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# Differences in auditing standards

- A study about auditing standards in China,  
Kosovo and Sweden

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# Abstract

**Title:** Differences in auditing standards - A study about auditing standards in China, Kosovo and Sweden

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**Five key words:** Audit, Culture, Auditing Standards, ISAs, Harmonization

**Purpose:** The purpose of this study is to do a comparison of the perception of auditing standards by auditors from different countries.

**Methodology:** This study is based on quantitative analysis by a questionnaire sent to auditors in China, Kosovo and Sweden. A sample of 55 respondents with 25 auditors from China, 16 auditors from Kosovo and 14 auditors from Sweden was collected in order to analyze our empirical study.

**Theoretical perspectives:** Hofstede's cultural theory and the theory of profession are the theories that will be used throughout the study and will be our foundation when making the hypotheses.

**Empirical foundation:** Regression analysis, Kruskal-Wallis test and descriptive information are being used to test our hypotheses and to examine the differences in perception of auditing standards.

**Conclusions:** The results showed that the uncertainty avoidance plays a crucial role in auditors' preference of standardization towards their performance in audit practices. Moreover, differences between countries do not influence auditors according to the theory of profession.

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*Yina Lin*

*Johan Wilander*

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## Abbreviations

AAPRC	Audit Administration of the Peoples' Republic of China
AICPA	American Institute of Certified Public Accountants
CAuSB	Chinese Auditing Standards Board
CIASC	China Independent Auditing Standards Commission
CIASs	China's independent auditing standards
CICPA	Certified Public Accountants
CPAs	Certified Public Accountants
EGAOB	European Group of Auditors' Oversight Bodies
EU	European Union
FAR	Föreningen Auktoriserade Revisorer
IEKA	Institute of Authorized Chartered Auditors
IFAC	International federation of Accountant
IFRSs	International Financial Reporting Standards
IOSCO	International Organizations of Securities Commissions
ISAs	International Standards on Auditing
KBSFR	Kosovo Board on Standards of Financial Reporting
MFE	Ministry of Finance
MoF	Ministry of Finance
NAO	National Audit Office
NSA	National Standards on Auditing
POEs	Publicly owned enterprises
SCAAK	Society of Certified Accountants and Auditors in Kosovo
SOEs	Socially owned enterprises
SRS	Svenska Revisorssamfundet
UN	United Nations
UNSCR	United Nations Security Council Resolution
UNMIK	United Nations Interim Administration Mission in Kosovo

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# 1. Introduction

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*In this first chapter the background to the thesis will be presented followed by a problem discussion leading to the research purpose as well as the research question of the study. Lastly, the outline of the thesis will be explained.*

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## 1.1 Background

Diaconu *et al.* (2009) state that the globalization process affects much of the economical environment, including accounting and auditing. The globalization of capital markets and countries willingness to open up their doors to foreign investments has increased the international capital flows. It has therefore become more important to have unanimous financial reports and audit reports that are comprehensive across nations (Gangolly *et al.*, 2002; Wong, 2004). Dunn (2002) further suggests in his study that enforcement of the auditing standards can increase the credibility of the work of international financial reporting. It is also stated that if audit reports or financial statements are not comparable then comparability across borders may not be achieved (*ibid*).

Corporations have changed from being national to being more global and looking for new markets outside their national borders for opportunities to invest and trade in (Hermanson *et al.*, 1996; Fischer, 2003). In other words, corporations have become multinational and they have become an important force in the world economy during the past decades. In this globalization it is important that the investors can trust that the audit and the financial reports from a company are reliable (Diaconu *et al.*, 2009). According to Humphrey and Loft (2009) the importance of international investors and their demand for financial reports that are “*prepared and audited in accordance with globally accepted international standards*” has grown. Malthus (2004) state that it would be beneficial to have consistency in accounting standards, which would make the financial reporting more comparable for stockbrokers, analysts and investors when making their investment decisions. International standards can also have a superior importance for investors when investing in the developing countries, where the ability

to attract foreign investors may be hampered by the poor quality of the financial reporting. The adoption of international standards, can in developing and emerging countries, be seen as a less costly alternative of developing their own standards (Gangolly *et al.*, 2002).

The differences between accounting and auditing as well as the legal, regulatory and business environment in different countries mean users of financial statements are more familiar with reports issued by domestic entities rather than those issued by foreign entities. This can indicate to an information asymmetry between the two classes of financial statements users, where the asymmetry gets even more aggravated by differences in the accounting and auditing standards. Harmonization of the accounting and auditing standards and of the audit report mitigates the information asymmetry (Gangolly *et al.*, 2002).

The importance of convergence between national and international standards has increased, though the world has progressively become more globalized. International regulators, such as the European Commission, the International Organizations of Securities Commissions (IOSCO) and the World Bank are working towards a high quality, globally consistent and uniform regulatory and standards regime (Wong, 2004). The development of high quality standards has a major impact of a successful adoption of the international standards. Action is required both at the national level as well as at the international level for the adoption and implementation of the standards (*ibid*). The World Bank affirms that developing and emerging economies, with no existing national standards, find it easy to adopt the international standards. Nonetheless, they do find it most difficult to implement the standards. Implementation of the standards by networks of auditing firms is supposed to be easier, though the development and implementation of global audit methodologies are greater (*ibid*).

International Standards on Auditing (ISAs) are set by the International Auditing and Assurance Standards Board (IAASB), an independent setting board within the International federation of Accountants (IFAC) (Humphrey and Loft, (2009).

The IAASBs clarity project, started in 2004 and completed in 2009, aims for improvements of the ISAs standards, thus raising concerns by the accountancy profession. Also, the clarity project tends to clarify the language, eliminate ambiguities and improve the understandability of the ISAs. Today the ISAs have been adopted as

national standards in various countries and translated into different languages (Nobes and Parker, 2008; IFAC Member Body Compliance Program, 2010).

The dissemination of ISAs standards by the IFAC sets in motion a process towards harmonization in various countries by the assertion of standards by individual countries, through correction of laws or national standards. This is according to Gangolly *et al.* (2002) called as *de jure* harmonization whereas the result of global economic and competitive forces leading to following international standards in practice, is distinguished as *de facto* harmonization.

The International Auditing and Assurance Standards Board (IAASB) showed in their 2002/2003 annual reports that more than 70 countries has either adopted ISAs or have no differences between their national standards and ISAs. The American Institute of Certified Public Accountants (AICPA) supports the goal of developing one set of high quality auditing standards and the global convergence (Giles *et al.*, 2004). According to the European Union (EU) a new US audit and accounting regulatory environment may have a huge influence on the establishment of a convergence model for auditing and audit profession (Giles *et al.*, 2004).

International auditing standards is seen as a way of enhancing the international comparability and authority of financial reporting and audit work. This can escort to stimulating cross-national investment and integrating local enterprises in global markets (Mennicken, 2008). Poullos (2004) state that the debate of the globalization is about how our era differ in different countries.

There is still much work that has to be done before improving international auditing standards and before implementing effective audit quality control measurements internationally. The IOSCO is working constantly, together with other international groups, for improvements to be made in international audit. High quality standards, effective application and enforcement of the standards are of major importance to those who participate in global capital markets (Koski-Grafer, 2005).

The issues being debated about the different responds from different countries in the world's securities markets will affect how global financial reporting and auditing is implemented in the future (*ibid*).

## 1.2 Problem discussion

There are several factors that affect the process of harmonization in accounting and auditing. Some of the major factors are the legal, cultural, political and economical differences (Gangolly *et al.*, 2002). One of the reasons behind countries unwillingness of fully incorporating IFRSs and ISAs in their legislation is that countries may find it necessary to improve the international standards for providing its national specificities (Wong, 2004).

The classification of legal system of countries is mentioned by Nobes and Parker (2008) as one of the factors that influence one country's accounting system. According to their study, there are two mainly legal systems, one is common law system and the other one is codified Roman law system. The essential difference between these two types of legal systems is that there is no specific detail in common law for the context of auditing whereas rules are set up for auditing and financial reporting in codified Roman law system. There has been research focused on the liability of auditors across national boundaries based on legal system. Several studies (Baker and Quick, 1996; Pacini *et al.*, 2000; Khoury, 2001; Chung *et al.*, 2010) indicate that the status of auditors' legal liability to third parties is associated with the legal system of special countries. Countries with different legal systems have different auditors' liability in public interest (Baker and Quick, 1996; Pacini *et al.*, 2000; Khoury, 2001). It is argued that codified Roman law countries have higher levels of auditor liability to third parties compared to common law countries. Moreover, in the post-Enron world, countries involved in common law system have indirectly increased the auditors' liability by new legislation and the disclosure requirements, whereas codified Roman law countries cling to their current legislation (Chung *et al.*, 2010).

Thus, both accounting and auditing has a major impact in the process of harmonization we have chosen to only focus on the auditing profession due we want to examine the ISAs standards.

Another mainstream of research focuses on the difference and the difficulty of the process of auditing standard harmonization across cultural borders. Studies of the audit characteristics and cultural and environmental factors found that there exists a significant association within these factors (Hussein *et al.* 1986; Welton and Davis,

1990; Wood, 1996). One should assume that the behaviors and the work of auditors are influenced by cultural differences. A study by Dunn (2002) examined the financial reports on a sample of 201 companies on a global context and found that the cultural factor is a vital element to explain the challenge of convergence and harmonization of financial reporting and auditing.

The process of harmonization of auditing is influenced by various elements, including the competence of auditing profession. There is a deep view held by the public that professional competence, independence of auditors and ethical behavior increase the credibility of accounting information. The reliability and comparability of accounting information plays a vital role in the investment and trade beyond countries borders. This links, directly, to the competence of auditors that prepare and audits the financial reporting (Diaconu *et al.*, 2009). However, the diversification of profession competence across countries border influence the degree of harmonization. Nobes and Parker (2008) believe that the professional level of auditors is one of the factors that influence accounting harmonization. Countries with a large auditing profession tend to produce higher quality in accounting information, compared to those with a small accountancy profession. These differences consequently flow into auditing in practice. Diaconu *et al.* (2009) believes that the harmonization of the qualification of auditors, including training, education and examination, is a crucial process that contributes to the harmonization of auditing.

There are also other influences in the harmonization of auditing than those discussed above. The participation of government, involved in the regulation and interference of economic process, impact the implementation of audit harmonization. In the emerging economic environment, where the government plays an irreplaceable role in the financial market, the political institutions act as a major element on influencing the implementation of auditing standards. Chen *et al.* (2005) examine the modified audit opinions in China and conclude that the audit environment particularly rely on the political institutions in emerging markets.

Thus, international organizations such as IFAC has come a long way when it comes to the development of auditing standards there still exist obstacles that has to be conquered to achieve harmonization of auditing standards. Differences in national systems as well as in the legal system are the main part behind the legal obstacles

throughout countries, where national standard-setters are more willing to set their own auditing standards instead of handing it over to international setting bodies. Additionally, culture may play a vital role for the rise of differences though each country share different values and have different languages. Also, lack of education and lack of competence may vary between countries which further obstruct the harmonization process. Consequently, there are many factors in each country that complicate the process of international auditing standards. (Cassel, 2005; Bode, 2007)

## 1.3. Research purpose and question

### 1.3.1 The research purpose

This explanatory study aims at comparing the perception of auditing standards by auditors from different countries.

### 1.3.2 The research question

Our research question is “How do auditors from different countries differ in perception of auditing standards?”

## 1.4. Outline

Chapter one of the dissertation introduces the reader to the background of the subject, the research purpose as well as the research question. Chapter two further presents the methodology and the reason behind the different approaches for accomplishing the study. Chapter three covers the most relevant theories in connection to the research question. The nature of auditing standards as well as the background to auditing and auditing standards in the three countries is presented. Lastly, legal, political, economic and cultural differences as well as the theory profession are described. In chapter four

the data collected is being described in the three countries concerning their relationship to the auditing standards. Chapter five includes the analysis of the study there several tests are being used for testing the hypotheses and to see whether they are falsified or not falsified. Chapter 6 outlines the conclusions of our study, the limitation and possible future research in this area.

## 2. Method

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*In this section the choice of methodology will be presented in order to answer the research question. The research philosophy, the research approach and the choice between quantitative and qualitative research as well as the choice of theory will be outlined.*

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### 2.1 Research philosophy

In this thesis a positivistic philosophy will be used. The reason behind this is that we are going to use existing theories for developing hypotheses which will then be tested. In such research philosophy it is important that the research is value-free as far as possible. We are going to use a quantitative approach with questionnaires, which probably will make us, what Saunders *et al.* (2007) call, a “feelings” researcher. A “feelings” researcher is distinguished by a researcher that might use their own values when gathering and interpreting data, whereas a “resources” researcher is more value-free. It might not be possible to be fully value-free when we are doing our thesis, but our objective is not to influence the research (Saunders *et al.*, 2007).

### 2.2 Research approach

The thesis will be based upon the deductive approach, where literature will be used to help us identify theories that we further will base our hypotheses on. The hypotheses will then be tested (Saunders *et al.*, 2007). The reason why we choose to use a deductive approach is because there exists a large amount of research within auditing regulation and standard-setting. This research can be viewed as a starting point for explaining the harmonization within auditing and the difficulties that may come along. However, using the deductive approach will limit the opportunity for looking after alternative explanations (Saunders *et al.*, 2007).

