AUDITING ENGAGEMENT VS. CLIENT BOARD GENDER DIVERSITY AND INDEPENDENCE – ARE THERE ANY RELATIONSHIPS?

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Abstract

The purpose of this paper is to answer the question of whether corporate governance in terms of gender structure of client corporate boards and CEO duality impact client's incentive and ability to engage in high-qualityaudit in companies a year before the Covid outbreak. Private and public corporations are included in the sample and statistical analysis is applied on auditor reports and client board characteristics (gender and independence) to find the existing relationships. The study revealed that client boards are more male-dominated, with much of them having CEO duality experience and therefore more being prone to engage a local auditor, much less to engage an international auditor, and reports are signed by a male auditor in more of the cases. Results also support the fact that auditing companies have been paying attention to gender issues with half of the auditors signing the report being female. It was found that gender composition of client board and CEO duality and audit opinion are not interrelated which is in line with other studies. The paper extends the growing literature on the linkage between audit quality board characteristics and it overcomes the limitation observed in

previous studies by testing the idea that gender and independence are variables of primary influence on auditor engagement.
Keywords: *audit quality, corporate governance, gender diversity, CEO duality*

Introduction

The board of directors' purpose in corporate governance is to monitor company operations to protect the interest of shareholders, which should contribute to the financial performance of companies. The engagement of a high-quality audit firm in the audit process contributes to the monitoring effort. Audit quality improves financial reporting quality by increasing the credibility of the financial reports and therefore is a component of financial reporting quality. (DeFond & Zhang, 2014).

In this paper, we analyze companies' corporate governance structure, and auditor reports in emerging countries such as Serbia to explore a possible alignment between the two in the context of the agency theory. High tax alignment where financial statements are under scrutiny by tax officials resulting in higher audit quality shape this emerging economy. On the other hand, Serbia is a common law country which contradicts the previous statement. According to the researchers, a common law country is generally characterized by the investors having less ability to sue auditors for negligence and misconduct, resulting in lower quality audits being performed (Hope & Langli, 2010; Seetharaman, Gul and Lynn, 2002). In this context, Serbia has all the characteristics of the business environment in which good and bad quality audits can co-exist, in addition to audit–client negotiation process, also known as opinion shopping, which makes the result of this research more valuable.

Medium-sized and large legal entities in Serbia, public companies according to the Law on Capital Market regardless of their size, as well as all legal entities or entrepreneurs whose total income realized in the previous business year exceeds 4,400,000 euros have a legal obligation to submit an auditor's report on financial statements to Serbian Business Register Agency (Law on Auditing, Official Gazette of the Republic of Serbia, No.73/2019-26, article 26). All of the above-mentioned entities should engage in contracts with local or international audit firms before the 30th of September of the current year. Engagement contracts and specific audit companies are chosen at the Annual Meeting of stockholders or by other legal bodies (Law on Auditing, Article 32). The same procedure of choosing auditors is prescribed by the Company Law, Official Gazette of the Republic of Serbia, No. 36/2011, 99/2011, 83/2014, 5/2015, 44/2018, 95/2018, and 91/2019.

The Serbian Company Law (Article 409), prescribes that the board of a public company must establish an audit committee, while the audit committee is not mandatory for private companies. The audit committee suggests the auditor to the board of directors, which makes the final decision. (Article 441) In private companies, the board of director members as well suggests the auditor firm. Since in Serbia it is unheard of that the board of directors does not approve the auditor suggested by the audit committee, we can conclude that the audit committee has a tremendous authority over the board of director's members, or that the audit committee suggests the audit firm which is acceptable for the board of director's members. Knowing that international audit firms, and in particular the Big 4 audit firms, charge significantly higher fees than local audit firms, it is expected that this choice will be agreed upon between the audit committee and the board of directors before the audit committee suggests the auditor to the board of directors. Therefore the decision of whether to engage a Big 4 auditing firm or a local one depends on the board of directors. This decision is mainly influenced by audit fees and the expectation of the users of financial reports, who may find that Big 4 audit firms provide better quality audit reports.

According to the Chamber of Authorized Auditors, 76 audit companies operate in Serbia. The Serbian Chamber of Chartered Auditors issued a regulation on the formation of audit fees. Competition from auditing companies in Serbia is considered to be quite severe. The audit fees cannot be less than 2,000 euros per client as per the Chambers' regulations. Auditing reports in Serbia are issued by the International Auditing Standards and the auditor may express one of the four types of opinions: an unqualified opinion (ISA 700), a qualified opinion (ISA 705), an adverse opinion (ISA 705), and a disclaimer of opinion (ISA 705).

