Audit Quality Differences amongst Audit Firms in a Developing Economy: The Case of Uganda

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ABSTRACT

Purpose

To report findings of audit quality differences amongst audit firms in a developing country. Specifically, we examine the assumption of marked audit quality differences amongst large audit firms (Big 4s) and the Small and Medium Practices (SMPs).

Design/methodology/approach

First, we develop scales for assessing perceived audit quality in the financial services sector based on qualitative data obtained from 106 audit practitioners, 31 Credit Analysts and 13 Board members. We use NVivo© to analyse the 13 transcribed interviews and follow 'cross-case analysis' to visualise dimensions and scales of audit quality. Then we use measurement scales developed and obtain quantitative data from 183 board members and top executives in the financial services sector and test for perceived audit quality differences amongst audit firms using a Mann-Whitney U test.

Findings

Our findings suggest that audit quality is a multi-dimensional construct comprising of levels of discretionary accruals; compliance of audited accounts to accounting standards, law and regulations; and audit fees. Based on these measures, we find that Big 4 audit firms ensure more compliance with accounting standards, Law and other regulatory requirements than SMPs. However, taking all the three audit quality dimensions together reveals no significant differences in audit quality levels between Big 4 and SMPs.

Research limitations/implications

In terms of auditor selection and retention, it is important that audit firms are assessed based on their ability to constrain discretionary accruals, to produce audited accounts that comply with requirements of accounting standards, the law and regulations; and to examine the fees they charge in relation to quality of service, than on their size. Also, as the results of this study suggest that Big 4 audit firms might be needed for compliance with accounting standards, Law and other regulatory requirements, their audit ties in with the most basic level of auditing requiring probity and legality which, in practice, requires a low level of judgement to be exercised by those performing the audit. It might be useful for Big 4 and other audit firms to embark also on higher level of auditing requiring higher level of judgement. Future research may wish to examine auditing firms' proclivity to higher-level judgment audit.

Originality/value

Previous research reveals no consistent way of measuring audit quality and has been inconclusive on the subject of audit quality differential amongst audit firms. We create audit quality scales which can be used in assessing perceived audit quality in a developing country context and provide initial evidence of no significant differences between large audit firms and the Small and Medium Practices regarding audit quality in Uganda.