

## **EVALUATING THE EFFECTING VARIABLE ON NON-IMPLEMENTING CONTINUOUS AUDITING IN IRANIAN AUDITING FIRMS**

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### **Abstract**

This study is a survey and are used questionnaire to collect the necessary data to test hypotheses. The population of this research are auditing firms and accounting graduates. To gathering data we used questionnaire and simple amount were 123 of auditing firms. In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used, and to display some statistical data we used column diagram and in deductive level to test the hypothesis of the research we used Friedman test. To analysis has been used the SPSS tool. Findings show that there is a relationship between auditors' lack of familiarity with new information technology and non-implementing continuous auditing. Singleton concluded that continuous auditing cost prevents its implementation while its advantages are more than costs.

*Keywords: auditing firms, auditing, continuous auditing*

### **Introduction**

Increasing development and complexity of economic activities make it necessary to prepare accurate and wide information via accounting information systems. These systems play an important role in organizations activities and most economic decisions are made based on their information. On the other hand, major part of stock exchanges is trading companies' shares that are in turn influenced by figures and information of these systems. Financial statements-basic products of these systems- are important information tools for users. Relevant and reliable information should be provided for users to apply in decision-making models. Undoubtedly, value of this information depends on quality of auditing. In other words, accuracy and reliability of information must be confirmed by trust-giving institutions. In addition to reliability, they should be presented on time that these conditions forced auditors to find new approaches and hardware and previous solutions cannot answer this need and continuous auditing is in this direction.

Technology developments like electronic commerce, electronic information exchange and internet have changed commercial activities and transaction recording and registering process. Technology and complexity of modern trade are characteristics of corporations which forces auditors to create new methods and techniques for auditing. Continuous auditing is one of these methods created to answer this need. Continuous auditing means an auditing which

encompasses financial period. This auditing is in contrast with periodic and temporary auditing.

Accordingly, investors, creditors and regulators expect service development in auditing. Among these services we can point to repeated assurance or continuous auditing which is vital for commercial information in capital markets (Rohan, 2003). There are various definitions for continuous auditing including:

- Continuous auditing as a solution for auditors problems is way of thinking about answers which investors and other users pursue them (Amini & Moradi, 2007).
- Continuous auditing is a method used by auditors for continuous auditing. By continuous auditing we mean testing transactions and events based on defined criteria and identifying unconventional cases (Smith, 2006).
- Continuous auditing is regular process for electronic gathering of auditing evidences as a reasonable basis for stating about optimal presenting of statements prepared by immediate accounting systems and without paper auditing.
- It is believed that continuous auditing increases auditors' information quality. Although there is one decade that continuous auditing is presented but rapid development in information technology in few past years has changed timing and evidences of auditing process and not only makes it feasible to consider auditing from technology and cost-effectiveness aspects but also necessitates it (Eliot Committee, 1997).

Although costs of continuous auditing is very significant and influences people's tendency toward it but inclination toward it is increasing with great speed. Based on a study, 3% of respondents had implemented continuous auditing in all or parts of their commercial processes and 39% declared that they want to implement it in near future (Alice et.al, 2008), because it has various advantages including:

- Improving relationship between auditor and employer: since in continuous auditing there are regular contacts between auditor and employer and their close relations, this can improve their relationships.
- Presenting professional view on time: in continuous auditing, in contrast with traditional method that views were transferred at the end of year to employer and users, auditor can give his professional view with more discipline and time throughout the year (Forqandost, 2006).
- Dividing auditing work volume throughout the year: continuous auditing provides this capability for auditor to distribute auditing throughout year.
- Helping auditors for better and more accurate assessments: since auditor has more dominance in continuous auditing and faces problems earlier, he gains better evaluation of employers' activity.
- Auditor's independence form financial systems and management controls: this improves management of organization and provides a mechanism for auditors to maintain their independence (Vadi'e & Mousavinejad, 2008).

Regarding these issues, although continuous auditing has many advantages but its implementation needs suitable preconditions which must be considered to increase efficacy:

- Enjoying a reliable system for providing basic subjects of accounting.
- Basic subjects of auditing should have a suitable structure.
- Auditors should be experts in information technology and basic auditing subjects.
- Automatic approach in auditing provides more required evidences.
- There should be suitable link between corporation and auditors.
- Understandable reports should be presented on time (Smith, 2006).

In spite of presenting various models for continuous auditing in independent auditing of financial statements but unfortunately there are limited studies about independent auditing of statements. But studies about continuous auditing have increased in recent two decades (Doll et.al, 2003). We refer to some of these studies:

Price Waterhouse Kooers (2006) results of a study on 400 internal auditing managers about using continuous auditing confirms that continuous auditing is more a concept than practice. Manner of implementing continuous auditing is different in most corporations and is a combination of computer auditing programs and manual techniques but there is clear tendency toward using continuous auditing. Research results show that more than 80 percent implement continuous auditing or monitoring or have plans to implement it. Half of respondents had implemented forms of continuous auditing or monitoring in their internal auditing which has high growth regarding 35% in year 2005.

Hafs (2006) continuous auditing process in 56% of cases includes manual and automatic components. In 41%, processes are completely manual and in 3% are automatic. Besides, continuity is only in the name of continuous auditing. In most cases i.e. 57% continuous auditing period is seasonal. In 34%, emphasis is on monthly monitoring and only 9% implement continuous auditing processes daily.

