SESSION 2: ACCOUNTING AND AUDITING

THE IMPORTANCE OF QUALITY IN THE RELATION BETWEEN EXTERNAL AUDITING AND GOVERNANCE: THE CASE OF GREECE

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Abstract

The purpose of this study is to examine whether a model based on financial ratios and non-financial variables can predict auditors' opinions (qualified or not) using a sample of 90 companies listed in the Athens Exchange[1] for the period between 2018 and 2022.

We used hand-picked data from the original annual reports, which can be found on listed firms' websites; our sample consisted of 450 observations. We utilized a probit model with 11 primary financial ratios together with non-financial variables, like auditor quality, auditor turnover and corporate performance (profitable company or not), which, may, affect the issuance of auditors' reports.

Our results showed that there exists high explanatory power between financial ratios and auditor quality (type of audit firm) and qualifications in auditors' reports.

The specific model developed in this study can be beneficial for auditors in order to: a) predict the audit opinion type that can be issued by other auditors in similar circumstances, b) when evaluating new

[1] www.athexgroup.gr

(potential) clients, c) in order to determine audit scope for existing clients and d) to reduce possible lawsuits. We should note that recent literature shows that "auditing risk" is higher in emerging economies (like Hellas) and for that reason, firm failures and auditors' opinions are of particular importance.

Auditors should use analytical procedures in planning and reviewing engagements; specifically, they examine the specific conditions that are critical and may increase the material misstatement in firms' accounts, as well as they can design an effective audit program that will cover all critical areas (International Standard of Auditing — ISA 520). As ratio analysis is used in analytical methods and financial ratios are very dissimilar, we calculated financial ratios of: a) liquidity, b) debt, c) profitability, d) market value and e) asset management.

External audit denotes the uniqueness of external governance mechanisms that guarantee the quality of reported financial information. For that reason, an auditor's report is a plausible tool in order to validate the availability of financial information.

The results of this study showed that auditor quality is highly important and for that reason, audit committees should take that into account when choosing an audit firm.

This study has some limitations. First, the sample for each year is small (90 companies) as Athens Exchange is a small capital market; for that reason, our results may not be applicable to other, more developed capital markets. Second, this study represents the specific economic, cultural, corporate and audit market conditions that exist in Hellas.

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