Cultural impact on the audit planning phase
An empirical study in China and France

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Abstract

China and France have both adopted the International Standards on Auditing (ISA). The largest firms in auditing and accounting in the world, known as Big Four, are established in France as well as in China. Auditors from those firms apply procedures that have been harmonized worldwide within Deloitte, PricewaterhouseCoopers, KPMG, and Ernst & Young. When it comes to audit, French auditor and Chinese auditor talk the same language, use the same software, boundaries seem to be knocked over. On the other hand, what Big Four firms are not able to standardize is the culture of their auditors. Does auditor’s culture may shatter all efforts that have been undertaken to deliver the same services throughout the world? Does auditor’s culture may call the work of the International Auditing and Assurance Standards Board (IAASB) into question? Do either French or Chinese auditors authorize the audited client a higher audit risk? Many other questions could be raised about the effect of cultures on the audit process.

The purpose of this research is to explore, measure and analyse the cultural influence on the audit process. In order to highlight the difference(s) of the audit outcome due to culture, countries have to exemplify a certain numbers of cultural differences. China and France have been chosen because their belonging to the Eastern and Western clusters, and as we know, Eastern and Western countries have substantial cultural differences (Hofstede, 2001). According to Hofstede’s cultural dimensions, Individualism (versus Collectivism) and Uncertainty Avoidance are the two dimensions that get the higher cultural differences when he compares Chinese and French Culture. We want to discover how Chinese and French auditors rely on analytical procedures and assess audit evidence and internal control environment. We want to study if their audit outcomes reflect the cultural differences between China and France based on the two cultural dimensions.

In order to manage our empirical research, we use a sample of 28 Chinese auditors and 14 French auditors. We use primary data collection through our design questionnaire. The auditors’ answers were analysed using a quantitative approach to reveal the eventual existence of a connection between the auditor’s cultural background and how the audit process is carried out.

Our findings about cultural differences within Big Four companies are not so categorical. We did not find significant differences regarding Chinese and French auditors’ culture. However, Chinese auditors appear to have a higher willingness to refuse a misstatement in the client’s financial statements, due to collectivism cultural dimension, than French auditors. Auditors from both countries assess in similar way audit evidence, but they do not consider of the same importance some components of the internal control environment. French auditors judge of greater importance components that can directly influenced the accuracy of the accounting reporting process, because an individualism society as France tends to “encourage” accounting and cut-off errors within organizations.

Key words: Audit, culture, individualism, collectivism, uncertainty avoidance, risk assessment, analytical procedures, materiality, evidence
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Régis and Danni
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Chapter 1- Introduction

1.1 Problem Background

In the last few years, the International Accounting Standards (IAS), now renamed International Financial Reporting Standards (IFRS), are gaining acceptance worldwide (Mirza et al., 2008). In 2002, the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in Europe in 2005, but not only, because many other countries have also been moving to IFRS, countries from Africa, Asia, and Latin America. In our thesis, we focus especially on France and China. Of course, France, belonging to European system, has applied IFRS since 2005. On the other hand, it was much less obvious for China. Finally, China has decided to apply IFRS to listed companies since 2007. It is nearly 100 countries that use the IFRS, and much more in a near future as David Tweedie1, chairman of International Accounting Standards Board (IASB), said “is going to be a chain reaction as a result of China’s adoption” of the International Financial Reporting Standards. As “international accounting standards acquired more authority, logic dictated a set of international auditing standards collateral to them” (Hayes et al., 2005). Therefore, Auditing standards have become international because they were required by multinational corporations that “wanted consistent auditing throughout the world”. With a set of international accounting and auditing standards adopted for the world, international investors can be more confident in financial statements prepared in another country, and then investors might be more likely to channel funds.

What we would like to point out is that accounting and auditing practices are becoming universal and standardized all over the world. We should have the same result either in China or France when auditor teams review the audited client’s financial statements. What universal accounting and auditing practices do not take into account is the effect of national culture. Of course, try to unify cultures would have been a failure but, on the other hand, national cultures could affect auditor’s attitudes and subjective practices may arise in the audit process. Hofstede (1980) defines Culture as “the collection mental programming that distinguishes one group from another”. He used 5 work-related values to measure national culture and labels these values as: power distance, uncertainty avoidance, individualism versus its opposite collectivism, masculinity versus femininity, and long-term versus short-term orientation.

The importance of national culture characteristics in affecting the accounting, and indirectly the audit process, is documented in various studies. Agacer and Douplnik (1991), Arnold and Bernardi (1997), Cohen et al. (1995), Douplnik and Salter (1995), Kachelmeier and Shehata (1997), Lampe and Sutton (1995), and Siegel et al. (1997) note that cultural differences have explanatory properties in accounting research. In the field of auditing, we found different sorts of studies that tried to link cultural characteristics to the audit process. Some researches tend to compare countries with similar cultural backgrounds. For instance, Umar and Anandarajan (2004) “investigate pressures facing auditors and their reaction to these pressures in the similar cultural environments of the United Stated and Australia,” according to Hofstede’s cultural dimensions (2001). While this study identifies judgement differences across countries, the authors are unable to explain differences from a cultural perspective because the

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1 http://www.iasb.org/News/Press+Releases/Sir+David+Tweedie+addresses+US+Senate.htm (October, 2007)
countries researched share similar cultural characteristics. By way of exception, Kenny Z. Lin and Ian A.M. Fraser (2008) draw their analysis on cultural differences (Hofstede, 1991) to explain differences in auditors’ perceptions in China and UK. They found that British and Chinese auditors do not perceive of the same importance different accounting and auditing components. Judy Tsui and Carolyn Windsor (2001) also analysed Chinese auditors, but compared to Australian auditors. Their results show that “auditors from Australia have higher ethical reasoning scores than those from China”.

Danni and I (Régis) wanted to face a challenging topic, and we have not found any study about the comparison between China and France, whereas both countries exemplify a number of substantive differences existing in the Western and Eastern cultures (Chow et al., 1999). We expect that differences in Chinese and French auditors’ professional judgements are explainable by their cultural differences. Furthermore, no prior studies, related to our topic, have been conducted on professional auditors. Marc Sim and Jenny Goodwin (2004) used a sample of students from University of Hong Kong (collectivism culture) and students from the University of Queensland (individualism culture). The authors tried to examine “the effects of a national culture dimension, individualism or collectivism, on the perception of information and group decision making in an audit planning task”. In order to get relevant primary data for our research, we designed a questionnaire that we submitted to auditors rather than students. We firmly think that auditors are the right target to get a “big picture” of what is going on in the audit environment.

The present paper complements previous research by providing further insights into the relationship between culture and auditor judgement. These insights may be helpful to international audit firms, especially Big Four companies, seeking to integrate diverse cultural norms and audit procedures into global audit practices and codes of professional conduct (Cohen et al., 1993, 1995). As written by the International Auditing and Assurance Standards Board (IAASB) on its website2: “IAASB works to improve the uniformity of practice by professional accountants throughout the world”. Our paper may highlight some differences in a specific audit phase due to auditor’s cultural backgrounds and could be helpful for the auditing standards setters by taking into account the cultural specificities to international harmonization.

1.2 Main purpose of our study

The International Standards on Auditing (ISA) are issued by the International Federation of Accountants (IFAC), part of the International Auditing and Assurance Standards Board (IAASB). The IAASB goal is to develop a set of international standards generally accepted worldwide. Despite the fact that ISA has been accepted throughout the world and tend to have standardized practices, some differences remain due to national culture characteristics.

We want to focus on the phase “plan the audit”, and especially the use of analytical procedures involved in this phase. The reason of choosing analytical procedures is motivated by the fact that their application is based upon auditors’ judgements (Schneider A., 1985). Furthermore, analytical procedures are appropriate to our study because they are uncertain by

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2 http://www.ifac.org/iaasb/ (March, 2009)
nature, since they require auditors to use professional judgement rather than rules to form expectations of account balances (Susan B. Hughes et al., 2009). The phase “plan the audit” also involves the auditor to assess evidence and internal control environment in order to set correctly the level of risk, therefore we also take an interest in those elements.

We want to discover how cultural differences might affect the audit process by comparing French and Chinese cultures. First of all, we want to measure how auditors from each country rely on analytical procedures. Secondly, we want to find out if cultural differences play a role in judging evidence and the client’s internal control environment. Audit evidence is a broad concept and involves “all the information used by the auditor in arriving at the conclusions on which the audit opinion is based (Eilifsen, 2006). We limit our audit evidence as accounting records and supporting records (e.g. invoices). Moreover, we included in our questionnaire some other information that the auditor may use as audit evidence such as written policies and procedures, activity and control logs for instance.

Through this study we will be in a position to find out either if Asian Chinese culture or Developed Latin France culture provides more flexible auditing features. In the long run, companies may be more willing to establish their business in a country that defines a slighter level of audit risk by setting a higher materiality threshold for instance. Finally, this study could call the validity of the International Standards on Auditing into question.

1.3 Research Questions

In order to conduct a coherent study and keep in mind what we are looking for, we would like to obtain answers for the questions mentioned below. Our main research question could be expressed as followed: Do French and Chinese auditors have the same consistency when they perform an audit in the light of standardized practices throughout the world?

However, this question may be vague because the audit process is wide and all phases are not influenced by personal judgement, and more largely by cultures. In this way, the prime research question has been broken down into four sub-questions:

- What are the main differences between Chinese and French culture? This objective will be discussed through detailed literature review (Hofstede, 1991, 2001) and an empirical study.

- What reliance do French and Chinese auditors have on analytical procedures? In order to answer this question, we will carry out a quantitative research in Big Four firms.

- Do French and Chinese auditors have the same judgement when it comes to assess audit evidence?

- Which components of the internal control may be considered of greater importance by French and Chinese auditor?
1.4 Delimitation of the study

Auditors can provide assurance services, including audit of financial statements and other services arise from the need for management to be accountable to employees, shareholders, customers and communities (Eilifsen et al., 2006). In this way, there are numerous types of assurance services including:

- Assurance on Financial Statements (legal audit)
- Assurance on Sustainability Reporting
- Assurance on Internal Control Reporting (internal control audit)
- Assurance on Compliance (compliance audit)
- Assurance on Operational Performance (performance audit)
- Assurance on Financial Forecasts and Projections
- Assurance on Information System Reliability and E-commerce
- Forensic Assurance (forensic audit)

In our paper, we focus on the assurance on financial statements, also known as legal audit. This sort of assurance examines “financial statements to determine if they give a true and fair view or fairly present the financial statements in conformity with specified criteria” such as IFRS or US GAAP (Hayes et al., 2005). The different types of assurance services, cited above, can be performed by audit firms, that employ external auditors, or by other types of auditors such as internal auditors, forensic auditors, or governmental auditors. We decided to submit our questionnaire to external auditors who are not employed by the organization being audited. We are interested in the largest firms named Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC), known as Big Four companies. These large international organizations are able to serve clients throughout the world by tapping into theirs worldwide networks of firms.

We could not study the audit process as a whole and we had to do some choices on which step(s) we wanted to focus. The figure below, extract from the textbook “Auditing and Assurance services” (Eilifsen et al., 2006) gives you a good glance of the major phases of the audit process. As you can see, some phases of the audit process do not contain professional judgement, or at least, much less professional judgement than the others. For instance, the first phase defined as “Client acceptance” required less professional judgement because of the reputation risk. Nowadays, more and more audit firms have standardized practices throughout the world to accept or refuse a new client. Moreover, in some organizations, there is a special service that deals with this issue like it is the case at PricewaterhouseCoopers or other Big Four companies. Client acceptance phase deals with legal issue, set by International Standards on Auditing (ISA 210³). The standard states that the agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract. In this way, the auditor needs to follow ISA 210 without adding personal consideration regarding the engagement terms. In the last question of the questionnaire (Q20), we ask a question related to the International Standard on Auditing 300. ISA 300 requires that the successor auditor communicates with the predecessor auditor, in the case that the prospective client has previously been audited. This standard is also involved in the client acceptance phase, but we thought that some differences might appear between Chinese and French auditors, because its application differs among countries.

³ http://www.accaglobal.com/publicinterest/activities/policy_papers/archive/auditing/cdr756
By contrast, the phase “assess risk and establish materiality” involves lots of personal judgement. As Donald et al. (2001) said: “the judgement of the individual auditor or audit team is the basis for determining the size of materiality within a specified audit”. However, some countries such as Australia, New Zealand, and Canada include example of “rule of thumb” for materiality in their standards noted by De Matininis and Burrowes (1996), and then, less auditors’ professional judgement is required. According to Bernardi and Pincus (1996), most European countries have not adopted this rule towards formalizing materiality estimates, and the materiality threshold depends on the auditor’s judgement. Plenty of literature was found about this audit phase, so we decided to let it apart from our study.

The next phase is called “plan the audit” and embraces different duties that have to be performed by an audit team, such as assessing a preliminary level for control risk by account and assertion, identifying related parties, developing an overall audit strategy for instance. As we said previously in the part “purpose of our study”, we picked up this phase to carry out our research. Further in our paper, we will see that we also included the assessment of evidence and the client’s internal control environment because both are involved in the planning phase.

After having done a brief introduction of our paper, we discuss about the research methodology in chapter 2. Chapter 3 deals with the literature review, while chapter 4 presents our research design. In chapter 5, you are able to acquaint yourself with our empirical results, and we discuss about it in chapter 6. Finally, chapter 7 summarizes our research findings and make proposal for further researches.
Chapter 2 - Research Methodology

2.1 Introduction

This chapter discusses various research philosophies and theories we considered in conducting the study. Firstly, we discuss inductive and deductive approach, and also epistemology and ontology. Next, the general research strategies are described. Finally, the way of literature search and source qualify are argued.

2.2 Research philosophy

Research is a process about the discovery, interpretation and communication of new knowledge, which has the potential to improve understanding of the world around us (Ryan et al, 2003). There are two basic and classic approaches to establish the relationship between research and theory. One of these theoretical approaches is deductive theory, which means researchers generate some hypotheses on the basis of some specific knowledge, further, collect empirical data to test these hypotheses, and make a confirmation to the original knowledge ultimately (Bryman, 2008; Saundert et al., 1997). The other approach is inductive theory which has an opposite direction for research process compared with deduction. In other words, induction represents some general new theories or conclusions that are achieved after systematic observations and evaluations of data (Cooper & Schindler, 2003; Saundert et al., 1997). Regarding our study, we aim to generate some hypotheses concerning the cultural influence on auditors’ professional judgements based on existing knowledge and theories that are stated in the theoretical framework part. Afterwards, we examine theories via analysing empirical data in order to get the final confirmation. By following the previous stages, our paper applies a deductive theory to conduct the research.