Singleton (2005) they had presented a critical analysis about using continuous auditing in corporations. Reasons of continuous auditing pros are: reducing risk, increasing and enhancing possibilities in system (for example, assessing internal risks in information system), facilitating internal controls, and constant access to information, linking internal and external beneficiaries and helping independent auditors.

Kentio et.al (2008) concluded that advantages of using continuous auditing are more than its costs. Although continuous auditing needs huge capital costs at beginning but we must consider them as strategic and long-term investment. Continued auditing system increases financial statements reliability, promotes internal auditing performance and facilitates conformity with new Sarbans-Axely regulation.

## **Method**

This study is a survey and are used questionnaire to collect the necessary data to test hypotheses. The population of this research are auditing firms and accounting graduates. To gathering data we used questionnaire and sample amount were 123 of auditing firms.

In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used, and to display some statistical data we used column diagram and in deductive level to test the hypothesis of the research we used Friedman test. To analysis has been used the SPSS tool.

## **Results**

Ranking research variables based on their effectiveness in non-implementing continuous auditing

Table 1: Friedman result for ranking research variables as a continuous auditing implementation

<b>Rank</b>	<b>Variables</b>
3.47	Auditors unfamiliarity with new information technology
3.01	Lack of auditors and managers familiarity with continuous auditing methods and processes
2.90	Higher financial cost for restructuring auditing

2.83	Lack of regulations
2.80	Lack of suitable auditing standards

Freedman test	
N	122
Chi-square	20.911
Df	4
Asymp.sig.	.000

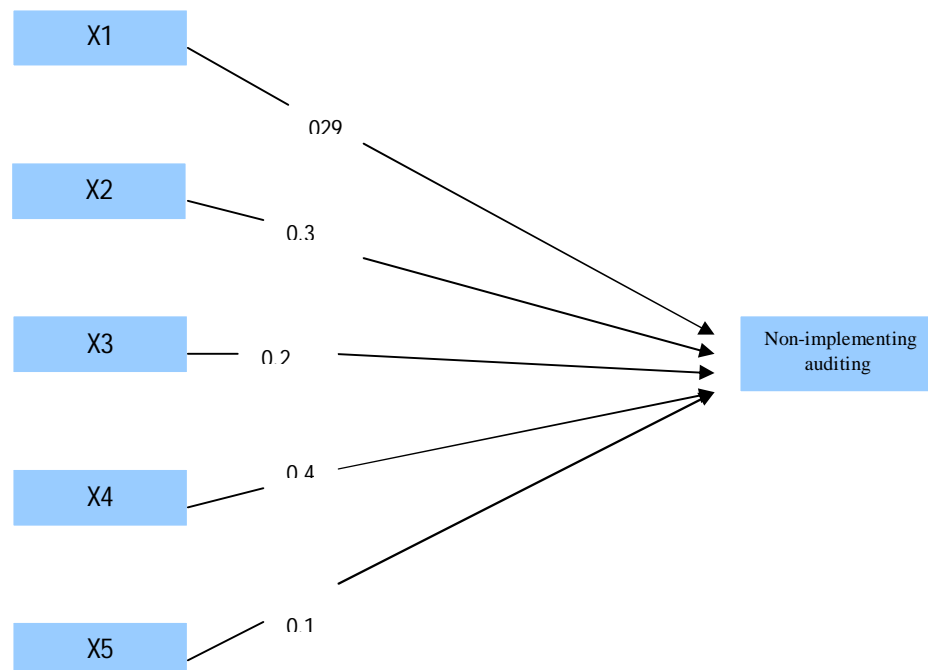
In order to ranking administrative barriers of continuous auditing freedman nonparametric test was used. As we can see in figure 1, respectively:

1. Lack of familiarity with new information technology.
2. Auditors and managers' lack of enough familiarity with continuous auditing processes and techniques.
3. Higher financial costs for restructuring auditing.
4. Lack of required regulations.
5. Lack of suitable auditing standards

These are most important barriers mentioned by respondents.

In order to study amount of each variable effect on non-implementing continuous auditing, Lizrel software was used. Chi-square statistic was 136.54 that in degree of freedom 122 its P-value is 0.33458 and GFI is 0.79 which shows good fitness. This model is shown in figure 1 Path coefficients were presented with their values in model. In sum, effect of both variables auditors' lack of familiarity with new information technology and auditors and managers' lack of familiarity with continuous auditing processes and techniques is more than other variables.

Fig 1: continuous auditing barriers



Chi-square= 136.54 , df=122 , P-value=0.33458, RMSEA=0.079

## **Conclusion**

In spite of high advantages of continuous auditing and in conditions that technology development answers needs of continuous auditing after 2 decades of introducing this new approach, there is not significant progress in practical application of independent auditing of statements. Based on this, deeper study of implementation barriers and choosing practical solution is necessary. Based on this study results, among administrative barriers for continuous auditing, auditors' lack of familiarity with new technologies and managers and auditors' lack of familiarity with continuous auditing process and its huge cost are most important barriers for implementing continuous auditing.

Results of this study are consistent with Price Waterhouse Coopers' results in 2005 and Singleton in 2006. Coopers concluded that continuous auditing is more a concept than practice. Manner of implementing continuous auditing in most corporations are different and is combination of computer programs and manual methods.

This study showed that there is a relationship between auditors' lack of familiarity with new information technology and non-implementing continuous auditing. Singleton concluded that continuous auditing cost prevents its implementation while its advantages are more than costs.

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