

# **The Interactive effects of work style and cooperation obstacles in the relationship between external auditors tend to rely on the work of internal auditors**

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## **Abstract.**

In terms of classified research in its objective and the classification based on applied research methods, descriptive research and the research is descriptive, correlational, because the relationship between independent and dependent variables reviews. The population of this study consisted of Auditors and the National Audit Office audit firms in 2015 is now listed on the Tehran Stock Exchange during the period. The data collection tool was a questionnaire concerning each variable is as follows. (Questionnaire willingness independent auditor to rely on internal audit work with 16 items questionnaire with six dimensions and 20 items obstacles to cooperation, work style questionnaire with 6 items) will be measured. After collecting and transferring data to Excel spreadsheet and apply the necessary calculations, for analysis are prepared. To analyze the data, structural equation modeling (depending on model drawing) is used. The results show that the dimensions of obstacles to cooperation and work style on the willingness of external auditors to rely on internal audit work has a significant impact.

**Keywords:** external auditor, internal auditor, cooperation obstacles, work style

## **1. Introduction.**

American Institute of Certified Public Accountants accepted standard 65, because the role of internal audit was expanding, and also they wanted to prepare more specific criteria to assess the qualification of internal audit and objectivity and effectiveness (Scalar, 1992) (Schneider, 2010). Identification of willingness of independent auditors to rely on the work of internal auditors will help process of planning and improving independent auditor's efficiency.

Assumption of legal complaints may influence decision factors of reliable decision. Previous studies have shown that the auditor's reliable decision is influenced by characteristics of competence, objectivity and quality of work of internal auditors (Barbara, 2010). (Gramlyng, 1999) believes that client priorities of client and priorities of the audit firm have a significant impact on the process of independent auditing reliance on work of internal audit. Client priorities are: 1- low remuneration of auditing 2- quality of auditing. Although Client are concerned about audit remuneration and quality of auditing, but this relative importance of this concern may vary between clients. Audit firm priorities are: 1-emphasis on profitability 2-emphasis on audit quality and professional skepticism (Quasim, 2010). Almost all inspectors emphasize on the importance of regular consultations between internal auditors and external auditors. In many countries, external auditors use result work of internal auditors but first, they must determine to what extent they can rely on internal audit work. This coordination allows you to perform independent more effective auditing and avoid rework in auditing work (Quasim, 2010). (Felix et al., 2000) also mentions greater involvement of internal audit in process of independent auditing as an important factor in reducing auditing remuneration (Barbara, 2010). In assessing the objectivity of the internal audit, external auditor must consider personal features of internal auditors as well as features related to the internal audit as a whole. This provides evaluation guide objectivity of internal audit prepared by the Treadway Commission, Standard No. 65 and Internal Auditing Standards Institute. When evaluating the internal audit work, Standard No. 65 states that an independent auditor should pay attention to the scope of internal auditor's work, quality of audit plan, documentation worksheets (including certificate of monitor and review), and proportion of results and continuity of audit reports with the work done. Research shows that other features such as the satisfaction of previous internal auditor and following methods that were considered by internal auditors are important for independent auditors when evaluating internal audit work (Brown, 1983). Assessment of features related to internal auditor work may be dependent on the qualification and objectivity of the internal auditor. Study and evaluation of internal control system as part of a auditing test by internal auditors is affected as an important element of the internal control system.

In the process of supplying timely, relevant and reliable information, one of factors that can help independent auditors and cause their work to have the required quality, efficiency and effectiveness, is presence of internal audit unit in the client's company and more communication of this unit with independent auditors.

Internal auditor assesses and reports the adequacy of the internal control system in terms of accuracy, economy, efficiency, efficient use of resources. Internal audit has a prominent place in internal control system and helps management of economic in performing tasks and responsibilities and duties by strengthening controls (Kamali Zareh, 2011). Independent auditors often rely on the work of internal auditors, in relation to the audit of financial statements and examining internal control that based on the analysis and findings of this study, decision tools are to pursue the development of assessment of internal audit's quality and reliability (Schneider, 2010).

## **2. Significance of research and theoretical foundation.**

By validate the financial statements of companies, auditors play a crucial role in process of financial reporting although auditing standards have not explicitly specified special responsibility for auditors to detect possible frauds in management and falsification of financial statements, but requires auditors to design and implement specific tests in order to discover mistakes or violations that may have an important affect financial statements. On the one hand, auditors are always subject to possible claims of the users of financial reports, so that some of these claims invalidate an auditing firm, in this regard, paying attention to the work of internal auditors is important in two aspects.