2.2.1 Epistemology and Ontology

As mentioned above, we have already indicated the relationship between theory and research, but how do we understand these theoretical knowledge? Epistemology is the philosophy of knowledge regarding how to distinguish true knowledge from false one. Positivism is an epistemological branch that encourages the researcher to apply the natural sciences methods to study social issues. Interpretivism stands a different position on positivism. It argues that the nature of social sciences differs from natural sciences, thus, the social study requires a different research system. Even if both of positivism and hermeneutics emphasize on “the explanation of human behaviour”, the latter is more focused on “the empathic understanding of human action rather than with the forces that are deemed to act on it” (Bryman, 2008:15). From an ontological position, objectivism is defined as “social phenomena and their meanings have an existence that is independent of social actors” (Bryman, 2008:19). As noted by Bryman (2008), objectivism supposes that broadly common values and customs shared within citizens originate from culture and subculture. Human being’s behaviours are constrained by culture and subculture due to the internal values and beliefs in our mind. The organization is another restricting dynamic to the people who involved in. By contrast, constructionism, another ontological position, believes that human being is the creator of culture, not just the follower of culture. However, constructionism also admits that culture “persists and antedates...
the participation of particular people” (Becker, 1982). Bryman (2008) also highlights it is unnecessary to treat these philosophical positions as totally mutually exclusive, because they just represent position trends in research practices.

Ryan et al (2003) identify three different categories of accounting research: mainstream research or positivism, interpretive research, and critical research. In terms of a mainstream approach, human actions are rational, passive. The theory and observation are independent of each other. The researchers focus on discovering the functioning of accounting. To do this effectively, empirical observation and a positive research methodology are used, and quantitative methods may be required for data collection (Ryan et al, 2003: 41). Interpretive approach is related to the development of an understanding of accounting practices and how social rules are produced and reproduced. Human actions are both intentions and reflections, and influenced by external situations (Ryan et al, 2003; Smith, 2003). Cooper and Hopper (1990: 2) state that “critical accounting is critical of conventional accounting theory and practice and, through critical social science theory, it seeks to explain how the current state of accounting has come about”, which make a challenge to the “positivistic” notion of theory testing in accounting. The critical theory assumes that accounting theory and practice “are never value-neutral: they always represent certain interests.” (Smith, 2003: 17)

2.3 Research Strategy

There are many different ways to classify the social research strategy. Here, the authors want to discuss this part using Bryman’s research strategy system: quantitative and qualitative research. Some essential distinctions are existed between quantitative and qualitative research. According to Bryman (2008), a quantitative method tends to be used within deductive research, and shows a positivism and objectivism orientation. In opposite, a qualitative method tends to be used within inductive research, and shows an interpretivism and constructionism orientation.

Many authors draw a distinction between qualitative and quantitative research such as Bryman (1988), Easterby-Smith et al. (2002). Basically, quantitative is the focus on numeric (numbers) data, whereas qualitative deals with non-numeric (words) data (Saunders et al., 2007). In our gradation thesis, we used a questionnaire as collection data technique in which we carried out data analysis procedures by using graphs and statistics. In contrast, Saunders (2007) said qualitative data is more about the use of interview as data collection technique, and the use of specific data analysis procedure such as categorising the data for instance. The technique we used could be referred as a mono method because, as defined by Saunders (2007), we used a single data collection technique, the questionnaire, and applied corresponding analysis procedures such as Mean calculation, T-test, and Pearson Chi-square test.

It could be confusing to a certain extent to know what a quantitative approach involved and what a qualitative approach does. In order to clarify both approaches, we will sum up into three points the main distinctions between quantitative and qualitative data:
Figure 2: Main distinctions between quantitative and qualitative approach

<table>
<thead>
<tr>
<th>Quantitative data</th>
<th>Qualitative data</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Based on meaning derived from numbers</td>
<td>- Based on meanings expressed through words</td>
</tr>
<tr>
<td>- Collection results in numerical and standardised data</td>
<td>- Collection results in non-standardised data requiring classification into categories</td>
</tr>
<tr>
<td>- Analysis conducted through the use of diagrams and statistics</td>
<td>- Analysis conducted through the use of conceptualisation</td>
</tr>
</tbody>
</table>

*Source: Research methods for business students, Saunders et al. (2007), p 472*

In our research, we want to discover how auditors’ culture may affect the result from different tasks of the audit process, such as reliance on analytical procedures, consideration of audit evidence, and assessment of internal control components. Quantitative method appears to be the most suitable technique for our analysis, because it gives us precise measurement where differences may be minimal due to the assumption of a standardised work environment (Big Four firms).

Furthermore, we have the aim to be objective throughout our work. Qualitative research would have enabled us to gather rich and deep data through the use of interview for instance. By using this method, we would have been able to influence respondents’ answers or would have written down our understanding of auditors’ responses, and then “altered” to a certain extent the outcome of the thesis. As Bryman (2007) said about quantitative method, “researchers are uninvolved with their subjects”. In our case, we were not in contact with respondents because we used an electronic questionnaire submitted by email to the person in charge of the human resource department, who delivered it within the audit department. Therefore, the objectivity of our study has not been altered by any relationship with participants (James Neill, 2007).

We constructed our questionnaire by using a large amount of numerical questions that can be analysed easily. We would like to generalize our findings among auditors working for Big Four firms in China and France, and countries that have closed cultural dimensions scores with these two countries. Therefore, the quantitative approach was the more suitable to reach this goal. Furthermore, in order to be able to compare data effectively, we had to recode all quantifiable data, such as the gender in the section “demographic data” of the questionnaire, expressed as followed: 1=male and 2=female.

### 2.4 Literature Search

In order to get the most valuable and useful knowledge which is the critical base of the whole research, full-scale information and sources searching requires being undertaken. The first stage of the literature search is to generate a brief outline about the research areas covered (Bryman, 2008). In terms of this present paper, its theoretical framework contains four fields: national culture with cultural dimensions, specific tasks involved in the audit process such as

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5 [http://www.gifted.uconn.edu/siegle/research/Qualitative/qualquan.htm](http://www.gifted.uconn.edu/siegle/research/Qualitative/qualquan.htm) (March, 2009)
analytical procedures, evidence consideration, and internal control measurement. The second stage is to start searching relevant books, articles, workshops, and other sources, through databases provided by Umea University library, including Album, Business Source Premier, and Emerald. Some keywords are used during searching articles, for instance analytical procedures, uncertainty avoidance, cultural dimensions, auditing + national culture. Except these accesses, the substantive articles have been found indirectly through reviewing other academic articles or books. The third way to search sources is to employ Google Scholar and Google Search.

In order to be sure that we covered all relevant and recent academic Journals about our topic of interest, we also used the website: http://wok.mimas.ac.uk. It is considered by some authors as the most useful source for social science research (Bryman, 2008), and defined as the Social Sciences Citation Index (SSCI). Keywords have been used to locate effectively the hearth of our topic, such as Culture and Audit, Hofstede, culture and Big Four firms, cultural dimensions and audit.

2.5 Criticisms of Secondary data

Throughout this study, we have tried to be as much as objective we could and we referred our analysis to primary data that we collected through the use of a questionnaire. Moreover, we could not use secondary data for our research because there was not any existing data in our topic, especially when it came to compare France and China. In our essay, we mentioned Hofstede’s cultural dimensions and used his findings about individualism (versus collectivism) and uncertainty avoidance. It might be considered as a weakness to use only Hofstede’s “Culture’s Consequences” book as reference in the theoretical framework. However, Hofstede’s research on culture has become a classic and his work is one of the most cited sources in the entire Social Science Citation Index. Moreover, some prior researches have already undertaken some analyses regarding the effect of national cultures on the accounting or auditing process, and used his findings as a starting point. Thus, Hofstede’s theories have been cited in a certain number of papers and published in reputable Journals, such as the Journal of Auditing (Chan et al., 2003), the Journal of International Accounting, Auditing and Taxation (Hughes et al., 2009). It could be argued that Hofstede’s findings are obsolete. That is why we used his update version of his research in 2001, when he rewrote completely the whole book and redid all calculations from his prior studied in 1980 and 1991. In the Literature Review we cited a couple of papers that also mentioned Hofstede and confirmed his findings. However, some references were criticism Hofstede’s studies as Wingate (1997), or Doupnik and Salter (1995), by reaching their own conclusions about uncertainty avoidance related to the accounting process. In this way, despite Hofstede’s reputation and his credibility, we were cautious when we talked about his researches. We decided to confirm or infirm his findings by asking questions about two cultural dimensions that we were interested in our research. We have not used any studies from others and draw our own conclusions from our primary data collected, but what we did is only to mention existing theories about our topic. In this way, secondary data cannot alter in any circumstances the outcome of our study.
Chapter 3 – Literature review

3.1 Introduction

In this chapter, we would like to introduce the reader to the theoretical framework upon which this study is based. Our literature review covers diverse fields of study, including auditing, cultures and organizations, and cultural impact on auditing performances in accounting and auditing firms. We start the literature review through investigating the features of the audit process and characteristics of national cultures’ dimensions. Then, we focus on examining in details the potential influence on auditor’s performance in analytical procedures from cultural dimensions perspective. At the end of the literature review, we sort out the main lines from a variety of theoretical knowledge in the literature, and develop our research hypotheses that guide the rest of our study.

3.2 Auditing

Due to the principal-agent relationship between stakeholders and managers, auditing plays an important role to increase credibility of the financial statements and reduces the information risks. According to Eilifsen et al (2006:11), a general definition of auditing is described as followed:

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and establishes criteria and communicating the results to interested users”

3.2.1 Main concepts of Auditing

3.2.1.1 Audit risk

There are three major concepts involved in auditing. The first one is audit risk. Audit risk is defined as “the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated” (ISA200). Because the auditor is required to provide “reasonable assurance” on possibly misstated financial statements, the auditor has to determine what level of audit risk he or she could accept and then plans the audit to realize this objective (Eilifsen et al., 2006). The audit risk model is generally employed by auditors to measure audit risk in a particular account balance or class of transactions. This model can be indicated as:

\[ AR = IR \times CR \times DR \]

Where

- \( AR \) = Audit risk
- \( IR \) = Inherent risk (the susceptibility of an assertion to material misstatement, assuming no related controls)
- \( CR \) = Control risk (the risk that material misstatements that could occur in an assertion will not be prevented or detected on a timely basis by the internal controls)
In addition, Detection risk contains two risk factors: analytical procedures risk that substantive analytical procedures will fail to detect material misstatements; and test of details risk that entails a fail to detect a material misstatement that is not detected by internal control or substantive analytical procedures (Eilifsen et al., 2006).

3.2.1.2 Materiality

The auditor has the responsibility to find out material misstatements in the client’s financial statements. So, we want to talk about what materiality is. The identification of materiality replies on the auditor’s professional judgement and assists the auditor to decide “the nature, timing, and extent of audit procedure” (Eilifsen et al., 2006). According to the definition of IAASB (ISA320), materiality is

“Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

3.2.1.3 Audit evidence

Audit evidence is defined by Eilifsen et al (2006) as “all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes the information contained in the accounting records underlying the financial statements and other information”. According to the guideline of ISA 500, the auditor collects audit evidence through performing audit procedures to assess management assertions, in order to determine the opinion on the financial statements and support the auditor’s report.

In obtaining and assessing audit evidence, the auditor should emphasize on the quality of audit evidence. The first key point refers to relevance, which means evidence must be related to management assertions; the second one refers to reliability, which means evidence must reflect the true position of the management assertion (Eilifsen et al., 2006).

3.2.2 Overview of the audit process

In this section, we explain the different components of the audit process that we are interested in. All of these components are interrelated to each other to have a coherent study. The auditor has to conduct risk assessment procedures, set an appropriate materiality threshold, and gather evidences in order to issue his or her opinion about the client’s financial statements.
As you could notice on the figure below, the audit process can be summarized into four main steps (Hayes et al., 2005):

**Figure 3 : Audit Process Model**

Source : self-created figure

In our research, we mainly focused on the step “Planning” and the next one known as “testing and evidence”.

In the section “planning”, the auditor will need to perform risk assessment procedures in order to gain an understanding of the entity and its environment (Hayes et al., 2005). During the risk assessment procedures, the auditor will get familiar with the client situation by analysing different points such as its industry, its regulatory environment, its applicable financial reporting framework (IFRS), the opportunities and threats of the client’s businesses, and he or she will measure and review the client’s financial performance, and will understand the effectiveness of its internal control. In order to obtain an understanding of the client, the auditor may use several procedures, such as inquiries of management, observation and inspection, or the use of analytical procedures (Eilifsen A. et al, 2006).

Some of the results gathered by the risk assessment procedures may be used by the auditor as audit evidence in the next phase called “testing and evidence”, but let us come back to the “planning section”. According to the level of risk perceived by the auditor in understanding the client’s businesses and analysing its financial statements, the auditor will set a corresponding materiality threshold. If the auditor “is able to assess the quality of accounting and internal control systems and to verify their proper operation throughout the year under audit” (Hayes et al., 2005), he or she will carry out his/her audit with a higher materiality (because of his/her reliance on client’s operations). By contrast, the auditor will use a lower materiality threshold in the case of suspicious accounting or internal control practices (question 16). A lower materiality threshold means the audit service would be more expensive for the client, because the auditor will need to spend significantly more time than when a certain level of imprecision (higher materiality level) is considered acceptable. Blokdijk et al. (2003) found that, on average, the auditors chose to reduce their external audit work on the revenue cycle by approximately 38% as a result of relying on internal auditing.