Using the inductive approach would include building a theory upon the empirical research. In other words, theory would follow data instead of data following theory, like with the deductive approach. Since we want to explain why there exist differences in auditing standards throughout the countries rather than trying to understand the differences, the deductive approach is more appropriate for our research (Saunders *et al.*, 2007). Using the deductive approach will lead to a quicker completion of the research, thus using the inductive research would lead to a more protracted process (Saunders *et al.*, 2007). We are well aware of the fact that using the deductive research might lead to fewer variables so that some factors might be missed.

By studying different theories within the auditing regulation we will create our own hypotheses which will afterwards be tested.

## 2.3 The qualitative versus quantitative method

To answer our research question in this thesis the data will be collected by questionnaires. By doing so, we have further chosen to use quantitative method for maintaining a wider perspective of sample though, using qualitative approach would mainly indicate to more unstructured and subjective research. We strive at using a large amount of data when trying to answer the research question about auditor perception of auditing standards (Saunders *et al.*, 2007). By using the quantitative approach, the data will be selected through questionnaires based upon auditors in three different countries.

Using questionnaire is an effective way to describe and explain the variability and differences in observed phenomena (Saunders *et al.*, 2007). The questionnaires are supposed to be sent to a wider set of auditors, thus it reflects the general level of the implementation of ISAs in different phenomena. By doing so, it will heighten up the information about the variability in these three countries.

## 2.4 Choice of theory

We have chosen to apply the theories legal differences, political and economic differences, cultural differences and also the theory of profession in our thesis. The reason behind our choice of these theories is because these different dimensions have a major impact when trying to see the differences among countries. Legal differences, political and economical differences will not be further explained or tested in the thesis. Moreover, we will put a greater focus on the cultural part thus cultural differences among countries can help us better define the way the audit process is being used (Boden, 2007). We will also interpret the theory of profession as an opposite explanation of the cultural differences to our hypotheses.

## 3. Theory

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*In this chapter we will present the framework and theories used in our study. We start by discussing the nature of auditing standards. Then, since the empirical data will be based on auditors from China, Kosovo and Sweden (see chapter 4 for further discussion on the chosen countries) and to create a comprehensive framework we find it important to present a background to auditing and auditing standards in these countries. We then discuss the legal differences, political and economic differences, cultural differences and lastly the theory of profession in order to better understand differences among countries.*

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### 3.1 The nature of auditing standards

According to Cassel (2005) three parties must be taken into consideration when defining “auditing”. One of the parties must give a second party commission to scrutinize something which the third party is responsible for. Auditing can include examining, reporting and giving advice to the conclusions of the audit. An auditor is further entitled to get admission to all information relevant for the conclusions and further accept and apply a code of ethics for auditors and auditing standards. Auditors’ skills and their ability of revealing fraud is strongly emphasized in the definition of auditing by Samsonova (2009).

A standard can be based on principles, be referred to regulation and further be applicable for auditors (Cassel, 2005). The context “auditing standards” can refer to the standards comprising a set of one professional body of auditors or to several such sets e.g. referring to auditing standards for gathering evidence (*ibid*).

International standards are linked to local contexts of auditing practice which in turn can be connected to other “worlds”, in other words, to different countries. ISAs and its context have the ability to promote connections of some worlds but at the same time lead to disconnection of others. Standards provided by alliances are necessary for evolving ISAs into a “connecting mechanism”. Political influence, identity and

legitimacy as well as technical resources must then be taken into consideration (Mennicken, 2008).

In order to understand how ISA standards work, negotiations of defining if someone is working in accordance with ISAs or not is necessary. Technical adjustments are essential in order to adopt ISAs. Studies have shown that audit standardization and audit techniques are implicated in ways of thinking about the nature and practice of auditing (*ibid*).

## 3.2 Country specific auditing

### 3.2.1 Auditing in China

The development of audit standards in China (The People's Republic of China) is related to the dramatic economic reform, involving a move from a planned socialist model to a 'socialist market economic system'. This move, as the incentive to establish the credibility lending to financial reporting, leads China in its bumpy road to harmonize auditing standards with international practice. The IFAC Standard Report on China (2009) states that the national auditing standards of China are ISAs. According to this report, China has made significant progress to converge with ISAs. The process of harmonizing of auditing standards is at an advanced stage with the final new set of Chinese standards (incorporating the clarified ISAs) likely to be approved by the Ministry of Finance (MoF) by the end of 2010.

The regulatory framework in China has its own feature compared to Anglo-American model (Nobes and Parker, 2008). The MoF, the authority responsible for the issue of accounting and auditing affairs under the law, undertook preparatory work towards setting up the National Audit Office (the former was the Audit Administration of the Peoples' Republic of China, AAPRC) to undertake audits of all government departments and state-run enterprises (Chong and Vinten, 1998). The Chinese Institute of Certified Public Accountants (CICPA), responsible for formulating professional standards and rules for Certified Public Accountants (CPAs), and monitoring and reviewing their implementation, is also under the control of MoF.

CICPA was established in 1988 and has become the third largest in the world (Nobes and Parker, 2008). The number of registered CPAs and CPA firms in China has grown rapidly to revive the CPA system, although China's first auditing firm was established in 1980 (Tang, 2000, Tang *et al.*, 2002). With the aim to improve the quality and credibility of the auditing profession, the CICPA developed a series of voluntary auditing standards with the cooperation of the Chinese Association of Certified Public Auditors (CACPA), which was founded to administer the profession of public auditors in the early 1990s (Tang *et al.*, 2002).

Subsequently, as it was recognized, the lack of a legal system to govern the CPA profession and the need to achieve international harmonization, partly because wanting to attract more foreign invest capital, the new auditing standard setting process was established. As a result, the CICPA of the China Independent Auditing Standards Commission (CIASC) was formed and the drafting of China's independent auditing standards (CIASs) was approved and issued by the MoF (Xiao *et al.*, 2000; Tang *et al.*, 2002).

China established its share capital system in 1992 as a result of the rapid development of stock markets (Lin and Chan, 2000). However, the deficiencies of the traditional financial reporting system and lack of confidence of investors in the credibility of financial reports forces China to involve in a special road towards harmonization of auditing system. Accompanied with accounting harmonization, China in its uphill travel to harmonize auditing standards with international practice and the Nation Audit Office, has taken a giant leap forward in 1997 by issuing 38 auditing standards and guidelines, the General Independent Auditing Standards (CIASs), for the government audit (Chong and Vinten, 1998; Chong, 2000). This, as the cornerstone, states that the regulatory framework of professional standards for CPAs in China has been basically established (Lin *et al.*, 2000). Chen (1997) stress that the CIASs are modeled on international auditing standards.

With the aim to improve the Chinese auditing system and to accelerate its convergence with the IAASB's International Standards on Auditing (ISAs), the chairmen of Chinese Auditing Standards Board (CAuSB) and the IAASB issued a joint statement in December 2005 (The IFAC Standard Report China, 2009). It is important to know that in the auditing context in China there is a separation of auditing requirement and

auditing guidelines, compared to other standard setters which may practice both of them at the same.

### 3.2.2 Auditing in Kosovo

By the end of the Kosovo war of 1999, Kosovo was placed under temporary United Nations (UN) administration by the United Nations Security Council Resolution (UNSCR) 1244. Kosovo has since then continued developing instruments and institutions required for an independent economic policy (Aroymak *et al.*, 2006).

The Kosovo Board on Standards of Financial Reporting (KBSFR) has the authority to regulate accounting and auditing in Kosovo. Nevertheless, KBSFR has so far lacked the capacity when exercising its regulatory authority. Issues within the implementation arose as a result of the lacking. The framework for auditing in Kosovo is established by the United Nations Interim Administration Mission in Kosovo (UNMIK) Regulation (2001) on the Establishment of the KBSFR and a Regime for the Law on Financial Reporting (Aroymak *et al.*, 2006).

Publicly owned enterprises (POEs), socially owned enterprises (SOEs) and corporations with an annual turnover or total assets greater than 250 000 EUR is required by the Law on Financial Reporting to be audited in accordance with auditing standards published by KBSFR. The scope of these legislative audit requirements produces three unintended consequences where the first is a result in an imbalance between the demand for audit resulting from statutory audit requirements and the accessibility of qualified statutory auditors. The second consequence is that the scope might impose a statutory audit burden on companies whose size and activities do not affirm such an audit, that is to say, there is no public interest in mandating such audit. The last consequence followed by the scope of statutory audit requirements is that it negatively impacts audit quality and limitations on the ability to perform a proper audit of small entities (Aroymak *et al.*, 2006).

The profession of auditing in Kosovo is at an early stage of its development. The two leading institutions in the area of auditing, under the framework by Law on Financial Reporting, 2001, are the KBSFR and the Society of Certified Accountants and Auditors

in Kosovo (SCAAK). SCAAK is the only professional auditing body in Kosovo. Nonetheless, once auditors have passed their professional examination they are not required by the Law to remain members of SCAAK. The absence of the requirement makes KBSFR as the only institution with the authority to monitor and regulate the audit profession. The body is not capable to monitor compliance by all the licensed auditors with the Law and its membership obligations. The SCAAK lacks the authority, capacity and resources to expand its role and develop better audit quality, although it has managed to set up a number of essential pillars of the auditing profession. The Law on Financial Reporting, unlike EU member states, does not include termination mechanisms that might provide additional safeguards to auditor's independence (Aroymak *et al.*, 2006).

The differences between National Standards on Auditing (NSA) and International Standards on Auditing (ISAs) are basically poor translation of ISAs. Auditing in Kosovo is based on an outdated Albanian translation and not taught or examined on "full ISA". The KBSFR are required by the Law on Financial Reporting to issue auditing standards in accordance with ISAs after taking into account the business and economic environment in Kosovo. The KBSFR also must publish the standards in Albanian, English and Serbian. In 2002, the KBSFR published application of the 1999 Albanian language translation of an Administrative Decision in Albanian, which made ISAs mandatory. The delay in incorporating new ISAs and amendments to existing ISAs since 1999 resulted in a significant standard gap. Based on exchange of information as part of the Compliance Program, there is an effort to formalize the translation agreement with Albania and make it sustainable. The issue of delays in incorporating is of less concern than issues of the translation, resulting in lack of understanding and accurate usage of NSA. The upgrade of the education system of ISAs and the enforcement of the implementation of the basic, contained in the standards, are the major challenges facing Kosovo (Aroymak *et al.*, 2006, IFAC Member Body Compliance Program, 2010).

As of 2006, the Law on Financial Reporting required the KBSFR to issue auditing standards in conformity with ISAs (IFAC Member Body Compliance Program, 2010).

Today, Kosovo is working to adopt a new law on financial reporting which among other things will seek to remove ambiguity regarding the Audit and Assurance standards

framework that is applicable in Kosovo, thus providing a legal basis for improved enforcement with IAASB standards. Kosovo is also seeking to formalize an agreement with Institute of Authorized Chartered Auditors (IEKA), IFAC member in Albania, and Government of Kosovo on co-operation to ensure timely availability of translated pronouncements of the IAASB to SCAAK members, KBSFR, Ministry of Finance (MFE), University and other stakeholders in Kosovo. (IFAC, Background note on Action Plans, 2009).

### 3.2.3 Auditing in Sweden

The Swedish legislation of auditing is relatively new and it consists of 1999 years Auditing Act (Revisionslag 1999:1079), 2001 years Auditor's Act (Revisorslagen, 2001:883) and laws that are specific to different business forms, for instance chapter 10 in The Swedish Companies Act (Aktiebolagslagen), that regulates listed companies in Sweden (SOU 2004:47). The legislation in Sweden further contains a statutory audit (Revisionsplikt), which means that all listed companies have the obligation to have an auditor that audits their work. The statutory audit is under change and in March 2010 the Swedish government decided to abolish the statutory audit for small listed companies. This change will be applicable for companies that do not exceed two out of the three following values: three employees, 1.5 million in total assets and 3 million in net sales. These amendments are proposed to take place on 1 November 2010. The listed companies have to apply for this and it will not be automatically implemented (Regeringen, 2010)

The Auditor's Act contains rules about auditors, approving and authorization of auditors, obligations of the auditors and also rules about The Supervisory Board of Public Accountants (Revisorsnämnden- The Board) (SOU 2007:56).

The Supervisory Board of Public Accountants is a state-owned authority with a monitoring and supervising role for Swedish approved and authorized auditors and audit firms. The purpose of the Board is to monitor the auditors and to make sure that they act as expected. If there occurs any notifications that the work made by the auditor is not satisfactory, the Board is responsible for investigating in the work and see if the auditor

has done any misstatements in their audit work. The Board does not only monitor the auditor and their work, they also monitor the audit firms to see that they are living up to the high quality that is required from the audit profession. In other words, the Board is responsible for what the Swedish terms states generally accepted auditing standards (god revisorssed) and generally accepted accounting principles (god revisionsse). These terms are not part of the legislation but are instead norms for what is considered as appropriate in auditing. The terms does not have the same power as a legislation would have, but the normative power of the terms has made them meaningful, since auditor and audit firms has to comply with generally accepted auditing standards and generally accepted accounting principles . The Board has also the duty of watching over the international development in the audit field and take participation in the ongoing work of the EU. Their participation in EU is through the European Group of Auditors' Oversight Bodies (EGAOB), where the Board takes part as a representative. The Board has moreover, in the work together with EU and EGAOB, participated in the preparation for the alignment of ISAs in EU (Revisorsnamnden, 2010).