First, one of the most important signs of internal control system failure is presence of a weak internal auditing and auditors can consider it as a sign to assess control risk of client.

Second, implementation of an extensive audit plan requires high cost, especially if the program is not likely to lead to detection of falsification. Since auditing is faced with financial and time constraints, it is necessary to recognize factors that can increase the efficiency and effectiveness of the audit process and do not prevent parallel work and repeated of auditing process and prevent parallel and redundant works performed by auditors. One of these factors is the degree of reliance of internal auditors. It has been one of the ongoing challenges that are facing the auditing profession. On the other hand, the fact that organizations receive major audit services from two different sources, that is independent auditors and internal auditors has caused a public expectations about the relationship between these two groups as the basis for achieving optimal coordination between them.

Reliance on work of internal audit: acceptance of the results of the internal audit as a substitute for results of content tests carried out by independent auditors (Richard Brody, 2012)

Internal auditing and independent auditing have different roles but are complementary to each other. Internal auditor assesses internal control system to the extent that is related to auditing risk, but internal auditor evaluates all internal controls and deals with the issue of organization that is less considered by independent auditor (Richard Brody, 2012).

Work Style: Putnam and Wilson (1982) use Organizational Communication Conflict Instrument to assess the strategy (style) that people prefer to use it in organizational settings. Work Style strategy can create functional or dysfunctional consequences for an organization and its members. Standard seven-item Likert scale questionnaire is used to measure the work style where 1 represents always and 5 represents never. Minor changes have been made in the tool to "appropriate" improvement in the auditing environment.

This questionnaire consists of 10 items measuring work style. When the independent auditor encounters a particular work situation of internal auditor, evaluation is performed. The manner of measurement is through standard questionnaires of Richard Brodie (2012).

Barriers to communication and collaboration: Auditors should offer creative solutions for differences in work styles and conflict management styles. The first factor is known as a barrier for "qualification" of communications. Loading situation in these factors includes: inadequate knowledge of common accounting, lack of understanding and in terms of technical accounting and poor organization of ideas. The second factor is known as a barrier for "objectivity" of communications. Loaded situation on this factor includes: emotional reactions to communication, bias or prejudice, defensive and differences in perception (Richard Brody, 2012). But barriers to cooperation in this study included the following aspects. Barriers to cooperation in this study included the following aspects: poor professional training, poor academic education, lack of affordable internal evaluations, lack of appropriate audit guidelines, low remuneration of audit contracts; traditional systems of business units (Richard Brody, 2012).

Development and expansion of the scope of internal audit, has made external auditors increasingly able to rely on the work of internal auditors. In addition, as a result of increased investment of companies in internal audit, they are looking for ways to reduce the remuneration of the independent auditors by replacing the internal audit (Kaplan and Sheltz, 2006). By relying on internal audit, unnecessary and repetitive auditing methods can be avoided. It can also be useful for external auditors since the internal auditors have certain advantages. They generally are more aware about procedures, policies and business conditions of the company, compared to external auditors. However, independent auditors should match benefits of reliance on internal by external audit with commitment to maintain the appearance and reality of independence defined for independent auditors.

Basically, the independent auditors may rely on internal audit in one of three following ways:

1. Rely on internal audit as part of the company's entire control systems.
2. Rely on previous internal audit work related to internal control test or test of accounts or transactions.

**3. Theoretical framework.**

According to the description proposed on structures and relationships between them based on the model used ..... in this study the conceptual model is provided in Figure (1) that includes two groups of relationships. This figure is based on hypotheses that have been identified in Figure 1. On the one hand, it considers the relationship between auditors work style and independent auditors willingness to rely on work of internal audit; willingness of independent auditor to rely on internal audit work is the result of auditor's work style and on the other hand, examines relations between the barriers of cooperation and willingness of independent auditors to rely on the work of internal, auditors and interactive effect of work style and barriers to cooperation affect relations between willingness of independent auditor to rely on internal audit work. Research hypotheses are based on these cases that have been identified in Figure 1.