As we enhance the control environment is an important part of the audit process, because it conditions how the auditor will rely or not on the client’s internal control and it will have an effect on the materiality set, and the auditor’s work provided (Schneider A., 1985). As Hayes et al. (2005) added: “the control environment means the overall attitude, awareness, and actions of directors and management regarding the internal control system and its importance in the entity.” The control environment is influenced by the entity’s history and culture. In our questionnaire, we asked auditors what policies and procedures they consider of greater importance to assess the effectiveness of the internal control (question 19). Control environment is a component of the internal control as well as the monitoring of transactions, and all these components should be assessed for risk.
In the third section defined as “testing and evidence” referred to the figure 3 above, analytical procedures are used to gather evidence. Auditors assess risks to decide the evidence needed in the audit. However, audit evidence is available from a variety of different sources such as tests of controls or detailed substantive testing. Hayes et al. (2005) defined analytical procedures as a mean to entail the use of comparison and relationship to determine whether account balances or other data appear reasonable. If you refer to our fictitious case, we used analytical procedures in order to compare the auditor’s expectation to the client’s financial statements (question 15). In that case, the use of analytical procedures is much more related to the second phase “planning”. However, as we said, analytical procedure can be used in the stage “testing and evidence” in order to obtain evidence and be able to identify misstatements in account balances. The objective is to reduce the risk of material misstatements.

Audit evidence can be gathered by the auditor in using different techniques such as inquiry, observation, inspection (records or documents), recalculation, reperformance, confirmation, and analytical procedures. “The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion” (Hayes et al., 2005). However, the audit opinion has not been treated in our thesis. The auditor issues an audit opinion during the last stage of the audit process, named “evaluation and reporting” cited above. In the question 17 of our questionnaire, we asked auditors to assess the sufficiency of the audit evidence provided by the analytical procedure, and this question is the only one that could be considered belonging to the phase “testing and evidence”.

3.2.3 Analytical procedures

As auditing standards’ requirement, the audit process should be properly planned. It is possible that the auditors issue an erroneous audit report or perform an inefficient audit as a result of an unqualified auditing plan. For analytical procedures, they are required to be implemented at the whole audit planning and overall review stages. They are also usually used at substantive testing stage. International Standards on Auditing 520 (ISA 520) (redrafted) (IFAC, 2008: 3) explains the term “analytical procedures” as:

“...evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.”

In the planning stage, preliminary analytical procedures are used to assess risk in order to assist the auditor to deeply understand the client and to plan the nature, timing, and extent of audit procedures. In the substantive testing stage, the purpose of analytical procedures is to obtain evidence to identify material misstatements in account balances or classes of transactions. In the overall review stage, the objective of analytical procedures is to evaluate the financial statement on the whole and assist the auditor to reach the final conclusion about the financial statements (Hayes et al., 2005).

As to substantive analytical procedures, it is usually conducted following four main decision processes: 1. form an expectation for the amount or account balance; 2. compare the expectation with the client’s recorded amount after decided a tolerable difference; 3. investigate potential explanations for the observed differences between expected and recorded amounts; 4. evaluate the impact of the differences to conclude whether there is no material
misstatement.
An overview of the auditor’s decision process when using substantive procedures is shown in Figure 4.

Prior studies on analytical procedures mainly focused on two major areas. During the 1970s a great number of researchers developed statistical and mathematical models to test the performance in the detection of material misstatements (e.g., Kinney, 1979 and 1981; Wilson and Glezen, 1989). However, some researchers indicated that even if objective expectation can be achieved via statistical methods, appropriate professional judgement is still mandatory to achieve the desired assurance (Einhorn and Hogarth, 1982; Eilifsen et al, 2006). At the last two decades, the increased researches have laid emphasis on judgement on analytical review due to their perceived potential for improving the auditors’ judgements and decisions (Trotman, 1998). Trotman classified the audit judgement research under seven primary directions: (1) policy capturing paradigm that reveal auditors’ judgement strategy via mathematical methods, (2) heuristics and bias refers on some natural heuristics in one’s mind could affect on his/her judgement, (3) information processing and hypothesis generation refers to how the processes of searching information impact on the auditors’ analytical review judgements, (4) knowledge and memory concerning how professional knowledge impact on the auditors’ performance, (5) group decision making in which if the auditing performance is improved or not, (6) decision aids that if a particular decision aid improves performance or
not, (7) other environmental and motivation issues that test the accountability relationships in audit judgement studies.

Recent developments (e.g. Lin, Fraser, & Hatherly, 2003) reveal that the multinational accounting firms tend to emphasize the importance of consensus and consistency in terms of audit decision-making in different countries, in order to provide uniform high-quality services on international market. However, this kind of consensus and consistency in auditor judgements is difficult to be governed only by relying on structured audit processes or special standards, because professional judgements are more like:

“the interaction of the individual auditor’s reasoning facility, experience, personality traits and the audit environment which may be expressed in terms of the auditor’s accountabilities both with and outside the firm” (Hatherly, 1999:54).

Analytical procedures are employed in many nations’ auditing standards. Some literature describe the implementation of analytical procedures within different countries, for instance Australia (Biggs, Mock, & Simnett, 1999), Canada (Lin & Fraser, 2003), the U.K. (Fraser, Hatherly, & Lin, 1997), and the U.S. (Ameen & Strawser, 1994).

The study stated in this thesis was administered in France and China. The auditing standards on analytical procedures in these two countries are quite similar. In France, auditing standards follow the ISA completely. ISA 520 requires the use of analytical procedures during the preliminary phase (risk assessment) and the final phase (conclusion), and also may be used as substantive tests. In China, over the last decade, the auditing standards have obtained greatly perfection and improvements in order to be harmonized with international practice6. CICPA (The Chinese Institute of Certified Public Accountants) No. 1313 was issued in 2006, as the mirror of ISA 520. All the requirements in CICPA No. 1313 correspond to those in ISA 520. From the above description, the statutory use of analytical procedures reveals to be consistent around two countries’ auditing environments. Nevertheless, analytical procedures require the auditor to keep up appropriate professional scepticism and depend on individual professional judgements, and less on standard approaches or specific procedures. Notwithstanding the correspondence with two standards, auditing judgements involved in analytical procedures possibly reflect discrepancy between two national cultures.

### 3.3 Cultural Characteristics

To understand the globalization of auditing practice across national boundaries, it is necessary to investigate auditing practice including the impacts of culture on auditors’ professional judgements. Plentiful prior studies existed in the accounting literature testifying that national culture influence auditors’ judgements in many different factors. These audit circumstances involve professional ethics and independence (Tsui & Windsor, 2001; Patel &

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6 The Chinese government permitted international accounting firms to enter the Chinese audit market by the pattern of joint-venture firms or member firms in China. The international accounting firms, by and large, adopt uniform audit policies and procedures in their overseas subsidiaries (Ho & Chang, 1994), including their joint-venture firms in China. Additionally, the Ministry of Finance have released a total of 48 Auditing Standards and guidance until 2006 (CICPA, 2007). These standards are generally comparable to International Standards on Auditing (Lin & Chan, 2000). Therefore, it is expected that the auditors in France and China follow similar auditing standards and approaches in this study and in prior studies as well.
Psaros, 2000; Cohen et al., 1995; Cohen, Pant & Sharp, 1993), auditor-client conflict (Patel et al, 2002; Lin & Fraser, 2008), and the decision-making behaviour on audit procedures (Sim & Goodwin, 2004; Arnold et al., 1999; Yamamura et al, 1996). Perera (1989, mentioned in Tsui & Windsor’s study, 2001) states that culture should be considered to be one of the most influential environmental dynamics concerning national accounting system. Behaviour in accounting cannot be cultural nonrelated, and probably be nation-specific. All of these previous researches are based on Hofstede’s (1980, 2001) theories of national cultures. Hofstede believes that culture is a collective phenomenon in which people who live or lived within the same social environment shared some common natures. Then, Culture has been defined as “the collective programming of the mind which distinguishes the members of one human group from another” (Hofstede, 1980). The national culture could be generally defined as “values, beliefs, norms, and behavioural patterns of a national group” (Leung et al., 2005). In nation level, the social value system shared by major cluster with a country formulates a system of societal norm. There are four concepts contained on representation of culture: value, symbols, heroes and rituals, according to Hofstede (1991).

“Value: a broad tendency to prefer certain stats of affairs over others,
Symbols: words, gestures, pictures or objects that carry a particular meaning which is only recognized by those who share the culture,
Heroes: persons, alive or dead, real or imaginary, who possess characteristics which are highly prized in a culture and who thus, serve as models for behavior.
Rituals: collective activities, technically superfluous in reaching desired ends, but which, within a culture, are considered as socially essential...”

He also pictures the relationship among culture, values, and practices as the “Onion Diagram” (see Figure 5) (2001:11), stating that values symbolize culture, and values drive practices at the societal level.

**Figure 5: Onion Diagram**

![Onion Diagram](https://example.com/onion-diagram.png)

*Source: Hofstede, Cultures and organization, 2001:11*
3.3.1. Definition of Cultural dimensions

Hofstede classified five dimensions of work-related values in his innovative study of 116,000 IBM employees located in more than fifty countries over three decades. These five cultural characteristics are labeled as: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and long term versus short term orientation.

Each of these values is explained as follows:

Power distance is defined as “the extent to which the less powerful members of institutions and organizations with a country expect and accept that power is distributed unequally” (Hofstede, 1991:28). In low power distance countries subordinates are inclined to have limited dependence on supervisors and managers. Subordinates are more likely to “approach and contradict” their upper-level management directly, compared with counterparts in high power distance countries (Hofstede, 1991:27-28). In large power distance countries accounting systems are seen as tools of top management, intended to present desired results (Hofstede, 1991:157). In countries with large power distance, staffs being at a low hierarchical level in organizations have less likely to report questionable acts to their superiors (Schultz et al, 1993).

Uncertainty avoidance reflects the extent to which the people in certain societies feel unsafe within unknown or ambiguous situation. In strong uncertainty avoidance societies, the institutions and organizations are managed by a variety of formal and/or informal rules, and people under this culture are accustomed to live in structured environments. However, the rules in weak uncertainty avoidance societies will be built only when it is completely necessary. On one hand, in weak uncertainty avoidance culture, people tend to be more willing to accept fundamental innovation since they remain a greater tolerance towards odd fancies. On the other hand, due to the lack of clear details and punctuality in this culture, these primary ideas are difficult to be developing as a full-scale implementation (Hofstede, 1991). Correspondently, people from high uncertainty avoidance countries are usually habituated to accept group decisions and consultative management rather than expressing disagreements (Hofstede, 2001:160).

Individualism pertains to loosely knit societies in which individuals are expected to look after themselves and their family immediately. Oppositely, collectivism pertains to tightly knit societies in which individuals can suppose their relatives, clan, or other living in in-groups to care for them in exchange for unquestioning loyalty (Hofstede, 1991: 51; Gray, 1988). Another point mentioned is about “face” in the collectivist countries. “Losing face”, an expression translated into English language from the Chinese meaning, is defined by Ho (1976:867) as one is embarrassed because she or he fails to achieve basic requirements placed upon her or him by virtue of the social status she/he owned. Within the work situation, employees in high individualism cultures are supposed to work as individuals with their self-interest, hired and remunerated depended on their performance. In opposite, those employed in high collectivism societies are treated as family members by employers. This relationship is preserved by high mutual obligation and loyalty. The individualist has a strong positive correlation with people’s preference for liberty over equality. Many auditing researches show that auditors in collectivist culture are expected to express individual judgement less frequently in groups, which situation has strong influence on auditor independence (Patel et al, 2002; Arnold et al, 1999; Cohen et al, 1993, 1995).
Masculinity stands for a society in which male is encouraged to be assertive, heroic, and achieves material success; female is encouraged to be modest, affectionate, caring for the weak, and the quality of life. Correspondently, femininity stands for a society in which the social roles incline to similar, and even same for the sexes (Hofstede, 2001:297).

Long-term orientation (or Confucian dynamism as named by Michael Bond) is defined as the extent to which a culture highlights values that are oriented towards the future (Hofstede, 1991:166). The important features of Confucian teaching contain accepting unequal relationship between people, restraining yourself, keeping moderation, and working hard, and having a sense of shame. According to Hofstede (1991, 2001), Long-term orientation makes a great contribution to economic development, but it has not a direct relationship with other dimensions, and runs short of apparent general cognition in the western mindset.

### 3.3.2 Cultural characteristics of China and France

The study represented in this thesis was conducted in China and France. China is a popular research object in previous cross-nation auditing studies. However, France has never been involved in these researches. The ranks of four relevant cultural dimensions between two countries are displayed in Table 1. The indexes of Masculinity are omitted in this table because they have no correlation with audit judgement.

From this table, the differentiation among these variables can be plainly shown. When power distance index is compared, China and France do not appear an obvious difference. Both of them have strong power distance index. This similarity could be reasonable explained by the expectations of positive relation between the size of population and power distance scores, and also negative relation between countries’ geographical latitude and power distance, as well as between countries’ wealth and power distance (Hofstede, 1991:44). In general, power distance and individualism incline to be adversely correlated: high power distance countries are more likely to be lower individualism. Nevertheless, France, as a representative of the Latin European countries, shows an exception. According to Hofstede’s research covered on fifty countries and three regions, France is included in a cluster with high individualism and large power distance; its counterpart, China, is included in a cluster with high collectivism and large power distance (Hofstede, 1991:54, 2001:217).

Uncertainty avoidance is another significant index essential to be compared in this study. There is an immense divergence for people’s attitude to uncertainty and ambiguity between two countries. When uncertainty avoidance and individualism have been plotted against each other, France presents in a cluster in the lower right-hand corner, reflecting its high uncertainty avoidance and high individualism level, whereas China presents in a cluster in the upper left-hand corner of low uncertainty avoidance and low individualism (Hofstede, 1991:129, 2001:249). Hofstede explained uncertainty avoidance differences are caused by historical reasons that France, used to be a part of the Roman Empire, has followed a unique developed system of codified laws. In contrast, the China Empire governed by “man”, only was administrated by broad general rules (Hofstede, 1991:135). The last obvious different dimension is about long-term orientation, which is separate with other four dimensions. This feature is distinctive in China, so it is difficult to measure it within eastern country and western country in this study. In addition, due to different cultural characteristics organizations structure in China is considered as “simple structure” in which the coordination depends on “direct supervision”, correspondingly French organization structure is deemed to
be “fully bureaucratic” relying on “standardization of work processes” (Hofstede, 1991; Schultz et al., 1993)

TABLE 1
A comparison of relative ranking of France and China on power distance, individualism/collectivism, uncertainty avoidance and long-term orientation

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Individualism</th>
<th>Long-term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score Ranking</td>
<td>PDI score</td>
<td>Score Ranking</td>
<td>UAI score</td>
</tr>
<tr>
<td>France</td>
<td>15-16 68</td>
<td>10-15 86</td>
<td>10-11 71</td>
<td>17 39</td>
</tr>
<tr>
<td>China</td>
<td>7 80</td>
<td>49-50 30</td>
<td>39-41 20</td>
<td>1 118</td>
</tr>
</tbody>
</table>

a. Based on scores ranking for countries and regions from the IBM set
b. Based on scores estimates for countries not in the IBM set

Source: Hofstede, Culture consequence (2001)

These results indicate that the two factors of individualism/collectivism, uncertainty avoidance are closely correlated in the case of France and China. As a consequence, one or both of these two cultural characteristics possibly lead to different performance when individual perspective and behaviours are compared about the auditing issues within France and China.