The Swedish National Audit Office (SNAO – Riksrevisionen) is a special organization in Sweden that supervises the state and the governmental activities. This organization began their work in 2003, the period when they took over from its predecessor, Riksdagens revisorer and Riksrevisionsverket. The organization has, besides monitoring the governmental activities, also international activities such as EU work and international development cooperation's (Riksrevisionen, 2010).

The legislation in Sweden is a framework legislation which has to be complemented with norms in order to be meaningful. The audit legislation and complementary norms put together forms the Swedish auditing regulatory. In September 2006, Sweden's two auditor compounds, Föreningen Auktoriserade Revisorer (FAR - Institute for accountancy profession in Sweden) and Svenska Revisorssamfundet (SRS - Swedish auditor community) merged together and formed FAR SRS, which in March 2010 changed their name to FAR. FAR is the organization working to develop the auditing and advising profession in Sweden, national as well as international through recommendation and education, and is also responsible for the form of the Complementary norms (FAR, 2010).

In 2004 Sweden obtained a new auditing standard, Audit standard (Revisionsstandard), a translation of the ISAs with one important difference specific for Sweden, the Management audit (Förvaltningsrevisionen). The Management audit has no international counterpart in the regulatory and it exists only in few countries. The concept can be described as independent review of a company's financial reports, consisting of the independent report on the company's future risks associated with the business. The Audit standard standards will only be valid until 2010 and Sweden will therefore adopt the standards of ISAs in total, thus there already are some standards adopted, such as the ISA 220. FAR is working on the translation of the clarity ISAs that are scheduled to be implemented in January 2011. The organization will also, from 2010 start training the auditors on the clarity ISAs in order to make them prepared to use the ISAs instead of the Audit standards. Further, the standards are translated and their layout is the same as the ISAs. (FOU 2004:47)

### 3.3 Legal differences

The legal system exists in various levels across country borders. Nobes and Parker (2008) state that a legal system is another significant element in affecting the nature of accounting system towards law environment and regulation enforcement. In general, the nature of financial system, accounting system and auditing system are affected by the nature of legal system.

As we mentioned before in section 1.2, the common law system and the codified Roman law system are existing in the world wide context. The common law system first started in England through the judgment of the acting on the king's behalf after the Norman Conquest (van Caenegem, 1988). Such a common law system is based on a limited amount of statute law and builds up large amounts of case law to supplement the statutes, and is then interpreted by courts. It is important to know that large amounts of specific cases set precedent for a court making judgment or court's opinion to seek explanation for its decision. Those countries, that used to be colonies of the British Empire, more or less have a common law system (Nobes and Parker, 2008).

In codified Roman law system perspective, countries have a legal system that relies upon the compiling of Roman *ius civile* by Justinian in the sixth century, where primarily laws are written into a collection and then developed from the twelfth century by universities in Europe (Nobes and Parker, 2008). It is stated that codified Roman law system is the most prevalent legal system as well as the oldest surviving one. Here, rules aim to be the doctrine, which citizens are accessible to the collection of the laws and then must follow.

The implications of the different law systems refer to the commercial or company law. This, as the function of commercial law is to provide guidance, consequently influence the practice of companies as well as the preparation of financial reports. In the general auditing context, audit professions themselves build up standards or auditing guidance regarding to the lack of detail description within auditing in common law system. Compared to common law system, audit professions operate auditing practice in a way of following the commercial code or company law in codified Roman system. Baker *et al.* (2001) stress that the regulatory function, the process of becoming a statutory auditor and the legally definition of the role for the statutory auditor are various regarding to the different nature of common law system versus codified Roman law system.

Nobes and Parker (2008) portray that:

*“It is clear that the nature of accounting regulation in a country (as opposed to the content of the accounting rules) is affected by its general system of laws”*

Many researchers examine the auditors' liability based on the category of legal system. To a large extent auditing within such a context in common law system have greater levels of legal liability to third parties than those in codified Roman law system. Baker and Quick (1996) makes a comparison in the US and some particular European country's auditors' legal liability and finds, in particular, that the US has the highest level of exposure auditors to lawsuits. Pacini *et al.* (2000) stress the liability for auditors to the third parties in different countries under legal system. Koury (2001) attempts to show how courts use the duty of care in the common law and causality in codified Roman law to limit auditors' liability towards country regimes. Pritchard and Puri (2006) note that the nature of accounting regulation is affecting the auditors' independence as well as audit quality. Chung *et al.* (2010) research indicate that in the

post Sarbanes-Oxley era, countries have a common law system involving in fever increasing of the auditors' legal liability towards new legislation and documental requirements.

The study in the association between the classification of legal system and the type of providers in finance can also help us in seeking the auditing implementation across national differences. La Porta *et al.* (1997) examine 49 countries by comparing legal systems and find that countries having a common law system tend towards greater capital markets. La Porta *et al.* (1998) note that stronger protection of corporate shareholders and creditors as well as smaller concentration of ownership of shares in the largest public companies relates to common law system countries more than what Roman law system countries does.

### 3.4 Political and Economic Differences

Nobes and Parker (2008) describe that the accounting and auditing regulatory is affected by political and economic events. It states that the Securities Exchange Acts responded to the economic crisis in the United States in the late 1920s and early 1930s. Under the government intervention, Italy changed its traditional accounting framework to Anglo-American accounting framework and adoption and convergence of international standards in accounting and auditing context by developing countries.

Dedoulis and Caramanis (2007) states that capitalist countries in the West have aimed at establishing political and economic relations with emerging economies in order to find new markets for investment opportunities. Bailey (1995) further states that emerging economies have an interest in establishing their political and economic relationships with the Western countries for attracting foreign investment. Auditing firms was after 1945 encouraged to increase their overseas representation hence the internationalization of economic activity increased (Daniels *et al.*, 1989).

The US economies shift from industrial capital to finance capital during the 1970s raised concerns among the US capitalist for the capital markets as well as for the need to aid transactions between multiple capitals. This directed the accountancy profession one step ahead into being international and it also heightened the drive for global

congruence accounting practice. Similar features can be drawn within the auditing profession (Annisette, 2000).

Chan *et al.* (2006) shows that local auditors in China's institutional setting have more political influence from the local government than the non-local auditors and have also superior economic dependence on local clients. DeFond *et al.* (2000) find out that auditors are more independent when the incentive for auditors to behave independently is the threat of government consequences if abusing the auditing standards. It is further stated that local auditors have much more political pressure from local governments and more economic dependence on local clients than non-local auditors do. This signifies that local auditors issue clean audit opinion on government-owned companies in order to reduce economic loss that might arise from the government (Chan *et al.*, 2006). It is also stated that an audit firm that have clients in the same jurisdiction and is located at the same jurisdiction is most vulnerable to the political influence of the local government. Chan *et al.* 2006 also explains that the political influence on listed companies in China would diminish by reducing the government ownership of listed companies.

If the government plays a crucial role in the legislature then the legislature will not be able to effectively use the audit work as supposed (Backhaus, 1994).

### 3.5 Cultural differences

The concept culture can be defined in several different ways depending on whom you ask and which perspective is being used. Hofstede (1980) defines culture in national terms whereas Randelsome *et al.* (1990) state that culture can be defined in terms of business. Culture can also, according to Morden (1995) be defined in terms of an organizations culture. Hofstede's definition of national culture is distinguished as a collective mental programming.

Hofstede's culture model is applied in several studies of auditing to research the difference across countries border (Soeters and Schreuder, 1988; Pratt, 1993; Arnold *et al.*, 1999; Tsui and Windsor, 2001). Therefore, we have chosen to mainly examine Hofstede's perspective as one of the theories to develop our study.

According to Hofstede (1980) people of a nationality are conditioned by socialization patterns, education and life experiences. An individual can be conditioned throughout different levels; through family, education and profession where the levels differ within countries. The differences between the levels can support the existence of differences in audit firms and between auditors.

Hofstede (1994) distinguishes three levels of uniqueness in human mental programming; human nature, culture and personality, all of them illustrated in a pyramid. Human nature, universal for all humans is inherited from our genes. Human nature can refer, according to Hofstede (1994), to the ability of humans to feel fear, anger, sadness, joy and love. The second level, culture, is classified to a specific group or category. Culture, in difference from human nature, does not derive from our genes but is instead derived from the social environment one belongs to. Further, culture can be distinguished as something that is learned rather than inherited where the learning process can arrive from different institutions in society, family, school and workplace. The last level of Hofstede's model, personality, is specific to one specific individual. Personality is both inherited and learned where our genes play an important role, though they give us the basic foundation. Culture and personal experience can affect a person and change its personality. In other words, a person's basic foundation will be modified by the influence of culture and personal experience.

Culture is, moreover, an important factor to take into consideration within the auditing. Accounting and auditing are not culture free due to culture can affect the standards to a certain degree leading to different interpretations depending on which country that is in focus. Hofstede (1980) found out that there also exist cultural differences across different national boundaries, where the differences can affect the decision made by the auditors. Perera (1989, p. 43) states that:

*“... culture is often considered to be one of the most powerful environmental factors affecting the accounting system of a country. This consideration is based on the broad premise that accounting is a socio-technical activity involving human and non-human resources or techniques as well as the interaction between the two... accounting cannot be culture free”*

Measurement in accounting profits is not free from culture differences. Gray (1988) examines the international differences on profits-measurement behavior and makes a comparison in a security analysis perspective across culture border. Gray found out that culture differences affects the behavior of auditors and influences the auditing practices. According to Tsui and Windsor (2001) there have only been few studies in auditing concentrating on cross-cultural differences. Soeters and Schreuder (1988) applied a culture approach to examine international differences towards the behavior of auditors in audit firms. Pratt (1993) developed this study in an extensive level based on the auditors in the United Kingdom, Australia and the US. Ponemon and Gabhart (1993) study about American and Canadian auditors and their ethical reasoning levels found out that the Canadian auditors scored higher compared to the American auditors. Also, Tsui made a study in 1996 that compared US auditors and Hong Kong auditors. These studies are some of the few that help us understand the cross-cultural ethics.

Cross-cultural differences affect the audit standards thus different countries has different standards that in some extent are specific for their country, which in turn can give us different audit practice around the world. The harmonization of auditing standards is aiming at decreasing the differentiation within auditing practice between countries. Numerous different factors can affect the differences within countries. Nobes and Parker (2008) claims that the accounting in a country gets affected by the country's culture. If accounting is being affected it can be argued that it is possible to draw parallels to auditing as well. Nobes and Parker (2008, p.25-26) state that:

*“Culture in any country contains the most basic values that an individual may hold. It affects the way that individuals would like their society to be structured and how they interact with its substructure”*

### 3.5.1 Hofstede's cultural dimensions

Hofstede's (1984) study regarding 100 000 IBM employees located in different countries throughout the world aimed to define the basic dimensions of culture which

later came to be used for understanding cultural patterns in different countries. Hofstede defined four different dimensions in his study:

- 1) Individualism versus collectivism
- 2) Large versus small power distance
- 3) Strong versus weak uncertainty avoidance
- 4) Masculinity versus femininity

### **3.5.1.1 Individualism versus collectivism**

In the IBM studies by Hofstede all countries could be given an index score there a high score was likely distinguished as individualist society whereas low score was illustrated as collectivist society. For better understanding of the features individualist respectively collectivist society, Hofstede's definition might be helpful.

*“Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains societies in which people from birth onwards are integrated into strong, cohesive in groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty”*

In order to find index scores for countries, Hofstede used “work goal” there some of the goals were associated to individualism and others to collectivism. Hofstede (1994) used 14 different “work goals” but found only three goals each that were strongly associated to individualism and collectivism:

1. *Personal time – Have a job which leaves you sufficient time for your personal or family life.*
2. *Freedom – Have considerable freedom to adopt your own approach to the job.*
3. *Challenge – Have challenging work to do – work which you can achieve personal sense of accomplishment.*

4. *Training – Have opportunities (to improve your skills or learn new skills).*
5. *Physical conditions – Have good physical working conditions (good ventilation and lightning, adequate work space etc.).*
6. *Use of skills – Fully use your skills and abilities on the job.*

(Hofstede, 1994, p.51-52)

The three first goals are associated with individualism since they “*stress the employee’s independence from the organization*” (Hofstede, 1994). The latter three goals are further connected with collectivism thus they emphasize what the organization does for their employees. According to Morden (1995) the responsibility of workplace relationships in collectivists’ culture may be considered more important than task achievement of an individual. This statement can support Hofstede’s findings about its “work goals”.

It is suggested that more conservative measurement in earning and less disclosure of information in financial reporting in a country with low individualism differ in Hofstede’s culture model (Gray, 1988). Arnold *et al.* (1999) apply the individualism factor to analyze the independence of auditors in decision making (including the professional judgment and the fear of losing the client) and stress that individualism play a sufficient role in affecting the willingness of doing additional audit work to address a possible audit problem. The authors found that the degree of fear of losing the client decreased with increased individualism and lead therefore to a greater likelihood of doing more additional audit work.