**4. Conceptual model taken from research hypotheses.**

First major hypothesis: there is a significant relationship between work style of auditors and willingness of independent auditors to rely on internal audit work.

Second major hypothesis: there is a significant relationship between barriers of cooperation and the willingness of independent auditors to rely on internal audit work.

First sub-hypothesis: there is a significant relationship between poor professional training and the willingness of independent auditors to rely on the work of internal auditors.

Second sub-hypothesis: there is a significant relationship between poor academic training and the willingness of independent to rely on the work of internal auditors.

Third sub-hypothesis: there is a significant relationship between unreasonable costs of internal assessments and the willingness of independent to rely on the work of internal auditors.

Fourth sub-hypothesis: there is a significant relationship between absence of appropriate audit instructions and the willingness of independent to rely on the work of internal auditors.

Fifth sub-hypothesis: there is a significant relationship between low remuneration of auditing contracts and the willingness of independent to rely on the work of internal auditors.

Sixth sub-hypothesis: there is a significant relationship between traditional systems of business unit and the willingness of independent to rely on the work of internal auditors.

**5. Research methodology.**

Regarding purpose, this study in applied research, and in terms of method it belongs to survey-analytical research. To collect the data, questionnaire is used which is as follows for each variable.

Table 1. Cronbach's alpha coefficient

Variables	Number of questions	Cronbach's alpha
Work style	6	0/864
Barriers to cooperation	20	0/839
Independent auditors willingness to rely on internal audit work	16	0/866

Table2-KMO and Bartlett test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.909
Bartlett's Test of Sphericity	Approx. Chi-Square
	Freedom degree
	Significance level
	10625.087
	903
	0.000

Given the possibility of using factor analysis to determine the validity of the tool, confirmatory factor analysis was used. Table 3 shows the results. According to the proposal by Fornell and Larcker (1981), values of factor loadings for the observed variables must be greater than 0.5. As it can be seen in this study, such values have been confirmed.

**6. Findings.**

**Describing the research variables:**

According to Table 4-10, descriptive statistics for all variables in terms of statistical indicators are as the following table. For example, for variable of independent auditor reliance on internal audit work, minimum of comments is 1.00 and the maximum is 5.00 and mean and standard deviation of comments are 3.9849 and 0.89365, respectively.

Table 4-10- Descriptive statistics of research variables

Variance	Standard deviation	Mean		Maximum	Minimum	N	Sign	Variable Statistic
		Statistic	Std. Error					
.799	.89365	.05675	3.9894	5.00	1.00	120	RIA	Independent auditor's reliance on internal audit work
.527	.72584	.04609	3.9747	5.00	1.00	120	LPT	poor professional training
.602	.77575	.04926	3.8785	5.00	1.00	120	WUA	poor academic education
.524	.72400	.04597	3.8710	5.00	1.00	120	CIA	Unreasonable fees of lack of internal assessment
.540	.73488	.04666	3.9315	5.00	1.00	120	AAJ	Lack of appropriate audit guidelines
.598	.77319	.04910	4.0333	5.00	1.00	120	LFC	Low remuneration of audit contracts
.903	.95045	.05487	3.2871	5.00	1.00	120	TSU	Traditional systems of business unit
.589	.76746	.04873	3.9027	5.00	1.00	120	SA	Work Style of auditor

In this part, research hypotheses are tested using Lisrel software.

Results of investigating goodness of fit indices for research structural model that is brought in the table 4-12, show fitness of model because less than 0.08 RMSEA indicate s an acceptable fitness of structural model. Also, values of CFI, GFI, AGFI, NFI, NNFI are all higher than 9.0.

Table 4-13-Results of Direct relationship and significant correlation coefficients of model assumptions

Path	Path coefficient	Significance	test results
work style of auditor and willingness of independent auditors to rely on internal audit work	0.61	9.37	Accepted
poor professional training and the willingness of independent auditors to rely on the work of internal auditors	0.31	5.08	Accepted
poor academic training and the willingness of independent auditors to rely on the work of internal auditors	0.35	5.04	Accepted
Unreasonable Cost of internal assessment and willingness of independent auditors to rely on the work of internal auditors	0.52	7.40	Accepted
absence of appropriate audit instructions and willingness of independent auditors to rely on the work of internal auditors	0.41	5.70	Accepted
Low fees of the audit contracts willingness of independent auditors to rely on the work of internal auditors	0.42	5.73	Accepted
Traditional systems of business unit and willingness of independent auditors to rely on the work of internal auditors	0.27	2.34	Accepted