3.3.3 National and organizational cultures

While we are discussing the national cultures in the whole paper, another important terminology should be introduced here. International audit firms generally have strong organizational/corporate cultures. Using the word “culture” for both terminologies easily lead to misunderstanding within the study described in this paper, since the relationship within this two kind of culture is ambiguous sometimes. We have described the Hofstede’s definition of “culture” in the front part, thus Hofstede (1991:180) defines “organizational culture” as “the collective programming of the mind which distinguishes the members of one organization from another”. Figure 6 illustrates the differences among three cultural levels. At national level, cultural distinctions mostly express via the people’s attitude to society values, and generate on the early age of one’s life. At the organizational level, cultural distinctions mostly express via the people’s working practices, and generate at the workplace. Occupational level represents the conjunction between childhood and adulthood, and combination of values and practices (Hofstede, 1991).

However, some scholars (Javidan et al., 2006) hold a strong argument that it lacks of theoretical and empirical source to support Hofstede’s statements that “national organizational cultures and organizational cultures are phenomena of different order” due to limitation of the research data (Hofstede et al., 1990:313). Therefore, it is reasonable to maintain an interrogative attitude to view Hofstede’s literature. Still, it is commonly accepted that:

“Values items describe what the respondent feels ‘should be,’ practices items what she or he feels ‘is’. The distinction between the two is present not only in the conception of the researchers but also in the minds of the respondents.”

(Hofstede, 1990:294)
Followed this guidance, we could continue to process our research.

3.4 Cultural influence on accounting and auditing

3.4.1 Cultural influence on accounting system

Since the major responsibility of accountants and auditors is to avoid uncertainty on financial statements, Hofstede (1991) suggested that stronger uncertainty avoidance countries should “have more precise rules on how to handle different cases”. Accounting values are hidden behind “the symbols, heroes and rituals in accounting” (Hofstede, 1991: 157). Gray (1988) developed a framework for examining the impact of culture on the accounting values and systems on the global level. In this model, societal values are expected to be determined by external and ecological factors, based on the societal culture theories established by Hofstede (1980). Institutional consequences reversely reinforce both ecological influences and societal values. A further exploration of the model suggests that accounting value existed among accountants may be supposed to be linked to societal values. Next, accounting values will have an effect on accounting system. A model of these mutual effect processes is displayed in Figure 7. Gray believes that accounting values are consistent with Hofstede’s society values structure. Under the frame of Hofstede’s cultural dimensions, Gray set up two models that identify his accounting values of uniformity with professionalism and conservatism with secrecy. Provided that a country appears higher ranks in terms of uncertainty avoidance and power distance and lower rank in terms of individualism, it is more likely to range highly in terms of conservatism, uniformity, and secrecy. In addition, provided that a country appears higher ranks in terms of individualism and lower ranks in terms of uncertainty avoidance and power distance, it is more likely to range highly in terms of professionalism. In the case of China and France, the former, as a less developed Asian country, shows less professionalism and conservatism than the latter. France, as a representative of more-developed Latin countries, shows more uniformity and transparency than China (Gray, 1988).
There is a presumption in the International Literature regarding culture and the audit process, that a country’s culture impacts its audit environment, which in turn may affect the outcome of the audit process. All literature that tried to link the audit process to cultures mentioned Hofstede’s researches. According to Hofstede (1980, 1991, 2001), cultural differences exist and they might affect auditors’ decision making. As Hughes et al. (2009) said, three of Hofstede’s (2001) cultural dimensions that are power distance, uncertainty avoidance, and individualism versus collectivism, have frequently been associated with differences in national auditing environments. No literature has been treating the audit process as a whole, but authors preferred to focus on a specific phase of the auditing process. This choice appears more coherent when it comes to analyse results and it enables the authors to go deeper on the phase chosen. However, studies showed that none of each phase has been analysed within the audit process, because some of them are only governed by International Standards on Auditing (ISA), and do not let any space to auditors express their professional judgements.

Donald et al. (2009) have analysed the effect of national cultures in materiality estimates. They compared European auditors’ materiality estimates with American auditors’ estimates (Bernardi & Arnold, 1994). They chose a sample of 181 European experienced auditors (partners, senior managers, managers) from Big-six companies located in Denmark, Ireland, Italy, Spain, Sweden, the Netherlands, and the UK, and then compared it with an US sample including 83 experienced auditors (senior managers and managers) from Big-six firms as well. All these countries have national cultures that differ from one country to another. The sample has been chosen among experienced auditors who deal with decision making on a...
daily basis. However, the study did not tell us whether the authors took care about the respondents’ nationalities. Nowadays, it is easier for European workers to get a job in another European country because of agreement among countries within the European Union. Therefore, the respondents’ nationality might alter the outcome of the survey.

Some studies analyse the effect of one Hofstede’s cultural dimension within a country, and its impacts on auditors. Donald et al. (2009) “might assume to avoid uncertainty, auditors from high uncertainty avoidance countries would increase the level of disclosure in financial statements”, based on Hofstede’s approach. On the other hand, Wingate (1997) found that financial statement disclosures of major companies within each country were negatively associated with Hofstede’s uncertainty avoidance approach, so that the higher the uncertainty avoidance scores for a country, the lower the level of disclosures. Doupnik and Salter (1995) confirmed this finding by the outcome of their study and concluded that countries with higher uncertainty avoidance scores tended to have lower levels of accounting disclosures. Hughes et al. (2009) assumed that as uncertainty avoidance increases materiality would be lower to perform a more precise audit. By studying 39 countries, and using Hofstede’s work (1980, 1991), Wingate (1997) developed a model that goes to the opposite direction. He indicated if “uncertainty avoidance increases by 10 points, the average materiality estimate would also increase by US$ 24,200”. Therefore, we can conclude if a country scores a high uncertainty avoidance cultural dimension, we can expect a less precise audit according to Wingate’s findings. By comparing cultural differences between Mexico and US in order to see their impact on the audit process, Hughes et al. (2009) found that auditors from Mexico will be less likely to conclude that there is a significant risk of material misstatement in account balances, even when industry and company events suggest such misstatements are likely. Mexican auditors’ attitudes are the result of their culture, defined by Hofstede (1990), as high power distance, high uncertainty avoidance and lower individualism. On the other hand, US auditors have the opposite cultural characteristics, and we can expect from them more accuracy in the assessment of the risk of material misstatement when the unaudited account balances differ from expectations, than the auditors from Mexico.

Individualism, another Hofstede’s cultural dimension, has also been associated in several studies about auditing, as we said previously. Arnold et al. (1999) found that Hofstede’s individualism “construct negatively associates with a willingness to do additional audit work to address a possible audit problem”. According to Hofstede (2001), collectivism cultural dimension (versus individualism), “employees are considered to be members of the “in-group” and act in the interests of the group”. Employment in these cultures may be similar to a family situation, and there is high mutual obligation and loyalty. In addition, people in a collectivist culture are less likely to form or express judgements individually, independent from the in-group formation of that judgement. In the audit context, Yamamura et al. (1996) suggest that auditors in a collectivist society will avoid questioning client personnel as such questions could be seen as non-conforming. By contrast, Arnold et al. (1999), Cohen et al. (1993, 1995), Patel et al. (2002) enhance the positive impact of the individualism cultural dimension, and suggest a strong connection between individualism and independence, that result in a greater propensity to ask tough questions and rely on personal judgement.

As we see, culture can influenced lots of practices within an organization such as the accounting system, internal control system, or employees’ behavior. In the Journal of Auditing, K. Hung Chan et al., published in 2003, strengthen this idea when they say culture “is an important environmental factor influencing accounting practices and management control systems”.

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Auditors have to adapt their audit procedures according to where the client is established. In a country with high power distance and individualism, auditors have to be aware that companies have more accounting errors in their financial statements (Hofstede, 1990). Hofstede adds to his research (2001), countries that score high power distance, employees from organizations establish in these countries are relatively uneducated. Auditors working in these countries have to expect higher fraud from employees, and auditors should be more focus on the internal control effectiveness. Moreover, companies have significantly greater cut-off and classifications errors in an individualism culture than collectivism one. K. Hung Chan et al. (2003) found that “cut-off and classification errors for individualism companies are 349 percent and 117 percent greater respectively, than those for collectivism companies”.

Another study was interested in cultural differences, based on Hofstede’s cultural dimensions such as long term orientation, power distance, uncertainty avoidance, and individualism between China and Australia. More precisely, Judy Tsui and Carolyn Windsor (2001) were interested in examining whether cultural differences are associated with variations in ethical reasoning. The results shown auditors from Australia (classified as strong uncertainty avoidance, high individualism, small power distance, and short-term orientation) have “higher ethical reasoning scores than those from China consistent with Hofstede’s Culture Theory prediction”. In the same way, some other studies question auditors’ independence especially in high power distance culture. They may be less likely to question senior client personnel, more willing to acquiesce to the pressures of a powerful client and less willing to question the financial results developed by clients (McKinnon, 1984; Patel et al., 2002; Yamamura et al., 1996). Unfortunately, these actions result in behaviors contrary to the concept of independence.

3.4.3 Cultural impact on analytical procedures

Analytical procedures have been an area of interest when it comes to related auditors’ professional judgement to cultures. Analytical procedures are ideal as they require auditors to use professional judgements (Hughes et al., 2009). Because analytical procedures required professional judgements, they are usually conducted by senior auditors or managers (Lin et al., 2003). Nevertheless, Hirst and Koonce (1996), as well as Lin et al. (2003), found that relatively inexperienced staff members perform substantive analytical review procedures to express an audit judgement.

Analytical procedures tend to focus on “unexpected fluctuations” in account balances (Asare & Wright, 1997, 2001). One of the objectives of analytical procedures is to reach an auditor’s expectation on a client’s financial statements. This expectation may be differed from one auditor to another due to his/her cultural background. Chan et al. (2003) claimed that auditors’ result to find errors in accounts receivable balances would be differed whether power distance is high or low. Hughes et al. (2009) relate analytical procedures to Hofstede specific cultural dimension such as power distance, uncertainty avoidance, and individualism.

Within the context of analytical procedures, a country that has low uncertainty avoidance culture will be more willing to ignore rules if it is in the best interest of society (Cohen et al., 1995). In other words, auditors may rely more on professional judgement rather than rules. This should result in “auditors who are better able to determine where a higher risk of material misstatement exists within the various accounts”. Gul & Tsui (1993) enhanced that
auditors from low uncertainty avoidance countries should be “professionally secure, and more comfortable when relying on professional judgements rather than rules. Hughes et al. (2009) found that US auditors, due to their cultural characteristics, have a greater reliance on professional judgements than Mexican auditors. Furthermore, US auditors have a willingness to discuss differences between account balance expectations and the actual account balance with client personnel. On the other hands, Mexico auditors “will be averse to questioning client personnel about these differences, and would prefer to avoid situations that result in client conflict”. Therefore, cultural differences would affect the audit process and explanations of misstatements. In this study, they clearly found that Mexico auditors would tend to “avoid higher risk assessments because they would likely lead to more conversations with client personnel, conversations with a higher potential for conflict, and the need for additional audit procedures”. The findings of this study need to be taken with precautions because the respondents were not auditors but students who were nearly to join audit firms. They expressed their opinions due to their cultural background only, and they did not express themselves in the frame of audit firms’ environment or their knowledge about rules than an auditor must follow.

Apart from this study, we have not found any others that focus on the impact of cultures on analytical procedures. We think that the study would have been much more relevant to do it on professional auditors, in order to measure effectively how cultural differences impact the audit process lead by professional.

3.5 Hypotheses development

By skimming through the literature, lots of questions were left unanswered. We could notice controversies among authors about the influence of culture on the audit process. In 1974, Hicks stated that “in the best of all possible worlds, every auditor, given the same set of facts, would select the same auditing procedures and apply them to the same extent”. We are convinced that auditor’s culture may affect in a certain extent some phases of the audit process. In the context of audit judgement, Sim and Goodwin (2004) claimed that national culture effects are likely to impact the way audit planning is done. We developed different hypotheses based on individualism and uncertainty avoidance cultural dimensions (Hofstede, 2001) in order to either validate or invalidate our assumptions.

What we have tried to measure, through the case provided in the questionnaire (questions 15, 16, and 17), was the extent to which auditors rely on analytical procedures and whether there is a tendency to rely more on analytical procedures in one country to another. Cultural characteristics from one country to another could encourage relying more heavily on analytical procedures. As we said previously, individualism may affect the willingness of doing additional audit work to address a possible audit problem (Arnold et al., 1999). In that way, France, which has a higher individualism than Chinese society, auditors might rely more on analytical procedures, and thus, they will not do extant procedures as their Chinese counterpart do. Uncertainty avoidance (Hofstede, 2001) has also to be taken into account when we tried to measure the auditor’s reliance on analytical procedures. As we said previously, according to Wingate’s findings (1997), a country with a high uncertainty
avoidance scores, such as France\(^7\), might have a less precise audit. In this way, we predict (H1) that Chinese auditors will carry out a more precise audit because they might have a lower reliance on the outcome provided by the analytical procedures. By contrast of the French society, the Chinese society has a higher collectivism (versus individualism) cultural dimension. Sim and Goodwin (2004) argued that auditors in a collectivist culture would tend to choose a “safer approach”, because of the fear of losing “face” in relation to the audit firm. As a consequence, they are likely to perceive high audit risk, and then, to carry out further procedures.

