation of full financial statements and auditing.' By removing statutory audit requirements from smaller entities, the EU has created a plan with the intention of strengthening employment and increasing economic growth in the EU (Accountancy Europe, 2018). The focus has also been on improving the competitiveness of the audit industry by the simplification and facilitation of regulations and public services.

Exploiting the neo-institutional theory, this study suggests that the Finnish audit regulatory arena is an undeniably complex one, including competing interests, tensions, and perspectives. By focusing on a wide range of arguments related to audit exemption stemming from prior literature, the results of this study contribute to the literature by updating and extending the previous policy-based discussion about the statutory audit requirement in Finland and Europe. This paper is examines the amendment to increase audit exemption thresholds. Using publicly available documents, the study analyzes and reviews these documents in an inductive manner. This study is draws important conclusions and makes suggestions for fruitful future research.

From this review, it appears that coercive, mimetic and normative pressures influence the audit exemption in Finland. Prior literature suggests that institutional pressures are seen as adopting the best practices in order to be more legitimate or successful. Therefore, it can be cautiously interpreted that because other EU member states have relatively high audit exemption thresholds, Finland should also follow this trend. However, it is not an easy task to achieve a consensus on audit exemption thresholds for smaller companies. Prior research suggests that the audit is seen valuable for directors who are not involved in accounting functions on a day-to-day basis, and that a business is running in accordance with the information they are receiving, and therefore, the audit helps to reduce the scope for fraud and poor accounting. These arguments support the statutory audit requirement for smaller companies. While examining the statements that supported the increase, harmonization of the statutory audit requirement, freedom of choice, and over-regulation were highlighted. Thus, in addition to the neo-institutional pressures, the cultural features are affecting the audit exemption thresholds.

However, this study suggests that more scientific research is clearly needed. Many arguments made for or against the increase needs more empirical evidence. For instance, what is the magnitude of cost savings for Finnish small firm by opting out of the audit? Specifically, what are the consequences of increasing the thresholds? The analysis reveals that the previous change in audit exemption thresholds in Finland should be examined more carefully. Did the previous legislative change produce good and fruitful results? Respondents indicated that more research should be conducted to find alternatives—a different kind of assurance for small firms. Therefore, future studies should examine in more detail the special role of small firms and assurance services. The review engagement and its suitability for the Finnish context should be examined in detail because it could be an opportunity to maintain the reliability of financial information of small firms. Moreover, the views of the directors of small firms on this issue should be examined, because they bear the administrative and cost burdens of compliance, which the European Commission and the Finnish government would like to reduce.

To conclude, the statutory audit for small companies is certainly controversial. The degree of variation of audit exemption thresholds must be interpreted within the context of country-specific social, economic and cultural differences; the different notions held by national regulators about the goal of financial reporting assurance; and the relative importance of principles and rules in auditing within a country. In the EU Member States, raising the thresholds to meet EU harmonization objectives means that the enlarged category of small companies is not required to be audited. Thus, the societal purpose of the statutory audit requirement varies between the EU member states. This discussion leads to the question of whether it is even possible to harmonize the statutory audit requirement across the EU. Privately held firms are very significant players in the European economy and the role of auditing seems to differ across European countries. Therefore, the harmonization of audit exemption thresholds might be a challenging goal to achieve.

This study is subjected to the following limitations. The paper relies on a qualitative analysis of regulatory structures related to the audit exemption. The study is based on a review and critical analysis of publicly available documents. As such, it has limitations similar to other qualitative studies. In addition, the study focuses on one particular country, and thus generalization of the findings must be approached with caution.

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Table 1. EU maxima for audit exemption (€)

	2003	2008	2013
Balance sheet total	€ 3.65 m	€ 4.40 m	€ 6.00 m
Net turnover	€ 7.30 m	€ 8.80 m	€ 12.00 m
Average number of employees	50	50	50

Notes: Adopted from the Council Directive 2003/38/EC, the EU Fourth Company Law Directive 2006/46/EC and the EU Directive 2013/34/EU.

Table 2. The quarters included in the analysis.