### **3.5.1.2 Large versus small power distance**

Hofstede (1994) define the dimension power distance as “*the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally*”. Institutions can in this definition be the basic

elements of the society, family, school and community. In order to compose the power distance index in the IBM study, Hofstede uses three questions:

1. *Answers by no managerial employees on the question: “How frequently, in your experience, does the following problem occur: employees being afraid to express disagreement with their managers?” (mean score on a 1-5 scale from “very frequently” to “very seldom” )*
  
2. *Subordinates’ perception of their boss’s actual decision-making style (percentage choosing either the description of autocratic or of a paternalistic style, out of four possible styles plus a “none of these” alternatives)”*
  
3. *Subordinates’ preference for their boss’s decision-making style (percentage preferring an autocratic or a paternalistic style, or, on the contrary, a style based on majority vote, but not a consultative style)*

(Hofstede, 1994 p. 25)

These questions help to define countries as high or low power distance countries, there countries with small power distance index indicate to a limited dependence of subordinates on managers and there consultation is preferred. High power distance, on the other hand, shows that employees are unlikely to consult and criticize their managers directly. An interesting matter that Hofstede found was that managers see their own managers in the same way as their subordinates see them.

Another interesting finding of Hofstede’s study, related to the power distance, is that the educational level of workers affects the power distance. The higher education the work demand from the employees the lower the power index is. Kohn (1969) suggests in his study that working class parents demand more obedience from their children than what parents from middle class does. This can be seen as one explanation to why Hofstede found differences in the same organization depending on what educational level their work was demanding.

### **3.5.1.3 Strong versus weak uncertainty avoidance**

The dimensions strong versus weak uncertainty avoidance put focus on the degree to whom member of the society feel uncomfortable with uncertainty and ambiguity. In order to avoid uncertainty and ambiguity Morden (1995) listed some of the mechanism; establishing formalized rules and regulations, refusing to tolerate deviant ideas and behaviors and relying on professional expertise.

The uncertainty avoidance index is a byproduct from the power distance index with the importance of job stress and the employees' nervousness at work. There is particularly one essential word when talking about uncertainty avoidance; anxiety, which is a "*state of being uneasy or worried about what happens*". In countries with weak uncertainty avoidance the anxiety level are relatively low whereas a more anxious culture tends to be a more expressive culture there it is more socially accepted to raise one's voice, to talk with hands or to show emotions. This means that countries with high uncertainty avoidance express hectic, emotional and aggressive traits whereas countries with low uncertainty avoidance gives the impression that people are quiet, easy-going, indolent and controlled.

A country with high uncertainty avoidance tends to prefer limit disclosure and conservative measurement of earnings in financial reporting (Gray, 1988). Soeters and Schreuder (1988) found that uncertainty avoidance has a significant impact on auditors' behavior in Dutch audit firms. In their study they examined the level by following the organizations rules by auditors regarding the degree of uncertainty avoidance.

### **3.5.1.4 Masculinity versus femininity**

The dimensions masculinity versus femininity shows which attitudes are common in a certain country. High masculinity embraces achievements, heroism and material success whereas femininity mostly stands for the relationship and the quality of life (Nobes and Parker, 2008).

Hofstede (1994) states male and female when he refers to the biological distinction and further states masculine and feminine when he refers to social and cultural distinction.

The terms masculine and feminine, which derives from behaviors of what the society considers as masculine and feminine, are relative to each other there a man can be feminine and a woman be masculine. Hofstede listed the four dimensions that have the most strongly association on each masculine and feminine there the masculine pole is:

1. *Earnings – Have an opportunity for high earnings.*
2. *Recognition – Get the recognition you deserve when you do a good job.*
3. *Advancement – Have an opportunity for advancement to higher level jobs.*
4. *Challenge – Have challenging work to do – work from which you can get a personal sense of accomplishment.*

and the feminine pole is:

5. *Manager – Have a good working relationship with your direct superior.*
6. *Cooperation – Work with people who cooperate well with one another.*
7. *Living area – Live in an area desirable to you and your family.*
8. *Employment security – Have the security that you will be able to work for your company as long as you want to.*

(Hofstede, 1994 p. 81-82)

The masculine pole reveal that men are supposed to be more focused on material success whereas the feminine pole states that women are supposed to be more modest and concerned with the quality of life.

Souters and Schreuder (1988) states that the dimension masculinity reflects the Western achievement orientation there income and promotion opportunities are valued higher than job security and good personal relationships. The authors study further suggests that there tend to be a higher degree of masculinity in the North American culture. Hofstede (1980) found out that there did exist a strong national cultural influence from the US in the eight Big Firms, due towards higher income and good career rather than

good relationships with colleagues. Another study by Grey (1988) states that masculinity does not link with professionalism whereas high individualism tends to have a strong link with masculinity. The index masculinity is of lesser importance than the other indexes within accounting. Signorella (1986) found out in two of her studies a strong link between masculinity and better performance whereas four of her studies showed a connection between femininity and better performance.

### **3.5.1.5 Cultural hypotheses**

Based on Hofstede's discussion about culture and cultural dimensions one could assume that auditing and auditors are affected by cultural aspects and that culture further can be divided into different dimensions where each of these dimensions can have an affect of the audit work.

Individualism versus collectivism is one of Hofstede's dimensions that could have an influence on the audit work in different countries. A person who would be considered to be individualistic is more focused on themselves and things that add value for them. In an individualistic society, a person would be expected to take care of oneself, in other words, to be independent. Collectivism on the other hand is focused on the group of which an individual takes part of. The work of the group is more important, and an individual in a collectivistic society are supposed to work for the best interest of the group. This leads us to the hypothesis that:

*H1: Auditors in countries with higher collectivism will have the same attitude towards auditing standards, while auditors in countries with high individualism will not have the same attitude towards auditing standards.*

Power over another person could be one way of controlling and affecting a behavior or work of that person. It can also be that it is culturally where one country would respond differently to power than another country, Hofstede's power distance index is a substantiation of that. In a country with high power distance an employee would have

great respect for their superiors, and would unlikely to consult them. This respect for their superiors could result in more obedience, since they are unlikely to confront their superiors. This leads us to our second hypothesis:

*H2: Auditors in countries with higher power distance will consider it more important to follow the auditing standards “by the letter” than auditors in countries with lower power distance.*

The unwillingness to confront the superior leads to the dimension of uncertainty avoidance. Uncertainty avoidance refers to how members of a society cope with uncertainty and ambiguity, how they react and how they feel about it. In a country with high uncertainty avoidance people are busier and more aggressive which could be because of the fact that they are not comfortable with the uncertainty. It is the opposite with countries distinguished by low uncertainty avoidance which indicate them to be more comfortable with the uncertainty, since they are seen as quiet and easy-going. A way to cope with this uncertainty could, according to Morden (1995), be through establishing formalized rules. This leads us to our third hypothesis:

*H3: Auditors in countries with higher uncertainty avoidance will prefer more standardization than auditors in countries with lower uncertainty avoidance.*

The masculinity versus femininity is the last dimension of Hofstede that could have an affect on auditors' behavior in different countries. An auditor in a masculine country has a preference to higher earnings and promotion opportunities compared to those in a femininity country that care more about job security and good personal relationships (Soeters and Schreuder, 1988). This leads to the potential impact in auditing practices, including the professional judgment and decision-making, through the different characteristics in auditors' personality. The study of Bengtsson *et al.* (2005) found evidence resulting to higher overconfidence among male students rather than female students. This can lead us to higher degree of professional judgment within auditing. Moreover, Hardies *et al.* (2009) stress that there is a tendency that male auditors' are more confident than female auditors' in their professional judgment in audit work. The

implication in masculinity versus femininity towards auditors' context indicated that auditors in masculine countries believe their own judgment in audit process. This leads us to our fourth hypothesis:

*H4: Auditors in more masculine countries will prefer using professional judgment rather than auditing standards to a greater extent than auditors in more feminine countries.*

### 3.6 Theory of profession

The notion of profession, as it relates to the social context, can be defined in various ways according to its knowledge-based characteristics. A stream of literature classifies the occupations in seeking the identification of professions. Blau and Scotts (1962) definition of a profession is a vocation founded in a body of knowledge. Greenwood (1957) describe professions as occupation contributed by knowledge-based, a period of formal training and education, an occupational organization, a code of ethics or conduct and some form of community-sanctioned license. Abbott (1995) sketches the conception of profession in three successive approaches. To the first approach, the functionalist approach, professions refer to a particular and special kind of occupation in terms of certain "traits". The second approach, describe professions as the social work in a complex defended turf whereas profession as a living social work related to the boundaries of institutions and jurisdictions are stated by the third approach. The boundaries of profession, through education, guideline of conduct and a set of common norms etc, can be supported to exploit the reason of the existing of the differences in auditing practice through national boundaries and cultures. Although in such a way within profession organizations, like audit firms, and codes of conduct as the ISAs, can be perceived as a common professional training which may facilitate harmonization in a large auditing context.

Nobes and Parker (2008) state the scale of differences through the professions of auditing linked to the education, the training period, the commerce and the government. In their study, they compare the training period between Germany and the United Kingdom. There is a consensus that the globalization of training, education and

examination in auditing professions is the important elements in the process towards auditing harmonization (Diaconu *et al.*, 2009). Several studies have been contributed to the association in the education system in the auditing field across-national boundaries and the nature of the auditing profession. Abbott (1988) states the importance of the education of entrants to professionalization project in “the systems of professions”. Geddes, in 1998, made a study on the development of accountancy education and training in England and emphasized the knowledge basis.

The professional education is a significant component of the professionalization process contributed to professional vocation. This, according to Power (1991) is described as ‘retrospective ethnographic’. Annisette (2000) examined the education and the certification of auditing professions in Trinidad and Tobago, whereas Annisette and Kirkham (2007) stressed the advantages of separateness in auditing practice and auditing academic.

Within the sociology of the professions, the link between the professions and a common code of ethics and the guidelines has come to be seemed as inter-professional relationship in the sites of professionalization (Abbott, 1988). A code of professional ethics in accounting and auditing practice attempts to encourage the process of harmonizing the auditing professions at a global as well as at a regional level (Diaconu *et al.*, 2009). The IFAC *Code of Ethics for Professional Accountants* (2003) states:

*Objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest.*

The role of the code of ethics in auditing profession has been discussed. Hayes *et al.* (2005) portrays that the code of ethics have an impact on the economic well-being of their community and country through providing auditing and assurance services. Satava *et al.* (2006) stress the importance of the code of ethics in the restoring public trust and credibility in auditing professions in the post-Enron world. A study by Dedoulis (2006), focusing on the code of ethics in Greece in auditing profession, stress that the code of ethics of auditing profession would attempt to control unprofessional activities in the protection of public interest. These studies in auditing profession are somehow contributing to the understanding of the differences in comparison of auditing

implementation in a world-wide context, although profession is a dependent variable rather than an explanatory one (Nobes and Parker, 2008).

### 3.6.1 Theory of profession hypothesis

According to the theory of profession, one could assume that auditors have the same perception of auditing standards irrespective of cross culture borders.

Auditors, as one of the professional vocations, are perceived to have the same education and training background, the same form of community-sanctioned license and work under a code of ethics. This, we believe has played an irreplaceable role in the behavior and the work of auditors. This leads us to our fifth hypothesis:

*H5: Irrespective of which country they belong to auditors will have the same attitude towards auditing standards.*

According to the theory of profession, a code of professional ethics in a globalization level would attempt to enhance the degree of harmonization regarding to auditing field. Following the same code of ethics would encourage auditors to make the same measurement in the importance of auditing standards. This is contrary compared to hypothesis two we made under the theory of culture (see section 3.5.1.5). Consequently, we come to our sixth hypothesis stating:

*H6: Irrespective of which country they belong to auditors will attach the same importance to following auditing standards “by the letter”.*

The level of preference of standardization by auditors refers to how auditors cope with uncertainty and ambiguity. Auditors who belong to the same profession in the same region are perceived to have the same level of preference in coping with uncertainty and ambiguity. This leads us to our seventh hypothesis:

*H7: Irrespective of which country they belong to auditors prefer the same level of standardization.*

Professional judgment and decision-making are various in terms of personal preference. Nevertheless, the theory of profession state that despite differences among auditors they will still make the same decisions and professional judgment due to the belonging of the same profession. This leads us to our eighth hypothesis:

*H8: Irrespective of which country they belong to auditors prefers using professional judgment in the same extent.*

## 4. Empirical Method

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*In this chapter we will present the empirical method of the study. Firstly, the sample of the data gathered will be outlined, including the reasons behind the choice of the countries and the cultural index of these countries. Subsequently, the design of the questionnaire will be explained.*

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### 4.1 Sample

#### 4.1.1 The sampling countries

The sampling method chosen for the thesis is probability sampling (or representative sampling), which is contrary to the non-probability sampling techniques. Probability sampling commonly means that a suitable sampling frame is based on the researcher's study question(s) or objectives (Saunders *et al.*, 2007). The survey question in the thesis was designed based on our research question thus making statistical inference from the sample.