**H1: French auditor rely more on analytical procedures than their Chinese counterpart do due to their high individualism and uncertainty avoidance scores.**

Our second hypothesis is about the assessment of evidence and internal control environment. Evidence is an important part of the audit process, and especially when the auditor issues an audit opinion based on the evidence gathered all along the audit process. We can easily say that the audit opinion will depend on how the auditor has evaluated the different evidences during the audit mission. As Asare and Messier (1991) or Tubbs et al. (1990) argued that “the manner in which audit evidence is evaluated and integrated with prior beliefs and with other evidence has been found to impact audit judgements”.

Our prior discussion about countries and their specific risks due to cultural dimensions should influence the auditor’s assessment procedures of evidence and internal control environment. We can assume that auditors, where a country has higher individualism\(^8\) (France), might assess evidence and internal control environment more carefully than a country with lower individualism (China). A country with high individualism tends to produce higher accounting errors in companies’ financial statements (Hofstede, 1990). Moreover, as we said, companies have significantly greater cut-off and classifications errors in an individualism culture than a collectivism one (K. Hung Chan et al., 2003). In this way, we decide to ask a question which deals with the internal control environment that “sets the tone of an organization, influencing the control consciousness of its people” (Eilifsen A. et al. 2006). Therefore, we hypothesize (H2) that French auditors may be more criticism regarding the assessment of evidence (question 18) and the internal control environment (question 19) due to higher risks in the client’s financial statements than Chinese’ audited client.

**H2: French auditors will assess evidences and internal control environment in a more cautious way than Chinese auditors due to higher individualism scores in France.**

What we mean by “a more cautious way” is that French auditor will take care to assess factors that could influence the accuracy of the accounting system. As we know from Hofstede’s findings (1990), individualism societies (France) tend to have a larger amount of accounting errors than collectivism societies (China). Therefore, we assume that French auditor will be more sensitive to some components involved in the accounting and reporting process of the audited client.

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Chapter 4 – Research design

4.1 Introduction

In this chapter, we would like to introduce the practical considerations of the research design used for this study. At the beginning of this chapter, we examine the basic assumption and preconception of our research field. Afterward, we discuss the research sample and the sample criteria applied to classify the participants of the study. Finally, how the practical research design was undertaken, including the elements of questionnaire design and the way of data collection, are discussed.

4.2 Underlying Research Assumptions

This study focuses on analytical procedures performed during the risk assessment (also referred to as the audit planning) process. After extensive literature search, we found a great amount of papers related to audit planning. The planning analytical review has been used in some experimental research (e.g., Glover et al., 2000; Anderson & Koonce, 1998), and previous survey research instruments about analytical procedures are broadly used at the planning stage (Ameen & Strawser, 1994; Fraser et al., 1997). Nevertheless, we did find only one study that compared the cultural influence between US and Mexican, regarding analytical procedures (Hughes et al., 2009). However, this study was submitted to entry-level auditors. We could not find any study covered China and France in terms of differences in the audit planning due to cultural discrepancy. In addition, Hughes et al.’s study (2009) did not focus on Big Four companies and professional auditors as we do. Another study from Tsui and Windsor (2001) compared cultural differences between Chinese and Australian auditors. Their research examined whether cultural differences are associated with variations in ethical reasoning. However, these prior studies either observed only one cultural factor (e.g. Arnold et al. 2001; Sim & Goodwin, 2004), or compared the countries having high power distance and low individualism with the countries having low power distance and high individualism (e.g. Harrison, 1992; Hughes et al., 2009; Lin & Fraser, 2008). There were no prior studies that included those two countries, having the similar cultural characteristics to France and China. Because our experimental study is the original administrated among audit firms in China and France, information about research results should be of interest to accounting professionals, and cross-culture researchers.

4.3 Preconception

Interest in linking the national cultures and auditing process was firstly grown up during “auditing and assurance” course of the first semester of the master program in accounting, at Umeå School of Business in Umeå, Sweden. Since the students involved in this course came from many different countries, we found out they usually had many various opinions when doing the group case study, and then we observed that some different opinions are generated due to different cultures backgrounds.

The interest in the topic about cultural impact on the auditing process was further enhanced
by reviewing Hofstede’s literature and the articles from university library databases. Hence we want to test the national culture influence on auditors’ performance within real auditing environment. Because of the accumulation of these earlier interest and relevant theoretical knowledge in this research topic, the authors were able to start this thesis with reasonable knowledge of the relevant literature.

4.4 Questionnaire Design

4.4.1 Research Samples

The main purpose of this paper is to examine the efficiency of Hofstede’s culture theory in audit analytical procedures, and try to find out whether these discrepancies potentially influence the auditor’s professional judgement, which can be carried forward in future research. Because our sample was chosen from countries with significant various cultural characteristics, a large sample size was not required (Lin and Fraser, 2008). Indeed, a larger sample size is more reliable, whereas our experimental study is not underlining to getting a representative sample.

The study object was controlled for the underlying contaminating complications for several variables on the results. At first, both national culture and organizational culture are primary cultural influences on individual business behavior (Barrett and Bass, 1976). Therefore, we chose Big 4 firms as our research entities in order to control the organization cultural differences which could affect subject decisions. Because we can find more similar subjects of rank among Big 4 firms, compared with non-big 4 firms (Gernon, 1993). Secondly, to avoid contamination by a non-deeply-Latin and non-Chinese culture, we required all participants to be either French or Chinese. Moreover, we emphasized that participants must be of at least senior level and experienced in resolving audit planning, for instance senior auditor, supervisor, or manager. Finally, all the participants must complete the questionnaire independently. In addition, considering reconsideration to earlier answers might come up from serious and rigorous attitude, we do not prohibit participants to modify their answers to case study if they change their mind while completing the research instrument (Lin and Fraser, 2008).

According to the suggestion of Bryman and Bell (2007), in order to decrease or avoid the risk of respondents’ misunderstanding or misinterpret the survey content, the questionnaire was first developed in English, translated into Chinese and French by native speakers. The Chinese version was used in China and the French version in France. After having collected the responses, two bilingual persons retranslated the Chinese and French responses into English version. The research instrument was pilot tested with auditors from both countries.

4.4.2 Survey materials

The main purpose of this study is to observe the impact of national culture on the outcome of planning stage analytical reviews. Therefore, we created a self-completion questionnaire, meaning that the respondents completed the questionnaires by themselves. We try to avoid open questions, because they are time-consuming for respondents, as well as for the authors to analyse the content. The questionnaire contains four sections: personal factual questions, questions about attitudes, a short case material, and questions about knowledge.
In the first section, some background questions about respondents’ general information are required, such as gender, position in the companies, and numbers of years educated and numbers of years of audit experience, and so on. There are 7 questions about the attitudes focused on examining the cultural dimensions of individualism and uncertainty avoidance among the auditors. The inspiration how best to approach our own questions are developed partly from the literature review, as well as adopted (& adapted) from existing questions used by other researchers (e.g., Lin & Fraser, 2008; Hofstede, 2001). All of these researchers are highly experienced on cross culture or auditing studies that improve the reliability and validity of our study. Each question is required to estimate the importance or frequency that a situation in the workplace is faced by auditors. In order to get more obvious distinct variables during the later data analysis, we choose 4-point equal interval Likert scale, and do not offer a neutral option. 

Even if a case study tends to be time-consuming to the respondents, it is the most common approach used on analytical procedure research. Hence we set up case materials in the third section. We rewrote this case based on Beasley et al. (2005)’s original auditing case in order to make it clearer and closer to a real situation. Asare and Wright (2001) suggest that research on analytical procedures have generally either used ‘a hypothesis-listing task’ or ‘a process tracing approach’. In both cases, background information about a hypothetical client needs to be provided on case materials, and a specific ratio or set of accounts that materially differ from expectations should be highlighted to participants. The amount and nature of background information should be decided not only by research goals, but also by participants’ motivation to response (Asare & Wright, 2001). Therefore, considering our research purpose and low response rate of E-mail survey, we finally choose minimal background information described in the case study, including the client’s control construction, business object, key risks, industry tendency and a part of financial statements (Asare & Wright, 2001). 

In this way, we assume one subsidiary of a bank has to be audited and auditors fulfil this mission by using analytical procedures during the annual auditing. All numbers have been changed because we wanted a total misstatement closed to the materiality threshold to get perhaps much more variations in the auditors’ answers, and thus, more interesting variables to analyse. The materiality threshold has been generated on the base of the long-term relationship with the audited client, 3 years engagement, and the auditors’ reliance on controls leaded by the internal control department. We have also tried to follow the “rules of thumbs” on the amount of materiality threshold. Hayes et al (2005) indicates the “rules of thumb” commonly used in practice as an indication:

- “5 to 10 percent of net income before taxes; 
- 5 to 10 percent of current assets; 
- 5 to 10 percent of current liabilities; 
- 0.5 to 2 percent of total assets; 
- 0.5 to 2 percent of total revenues; 
- 1 to 5 percent of total equity”.

In our fictitious case, we set a materiality threshold of 4.2% of net income before taxes. As you can notice, 4.2% falls below the 5 percent of net income before taxes as mentioned in the “rules of thumb” above, because of considering the current financial crisis as well as its effect on the bank industry. We also expect that auditors aren’t willing to take much time to do the case study, thus we calculate all the figures and request the auditors only to express their
opinions about these figures for heighten the return rate. Question 15 is designed to contain an open sub-question, in which we require the respondents to provide an explanation about their choice. The intention of this question is to test auditors’ personal judgements more deeply and let the authors understand the participants’ answers clearly. We use a 6-points equal interval Likert scale within other two questions examining auditors’ evaluation of misstatement and evidence. This format of scale has been chosen because of the same reason with questions about attitudes.

Finally, as a result of improving the materials shorter and more concise what will be easily understood by auditors during a limited time, the whole self-completion questionnaire was kept to a maximum length of four pages.

4.4.3 Data Collection

We identified a liaison person in each participating office via telephone calls and e-mails, who helped us to distribute the survey instrument to the auditors. Some of these liaison people are managers who are in charge of the human resource department in Big Four firms, and some others are auditors. As sending the attached questionnaires to respondents, we send a cover letter to introduce the purpose of our survey at the same time. After completing the experimental task, participants returned the completed questionnaires as an e-mail attachment to the researchers.

There are both advantages and disadvantages of using an online survey as the data collection instrument compared to a postal questionnaire survey. The advantages consist of low stationary, printing, postage and data entry costs, and faster delivery and response (Burkey and Kuechler, 2003; Bryman, 2008), as well as no geographical constraints, fewer unanswered question, better response to open questions, attractive format for presenting questionnaires, and closed question answers (Bryman, 2008). Some studies also show the disadvantages of e-mail survey: sample selection/coverage biases, lower response rate than postal questionnaire surveys, negative impact on response rate due to software and internet security concerns, and more difficult to review the questionnaire than paper-based survey because of detailed computer screens, and confidentiality and anonymity issues while the participants must return the questionnaires by personal e-mail (Couper, 2000; Asare & Wright, 2001; Bryman, 2008). Since both authors make this research on the third country far from the target countries and without any financial support provided by institutions and organizations, the e-mail survey sounds like the best suitable way to collect the data. As noted by Bryman (2008: 648), we use a strategy that contacts prospective respondents before sending them a questionnaire, in order to boost the response rate.

The primal target for the amount of responses is between forty and fifty participants in each country in order to reach certain level of reliability and validity in the findings. However, the authors, as master students, have very limited network resources when doing this research. Meanwhile, the deadline for out the thesis is time-limited which also negatively effect on the sample size of this study. At last, we received thirty-one (31) responses from China, and 14 responses from France. But three (3) of the total Chinese responses are ineffective, due to incompletion to answers, or misunderstanding to question 19. Due to the method of data collection used in this study, the response rate is difficult to calculate.
4.5 Criticism of Primary Sources

Since the authors choose questionnaire as a data collection method, the deficiency of this approach should be ignored in the study. As a matter of fact, the background information provided in the case study is relatively limited compared with other analytical procedures research, so it is possibly difficult to in-depth comprehend auditors’ judgements in the analytical procedures. Consequently, in order to understand the actual professional judgements, the case material ought to be explored at full length, and postal questionnaire would have been more suitable for the participants. However, the decision of conducting self-completion questionnaire by e-mail is made due to its relatively high convenience to the authors. Actually, this method collects information in a pragmatic, economic, and speedy manner.

As a self-completion questionnaire, the participants may generate divergence in the interpretation of key terms in a question; in that case, there will be variation among the participants in choosing “force-choice answers”. The happening of this situation could arise up partial information and thus impedes the researchers to observe a correct image about the relationship between national culture and auditing process. Therefore, the authors translated the questionnaire from English into the mother tongue of each country, in order to make sure that each auditor could understand the questionnaire exactly and then reduce the amount of partial data received at maximum level.
Chapter 5 – Empirical results

5.1 Introduction

This chapter analyses the responses from the questionnaires that were returned: 14 from French auditors and 28 regarding Chinese auditors. The data analysis is layout as the questionnaire was constructed. Thus, we analyse the answers in the same order that we asked the questions to the respondents. Our questionnaire was divided into four sections: the analysis starts with the participants’ background, then we will discuss about cultural characteristics between Chinese and French auditors’ perception, followed by the case study, and the last part of this chapter deals with the questions related to the audit process. Some statistical methods are employed in the analysis, such as means, T-tests, and Pearson Chi-square test.

5.2 Participants’ backgrounds

As we mentioned previously, our survey instrument start with some general personal questions. Naturally, we evolve the empirical analysis from the participants’ general backgrounds and professional experiences which are compared using Chi-square and t-test to examine if significant differences exist between the respondents by countries. The reason why we choose these test methods to investigate differences is that our sample size is relatively small, a sample size less than 30 is recommended to use t-test. As displayed in Table 2, Q2, Q3, Q5 and Q7 are tested by Pearson Chi-square method. And Q4 and Q6 are tested by t-test. From the table 2, the percentage of female and male auditors in both countries was similar, 53.6% male in China and 50% male in France. That indicates the ratios of genders between two countries have no significant difference (Asymp. Sig=0.827). The results also display that the auditors’ job position and professional working experience between China and France show significant difference. Generally, among our participants, the French auditors have higher positions in auditing firms and also relevantly work more years as auditors than our Chinese counterparts. Only 8 out of 28 participants from China work as manager, but there are 8 managers among 14 French auditors (Asymp. Sig is 0.186). The average work experience is 5.036 years for Chinese auditors, and the maximum working year is 10. In France, the number of average working year is 7.393, and the maximum number is 21 (p=0.021).