The quarters that supported the increase of audit exemption thresholds (total 10)	**The quarters that were against the increase of audit exemption thresholds (total 21)**	**The quarters that did not take a direct stand on the issue (total 12)**
-Finnish Chambers of Commerce -The Federation of Finnish Enterprises -The Federation of Finnish Financial Administration -The Finnish Real Estate Federation -The Council of Finnish Foundations -Financial Supervisory Authority **Governmental departments** -Ministry of Transport and Communication -Ministry of Justice -Ministry of Social Affairs and Health -Ministry for the Environment	**Big 4 audit firms** -PWC oy -KPMG oy -Ernst & Young **Mid-tier audit firms** -Nexia oy -BDO oy -Revico Grant Thornton oy -Idman Vilen Grant Thornton oy **Recognised Supervisory Bodies** -The Finnish Association of Auditors -The Association of Professional Auditors -The Association of the Local Authority Auditors **Governmental departments** -Ministry of the Interior -Ministry of Finance -Tax Administration -The Tax administration, Department of grey economy **Others** -Finance Finland, FFI -The Finnish Bar Association -The Association of Corporate Analysis -Finnvera oyj (specialised financing company) -Suomen Asiakastieto oy (credit rating company) **Individuals** -Professor	**Governmental departments** -Ministry of Defence -Ministry for Foreign Affairs of Finland -The Supreme Administrative Court of Finland -the Helsinki administrative court **Others** -The Finnish Venture Capital Association) -OP ryhmä (OP Financial Group) -The Finnish Patent and registration office, Auditor Oversight) -The Finnish Patent and registration office, -The Confederation of Finnish Industries -Nasdaq Helsinki Oy -The Institute of Internal Auditors Finland **Individuals** -Assistant professor

Table 3.
Conceptual framework for identifying the main arguments against the increase of audit exemption thresholds. (n=21)

Arguments steaming from prior literature	n	%
Coercive isomorphism		
-The government's case for limiting or eliminating the requirement for the small company audit appears to have been motivated solely by the desire to reduce cost burdens. (Collis et al., 2004; Kamarudin et al., 2012)	18	86
Mimetic isomorphism		
-Audit creates positive externalities because of its incremental contribution to the strength of the information environment where businesses operate. Thus, without mandatory audit, the proportion of firms electing to undertake this exercise will be suboptimally low (Lennox and Pittman, 2011; Dedman and Kim, 2017)	12	57
- Reliable financial information and auditing play critical role in advancing the public interest (Humphrey and Moizer, 2008, Baker et al., 2013)	18	86
- Respondents suggested alternatives to the statutory audit requirement of smaller firms, i.e. review (Haapamäki, 2018)	9	43
Normative isomorphism		
- Skepticism that are the cost savings as significant as they are argued to be, it is easy to focus just on the audit fees saved (Dedman & Kausar, 2012)	17	81
-Companies derive economic benefits from transparent financial reporting and from having their financial statements audited (reduced agency costs see Dechow, Ge & Schrand , 2010; Leuz & Wysocki, 2016, the reviews of the literature)	13	62
-The respondents suggested that there are benefits of having an auditor (e.g., Blackwell et al., 1998; Minnis, 2011) For instance, audit can generate real economic benefits in the form of lower interest rates on debt, higher credit ratings and better access to credit (Vanstraelen & Schelleman, 2017) In addition, the respondents argued that the audited financial statements of small firms are crucial for potential lenders (Blackwell et al., 1998).	13	62
Arguments related to cultural factors		
- The performance of accountants and accounting firms is not regulated and monitored as auditors' performance in Finland.	8	38
- The respondents required more research and evidence on the previous change in audit exemption thresholds in Finland that came into effect 2007. What were the consequences of this regulatory change?	9	43
-The fears about reduced tax revenue, increased grey economy and economic crime.	18	86
-Because the regulatory changes of audit exemption in Sweden were not successful, Finland should not make the same mistakes.	14	67

Table 4. Conceptual framework for identifying the main arguments supporting the increase of audit exemption thresholds. (n=10)

Arguments steaming from prior literature	n	%
Coercive isomorphism		
-Harmonization of auditing practices in the EU is desirable (Baker et al,. 2001, Lopez Combarros, 2000).	5	50
Mimetic isomorphism		
-If the benefits of the audit outweigh the costs, the audit is demanded voluntarily (Lennox and Pittman, 2011).	5	50
Normative isomorphism		
-Cost is one of the main reasons mentioned for eliminating the mandatory audit. The respondents argue that the cost of the universal application of the requirement to have the accounts audited fall disproportionately on small companies, particularly if the accounts are of little use for external users (Chung and Narasimhan, 2001).	5	50
Arguments related to cultural factors		
- The current governmental trend should focus on removing norms.	5	50
- Statutory audit requirement for small companies is argued to be unnecessary protectionism.	2	20
-According to the Accounting Directive, member states should release small companies from the statutory audit requirement if there is no specific justification to demand it. This means the special circumstances or necessities for companies or users of financial information. Specifically, the respondents suggested that in Finland these kinds of particular reasons do not exist.	3	30

Figure 1.

Turnover thresholds for audit exemption thresholds for EU Member States in 2016, n=28 (FEE, 2016).