The main purpose of the thesis is to examine auditors from different countries in perception of auditing standards. Auditors from China, Kosovo and Sweden were chosen to help us answer the research question. The reason why we decided to focus on these three countries was mainly because the authors' are well-known with the languages due one of the author's native language is Chinese, the other author's native language Albanian and the third author's native language is Swedish. The native language used for communication is believed to be a basis for sociolinguistic identity as well as for doing research (Davies, 2003).

#### 4.1.2 Collection of the sample

The method chosen to gather responses from the questionnaire was sent by email through the webpage <https://websurvey.texttalk.se/se/start/>, to auditors in the three countries there they were supposed to answer 20 questions with almost each question having alternative 1 to 7 to state if they strongly agreed or strongly disagreed with each question.

A sample of 55 respondents was gathered after a ten day period with 25 respondents from China, 16 from Kosovo and 14 from Sweden. The respondents from Sweden was particularly low comparing with the two other countries though we did send many more questionnaires to Swedish auditors, 100 auditors comparing with 50 in China and 40 in Kosovo. The reason why we did not get so many respondents from Sweden can depend on the fact that they nowadays get several questionnaires from many students and due to the fact that this time of the year is a hectic period for the auditors because of the fiscal year-end.

#### 4.1.3 The translation of the questionnaires

The source questionnaire was firstly developed into English and translated afterwards into Chinese and Albanian by the native speakers (authors). The reason why we chose to translate the questionnaire into Chinese and Albanian was due to the fact that we did not know how familiar the auditors in the two countries were with the English language. Since we assumed that most of the auditors are familiar with the English language in Sweden we decided not to include a Swedish version. According to Saunders *et al.* (2007), decreasing and avoiding the misreading and misinterpreting the survey questionnaires are extremely important for international research. The English version was used in all the three countries and we also used the Chinese version in China and the Albanian version in Kosovo. Hence, the auditors in China and Kosovo was able to chose if they wanted to respond the questionnaire into English or into Chinese respectively Albanian. The responses in the Chinese and the Albanian version were translated into English by the native speakers of the study.

## 4.2 Cultural index in Sweden, Kosovo and China

The information for the four dimensions in Hofstede's culture value model in China, Kosovo and Sweden is showed in Table 1. Based on the previously explanation in the nature of these four dimensions, the main differences can be found by comparing the indexes. In the following section the discussion and comparison of the existing culture scores will be presented.

**Table 4.1: The cultural score of Sweden, Kosovo and China in Hofstede culture value model**

Country	Power Distance (PDI score)	Uncertainty avoidance (UAI score)	Individualism (IDV score)	Masculinity (MAS score)
China <sup>1</sup>	<b>80</b>	<b>30</b>	<b>20</b>	<b>60</b>
Kosovo <sup>2</sup>	<b>22</b>	<b>39</b>	<b>63</b>	<b>27</b>
Sweden <sup>1</sup>	<b>40</b>	<b>30</b>	<b>70</b>	<b>10</b>

*Source:*

*1.Hofstede, Culture consequence (2001)*

*2.Avramska, I., Cross-cultural comparison between business students from Macedonia, Kosovo and Slovenia and cultural differences in relation to economic development*

It is not difficult to point out the main differences in the indexes between these three countries. When we focus on the results included in Table 4.1, the main differences that exist are the power distance, individualism and masculinity. The indexes in uncertainty avoidance indicate that Kosovo differ a little bit from the two other countries.

According to the results presented in Table 4.1, the highest power distance index exists in China at 80 compared to the lowest power distance index in Kosovo with 22. Sweden has a middle rank with 40 score in power distance.

The comparison of the uncertainty avoidance index shows that Sweden and China have the same degree, 30, whereas Kosovo has a higher degree than these two countries, 39.

In terms of the individualism dimension it seems that European countries tend to appear a similar preference. Both Sweden (70) and Kosovo (63) have a strong individualism index. China (20) appears an obviously difference from these two European countries with a weak individualism.

Masculinity is another significant index essential to be compared in the study of our thesis. The highest MAS index is presented in China (60), whereas the lowest MAS index is presented in Sweden (10).

## 4.3 Questionnaire Design

### 4.3.1 Participants' Backgrounds

At the beginning of our survey instrument we include some background questions such as gender, age and years of working as an auditor in order to get some basic information about the respondents. Particularly, the years of working as an auditor refer to the work experience that indicates to the participants' professional competence (the questionnaire can be seen in Appendix 1).

### 4.3.2 Auditors' Attitude

Question 1 to 9 and question 17 is directly linked to hypothesis 1 and hypothesis 5. These questions affirms the attitude towards auditor in different countries, on issues such as the importance of auditing standards to audit work, standard setting bodies and preference in implementation of new auditing standards as well as professional judgment. Particularly, question 17 was first designed to test the preference of professional judgment. However, after gathering the empirical data we realized that this question would be more suitable to measure auditors' attitude toward auditing standards.

*Q1. Auditing standards makes auditing work easier.*

Question 1 shows a positive/negative attitude towards using auditing standards by auditors and it might therefore also include agreement/disagreement by the auditors. If an auditor is facilitated by auditing standards in his/her work, he/she will state a high degree of agreement. The purpose of the auditing standards is to facilitate the audit work. This question is further aimed to indicate which factor is influencing the perception of auditing standards by the auditors.

*Q2. Auditing standards are important for my work.*

This question is focused on examining the attitude on the importance of auditing standards towards audit work among auditors. Auditors would state how important auditing standards contribute to their work by different scale according to their own attitudes. If an auditor is much benefited from auditing standards then the answer would indicate a strong agreement. The same as the former question, this question is aimed to investigate the measurement of the importance of auditing standards by auditors.

*Q3. Auditing standards should be developed by a national standard setting body.*

Question 3 is directly connected with the other two questions below referring to the attitude of auditing standard setting bodies by auditors. According to Sikka (2002), the regulatory apparatuses are smoothly contributing to rupture and revise the accumulation of economic surplus. Auditors were supposed to state, in the questionnaire, their preferred standards setting body through a scale from “I strongly disagree” to “I strongly agree”. The higher the degree was, the more preference of the auditing standard setting body by the auditors.

*Q4. Auditing standards should be developed by an international standard setting body.*

This question continues with the former question focusing on who should develop auditing standards. An international setting body in auditing standards can for instance be IFAC. If an international setting body benefit the audit work in auditors daily practices the auditors would thereby agree with this question. The results of the question would show the opinions of auditors whether an international standard setting body benefit the audit work in daily practices.

*Q5. Auditing standards should be developed by the government.*

In some countries the regulation apparatus of auditing is the government. This question is the last question concerning of whom should development auditing standards. It seems easy at a first glance; however auditors have to consider the advantage and the disadvantage in different standard setting bodies and further state their preference.

*Q6. If my country implements a new auditing standard I would then prefer more detailed rules.*

This question states in what level detailed rules might have an influence on new auditing standards. Also, if the country an auditor is participated in has a major impact when implementing new auditing standards. According to our hypothesis 1, an auditor from a country with strong collectivism will share the same approach towards auditing standards whereas auditing standards in a country with lower collectivism will be differently among auditors. This question are supposed to show if the statement is correct or if the theory of profession is more relevant, that auditors will have the same attitude towards auditing standards regardless which country they belong to. In addition question 7 and question 8

*Q7 “If my country implements a new auditing standard I would then prefer more general principles”*

*Q8 “If my country implements a new auditing standard I would then prefer more a mixture of general principles and detailed rules”*

also refer to question 6 stating according to hypothesis 1 that auditors will prefer general rules or a mixture of the rules in a country distinguished by high individualism.

*Q9. Most auditing standards are applicable to my clients.*

If auditors consider auditing standards to be suitable for their clients then it is likely that they will see the standards as appropriate to the clients. Thereof this question might help to see what attitude auditor have against the standards and if they do believe that the standards are applicable to the clients.

*Q17. Auditing standards limits the extent to which I can use my professional judgment.*

Hardies *et al.* (2009) suggest in his study that an auditor's judgment basically depends on the auditors' characteristics. Further it is suggested that overconfidence plays a major role within judgment and also within decision-making. Overconfidence mostly describes people that consider their judgment as more accurate than it actually is in reality. This question is focused on examining if auditors believe that their professional judgment is restricted by the auditing standards. If an auditor strongly agrees with the statement then it is likely to indicate a strong agreement.

#### 4.3.3 The importance of following the auditing standards

Question 10, 11 and 12 are tested in hypothesis 2 and hypothesis 6. The questions lift up how auditors perceive the importance of following the auditing standards.

*Q10. Auditors should never departure from auditing standards.*

Hofstede state in his power distance index (see 3.5.1.2) that culture can have an impact concerning the different variants of power in different countries. If we on the other hand look at the theory of profession we see that regardless which country an auditor belongs to they will do the same measurement as long as they follow the same code of ethics. This question examines whether this phenomenon is falsified or not falsified and whether high power distance really indicates to thoroughly following the auditing standards.

*Q11. I follow auditing standards very thoroughly.*

Following auditing standards very thoroughly means that auditors should follow the auditing standards "by the letter". If an auditor strictly follows auditing standards, he/she would show more agreement with this question. The higher the result, the more importance of following the auditing standards is showed by auditors.

*Q12. It is important for auditors to carefully follow auditing standards.*

Whether auditors follow auditing standards carefully depends on how they measure the importance of obeying auditing standards. We assume that the degree of importance is various in terms of one country's power distance in hypothesis 2. This question is testing whether the power distance in a country influences the auditors' attitude of following the auditing standards or if auditors are professional groups who measure the same importance of obeying auditing standards.

#### 4.3.4 The preference of standardization

From question 13 to 16 the hypotheses 3 and 7 are being tested. These questions show whether auditors prefer standardization in their audit work.

*Q13. More standardization would facilitate the audit work.*

Auditors would by this question consider if more standardization make their work easy-going. Auditors follow auditing standards in their audit practices, however it is still unknown if they have the same level of preference of standardization regardless which country they belong to. The results of this question are assumed to show the level of agreement if more standardization allows audit work convenient according to auditors.

*Q14. I would prefer standardized auditing procedures.*

According to Morden (1995) more rules should be formulated in order to decrease uncertainty. In this question, we intend to measure if auditors' preference of standardized auditing procedures is affected by uncertainty avoidance in each country. Auditors are commonly involving in decision making in auditing procedures. If auditors are influenced by uncertainty avoidance the result would come to differ between auditors in terms of countries. Otherwise, auditors would have the same level of standardization as they belong to the same professional field.

*Q15. Standardization would lead to harmonization of auditing practices.*

This question suggests that if one country prefers more standardization it would then lead to harmonization in auditing practices. It is connected with the last two questions

concerning standardization. If the results indicate the same attitude in this question, then it shows that auditors are professional irrespective which country they belong to.

*Q16. Standardized auditing procedures would lead to less uncertainty in audit work.*

Gouveia (2000) state about Hofstede's model concerning the degree to which members of a society that is uncomfortable with uncertainty might lead the members to support beliefs that promise certainty and to maintain institutions that protect conformity. A country with high uncertainty avoidance might not cope in a good way with the uncertainty in the audit work, due they might feel uncomfortable with the uncertainty. Hence, this might indicate more standardization from the auditors in a country with high uncertainty avoidance whereas countries with low uncertainty are not dependent on the level of standardization. Whether this statement is falsified or not might be explored by the different opinions from the different countries we have looked at.

#### 4.3.5 The preference of professional judgment

Question 18 to 20 is linked to hypotheses 4 and 8. The questions concerns if professional judgment contributes to a large extent of auditor when, for instance facing ethical dilemmas and decision making.

*Q18. The more use of professional judgment the better the audit.*

Auditors preferring more professional judgment in their work considers the work to be better and will therefore continue using their judgment. A strong sense of agreement with this question indicates that auditors are greatly benefited in audit practices by professional judgment.

*Q19. If I face ethical dilemma in the audit work, I prefer relying on my professional judgment.*

Ethical dilemma is commonly involved in audit work to auditors who are required to be independent in mental attitude from their clients (Ashbaugh, 2004). In this question, we

aim to highlight if professional judgment play a significant role when auditors confront ethical dilemma. A strong agreement indicates that professional judgment is crucial.

*Q20. It is difficult to make decisions based on professional judgment.*

When auditors use professional judgment they perform their audit work based on their knowledge and their professional skepticism. However, professional judgment is limited by working experience and competence. With this question we wanted to highlight that auditors mostly prefer using professional judgment when making decisions.

## 5. Analysis

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*In this chapter we highlight an analysis of empirical data. Firstly, a description of the empirical data from our questionnaire is being made and thereafter the hypothesis are being tested to see if they are falsified or not falsified, which further leads us to the result of our study.*

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### 5.1 Introduction

The sample was primarily tested with a Kolomogorov-Smirnov test to determine whether the sample is normally distributed or not. The test showed that the majority of our variables were not normally distributed. Hence, the sample size is relatively small and hence it is not normally distributed, nonparametric test will be conducted in the analysis (Aronsson, 1999).