Another obvious difference is that four French auditors have overseas auditing work experiences, but none of Chinese auditors have overseas work experience (Asymp. Sig =0.003). These four French auditors used to work in China, Spain, United States, Germany & Switzerland & USA. It is possible to explain that most of businesses of auditing firms in China focus on Chinese domestic market, and thus the auditors have fewer opportunities to perform at an international platform. Auditors in both countries reported work experiences in bank industry: 1 out of 28 Chinese auditors and 2 out of 14 French auditors; the difference is not significant (Asymp. Sig =0.204). The reason why we asked Q5 is that the experience of some auditors in bank industry could influence their performance in the case answers related to analytical procedures (Taylor, 2000). If there is an apparent difference, we plan to analyse

http://www.statisticssolutions.com/one-sample-t-test
our later data divided into two groups. Even if there is no apparent difference, we will ignore this factor in the later analysis. From the view of education years in auditing / accounting, there is also no significant difference between the two countries (p=0.307). The French auditors study more years in auditing or accounting education at an average level.

Table 2  Comparison of participants' background information

<table>
<thead>
<tr>
<th>Chi-square test</th>
<th>China</th>
<th>France</th>
<th>Pearson Chi-square value</th>
<th>df</th>
<th>Asymp.Sig. (2-sided)</th>
<th>Exact Sig. (1-sided)</th>
</tr>
</thead>
</table>
| Gender  
  Male Count | 15    | 13     | 0.048 *                  | 1  | 0.827                | 0.543               |
| Percent       | 53.60%| 50%    |                          |    |                      |                     |
| Female Count  | 13    | 7      |                          |    |                      |                     |
| Percent       | 46.40%| 50%    |                          |    |                      |                     |
| Position  
  Senior Count | 15    | 4      |                          |    |                      |                     |
| Percent       | 53.60%| 28.60% |                          |    |                      |                     |
| Supervisor Count | 5    | 2      | 3.361 **                 | 2  | 0.186                |                     |
| Percent       | 17.90%| 14.30% |                          |    |                      |                     |
| Manager Count | 8     | 8      |                          |    |                      |                     |
| Percent       | 28.60%| 57.10% |                          |    |                      |                     |
| Experience in auditing bank  
  Yes count | 1     | 2      | 1.615 ***                | 1  | 0.204                | 0.254               |
| Percent       | 3.60% | 14.30% |                          |    |                      |                     |
| No count      | 27    | 12     |                          |    |                      |                     |
| Percent       | 96.40%| 85.70% |                          |    |                      |                     |
| Overseas experience  
  Yes count | 0     | 4      | 8.842 ****               | 1  | 0.003                | 0.009               |
| Percent       | 0%    | 28.60% |                          |    |                      |                     |
| No count      | 28    | 10     |                          |    |                      |                     |
| Percent       | 100%  | 71.40% |                          |    |                      |                     |

* Male=1, Female=2,  
**Senior=1, Supervisor=2, Manager=3,  
Yes=1, No=0  
* 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.67.  
** 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.33.  
**** 2 cells (50%) have expected count less than 5. The minimum expected count is 1.00.  
**** 2 cells (50%) have expected count less than 5. The minimum expected count is 1.33.

Table 3  Mean and T-test (one-tailed)

<table>
<thead>
<tr>
<th>China</th>
<th>France</th>
<th>t-statics</th>
<th>P-values*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>5.036</td>
<td>7.393</td>
<td></td>
</tr>
<tr>
<td>Max</td>
<td>10</td>
<td>21</td>
<td>-2.1</td>
</tr>
<tr>
<td>Variance</td>
<td>5.813</td>
<td>24.084</td>
<td></td>
</tr>
</tbody>
</table>
| Education in auditing or accounting (years)  
  Mean | 3.286  | 3.643     |           |
| Max   | 7      | 9         | -0.507    | 0.307     |
| Variance | 2.952  | 8.093     |           |

* significant at 5%
5.3 Cultural characteristics

In the second part of the questionnaire we want to examine Hofstede’s theories on national cultures in the case of auditing environment between our targeted countries. According to Hofstede’s cultural dimensions results, there should be significant differences on individualism and uncertainty avoidance between China and France. We still employ independent-samples t-test to examine the answers. The analysis results of question 8 to question 14 are shown in Table 4. The answers of participants in the two clusters appear to be quite similar in most questions. Unfortunately, t-test failed to reveal statistically significant differences in the cultural dimensions of the two countries as we expected, except the question 11. The result of Q11 shows that French auditors have stronger willingness to work using their own approach, p-value is 0.000. The second relatively apparent difference is expressed that French auditors tend to have higher motivations to achieve a personal success in their jobs, but this distinction is not significant enough according to statistical definition.

From other results, we cannot find any apparent differences concerning uncertainty avoidance dimension, despite all the questions are chosen from Hofstede’s books. So, we argue that this situation might be mainly influenced by Chinese strong collectively notion. A collectivist society emphasizes keeping a harmony in a group and believing in collective decision (Hofstede, 2001:244). It is common that different cultural dimensions can have an effect on each other at the same time when people make a decision. Therefore, a single dimension is difficult to be bound depended on some general questions. Other possible explanation of the results is that the 4-point equal interval Likert scale is not enough to give the participants more accurate options, and a subdivision scale is probably necessary, such as 6 or 8 point equal interval scale, instead of the 4-point scale.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Mean and t-test (two-tailed) of cultural characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q8</td>
<td>The avoidance of conflict and maintenance of hierarchical equilibrium and harmony</td>
</tr>
<tr>
<td>Q9</td>
<td>Performing work from which you can achieve a personal sense of accomplishment</td>
</tr>
<tr>
<td>Q10</td>
<td>Having a job which leaves you sufficient time for your personal or family life</td>
</tr>
<tr>
<td>Q11</td>
<td>Having considerable freedom to adopt your approach to the job</td>
</tr>
<tr>
<td>Q12</td>
<td>Having a job which allows you to make a real contribution to the success of your firm</td>
</tr>
<tr>
<td>Q13</td>
<td>To express disagreement with your superiors</td>
</tr>
<tr>
<td>Q14</td>
<td>To take group decision and consultative management over individual decisions and more authoritative management</td>
</tr>
</tbody>
</table>

* Significant at 5%

In the literature review part, we hypothesized French auditors rely more on analytical procedures than their Chinese counterpart do due to their high individualism and uncertainty avoidance score. In an individualist and high uncertainty avoidance country, people tend to emphasize on the avoidance of conflict and disagreement, achieve personal success and
freedom, as well as taking group decision and personal life. Hence, we expected that French auditors mark higher scores on Q8, Q9, Q10, Q11 and Q14, and also mark lower scores on Q12 and Q13 compared with Chinese auditors. The results of Q9, Q11, Q12 and Q13 are consistent with our expectations, but the results of Q8 and Q10 are negative with our assumption. The result of Q14 is the same between the two countries. We suggest the answers of Q8, Q10 and Q14 by Chinese auditors are also influenced on their collectivism cultural dimension. Therefore, our finding on cultural characteristics is consistent with Hofstede’s culture theory.

5.4 Case study

In this section, we aim to examine what degree of the cultural dimensions impact on analytical procedures within France and China, as mentioned in Hypothesis 1. According to the information we provided in the case material, we required the participants to take a decision on the question 15, based on substantive analytical procedures. The results of participants are shown in the Table 5. From this table 5 Panel A, it is clear to see that 75 percent of Chinese auditors decided not to accept the interest income reported in 2008. Correspondently, only 57 percent of French auditors made the same decision. According to Chi-Square tests, we cannot find out a statistical significant difference in Q15.

Table 5
Panel A: Cross tabulation

<table>
<thead>
<tr>
<th>Q15. Can you accept 2008 interest income as reported?</th>
<th>No</th>
<th>Yes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>21</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>% within group</td>
<td>75</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>8</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>% within group</td>
<td>57.143</td>
<td>42.857</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>13</td>
<td>42</td>
</tr>
<tr>
<td>% within group</td>
<td>69.048</td>
<td>30.952</td>
<td>100</td>
</tr>
</tbody>
</table>

Panel B: Chi-Square Tests

<table>
<thead>
<tr>
<th>Value Type</th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
<th>Exact Sig. (2-sided)</th>
<th>Exact Sig. (1-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>1.393</td>
<td>1</td>
<td>0.238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuity Correction</td>
<td>0.682</td>
<td>1</td>
<td>0.409</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>1.36</td>
<td>1</td>
<td>0.244</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisher’s Exact Test</td>
<td></td>
<td></td>
<td></td>
<td>0.298</td>
<td>0.203</td>
</tr>
<tr>
<td>Linear-by-Linear Ass.</td>
<td>1.359</td>
<td>1</td>
<td>0.244</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N of Valid Cases 42

a. Computed only for a 2x2 table
b. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 4.33.

In order to get better understandable pictures on auditors’ attitudes about interest income for the year 2008, we make a short conclusion about their explanations by country.
The explanations of Chinese auditors
For those who disagreed with the interest income report, their reasons could be reduced into two main factors. The foremost explanation is that they believe the methods on calculation of average loan volume and weighted average interest rate are inaccurate and need to be re-considered. Another reason they argued is that the material misstatement level should be re-view because of the current financial crisis. For those who agreed with the report, they state that the difference based on the current two years interest income statement is acceptable.

The explanations of French auditors
Among those who reject the interest income report, the majority of them consider the inaccuracy of average loan volume and weighted average interest rate. But the second main reason gave by French auditors is that they need further investigation to understand the cause of the difference. Interestingly, most auditors who decided to accept this report point out they will estimate the effect of the financial crisis. One auditor who expresses his agreement said he will inform top management in order to understand the original reasons of this difference.

These results reveal that more Chinese auditors generate stronger suspiciousness in terms of interest income report, and they tend to be more fearless to say “No” to the client’s financial statements.

In the next question of the case study, there are 2 Chinese auditors expressed that the question was hard to judge because of limited background information, and thus they could not give a proper answer. Therefore, we only counted 26 Chinese respondents when we did the mean calculation and T-test of the question 16. In Q16, 0 percent represents definitely not misstated, and 100 percent represents definitely misstated. In the table 6, we can see that the auditors between the two countries present significant judgement difference (p=0.000) in terms of the likelihood that interest income is materially misstated in 2008. This result is consistent with auditors’ choices in question 15, and also coherent with the above explanations.

Table 6  Mean and T-test (one-tailed) of Case study

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>France</th>
<th>t-statistics</th>
<th>p-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q16. How likely is it that 2008 Interest Income is materially misstated</td>
<td>0.496</td>
<td>0.243</td>
<td>3.567</td>
<td>0.000</td>
</tr>
<tr>
<td>Q17. Your assessment of the strength (quality and sufficiency) of evidence</td>
<td>3.357</td>
<td>3.000</td>
<td>1.013</td>
<td>0.159</td>
</tr>
</tbody>
</table>

* Significant at 5%

However, auditors’ attitudes to the strength of evidence in China and France have some differences, as shown in table 6. In Q17, number 1 equals extremely weak evidence and number 6 equals extremely strong evidence. Chinese auditors grant a higher rank on the strength of evidence compared to French auditors. But this difference is not statistic significant. Then we try to determine if the number of years of working experience results in different assessment of audit evidence. We check linear relation using scatter-dot graph. The number of years of work experience only shows a very weak positive linear relation with the assessment of strength of audit evidence among Chinese auditors. Then we employ
Spearman test whose results show working experience and the strength of evidence are correlated in China, but not in France (see Table 7 and Table 8). In general, the results show the auditors’ working experiences in France are not significantly relevant with auditors’ assessment on audit evidence (see Graph A and Graph B below).
Table 7: Spearman test of work experience and evidence assessment in China

<table>
<thead>
<tr>
<th>Spearman's rho</th>
<th>Years of working experience</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>The strength of evidence</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years of working experience</td>
<td>1</td>
<td>-.410(*)</td>
<td>28</td>
<td></td>
<td>1</td>
<td>0.03</td>
<td>28</td>
</tr>
</tbody>
</table>

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

Table 8: Spearman test of work experience and evidence assessment in France

<table>
<thead>
<tr>
<th>Spearman's rho</th>
<th>Years of working experience</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>The strength of evidence</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years of working experience</td>
<td>1</td>
<td>0.193</td>
<td>14</td>
<td></td>
<td>0.193</td>
<td>1</td>
<td>14</td>
</tr>
</tbody>
</table>

5.5 Auditing process test

In our hypotheses, we assume that French auditors will assess evidences and internal control environment in a more professionally suspicious way than Chinese auditors due to stronger individualism scores in France. The Q18, Q19 and Q20 are linked to this assumption. What we wanted to measure in question 18 was to compare how auditors from each country rely on different components provided by the audited client. By taking the table 9 below as a whole, Chinese and French auditors are agreed on two evidences that provide high reliance. “Invoices” is classified as first, which deliver highest reliance, because the mean response for French auditors and Chinese auditors is respectively of 3.357 and 3.143. The second evidence that provides high reliance, according to French and Chinese auditors, is “activity and control logs”, because 20 (out of 28) Chinese auditors and 7 French auditors (out of 14) gave a mark of 3 on a four point Likert Scale. The third position is much more mitigated. Chinese auditors have a higher reliance on “results of data extractions”, such as SAP (Systems, Applications, and Products for data collection) with a mean of 2.893 (2.430 for French auditors), whereas French auditors prefer carrying out their tests on “records of transactions”, as ledger, sales journal for instance. This evidence got a mean of 2.642 by French respondents and 2.680 by Chinese ones. However, “records of transactions” does not get a significant difference in terms of reliance, the difference between the two means is only of 0.038 points. Finally, “written or oral statements” get the lowest reliance from all evidences by Chinese and French auditors, because we reached a mean of 1.821 for China and 2.214 for France. In addition, the auditors’ attitudes to “written or oral statement” between China and France display a significant difference.
Table 9  Mean and T-test (one-tailed)

