

# Value-creating factors in the professional relationship between the auditor and the employer in the auditing profession

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## Abstract

The purpose of this research is to investigate the value-creating factors in the professional relationship between the auditor and the employer in the auditing profession. The current research is applicative in terms of purpose, and quantitative in terms of execution method. The statistical population of the research includes 303 people, including financial experts, executive directors, auditors or legal inspectors, CEOs or members of the board of directors, university faculty members, and etc.; selected through a targeted sampling method. Data collection is by means of questionnaire. SPSS and PLS software were employed for data analysis. The results showed that the strategies used in the negotiations between the auditor and the employer can have an effect on the rotation or retention of the auditor. Also, the effect of the merger of audit institutions on the relationship between the auditor and the employer has been positive, and of course, the monopoly of the audit market can affect the quality of the relationship between the audit institution and the employer. In other words, the monopoly of the audit market by large institutions can be a serious threat to other institutions. Also, the value of GOF was obtained equal to 0.200, which indicates a good and moderate fit in the model.

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## Extended Abstract

### Introduction

During the past decades, the audit services market at the international level has witnessed many changes, one of the most important of which is the issue of marketing for credit service providers. The aforementioned changes in auditors' tendencies towards marketing mainly started after the decision of the US Supreme Court in 1977 AD. Auditors always try to maintain their independence in order to balance the interests of society and their personal interests. However, the personal interests of auditors require them to be able to maintain their employers in competitive conditions; of course, retaining the employer without compromising the professional characteristics of auditors such as independence, has been the subject of some researches (Mahdavi & Daryaei, 2017). Incentives such as entering new markets, improving research and development and obtaining new technologies, economic savings due to scale and globalization, the need for expertise in the industry due to the complexity of business owners' activities and maintaining or increasing market share, and finally, the personality characteristics of auditors have played a significant role in the entry of audit institutions into marketing issues. The problems that exist in the field of relations between the auditor and the employer in Iran can be listed in the integration of audit institutions, audit marketing, legal responsibility of auditors, etc. (Mehrazin & Arezubakhsh, 2022). The main research goal is to answer the question: what are the value-creating factors in the professional relationship between the auditor and the employer in the auditing profession?

### Theoretical Framework

#### Professional relations between the auditor and the employer

The audit performance is determined not only by the inherent complexities of the employer's company, but also by the audit processes and the auditor's characteristics. Experimental and theoretical researches in psychology and auditing show that audit performance is improved by the efforts of auditors and the formulation of effective rules and regulations. To increase the efficiency of these regulations, the number and complexity of the work of auditors is increasing, which requires more efforts and knowledge in the areas related to the work of auditors in the field of internal, financial and tax audits. This issue refers to more pressure on the internal work structures of auditors, audit institutions and tax authorities to understand, manage, and design audits and audit periods with the aim of maximizing their performance (improving quality). It can be said that audit related activities and related complexities are unavoidable, and auditors are different from each other in knowledge, awareness and ability; and better performance is obtained only if the combinations related to work complexities and the characteristics related to audit groups are properly optimally explained (Alissa et al, 2014).

#### Intra-organizational point of view

The behavior and action of auditors can be such that it gives peace of mind to the beneficiaries in using financial statements and relying on them, and it also can change the mindset of the beneficiaries regarding the position of auditing in the society by inefficient behavior and reducing the audit quality. In general, many cases may play a role in these issues and be effective. Domino et al, (2015) believe that part of these issues can be found in professional commitment, organizational commitment, and job satisfaction of auditors.

#### Extra-organizational point of view

Audit institutions operate in a very competitive environment with the requirement to reduce audit costs, which creates pressure on the institution to continuously improve the efficiency

and effectiveness of the audit process to continue their activities. In the meantime, we cannot ignore the role of integration of audit institutions as a part of intra-professional relations in auditing, which is influenced by outside the organization and economic conditions, and can affect the relationship between auditors and employers. Mergers of audit firms allow these firms to expand their operations in the audit market or in a specific industry within that market, thereby achieving economies of scale, sharing audit knowledge, and reducing unit costs (Soltaninezhad et al., 2023).

Faraji & Shah Abdul Azimi (2022) investigated the interaction of auditor and employer characteristics and audit quality. The results using the multivariate regression method show that the quality of the audit is different with the criteria of the type of auditor's report and representation of financial statements for large companies and government auditors, compared to small companies and government auditors. However, the quality of the audit is not different from the criteria of the absolute value of the accrual items for the large owners and the government auditor, compared to the small owners and the government auditor.

Carlisle & Hamilton (2021) investigated the mode of communication in auditor-employer interactions: insights from employee's auditors. It indicates that the direct interactions between the auditor and the employer have a greater impact on the quality of audit work.

### **Research methodology**

The current research is applicative in terms of purpose, and quantitative in terms of execution method. The statistical population of the research includes 303 people, including financial experts, executive directors, auditors or legal inspectors, CEOs or members of the board of directors, university faculty members, and etc.; selected through a targeted sampling method. Data collection is by means of questionnaire.

### **Research findings**

SPSS and PLS software were employed for data analysis. The results showed that the strategies used in the negotiations between the auditor and the employer can have an effect on the rotation or retention of the auditor. Also, the effect of the merger of audit institutions on the relationship between the auditor and the employer has been positive, and of course, the monopoly of the audit market can affect the quality of the relationship between the audit institution and the employer. In other words, the monopoly of the audit market by large institutions can be a serious threat to other institutions. Also, the value of GOF was obtained equal to 0.200, which indicates a good and moderate fit in the model.

### **Conclusion**

The purpose of this research was to investigate the value-creating factors in the professional relationship between the auditor and the employer in the auditing profession. The results of this research are in agreement with the results of Panahi et al, (2023), Ahmadi (2022), Faraji & Shah Abdul Azimi (2022), Carlisle & Hamilton (2021), Yusefzadeh et al, (2021), Berglund & Eshleman (2019), Ronen & Ye (2019), and Callen & Fang (2017). Ronen & Ye (2019) showed that prohibiting the establishment of a relationship between the employer and the auditor reduces the probability of detecting significant abuses. The reason is that such a law increases costs, and thus reduces the probability of detecting significant abuses, and in turn increases the audit margin cost, and forces the auditor to choose a lower level of audit.

According to the results of the research, the following suggestions are presented:

1- Development of education and promotion of expertise: Auditing institutions should pay attention to the education and promotion of the expertise of auditors and business owners in

order to establish better professional relations by improving their specialized knowledge and skills.

2- Improving transparency and information disclosure: Legislators should enact laws and regulations that lead to greater transparency in audit processes. This helps to build mutual trust between the auditor and the employer.

3- Increasing the independence of auditors: Audit institutions should emphasize the independence of their auditors so that they can provide their opinions without being influenced by the owners. This helps to increase the quality and credibility of audit reports.