The Cronbach's test will be used for testing if some of the questions can be put together in one test and then see if they measure the same thing. Afterwards, the Kruskal-Wallis test will be used to see if there are any differences among auditors regarding to which country they belong to. Further, the regression analysis as well as a Spearman correlation test will be conducted. The Spearman correlation test (in Appendix 2) shows how different variables correlate to each other. The various tests are calculated with intervals there the confidence is put to 90 percent. Due to the fact that a confidence of 90 percent is accepted means that the risk for estimation arises but that the interval becomes narrower. A confidence level of 90 percent means further that hypotheses there weak significant relation (0.100) can be shown are not falsified (Körner, 1985, Björneank, 1997, Ballesta and García-Meca, 2005,). Consequently, we will test our hypotheses and see if they are falsified or not falsified.

The analysis will begin with a description of the background information about the respondents (these will also be used as control variables) concerning their gender, age and years of experience (Table 5.1).

**Table 5.1: Description of auditors' background**

Country		China	Kosovo	Sweden	Total
<b>Gender</b>	Female	13	2	2	17
	Male	12	14	12	38
<b>Age</b>	Maximum	44	58	62	62
	Minimum	24	30	27	24
	Mean	30,09	44,23	42,86	37,34
<b>Years of experience</b>	Maximum	20	30	38	38
	Minimum	1	5	1	1
	Mean	6	8,92	18,21	10,06

Table 5.1 shows that more female auditors responded in China, with 13 out of 25, than in Kosovo, with two female auditors out of 16 and in Sweden with also two female auditors out of 14. The mean age does not differ much between Kosovo and Sweden but comparing with China we can see a difference as the Chinese respondents are younger. We can further see that the maximum of years of experience differ relatively much between China and Sweden but not that much between Kosovo and the other two countries. Nonetheless the mean of years of experience shows an even more difference between the three countries there Sweden has a relatively high mean average (18,21) comparing with China (6,00) and Kosovo (8,92).

Table 5.2 describes what the minimum and the maximum answers for each question are, what the mean standard deviations are and also how many auditors it was who replied the question. The table shows that most of the mean values are within the same range, except Question 5 that is remarkably different from the others, with only a mean of 2,540. This low mean can be an indication that there is consensus between auditors in the different countries. Otherwise a mean that is more in the centre of the scale would have been more expected. The descriptive information is for all the three countries together and therefore no differences between the countries can be shown. Later in this section the questions will be divided in order to make it able to discover possible differences between the countries.

**Table 5.2: Descriptives about survey questions**

Variable:	Number	Min	Max	Mean	Std. Dev.
Question1	55	3	7	5,650	1,265
Question2	55	2	7	6,040	1,138
Question3	55	1	7	4,270	2,147
Question4	54	1	7	5,430	1,655
Question5	54	1	7	2,540	1,756
Question6	54	1	7	4,480	1,921
Question7	55	1	7	4,470	1,698
Question8	53	1	7	4,470	1,660
Question9	55	1	7	4,730	1,581
Question10	55	1	7	5,150	1,779
Question11	54	1	7	5,190	1,388
Question12	55	1	7	5,850	1,353
Question13	55	1	7	4,640	1,725
Question14	54	1	7	4,540	1,767
Question15	55	1	7	4,850	1,789
Question16	55	1	7	4,910	1,590
Question17	55	1	6	3,650	1,777
Question18	54	1	7	4,570	1,787
Question19	55	1	7	4,580	1,718
Question20	54	1	7	4,040	1,625

## 5.2 Cronbach's Alpha

The questionnaire that was sent to auditors in the three countries was composed by 20 questions concerning auditing standards. All the questions were linked to one of the four cultural hypotheses and to one of the four hypotheses of the theory of profession.

**Table 5.3: Questions linked to hypothesis**

	Hypothesis	
Question 1-9 & 17	H1 & H5	Attitudes towards auditing standards
Question 10-12	H2 & H6	Importance
Question 13-16	H3 & H7	Standardizations
Question 18-20	H4 & H8	Professional judgment

Instead of conducting 20 different tests, one for each question, the Cronbach's Alpha test is used to see if the numbers of the tests can be narrowed down. Moreover, the Cronbach's Alpha test shows if questions can be composed as one test. In order to do this there must at least be three questions that is supposed to measure the same thing.

**Table 5.4: Cronbach's Alpha test**

	Number of questions	Cronbach's Alpha
Attitudes	10	0,436
Importance	3	0,738
Standardization	4	0,923
Professional judgment	3	0,170

The Cronbach's Alpha test have a significant level at 0,7 which means that all values above 0,7 can be assumed to measure the same thing (Nunnally, 1978). In table 5.4 the Cronbach's Alpha test showed that the three questions about importance had a level at 0,738 and that the four questions about standardization had a level at 0,923. Instead of testing these questions one by one they will be composed into the new variables Importance and Standardization. The other questions have a value below 0,7 and must therefore be tested one by one.

### 5.3 Kruskal- Wallis test

The Kruskal-Wallis test was used to see if there were any differences between the countries in each question. In the Cronbach's Alpha test the questions was narrowed down, since the test showed that some of the questions could be composed together. The questions that were included in the Kruskal-Wallis test can be seen in table 5.5.

**Table 5.5: Questions included in the Kruskal-Wallis test**

	Hypothesis	
Question 1-9 & 17	H1 & H5	Attitudes towards auditing standards
Question 18-20	H4 & H8	Professional judgment
Importance	H2 & H6	Importance
Standardization	H3 & H7	Standardizations

In table 5.6 the significance level for all the questions are shown. Earlier in the analysis section the significance level of 0,1 was argued to be accepted. A significance level at 0,1 this means that question 5, 7, 8, 19 and 20 does not have a significant difference between auditors from different countries. Therefore they will not be used in the hypothesis testing (as the hypotheses are built upon the argument that there are differences between auditors working in different countries). The test shows that the other questions have a significant difference between countries, since they all are within the interval 0,000 to 0,100.

**Table 5.6: Kruskal-Wallis test**

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Asymp Sig.	<b>0,000</b>	<b>0,037</b>	<b>0,001</b>	<b>0,000</b>	0,585	<b>0,010</b>	0,410	0,800
	Q9	Q17	Q18	Q19	Q20	Importance	Standardization	
Asymp Sig.	<b>0,067</b>	<b>0,008</b>	<b>0,009</b>	0,444	0,838	<b>0,000</b>	<b>0,001</b>	

## 5.4 Multiple regression analysis

The multiple regression analysis has been conducted in order to develop a model including control variables, which could explain the differences in the sample. A regression analysis showed that age and experience are two variables that affect each other. This could indicate these variables to possibly affect the model. Therefore the variable age will be excluded from further regression analysis.

**Table 5.7: Regression analysis for question 1**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 1					
<b>Gender</b>	0,201	1,483	0,145	0,826	1,211
<b>Experience</b>	-0,127	-0,857	0,396	0,684	1,461
<b>Kosovo</b>	0,388	2,407	0,020	0,581	1,720
<b>China</b>	-0,110	-0,589	0,559	0,430	2,325
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,306/ 0,246/ 5,075/ 0,002</b>					

In table 5.7 the adjusted R square is 0,246 which means that there is an explanation degree of 24,6 percent. This means further that 24,6 percent of the variation in question 1 can be explained by gender, experience and country. The model also has a significance of 0,002. Moreover, the model show that the variable Kosovo is the only variable that is significant (0,020), an indication that the differences can be explained by differences in countries.

**Table 5.8: Regression analysis for question 2**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 2					
<b>Gender</b>	0,104	0,677	0,502	0,826	1,211
<b>Experience</b>	-0,083	-0,493	0,625	0,684	1,461
<b>Kosovo</b>	0,072	0,397	0,693	0,581	1,720
<b>China</b>	-0,244	-1,147	0,257	0,430	2,325
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,107/ 0,030/ 1,380/ 0,255</b>					

Table 5.8 shows a low adjusted R square of 0,030 and an explanation degree of 3 percent. The significance of the model shows that it is not significant. If we look closer on the variables we can see that none of them are significant.

**Table 5.9: Regression analysis for question 3**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 3					
<b>Gender</b>	0,064	0,468	0,642	0,826	1,211
<b>Experience</b>	0,057	0,374	0,710	0,684	1,461
<b>Kosovo</b>	-0,325	-1,985	0,053	0,581	1,720
<b>China</b>	0,307	1,611	0,114	0,430	2,325
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,281/ 0,219/ 4,495/ 0,004</b>					

In table 5.9 shows a significance at 0,004 and an explanation degree of 21,9 percent, which could be seen from the adjusted R square. The variable Kosovo is the only variable that is significant (0,053).

**Table 5.10: Regression analysis for question 4**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 4					
<b>Gender</b>	0,093	0,701	0,487	0,840	1,191
<b>Experience</b>	0,084	0,572	0,570	0,689	1,451
<b>Kosovo</b>	0,459	2,882	0,006	0,585	1,709
<b>China</b>	-0,120	-0,651	0,518	0,440	2,275
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,332/ 0,273/ 5,594/ 0,001</b>					

Table 5.10 shows that the model is significant (0,001) and has an adjusted R square of 0,273. The variable Kosovo is significant (0,006) in this model as well.

**Table 5.11: Regression analysis for question 6**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 6					
<b>Gender</b>	-0,009	-0,065	0,948	0,840	1,191
<b>Experience</b>	0,103	0,660	0,513	0,689	1,451
<b>Kosovo</b>	0,629	3,717	0,001	0,585	1,709
<b>China</b>	0,408	2,091	0,042	0,440	2,275
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,247/ 0,180/ 3,684/ 0,011</b>					

Table 5.11 shows significance (0,011) and has an explanation degree of 18 percent (adjusted R square, 0,180). However, in this model both the variables Kosovo and China are significant (0,001 and 0,042).

**Table 5.12: Regression analysis for question 9**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 9					
<b>Gender</b>	0,083	0,591	0,558	0,826	1,211
<b>Experience</b>	-0,093	-0,605	0,548	0,684	1,461
<b>Kosovo</b>	0,513	3,069	0,004	0,581	1,720
<b>China</b>	0,108	0,554	0,583	0,430	2,325
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,254/ 0,189/ 3,907/ 0,008</b>					

Table 5.12 shows a significant value of 0,008 while the adjusted R square (0,189) shows that the explanation degree is 18,9 percent. Kosovo is, even here, the only variable that is significant (0,004).

**Table 5.13: Regression analysis for question 17**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 17					
<b>Gender</b>	0,035	0,236	0,814	0,826	1,211
<b>Experience</b>	-0,035	-0,214	0,832	0,684	1,461
<b>Kosovo</b>	-0,490	-2,784	0,008	0,581	1,720
<b>China</b>	-0,153	-0,746	0,459	0,430	2,325
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,173/ 0,101/ 2,398/ 0,064</b>					

In table 5.13 a significant (0,064) is shown and it has an adjusted R square on 0,101, in other words, 10,1 percent which is the lowest for the models. Out of the four variables, Kosovo still is the variable which is significant (0,008).

**Table 5.14: Regression analysis for question 18**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Question 18					
<b>Gender</b>	0,216	1,500	0,141	0,807	1,239
<b>Experience</b>	-0,078	-0,499	0,620	0,692	1,446
<b>Kosovo</b>	-0,122	-0,719	0,476	0,585	1,710
<b>China</b>	-0,447	-2,273	0,028	0,434	2,305
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,245/ 0,177/ 3,643/ 0,012</b>					

Table 5.14 shows that the regression analysis is significant with a value of 0,012 and the adjusted R square (0,177) shows that the explanation degree is 17,7 percent. China is the only variable that is significant (0,028).

**Table 5.15: Regression analysis for Importance**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Importance					
<b>Gender</b>	0,085	0,645	0,522	0,832	1,202
<b>Experience</b>	-0,009	-0,059	0,954	0,685	1,460
<b>Kosovo</b>	0,461	2,968	0,005	0,600	1,666
<b>China</b>	-0,155	-0,853	0,398	0,438	2,284
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,347/ 0,289/ 5,990/ 0,001</b>					

According to table 5.15 the regression analysis is significant with the value of 0,001 and the adjusted R square (0,289) shows that the explanation degree is 28,9 percent. Kosovo is the only variable that is significant (0,005).

**Table 5.16: Regression analysis for Standardization**

<b>Dependent variable:</b>	<b>Beta-value</b>	<b>T-value</b>	<b>Significance</b>	<b>Tolerance</b>	<b>VIF</b>
Standardization					
<b>Gender</b>	0,002	0,012	0,991	0,832	1,202
<b>Experience</b>	0,146	0,897	0,375	0,685	1,460
<b>Kosovo</b>	0,476	2,747	0,009	0,600	1,666
<b>China</b>	0,097	0,476	0,636	0,438	2,284
<b>R Square/ Adjusted R Square/ F-value/ Significance of the model: 0,188/ 0,115/ 2,597/ 0,049</b>					

Table 5.16 shows a significant with the value of 0,049 and the adjusted R square (0,115) shows that the explanation degree is 11,5 percent. Also here we have Kosovo as the only variable that is significant (0,009). The multiple regression models show that the control variables gender and experience do not influence attitude towards auditing standards. Instead the differences in attitudes towards auditing standards seem to be explained by which country auditors work in.