<table>
<thead>
<tr>
<th>Q18</th>
<th>What is your degree of reliance of evidence provided below by the audited client?</th>
<th>1 least reliable</th>
<th>2</th>
<th>3</th>
<th>4 most reliable</th>
<th>Mean</th>
<th>t-statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Results of data extractions</td>
<td>1*</td>
<td>2</td>
<td>24</td>
<td>1</td>
<td>2.893</td>
<td>1.032</td>
<td>0.212 ^a</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>2.643</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>2</td>
<td>13</td>
<td>4</td>
<td>5</td>
<td>2.680</td>
<td>0.132</td>
<td>0.448 ^b</td>
</tr>
<tr>
<td>2</td>
<td>Records of transactions</td>
<td>1</td>
<td>6</td>
<td>9</td>
<td>12</td>
<td>3.143</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>3.357</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>2</td>
<td>4</td>
<td>11</td>
<td>3</td>
<td>2.642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Invoices</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>9</td>
<td>3.143</td>
<td></td>
<td></td>
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<td>2</td>
<td>5</td>
<td>7</td>
<td>3.357</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
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<td>4</td>
<td>11</td>
<td>3</td>
<td>2.642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Written policies and procedures</td>
<td>2</td>
<td>13</td>
<td>10</td>
<td>3</td>
<td>2.500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>2</td>
<td>13</td>
<td>10</td>
<td>3</td>
<td>2.500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>2.571</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Written or oral statements</td>
<td>9</td>
<td>15</td>
<td>4</td>
<td>1</td>
<td>1.821</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>China</td>
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<td>15</td>
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<td>1</td>
<td>1.821</td>
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<td></td>
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<tr>
<td></td>
<td>France</td>
<td>1</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>2.214</td>
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<td></td>
</tr>
<tr>
<td>6</td>
<td>Activity and control logs</td>
<td>4</td>
<td>20</td>
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<td>3.000</td>
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<td></td>
<td>France</td>
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<td>7</td>
<td>3</td>
<td>3</td>
<td>3.324</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* number of responses  
^a t-test with unequal variances  
^b t-test with equal variances

Next, question 19 is examined. As we mentioned in the theoretical review, client’s internal control is prominent evidence when the auditors make an expectation of analytical procedures. Due to the choices of auditors have a large degree of variation, we also use the T-test here, but we make a conclusion and classification concerning the auditors’ answers in the Table 10. It is apparent to find the divergence in internal control cognitive of auditors between China and France. The table displays that the majority of Chinese auditors feel “integrity and ethical values” of clients is the first and foremost factor when testing clients’ control environment: 17 auditors chose it as first. Contrary to Chinese auditors, French auditors feel “organizational structure” is the most imperative factor to assess client’s internal control. The results of T-test also show there are significant differences about “integrity and ethical values” and “organizational structure”. Moreover, Chinese auditors consider “assignment of authorities and responsibility” as the second most important factor, corresponded to “management’s philosophy and operating style” chose by French auditors. The least important factor considered by Chinese auditors is “commitment to competence”, and the second least essential factor is “human resource policies and procedure”. As for these two factors, the French auditors have similar attitudes with their Chinese counterparts. However, 6 Chinese auditors express that “board of directors or audit committee participation” is the second important factor to affect internal control and the rank of mean of responses is 4. By contrast, French auditors feel it is less important, and rank it as 5.
<table>
<thead>
<tr>
<th>Q19. Prioritized from 1 to 7 the different factors you take into account to evaluate client’s internal control.</th>
<th>Number of Responses</th>
<th>Mean</th>
<th>Rank</th>
<th>Number of Responses</th>
<th>Mean</th>
<th>Rank</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 most important</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7 least important</td>
</tr>
<tr>
<td>Integrity and ethical values</td>
<td></td>
<td>17</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>2.107</td>
<td>Rank</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Commitment to competence</td>
<td></td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>5.321</td>
<td>Rank</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Board of directors or audit committee participation</td>
<td></td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>4.143</td>
<td>Rank</td>
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<td>3</td>
<td>6</td>
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<tr>
<td>Management's philosophy and operating style</td>
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<td>7</td>
<td>5</td>
<td>3</td>
<td>7</td>
<td>3</td>
<td>3</td>
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<td></td>
<td>Mean</td>
<td>4.107</td>
<td>Rank</td>
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<tr>
<td>Organizational structure</td>
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</tr>
<tr>
<td></td>
<td>Mean</td>
<td>4.143</td>
<td>Rank</td>
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<td>2</td>
</tr>
<tr>
<td>Assignment of authorities and responsibility</td>
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<td>3</td>
<td>9</td>
<td>4</td>
<td>6</td>
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<td>3</td>
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<tr>
<td></td>
<td>Mean</td>
<td>3.214</td>
<td>Rank</td>
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<td>3</td>
</tr>
<tr>
<td>Human resource policies and procedure</td>
<td></td>
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<td>5</td>
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<td></td>
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<td></td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

**Table 10 Ranks and t-test (two-tailed)**
At last, to determine the degree of difficulties getting information from the predecessor auditor working for another company regarding the acceptance of a new client in the two countries studied, we employ pie charts to observe question 20. The client acceptance phase does not let any auditor’s personal judgement to be expressed because auditors have to refer to IAS 300 that requires the successor auditor must communicate with the predecessor auditor (Eilifsen et al., 2006). However, the application of this standard may differ among countries.

Chart A and Chart B represent the Chinese and French auditors’ answers respectively. The number of responses for each option and percentage among all the responses are shown around the pie chart. In the category labels, number 2 stands for easiest (to get information from the predecessor auditor) and 6 stands for hardest. Because no auditors in both countries chose the rank 1, so we start our category from the rank 2. From the chart A and B, it is clear to see that the results are quite closed between France and China. 29% of Chinese auditors chose the answer 5, whereas 28 percent of French auditors chose the same. Answer 4 has been chosen by 25 percent Chinese auditors and by 24% from their French counterpart. Globally, we can say that both countries apply the standard in the same way.
6.1 Introduction

In this chapter, we discuss about our empirical results link to the hypotheses from the chapter 3, Literature Review. We highlight our similar findings to the prior researches mentioned in the Literature Review section, and in the case of differences, we outline some of the possible reasons why our results may differ. We start by discussing the data analysis results to the first hypothesis, before moving to answer to the second and last hypothesis.

6.2 Effect of individualism and uncertainty avoidance cultural dimensions on the audit

Hofstede’s cultural dimensions as a mainstream theory have been broadly employed in many previous social science researches during the recent two decades. When this theory is brought into accounting field, Hofstede (1991: 157) argues that

“Accounting is a field in which the technical imperatives are weak: historically based conventions are more important to it than laws of nature. So, it is logical for accounting systems and the ways they are used to vary along national cultural lines.”

Despite most of the researchers believe or assume the ranks of Hofstede’s cultural dimensions are correct and useful, we would like to make a simple test to examine the efficiency of nation culture’s rank in the survey instrument. As we described in Chapter 3, national cultural differences between China and France are significant on both individualism and uncertainty avoidance dimensions (Hofstede, 1980, 1991, 2001). We designed question from 8 to 14 in order to enhance those cultural differences. Fortunately (in terms of Big Four firms side), from the empirical results we have not found out significant differences between the auditors’ answers from China and France. The cause is probably these questions are hard to be bounded to single dimension. In addition, it is commonly accepted that two or more cultural dimensions influence people’s making decision at the same time, usually these cultural dimensions would mutually affect. Another possible reason is that the Likert scale provided in the answers is not wide enough to give participants more options to show a more apparent and discrepant attitude. Last ten years, China has made lots of improvement and adopted the same accounting and auditing standards than France. We could assume that the adoption of common practices between China and France may alter the result of cultural differences. Our sample contains only senior, supervisor and manager auditors who have been working for several years in Big Four firms to be at their actual position, and international standardized practices and procedures within these large companies are used in a daily basis and might dilute the auditors’ culture throughout the years. Questions from 8 to 14, in the section B cultural characteristic of the questionnaire, have been chosen from the Hofstede’s book in order not to be influenced by our own culture to build the questions.

In the chapter 3, we hypothesized that French auditor will rely more on analytical procedures than their Chinese counterpart will due to their high individualism and uncertainty avoidance scores.
Our empirical findings for questions 15 and 16 revealed the following answers. In question 15, Chinese auditors seem more willing to say “No” to accept the report misstatement by the audited client, even though Chi-Square tests does not give a statistical significant difference, but 75% of Chinese auditors said “No” against 56% only for the French auditors. In question 16, Chinese auditors identify a higher possibility of material misstatement than French auditors (49% and 24% respectively). These findings are consistent with our hypotheses because Chinese auditors seem to conduct further procedures and have a more precise audit by indicating a higher possibility of material misstatement. Our findings are also consistent with the literature of Arnold et al. (1999) that indicates individualism may affect the willingness of doing additional audit work. Moreover, Wingate (1997) has related to his research a high score of uncertainty avoidance means a less precise audit, as we found by the percent shown on the scale (question 16) by French auditors. Finally, as the collectivism cultural dimension is high in China compared to France (Hofstede, 2001), Chinese auditors tend to be more cautious about the reliability and fairness of client’s financial statements in order to prevent them to lose “face” in relation to their audit firm.

6.3 Auditor’s assessment drives by individualism cultural dimension

The purpose of questions 18 and 19 of the questionnaire was to identify whether French auditors assess evidence components and internal control environment in the same way, whereas higher risks appear in the French society due to its cultural characteristic as high individualism. We predicted in our hypothesis 2 that French auditors will assess evidences and internal control environment in a more conscious way than Chinese auditors.

Our empirical findings in chapter 5 revealed not significant differences between Chinese and French auditors’ assessment. They consider of same high reliance two evidences, known as “invoices” and “activity and control logs”. They seem to assess evidence in the same way whatever their cultural background. Moreover, Chinese and French auditors are agreed that “written or oral statements” provide the least reliable evidences. In the other elements of answers there are not significant differences between auditors’ assessment, even though they do not prioritize some evidences in the same order.

Regarding the assessment of internal control environment and which components of it are considered of greater importance by French and Chinese auditors, it appeared the auditors from each country do not consider the same components of the same importance. While Chinese auditors feel “integrity and ethical values” of the audited client is of the highest importance, French auditors answered that “organizational structure” is most important for them. Organizational structure is often linked to high transparency enterprises and a permanent monitoring. Those criterions should decrease the level of accounting errors, cut-off and classifications errors present in an individualism culture (Hofstede, 1990; K. Hung Chan et al., 2003). Thus, French auditors consider of greater importance “organizational structure” because of higher risks within individualism organizations. Another component of the internal control environment that influences actions towards financial reporting and the importance of management’s attitudes towards accounting functions and personnel is the “management philosophy and operating style” (Eilifsen A., 2006). In this way, management philosophy and operating style is ranked at the second position of greater importance by French auditors, and ranked as the third position for Chinese auditors where accounting

10 http://en.wikipedia.org/wiki/Organizational_structure
errors, cut-off and classifications errors are lower than France due to Chinese collectivism culture (Hofstede, 1990). Other elements that appear not to influence directly the process of accounting are classified approximately in the same manner by French and Chinese auditors such as “Human resource policies and procedures” ranked 6<sup>th</sup> by Chinese and 7<sup>th</sup> by French auditors, Board of directors or audit committee participation (4<sup>th</sup> for Chinese auditors and 5<sup>th</sup> for French ones), and “Commitment to competence” ranked at the 7 position (least importance) by Chinese auditors and 6<sup>th</sup> by French auditors. Some of these components influence in somehow the accounting process, but much more less than “organization structure” and management’s philosophy and operating style” chose as the most important for French auditors when they audit the effectiveness of the client’s internal control.
Chapter 7 - Conclusions

7.1 Introduction

The aim of this chapter is to summarize the broad conclusions drawn from this research. All along our graduation thesis, we were conscious that the topic chosen may be controversy because practices tend to be standardized through the work of IAASB and the effort of companies that want to provide the same services worldwide. Furthermore, as we said, Big Four Firms distinguish themselves from other auditing and accounting enterprises by advertising to their clients that the opinion, delivered on the financial statements, is of the same value everywhere in the world. In other terms, a Chinese auditor or a French one’s signature cannot be discredit due to his / her own culture. Through our empirical study, we did not want to blame one country or another or encourage companies to establish their business within countries where the audit is more helpful and enables higher level of risk. Finally, the purpose of our research was under no circumstances to call how the audit process is done from one country to another by Big Four firms into question.

7.2 Conclusion

The purpose of this study was to identify whether French and Chinese auditors, from standardized Big Four companies, have the same consistence in performing some tasks of the audit process. We had the aim to point out those consistencies or differences in several areas of the audit process such as the reliance on analytical procedures, the assessment of evidences and internal control components. In order to be able to conduct our research in the best way, we divide our study into four sub-research questions. However, we will present you into two points our conclusions.

First of all, we wanted to highlight cultural differences between French and Chinese Culture that might have an incidence on the audit process. Despite differences from Western and Eastern Cultures, our results were not so categorical about the cultural characteristic between China and France. Is it because auditor’s culture is diluted in the Big Four firms and auditors tend to have the same way of thinking throughout the world within PwC for instance? We should have asked junior auditors to express themselves on the cultural characteristic part of the questionnaire, because our target was only experienced auditors and their culture might have been altered in these standardized companies.

Then, we wanted to identify in which areas the auditor’s culture may alter the running of the audit process. Firstly, regarding the acceptance of the misstatement in the case provided, both cultures preferred doing further tests to understand the difference. However, Chinese auditors appear to have a higher willingness to say “no” about the non-acceptance of the client’s financial statements misstatement than their French counterpart do. This finding is consistent with the collectivism culture dimension involved in the Chinese society. Secondly, there were not significant differences in the assessment of different sorts of audit evidences. However, we found out differences in ranking the importance of internal control environment. French auditors consider of greater importance components that can directly influenced the accuracy of the accounting reporting such as “organizational structure” and
“management’s philosophy and operating style” than their Chinese counterpart. Our findings are consistent with the literature because individualism, characterized in the French culture, seems to “encourage” accounting and cut-off errors.