**7. Conclusion.**

The issue of independent auditors reliance on the work of internal auditors and identifying ways to coordinate their activities, aimed at reducing auditing costs, increasing audit process efficiency and preventing possible reworks has long been common around the world. In Iran also there have been recently developments and significant improvements in accounting and auditing profession that is evident in publication of auditing standards by the Technical Committee of Audit Organization, standard related to evaluating internal auditing unit work that has dealt with the relationship between internal and independent auditors shows the significant of the subject. In this regard, attention to work of internal auditors is important for two reasons. First, one of the most important signs of internal control system failure is associated with a weak internal auditing unit and auditors can consider it as a sign for estimating control risk of client.

Second, implementation of an extensive audit plan requires high cost especially if implementation of this program does not lead to the discovery of possible falsifications. Since the auditors are faced with financial and time constraints, it is necessary to identify factors that can increase the efficiency and effectiveness of the audit process and prevent parallel and repeated works by the auditors.

Poor academic training should be sought in lack relationship between industry and university. Most people's perception of the relationship between industry and universities is focused on engineering majors and the humanities are not especially accounting are not paid attention to, while formation and continuation of such business units is related to such sciences. Each business unit requires specialized personnel to manage that use of these forces is more necessary in accounting and financial matters and education of these people is the responsibility of universities. However, most graduates after graduation and starting to work in accounting and auditing, due to lack of consistency between material presented in universities and the needs of industry, or inadequate academic education, suffer from this issue. Lack of relationship between industry and university has caused that business units need are not recognized properly and universities subjects are far from real needs.

The issue of teaching in profession needs to be revised. For example, lack of a comprehensive training program in profession can be noted. After reviewing the audit records, Quality Control Committees can transfer the weaknesses to training units, so that based on the weaknesses in audit records, these units plan and formulate comprehensive training according to the proposed weakness. Implementing developed training programs for audit firms should be considered as a requirement non-implementation of which affect it as a negative number in evaluation of their activities. Audit fees of have been one of major issues in dispute among the auditors in recent years that though most auditors have agreement on its being low but in practice there has been little attempt to address this problem by certified public accountants and Iranian society of official accountants. Iranian society of official accountants, as trustee for the licensing audit firms, should review audit fees according to the volume of works done and the remuneration received in previous years and what seems abnormal, so that deal with individual employees and institutions according to the rules. Also, society of official accountants should ban entrance of auditors and audit firms any type of professional service tender by developing regulations since the tender is basically based on the quantity and quality is at a later stage while in auditing quality is undoubtedly preferred to quantity.

Among the main reasons for weakness of internal controls in business units are their traditional systems. Traditional system of business units is due to relatively poor economy of the country. Given this inappropriate environment, most managers are seeking to use non-economic relations for development and continuity of activities of units under their management. Focus of managers of business units to noneconomic units led to their neglect from development of the systems under their management. After a while due to technological advances and the use of advanced machinery, internal controls of these units do not develop due to lack of sufficient attention to them, in accordance with the technical structure of these companies, leading to improper functioning of the business units and eventually leads to the loss of position of business units in the competition market.

The absence of appropriate audit procedures is due to lack of using experience of international audit firms and professional bodies. Society of Official Auditors and other professional bodies can help developing appropriate guidelines by auditors and audit firms by inviting these organizations and institutions and holding meetings and seminars with the participation of audit firms and auditors in the country. Using the experiences of these institutions does not mean mere translation of guidelines used in these institutions because instructions used in these institutions are consistent with the economic structure and activities of business units within that country. And auditors and audit firms within the country should to formulate their guidelines according to economic structure and activities of business units. Also, by developing regulations society of official auditors can, require auditing institutions formulate audit guidelines tailored to their business activities and monitor implementing this by quality control working group.

Due to low fees of audit contracts and costs that institutions incur, most audit firms students who are less experienced or less expensive forces and this in turn leads to a reduction in the audit quality. Obviously this is due to other factors such as lower fees Audit contracts have previously emphasized the importance of addressing these shortcomings in independent auditing. This is due to other factors such as lower remuneration of audit contracts that was previously emphasized the importance of addressing these shortcomings in independent auditing.

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