## 5.5 Hypotheses testing

### 5.5.1 Hypothesis 1 & 5: Attitudes towards auditing standards

*H1: Auditors in countries with higher collectivism will have the same attitude towards auditing standards, while auditors in countries with high individualism will not have the same attitude towards auditing standards.*

*H5: Irrespective of which country they belong to auditors will have the same attitude towards auditing standards.*

Hypothesis 5 is considered to be relatively the opposite of hypothesis 1 in the measurement of auditors' attitudes towards auditing standards. If hypothesis 1 is falsified then hypothesis 5 are not supposed to be falsified.

To test the first hypothesis we have to look at the questions one by one to see if the hypothesis should be falsified or not. According to the hypothesis the collectivism and

individualism will affect the auditors', in other words, auditors from a collectivistic country would have the same attitudes towards auditing standards while auditors from individualistic countries will not have the same attitude towards auditing standards. In table 4.1 the countries are given a score of individualism. Individualism and collectivism are each others opposites, which mean a high individual score is the same as low collectivism. According to table 4.1 in chapter 4, the ranking of the most collectivistic country would be as following, China, Kosovo and Sweden (Hofstede, 2001, Avramaska, 2007). This means that there should be the most variation in the attitudes among the Swedish auditors and the least variation among the Chinese auditors.

### 5.5.1.1 Question 1

**Table 5.17: Descriptive information about Q1:** Auditing standards makes auditing work easier

	China	Kosovo	Sweden
Min	3	4	4
Max	7	7	7
Mean	5,22	6,67	5,36
Std. dev.	1,313	0,816	1,008
Variance	1,723	0,667	1,016

Kruskal-Wallis test significance (0,000)

The descriptive information about question 1 shows in table 5.17, that there are no big differences between the countries when it comes to the minimum and the maximum answer that were given. China and Sweden also have a mean that is close to each other while Kosovo have a significantly higher mean than the two other countries. The variance value is the interesting value for this question there it shows that China has the highest variance (1,723) followed by Sweden (1.016) and lastly by Kosovo (0,667). This indicates that the largest variations between the answers were given by the Chinese auditors and the least among the auditors from Kosovo. According to the hypothesis 1 the rank should have been as followed: Sweden, Kosovo and China. Thus, the hypothesis 1 should according to question 1 be falsified.

### 5.5.1.2 Question 2

**Table 5.18: Descriptive information about Q2:** Auditing standards are important for my work

	China	Kosovo	Sweden
Min	2	5	5
Max	7	7	7
Mean	5,61	6,53	6,21
Std. dev.	1,373	0,743	0,699
Variance	1,885	0,552	0,489

Kruskal-Wallis test significance (0,037)

Table 5.18 shows that the maximum variable does not differ between the countries whereas the minimum variable is lower in China than it is in Kosovo and Sweden. Also, the mean is lower in China than it is in the two other countries where the numbers do not differ relatively much. Subsequently, both the standard deviation and the variance is much higher in China with 1,373 respectively 1,885 than it is in Kosovo (0,743 and 0,552) and in Sweden (0,699 and 0,489). We can see that the variances for question 2 do not differ that much between Kosovo and Sweden but it does show difference when comparing with China. Having China with the highest variance followed by Kosovo and then Sweden shows the opposite of the hypothesis 1. We can therefore draw the conclusion that also this question falsifies the hypothesis.

### 5.5.1.3 Question 3

**Table 5.19: Descriptive information about Q3:** Auditing standards should be developed by a national standard setting body

	China	Kosovo	Sweden
Min	1	1	1
Max	7	6	7
Mean	5,48	2,27	4,29
Std. dev.	1,504	1,751	2,016
Variance	2,261	3,067	4,066

Kruskal-Wallis test significance (0,001)

Table 5.19 shows the descriptive information about question 3 stating similar minimum and maximum variables among auditors' answers from the countries. However, the mean shows a significant difference there Kosovo has the lowest mean (2,27), Sweden with a middle position (4,29) and China with the highest level of mean (5,48). The variance value further shows that the largest variations between the answers were given by Swedish auditors' (4,066), followed by Kosovo (3,067) and then China (2,261). According to hypothesis 1 the ranking should be: Sweden, Kosovo and China. We can therefore suggest, from question 3, that hypothesis 1 is not falsified

#### 5.5.1.4 Question 4

**Table 5.20: Descriptive information about Q4:** Auditing standards should be developed by an international standard setting body

	China	Kosovo	Sweden
Min	1	6	3
Max	7	7	7
Mean	4,52	6,80	5,36
Std. dev.	1,806	0,414	1,277
Variance	3,261	0,171	1,632

Kruskal-Wallis test significance (0,000)

In table 5.20 it is shown that the maximum variable, just like in the former two tables, does not differ between the countries. We can, on the other hand, see a clear difference between the minimum variable in China (1) and in Kosovo (6). Sweden, with a score (3) is closer to China than to Kosovo. Moreover, we can see a difference between the mean there Kosovo has the highest variable (6,80) comparing to Sweden (5,36) and China (4,52). The variance value further shows us that China has the highest variance (3,261). This leads to a wrong ranking of the countries according to our hypothesis 1 so we can therefore even here see that the hypothesis 1 is being falsified by question 4.

### 5.5.1.5 Question 6

**Table 5.21: Descriptive information about Q6:** If my country implements a new standard I would then prefer more detailed rules

	China	Kosovo	Sweden
Min	1	1	2
Max	7	7	5
Mean	4,70	5,00	3,36
St. dev.	1,869	2,268	1,151
Variance	3,494	5,143	1,324

Kruskal-Wallis test significance (0,010)

The descriptive of question 6 in table 5.21 does not show any large differences between the countries when looking at the minimum and the maximum variables. Nevertheless, the mean differ relatively much between China (4,70) and Sweden with only (3,36). Kosovo has here a higher rank (5,00) but is more closed to China than to Sweden. Also, the standard deviation is higher in Kosovo than in the two other countries. The variance value shows further that Kosovo has a higher rank here as well (5,143) than China (3,494) and Sweden with only (1,324). We can therefore, once again state that the hypothesis 1 is falsified.

### 5.5.1.6 Question 9

**Table 5.22: Descriptive information about Q9:** Most auditing standards are applicable to my clients

	China	Kosovo	Sweden
Min	2	1	2
Max	7	7	7
Mean	4,61	5,20	4,29
Std. dev.	1,196	2,077	1,541
Variance	1,431	4,314	2,374

Kruskal-Wallis test significance (0,067)

Table 5.22, as in the former table 5.21, does not show any large differences between the minimum and the maximum variables. By looking at the mean we see that China (4,61) and Sweden (4,29) are closer to each other comparing with Kosovo (5,20) that has a

relatively higher score. Also, the variance shows that Kosovo has the highest value (4,314) then Sweden (2,077) and lastly China with the lowest value of variance (1,196). This might indicate that auditors from Kosovo have the highest level of different attitude in this question. According to hypothesis 1 it should be ranked: Sweden, Kosovo and China. We can therefore see that question 9 falsifies the hypothesis 1.

### 5.5.1.7 Question 17

**Table 5.23: Descriptive information about Q17:** Auditing standards limits the extent to which I can use my professional judgment

	China	Kosovo	Sweden
Min	1	1	1
Max	6	6	6
Mean	3,92	2,50	4,50
Std. dev.	1,470	1,897	1,557
Variance	2,160	3,600	2,423

Kruskal-Wallis test significance (0,008)

In table 5.23 we can see that all the three countries have the same minimum and the maximum variables. In the mean we can further see a clear difference between the countries there Sweden has the highest mean (4,50) and Kosovo the lowest (2,50) which then leaves China in between (3,92). When we compare the variance, we can see that Kosovo has the highest variance with 3,600 followed by Sweden with 2,423 and lastly by China with 2,160. As mentioned before the countries should be ranked: Sweden, Kosovo and China so we can also here see that the hypothesis 1 is being falsified.

### 5.5.1.8 Question summary

To be able to test hypothesis 1 each question had to be evaluated by itself. According to table 5.24 (a summary of the questions) five out of six questions would falsify the hypothesis 1. It is only question three that did not falsify the hypothesis. Since there are five questions that falsify the hypothesis and one question that does not falsify the hypothesis we will therefore decide to falsify hypothesis 1. Thus hypothesis 5 is

falsified we can further draw the conclusion that hypothesis 5 cannot be falsified due it is the opposite of hypothesis 1.

**Table 5.24: Question summary**

Question 1	Falsified
Question 2	Falsified
Question 3	Not Falsified
Question 4	Falsified
Question 5	Not Tested
Question 6	Falsified
Question 7	Not Tested
Question 8	Not Tested
Question 9	Falsified
Question 17	Falsified

### 5.5.2 Hypothesis 2 & 6: Importance

*H2: Auditors in countries with higher power distance will consider it more important to follow the auditing standards “by the letter” than auditors in countries with lower power distance.*

*H6: Irrespective of which country they belong to auditors will attach the same importance to following auditing standards “by the letter”.*

In this section we will test both hypothesis 2 and 6 thus they are linked to the importance of auditing standards. It is suggested that hypothesis 6 is the opposite of hypothesis 2.

When testing our hypothesis 2 we can put question 10, 11, 12 and 13 to one question. This, due they measure the same thing according to the Cronbach’s alpha test. The hypothesis state that power distance might significantly affect auditors’ choice of how important they think it is to precisely follow the auditing standards. If we look at the

power distance score from table 4.1 in chapter 4 we see that the ranking shall be China, Sweden and Kosovo. This means that Chinese auditors shall, according to the hypothesis, think it is more important to follow auditing standards by the letter than audits in Sweden and Kosovo.

**Table 5.25: Descriptive information about Importance**

	China	Kosovo	Sweden
Mean	4,83	6,58	5,24
Std. dev.	1,154	0,495	1,049

Kruskal-Wallis test significance (0,000)

The information about importance in table 5.25 shows that the mean differ between the countries there Kosovo has the highest rank with 6,58 and then Sweden with 5,24 and lastly China with a rank of 4,83. This further suggests that the ranking should be: Kosovo, Sweden and China, which according to our hypothesis is falsified. We can therefore falsify the hypothesis 2. This therefore indicates hypothesis 6 to not be falsified.

### 5.5.3 Hypothesis 3 & 7: Standardization

*H3: Auditors in countries with higher uncertainty avoidance will prefer more standardization than auditors in countries with lower uncertainty avoidance.*

*H7: Irrespective of which country they belong to auditors prefer the same level of standardization.*

Hypotheses 3 and 7 are included in this section. Since hypothesis 7 is the opposite of hypothesis 3 we can state that if hypothesis 3 will be falsified then hypothesis 7 will not be falsified.

According to the hypothesis 3 countries with high uncertainty avoidance will prefer standardization. In table 4.1 in chapter 4 the countries have a score according to their uncertainty avoidance index. Kosovo has the highest score, 39 while both China and Sweden have the same score, 30. This is an indication that Kosovo should be the

country that prefers most standardization and that China and Sweden are supposed to be equal when it comes to standardization.

**Table 5.26: Descriptive information about Standardization**

	China	Kosovo	Sweden
Mean	4,24	5,92	4,3
Std. dev.	1,661	0,869	1,345

Kruskal-Wallis test significance (0,001)

To test the hypothesis, question 13 to 16 has been composed to one test, this according to the Cronbach's Alpha test that was conducted earlier in the section. Table 5.26 shows descriptive information, such as mean and standard deviation, when looking on the standardization in each country. A higher mean would indicate that the country would prefer standardization. Kosovo has the highest mean in the test with 5,92 while Sweden is the second with 4,30 and China the third with 4,24.

Kosovo has the highest mean and is therefore the country that would prefer more standardization, which is consistent with the hypothesis. According to the hypothesis 3, China and Sweden were supposed to have the same mean but according to the test Sweden has a slightly higher mean of 0,06 than China. Apart from this, there are not many differences between China and Sweden so it could therefore be argued that the countries are equal. The standard deviation of China and Sweden also indicates that they are equal since the test does not show any big differences between them, they approximately differ with 0,3 from each other. A t-test also shows that there are no differences between the countries (0,839). This means that hypothesis 3 cannot be falsified and that hypothesis 7 is falsified.

#### 5.5.4 Hypothesis 4 & 8: Professional judgment

*H4: Auditors in more masculine countries will prefer using professional judgment rather than auditing standards to a greater extent than auditors in more feminine countries.*

*H8: Irrespective of which country they belong to auditors prefers using professional judgment in the same extent.*

By applying the theories of culture and professional, we suggest, just like in the hypothesis above, that hypothesis 8 is the opposite of hypothesis 4.

To test these hypotheses we only have to focus on question 18 since, according to *Kruskal-Wallis test* in table 5.5, there are no significant difference between the countries in question 19 and 20. In our hypothesis 4 we assume that auditors from a more masculine country will prefer more professional judgment in their audit work. According to table 4.1 in chapter 4 the ranking of the most masculine country would be shown as following: China, Kosovo and Sweden.

The description of information of question 18 is shown in table 5.27.