Finally, we wanted to analyse if the use of a Standard on Auditing gives any freedom to auditors. We used the International Standards on Auditing regarding the client acceptance (ISA 300). The outcome of this question let us know that the standard is applied in the same way either in China or France. ISA 300 does not give any opportunity to the auditor to express his/her cultural differences in the audit process.

7.3 Recommendations

Based on the results of this study, there were some cultural differences how the audit process is carried out by Chinese and French auditors, as listed above. Big Four firms take care to harmonize as much as possible practices within each office throughout the world. In order to intensify the work of standardized practices and procedures undertaken by those companies, in the light of cultural differences, we suggest them the following propositions:

- As we saw in the demographic data analysis, none of Chinese auditors have been aboard to carry out some audit missions for international clients, whereas 28 percent of the French sample had (4 out of 14). Big Four firms should encourage as much as possible the mobility within its offices established in all corners of the earth. In order to simplify the ability of auditors to work aboard, Big Four firms should encourage their employees to take international qualifications such as CPA, ACCA, and not only national qualification. By working with other teams, the auditor might face his/her individual cultural practices and moved to the common standardized Big Four practices.

- In order to avoid culture effect, the training of auditors should be made by specific teams that are not influenced by culture. These teams should be multicultural and followed Big Four procedures very strictly to harmonized practices within the firm and diluted auditors’ culture into Big Four practices. As Sim and Goodwin (2004) claimed, we also think that auditors should be educated about the possible effects of national culture on the risk assessment phase.

7.4 Limitations of the research

This study has mainly three limitations, which are:

- Despite the low return rate from French auditors we reached to have interesting findings because of the respondents’ quality answers. However, the low return rate has affected a more precise outcome of our study. This low return rate was mainly because of two reasons. Firstly, the time we were writing our thesis was hard period for auditors (fiscal year-end). Moreover, auditors’ activities have been affected by the financial crisis and some offices run with fewer auditors than before. Both students used their network to get higher rate of return. Chinese network appeared to work better than the French one. “Guanxi”, term that qualified the Chinese network, works
better due to cultural dimensions of the Chinese society, such as high collectivism. French network seems to be affected by the high individualism scores.

- We focused only on experienced auditors who deal with the decision-making process because we wanted to assess them in situations that required personal judgement, and thus, junior auditors are not concerned by those situations due to their lack of experiences. We can assume that experienced auditors have been working longer in the audit firm than Junior, and the manager’s culture may have been diluted in the Deloitte practices for instance. We think that we could get higher cultural differences by asking new joiners into Big Four firms.

- Some Big Four firms did not answer deliberately to the questionnaire because they thought that our intention was to blame their activities. Some of them thought that we wanted to call the quality of their work provided throughout the world into question. We should have communicated much more about our intention to find out how the evolution of standardized practices dictated the audit process among cultures.

### 7.5 Possible future research direction

Some above limitations provide opportunities for future research direction. The study could be replicated, within Big Four companies, by using a wider range of auditors from junior to partner. It would be interesting to do the analysis by comparing responses among positions, in order to see the correlation between the auditor’s experience and his/her audit practices in the light of culture differences. Furthermore, Literature was much more interested in studying Big Four companies related to culture. This choice has been motivated because these large firms have a broad network of offices throughout the world. Some other non-Big Four companies have offices largely established internationally such as Grant Thornton, BDO, and Mazars. These firms might be of high interest for students, because they may be more willing to answer survey because they have to compete much more than Big Four firms to attract future employees. Furthermore, Non-Big Four firms might be of higher interest in terms of cultural differences because their practices (procedures) may not be as standardized as the large audit and accounting firms. Finally, some other phases of the audit process have not been yet covered by the literature. For instance, researchers could pay attention to how culture influenced the procedure of accepting a new client.

### 7.6 Validity and Reliability of the research

It is important to evaluate the quality of business research. Reliability and viability are two basic and major criterion to measure the values of research findings. However, there are some differences existed in deeply detailed treatment when employing these two criterion to evaluate researches within different research strategies (Bryman, 2008).
7.6.1 Reliability

In terms of quantitative method used in our study, reliability in a survey instrument is principally measured by testing if the repeated instrument causes consistent outcomes (Bryman, 2008; Joseph et al., 2007). There are generally three type of reliability measurement: test-retest reliability, alternative-forms reliability, and internal consistency reliability (Joseph et al., 2007). Robson (2002, as cited in Sauder et al., 2007) states that four points need to be look carefully on reliability. Firstly, researchers should take care of “subject or participant error”. Secondly, “subject or participant bias” is easily generated in an authoritarian management. The third and four factors are about “observer error” and “observer bias”. In the research we undertook, the participants could finish the self-completion questionnaire at any of their convenient time in order to avoid to be bothered by external environment. Moreover, there is no question related to employment security issues, in this way the auditors can tell us their real thinking about every question, so we could expect that the risks of the subject or participant error and bias do not exist, or can be controlled at a petty much low level in this study. Moreover, closed questions could prevent the potential differentiation of interpreting the responses from different language versions. The uniformed survey instrument is used in both nations would avoid the two researchers to ask questions with different way. Hence, we can consider that observer error and bias are also reduced to the minimum level.

7.6.2 Validity

Bryman (2008:151) defined validity in social science as “the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measures that concept”. In a quantitative research, there are five major approaches to measure validity: face validity, concurrent validity, predictive validity, construct validity, and convergent validity (Bryman, 2008). On the other hand, it is easier to understand measurement validity from internal and external perspective. Internal validity refers to the issue of whether exists “a causal relationship” between two or more variables. External validity refers to the question of whether the research findings can be popularized within other samples. In other words, the more samples have representative, the more the results have external validity (Bryman, 2008; Saunders, Lewis and Thornhill, 2007).

In this study, we utilize some statistical tool, such as Excel, and SPSS to compute the significance and correlation between different variables after obtaining the answers of the questionnaire. All our questions in research instrument are theoretically and logically relevant with our research questions and research purpose. We believe that there is no “casual relationship” existed in our collected data. Nevertheless, as we mentioned in the research method part (Chapter 4), we emphasize that due to the authors have limited resource with real auditing business, both authors tried their best to be in contact with as many auditing offices as possible in China and France, finally only several offices agreed to participate in our research. What's more, the current economic crisis and high season of auditing business also have negative impacts on our data collection, and thus our sample size is relatively smaller compared with previous cross-cultural auditing researches. It is natural for us to not expect this research could have strong representative. However, the samples of 28 Chinese participants and 14 French participants are enough for us to deal with a strict and scientific business research.
From the discussion above, the authors can state that the study described in the paper has some degree of validity and reliability. However, we still believe that if a larger number of samples and a more comprehensive case material would have been available, more attractive research finding will be obtained.
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Internet


Appendix

Dear Sir, Madam:

We are postgraduate students majoring in Accounting at Umeå School of Business (USBE), in Sweden. We are currently writing a thesis about Cultural impact on auditors’ performance in the audit planning phase.

We would like to express, in advance, our most honest appreciation for your understanding and help. This survey takes you around 10 minutes to fill in, and we really need you as a respondent because without your feedback we are unable to carry on our study and see the impact of cultural differences on the way of auditing companies.

All information provided will be strictly treated, for academic purposes only, and no identity information of any respondent will be revealed in our thesis. We would be pleased to inform you about our findings if you are interested in.

Please tick the suitable box if you would like to receive the results ones our thesis is achieved:

Yes □ No □

Please kindly download the attached questionnaire into your computer, fill in it, and then re-attach it to any of the two return email addresses given below:

  [email] or [email]

We assure you that your reply will be treated in complete confidence.

We look forward to receiving your response.

Yours sincerely,

Danni Wang & Regis Hell

Instructions:

- Experienced auditors such as senior, supervisor, manager, and senior manager who deals with decision-making process is welcomed to participate to the survey.
- The respondent has to be French (France) or Chinese (China) in order to get relevant information about culture influence
- Participants has to answer on their own and do not talk to the other participants of the survey
Section A: Demographic Data

Q1. The name of your company: ___________________________.
   City: __________________

Q2. Your current position or title: ____________________________

Q3. You gender is: Male ( ), Female ( )

Q4. Number of years of experience as an auditor: _______Years

Q5. Do you have auditing experience in bank industry? Yes □ No □

Q6. Number of year’s academic accounting or auditing education: _____ years

Q7. Have you had any auditing experience in other foreign countries? Yes ( ), No ( )
   If yes, how many years? ____ Years
   Which countries?

Section B: Cultural Characteristic

Please choose only one answer for each of the following statements which reflect your working condition environment (1=no important, 2= of little importance, 3= important, 4= very important)

Q8. The importance of the avoidance of conflict and maintenance of hierarchical equilibrium and harmony 1 2 3 4

Q9. The importance of performing work from which you can achieve a personal sense of accomplishment 1 2 3 4

Q10. The importance of having a job which leaves you sufficient time for your personal or family life 1 2 3 4

Q11. The importance of having considerable freedom to adopt your approach to the job 1 2 3 4

Q12. The importance to have a job which allows you to make a real contribution to the success of your firm 1 2 3 4

In your experience, how frequent is each of the following to you?
(1=never  2= rarely  3= sometimes  4=very often)

Q13. To express disagreement with your superiors 1 2 3 4

Q14. To take group decisions and consultative management over individual decisions and more authoritative management 1 2 3 4
SECTION C: CASE AND RELATED QUESTIONS

Instructions: In the following case, we ask you to answer questions 15 to 17. All information you need has been calculated for 2008 based on the auditors’ expectations calculation for 2007.
Please, read the case first and then answer the questions.

Dupond Bank is a French national Bank, where Headquarter for the bank is located in Paris. Dupond Bank has been an audit client of your firm for three years. Because of Dupond Bank’s strong controls over bank loans, the audit team places high reliance on controls (control risk is assessed as low). At present, your audit team would like to audit the last subsidiary of the group Dupond Bank that has not been audited, named AB and located in Strasbourg. The audit approach calls for the audit team to gain assurance on the fairness of loan interest income primarily through the performance of analytical procedures.

A misstatement of 525,000 € is considerate material. By aggregating the misstatements of the other subsidiaries, the audit team has already reached a misstated amount of 415,000 €. The amount of the materiality threshold has been set according to the total net income of 12,484,000 euros, and the audit team applied a percent of 4.2%. This percent is fixed by taking into account the audit team’s reliance on internal control and its knowledge about the client’s business for 3 years audited accounts.

The Bank reported the following information in its financial statement for 2008:

Consolidated Total interest income: 35,337,204 €
Total net income: 12,484,000 €
Interest income AB (subsidiary): 5,300,280 € (F as reported on the figure below)

AB’s information:

In addition to comparing 2007 interest income to 2006 interest income of the subsidiary, last year’s audit team also developed an expectation by calculating a computed Loan interest income for the period 2007 (in thousands):

Computed Interest Income = Average loan volume 2007 * weighted average interest rate (I)
= 54,185 * 8.65%
= 4,687 €

AB’s Income statement for 2007 provided a Loan Interest income of 4,734 (in thousands €), therefore the difference is 47 € (4,734– 4,687)

(I) The weighted average interest rate is calculated by the auditor in aggregating all the interest rate on loans given to the bank's clients, and then calculated a weighted average by dividing to the number of clients.
For 2008, we did the same calculation made in 2007 as mentioned above, the result is (in thousands €):

| Aggregate Loan Volume (or balance) as of 12/31/07 (A) | 60,183 |
| Aggregate Loan Volume as of 12/31/08 (B)            | 57,491 |
| = Average Loan Volume 2008 (A+B)/2 (C)             | 58,837 |
| Weighted Average Interest Rate for 2008 (D)         | 9.115% |
| = Computed Interest Income per Audit for 2008 (C*D) (E) | 5,363 |
| Loan Interest Income provided by AB income statement (F)       | 5,300 |
| Difference (F-E)                                      | 63    |

Therefore, if we consider the previous misstatement of 415,000 € and we add the difference of the AB subsidiary we have found above (63,000 €), we get a total misstatement for the group Dupont Bank of 478,000 €.

Furthermore, Dupont Bank has been involved in the financial crisis by buying subprime mortgage loans in 2008 and faced a high risk of not being refund the loans granted to clients.

Q15. By using the analytical procedure approach for 2008 provided above, determine if Dupont Bank’s interest income from loans reported at 12/31/08 appears fairly stated. Based on the results of the analytical review procedure, can you accept 2008 interest income as reported? (Additional detailed testing will be only performed if analytical procedures suggest interest income is materially misstated.)

□ Yes  □ No  Please briefly explain your answer?

Q16. Based on the results of the analytical procedure, how likely is it that 2008 Interest income is materially misstated?

<table>
<thead>
<tr>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
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<td></td>
<td>Definitely not misstated</td>
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<td></td>
<td>Definitely Misstated</td>
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</tbody>
</table>

Definitely not misstated

Q17. Please indicate on the scale below your assessment of the strength (quality and sufficiency) of evidence provided by the interest income analytical procedure:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Weak / Useless Evidence</td>
<td>Extremely Strong / Removes all</td>
<td></td>
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</tr>
</tbody>
</table>

- 60 -
SECTION D: Auditing process

Q18. Please choose only one answer for each of the following evidences and tell us what is your degree of reliance of each evidence provided below by the audited client (1=least reliable to 4=most reliable)

- Results of data extractions (from SAP for instance) 1 2 3 4
- Records of transactions 1 2 3 4
- Invoices 1 2 3 4
- Written policies and procedures 1 2 3 4
- Written or oral statements 1 2 3 4
- Activity and control logs 1 2 3 4

Q19. Please, prioritized from 1 (most important) to 7 (least important) the different factors you take into account to evaluate client’s internal control?

<table>
<thead>
<tr>
<th>Integrity and ethical values</th>
<th>Commitment to competence</th>
<th>Board of directors or audit committee participation</th>
<th>Management’s philosophy and operating style</th>
<th>Organizational structure</th>
<th>Assignment of authorities and responsibility</th>
<th>Human resource policies and procedure</th>
</tr>
</thead>
</table>

Q20. In your own experience, how difficulties do you usually have to get information from the predecessor auditor working for another company regarding the acceptance of a new client?

1 2 3 4 5 6

Extremely Weak Extremely Strong

Thank you for your participation!