**Table 5.27: Descriptive information about Q18:** The more use of professional judgment the better the audit

	China	Kosovo	Sweden
Mean	5,24	4,87	5,5
St. dev.	1,815	1,807	1,092

Kruskal-Wallis test significance (0,009)

Table 5.27 shows that the mean in Sweden is higher (5,5) than in China (5,24) and in Kosovo (4,87), though it may not differ relatively much. Hence, this leads us to a rank of Sweden, China and Kosovo which differ from the rank in table 4.1 chapter 4; China, Kosovo and Sweden. Question 18 does therefore falsify hypothesis 4 but the question cannot falsify hypothesis 8.

### 5.5.5 Hypotheses summary

**Table 5.28: Hypotheses Summary**

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H1	Falsified
H2	Falsified
H3	Not Falsified
H4	Falsified
H5	Not Falsified
H6	Not Falsified
H7	Falsified
H8	Not Falsified

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By testing the 4 cultural hypotheses we found that hypothesis 1 is falsified due there were only one question, related to the hypothesis, that were not falsified. Additionally, hypotheses 2 and 4, as shown in table 5.28 are falsified while hypothesis 3 showed to be not falsified. Consequently, hypothesis 5 to 8, which are from the theory of profession, is the opposite of the four hypotheses of culture. According to the table 5.28 only hypothesis 7 is falsified and the other three hypotheses of the theory of profession showed not to be falsified.

## 6. Summary and conclusions

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*In this chapter we will present the conclusions of our study. We start by discussing the results of our analysis and then we continue with the criticism reflections and further research within this field.*

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### 6.1 Summary

The purpose of this thesis is to compare the perception of auditing standards by auditors from different countries. The aim of the study has been to be able to draw conclusions regarding differences that may occur between different countries.

The differences between countries are analyzed with the help of Hofstede's cultural dimensions. The cultural dimensions act as a foundation for the first four hypotheses and the theory of profession act for hypotheses five to eight. Hypotheses that derive from the theory of profession are opposites of the cultural hypotheses. To test the cultural hypotheses a questionnaire, with questions concerning auditing standards, were sent to auditors in China, Kosovo and Sweden.

The analysis has been carried out by using multiple regression and nonparametric tests. Three out of four of the cultural hypotheses showed to be falsified due to lack of significance. The hypothesis that showed to be not falsified was hypothesis three which stated that auditors in countries with higher uncertainty avoidance would prefer more standardization than auditors in countries with lower uncertainty avoidance.

### 6.2 Discussion and Conclusions

As we mentioned before in chapter 3 four factors, including legal differences, political and economical differences, cultural differences and the theory of profession, were distinguished to have a significant affect on one country's auditing system. The hypotheses of the thesis examined the cultural differences and the theory of profession.

Nonetheless, the analysis showed that these two factors contribute to the differences of auditors' perception in auditing standards. The resulting showed furthermore that uncertainty avoidance in Hofstede's cultural dimensions, which indicate to the preference of standardization by auditors, are different in terms of one country's level of uncertainty avoidance that impacts auditor's perception. The theory of profession hypotheses are the opposite of the cultural hypotheses. The results of our analysis showed that hypothesis 7 was falsified (compared to hypothesis 3 that were the only one that was not falsified).

The fact that dimension, uncertainty avoidance, of cultural differences, auditors' perception in auditing standards in this thesis confirms with the view that one person's perception of auditing standards is affected by the culture as explained in the theory section. This unwillingness to confront the superior leads to some differences between countries. According to Morden (1995), building up more formalized rules is a way of dealing with uncertainty. Auditors in Kosovo, with the highest uncertainty avoidance in the ranking together with China and Sweden, prefer more standardization than the other two countries according to this study. Soeters and Schruder (1988) emphasized the level of obeying the organizations rules by auditors which could be explained by one country's uncertainty avoidance, and our research result showed the right direction.

The three hypotheses of the professional theory, which showed to be not falsified, derives from the findings that their opposite cultural hypotheses are falsified. Moreover, the three cultural hypotheses were falsified due to the fact that they did not meet our expectations. According to Hofstede's cultural scores (shown in table 4.1 in chapter 4), we could make an estimation of how the ranking of the countries should ideally be for each hypothesis. Three out of the four hypotheses showed a ranking of the countries that differed from the ideally ranking. This difference could be due to wrong scores of the countries. However, Hofstede's cultural scores are well-known and used throughout the world there the scores are designed after extensive research. Nonetheless, there are other possible explanations for the perception of auditors in auditing standards, such as the theory of profession. According to Deboulis (2006) code of ethics of auditing profession would attempt to control unprofessional activities in the protection of public interest. The theory of profession suggests that regardless which country one belongs to, an auditor will act in the same manner. This can, in some way help to explain hypothesis 2, stating that auditors in countries with higher power distance will consider it more

important to follow auditing standards “by the letter” than auditors in countries with lower power distance. The differences between the countries in our analysis were not as expected one could have accepted (according to the power distance score table in 4.1 in chapter 4) Kosovo to be the least interested of following standards “by the letter”. In this case Kosovo was the country that found it most important to thoroughly follow standards. This could be explained by the theory of profession there it can be expected to eliminate the differences between countries. There can also be other explanation than this one, but we can state that the theory of profession could have the effect that countries would be closer to each other, than it would have been expected by looking at the scores in table 4.1.

The dimension uncertainty avoidance and the theory of profession, as explained above, can help us answer our research question “How do auditors from different countries differ in perception of auditing standards?”, there it was shown that the uncertainty avoidance plays a crucial role in auditors’ preference of standardization towards their performance in audit practices. The theory of profession suggests that the differences between countries do not have impact on auditors and their perception towards auditing standards.

By examining the theory section above we can suggest that cultural differences have a major impact within the auditing profession due different countries share different values and different attitudes. The concept theory of profession shows, on the other hand, that despite which country auditors’ belong to they will share the same values and attitudes towards auditing standards. From the results of our analysis we can draw the conclusion that the cultural aspects are to be preferred. Thus some of the cultural hypotheses showed to be falsified we could see that one hypothesis saw differences among the countries, although differences were not as expected. This can be an indication that the cultural differences could have and could continue to have an impact on the perception of auditing standards.

## 6.3 Implications

The globalization has lead to a greater importance of the implementation of international auditing standards throughout different countries. By implementing international auditing standards the international comparability of financial reports and audit work would enhance. The harmonization of auditing standards is today being discussed by both international organizations such as IFAC as well as by national regulators. Although the ISAs have been implemented in several countries there is still a long way to go before implementing and improving auditing standards internationally.

This thesis could be of academic value since it contributes to the literature of cultural differences between countries. To be able to understand why countries differ from each other this thesis could be helpful to a wide range of interests, such as investors, corporations, and international regulator there for instance IFAC might find the study interesting in their efforts to harmonize auditing standards throughout the world. Understanding the differences between countries and what the differences are due to, could facilitate the harmonization of auditing standards.

## 6.4 Criticism

A thesis without weaknesses and limitations are rare, if not even impossible to write. The major criticism against this thesis is that the research is limited in its sample. A broader sample with more answers from auditors could have affected the findings of the research. As with every questionnaire, one puts themselves in a difficult position when being dependent of answers from a person you do not know. The respondents' unwillingness to answer the questionnaire could be due to a numerous reasons, such as lack of time, lack of interest and lack of understanding.

Moreover the questions could be criticized since there are numerous questions one could ask to test the hypotheses. Other questions could have given different conclusions about the hypotheses. There are also possibilities to formulate the same question differently to get a different answer. Which questions to use and how many to use have

to be taken into consideration. A questionnaire with too many questions or with wrong questions could make the respondent reluctant to answer.

Nonetheless, the research gives valuable information even regarding the sample size and the questions. The research gives further an indication that there are differences between countries, differences that are of interest to understand and which could facilitate harmonization of auditing.

## 6.5 Further research

There are possibilities to do a variety of future research regarding differences among auditors and in auditing standards. The harmonization of auditing standards throughout the world makes it interesting to evaluate and see how well it has been received by countries.

Firstly, it would be interesting to test the theory of profession more thoroughly, to see if those hypotheses could be falsified or not. In this research the hypotheses of the theory of profession were an opposite of the cultural hypotheses and were not tested on their own. A falsified cultural hypothesis would mean that we cannot falsify the opposite hypothesis in the profession of theory. These hypotheses have to be tested again to be able to see if they are falsified or not and if it is significant. With a new test, different questions and different approaches might be possible to analyze what role the professions have for auditing standards and auditors.

Secondly, it would also be interesting to test the cultural differences and Hofstede's theories furthermore. It is possible that another research with other approach and other questions would get a different result, than this thesis. A research with the same countries as we had would be very interesting, thus it is possible to compare our conclusions and the new findings. To be able to compare different research could be valuable thus is possible to validate the findings and see if other researcher would come to the same conclusions.

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# Appendix 1

## Survey on Auditing Standards

Dear respondent, We are grateful that you take your time and help us with our study. Best regards  
Arta, Johan and Yina

### Gender:

- Male  Female

### Age:

### How many years have you been working as an auditor?

### Auditing Standards

Please indicate how much you agree with each of the following statements by using the scale from 1 to 7, where 1 is "I strongly disagree" and 7 is "I strongly agree"

	1	2	3	4	5	6	7
1) Auditing standards makes auditing work easier	<input type="radio"/>						
2) Auditing standards are important for my work	<input type="radio"/>						
3) Auditing standards should be developed by a national standard setting body	<input type="radio"/>						
4) Auditing standards should be developed by an international standard setting body	<input type="radio"/>						
5) Auditing standards should be developed by the government	<input type="radio"/>						
6) If my country implements a new auditing standard I would then prefer more detailed rules	<input type="radio"/>						
7) If my country implements a new auditing standard I would then prefer more general principles	<input type="radio"/>						
8) If my country implements a new auditing standard I would then prefer more a mixture of general principles and detailed rules	<input type="radio"/>						
9) Most auditing standards are applicable to my clients	<input type="radio"/>						
10) Auditors should never departure from auditing standards	<input type="radio"/>						
11) I follow auditing standards very thoroughly	<input type="radio"/>						
12) It is important for auditors to carefully follow auditing standards	<input type="radio"/>						
13) More standardization would facilitate the audit work	<input type="radio"/>						
14) I would prefer standardized auditing procedures	<input type="radio"/>						
15) Standardization would lead to harmonization of auditing practice	<input type="radio"/>						
16) Standardized auditing procedures would lead to less uncertainty in audit work	<input type="radio"/>						
17) Auditing standards limits the extent to which I can use my professional judgment	<input type="radio"/>						
18) The more use of professional judgment the better the audit	<input type="radio"/>						
19) If I face an ethical dilemma in the audit work, I prefer relying on my professional judgment	<input type="radio"/>						
20) It is difficult to make decisions based on professional judgment	<input type="radio"/>						

# Appendix 2

## Spearman's correlation test between variables

### Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
1. Country	1																			
2. Gender	-0,381***	1																		
3. Age	-0,585***	0,325**	1																	
4. Experience	-0,523***	0,261*	0,830***	1																
5. Question 1	-0,172	0,370***	0,265*	-0,053	1															
6. Question 2	-0,214	0,192	0,172	-0,034	0,497***	1														
7. Question 3	0,305***	-0,068	-0,156	-0,147	-0,043	-0,035	1													
8. Question 4	-0,284**	0,222	0,377***	0,266*	0,348**	0,353***	-0,526***	1												
9. Question 5	0,051	-0,178	-0,208	-0,179	-0,106	-0,009	0,249*	-0,262*	1											
10. Question 6	0,253*	-0,026	0,072	-0,046	0,218	-0,046	0,153	0,212	0,064	1										
11. Question 7	-0,001	-0,067	-0,105	-0,133	0,035	0,300**	0,106	-0,158	0,252*	-0,092	1									
12. Question 8	0,022	0,072	0,009	0,001	0,001	-0,001	0,024	0,000	0,033	0,144	0,321**	1								
13. Question 9	-0,011	0,072	0,073	-0,128	0,332**	0,193	-0,009	0,159	-0,187	0,193	0,074	0,078	1							
14. Question 17	-0,044	-0,049	-0,133	-0,059	-0,124	0,059	0,149	-0,211	0,215	-0,143	0,197	0,261*	-0,096	1						
15. Question 18	-0,418***	0,322**	0,249*	0,197	0,197	0,166	-0,111	0,192	-0,029	-0,037	0,291**	0,244*	0,040	-0,042	1					
16. Question 19	-0,158	0,126	0,074	0,097	0,099	0,098	0,004	0,059	0,115	-0,128	0,281**	0,160	-0,067	-0,053	0,244*	1				
17. Question 20	-0,007	0,155	0,084	0,112	0,234*	-0,091	-0,058	0,117	-0,046	0,132	-0,049	0,013	0,021	0,192	-0,100	0,106	1			
18. Importance	-0,292**	0,242*	0,283**	0,163	0,515***	0,430***	-0,407***	0,585***	-0,265*	0,052	-0,087	-0,002	0,468***	-0,367***	0,252*	-0,067	0,055	1		
19. Standardization	-0,156	0,159	0,216	0,140	0,402***	0,288**	-0,087	0,467***	-0,007	0,201	-0,213	-0,029	0,213	-0,073	0,150	0,051	0,095	0,599***	1	

\*\*\* Correlation is significant at the 0.01 level (2-tailed). \*\* Correlation is significant at the 0.05 level (2-tailed). \* Correlation is significant at the 0.1 level (2-tailed).