The Public Oversight Board noted that independent auditors and the client's board of directors have many interrelated interests which could undermine the auditors' independence: a) the boards of directors and the management of client companies have high expectations concerning the auditing firms objectivity and professional expertise, and b) auditors, in meeting those expectations, recognize an overriding public responsibility (Public Oversight board Annual report 1993-1994, 7). In line with that opinion, a stronger board of directors will strengthen the professionalism of the outside auditor. Boards and independent auditors should be natural allies in protecting shareholder interests (Public Oversight board Annual report 1993-1994, p. 8).

Thus, the strength of the board of directors and the efficiency of the corporate governance of audit clients appear to be correlated with the quality of the audit. In the context of corporate governance, the size of the board of directors, the presence of female members on the boards, board member's ages, and the duality of the CEOs may not only determine firms performance (Knežević, Pavlović and Bojičić., 2017; Pavlović, Knežević and Bojičić 2019a), the quality of financial reporting (Pavlović, Knežević and Bojičić, 2019b; Pavlović, Knežević and Bojičić, 2018) but can as well determine the quality of the audit.

Higher audit quality contributes to greater assurance of high-quality financial reporting. (DeFond & Zhang, 2014). Cho and Wu (2014) examined that the employment of brilliant auditors relies upon corporate governance indicators (board composition). DeFond and Zhang (2014) argue that auditors′ responsibilities extend well beyond the simple detection of “black and white” accounting standard violations, to assuring financial reporting quality, and this responsibility arises from professional auditing standards that require auditors to consider “the quality, not just the acceptability” of the client’s financial reporting (SAS 90). Francis (2004) pointed out that audit quality can be conceptualized as a theoretical continuum ranging from very low to very high audit quality. The proxies of audit quality fall into two inherently different groups; outputs of the audit process, such as auditors’ going-concern opinions (with several output-based measures, as material misstatements, auditor communication, financial reporting quality, and perceptions), and inputs to the audit process, such as the size of the auidt firm, with several input-based measures, such as auditor characteristics and auditor–client contracting features. (DeFond & Zhang, 2014)

Although many proxies for measuring audit quality are used in the literature and there is no consensus on which measures are best, little guidance is given on how to evaluate them as argued by DeFond and Zhang (2014). Francis (2004) explored the audit failure rate as a measure of audit quality. Another way to measure audit quality is to assess the predictive ability of audit reports, done by Carcello and Palmrose (1994). Besides many measures of audit quality used by researchers, in this paper, audit quality is measured using large and small audit firm dichotomy propositions. The idea that Big 4 audit firms provide higher quality audits is not new (Carcello, Hemanson, Neal and Riley, 2002) The explanation as to why a bord would insist on higher-quality audits and payment of higher audit fees could be justified with three motives: the board may seek to protect its reputation capital; the board may demand higher audit effort to avoid legal confrontation and the board may wish to promote shareholder interests by purchasing differentially higher quality audits. (Carcello, Hemanson, Neal and Riley 2002). Big audit firms with more clients are less prone to opinion shopping due to huge quasi-rents and reputational risk and De Angelo (1981) argues that audit firm size could serve as a proxy for the quality of audit work. Palmrose (1986) also found a statistically significant association between auditor size and audit fees based on a Big Eight/non-Big Eight dichotomy. As collapse or reorganisation of audit firms happened number of companies doing audit decreased, so today we are discussing Big 4 auditors in the market while before there were big 8 audit companies. Big 4 auditors are more specialized in industry audit, therefore providing a higher quality of audit service to clients. (De Angelo, 1981) Gul, Srinidhi and Tsui (2008) developed the idea that the primary means of execution of client board monitoring function is in demanding higher quality and intensity of audit from independent external auditors, therefore, making the topic of this paper a contemporary one. The importance of this study is twofold. Our paper extends the growing literature on the linkage between audit quality and client board characteristics in developed countries such as Serbia. It will encourage other researchers in Serbia to evaluate audit quality more deeply for different types of audit clients to provide conclusions regarding policy changes in the future. Secondly, it will affect audit regulators, especially the Chamber of Authorized Auditors in Serbia and the Security and Exchange Commission by shedding light on auditor choice by client firms and audit opinions issued to impose better monitoring mechanisms in the future.

This paper is structured as follows: Literature review section is developed, followed by the description of variables and results presentation. The last part of the paper is devoted to results discussion in the context of Serbia and other countries in which similar methodology is used.

Literature review

In this paper, we have focused on the cognitive diversity existing in the characteristics of the client board, such as independence measured by CEO duality and gender diversity measured by the percentage of women on board with audit quality as the dependent variable.

Several types of research show that the size of the board or the size of the auditing committee affects the quality of audit services required. Sharma and Boo's (2008) results indicate that the association between audit fees and board/audit committee independence and size are weaker for regulated companies as financial institutions and utility companies.

Yermack (1996) supports the idea that larger boards are less effective monitors of managers and companies and firms with smaller boards have higher market value. In Yermack's research, it was found an inverse association between board size and firm value in a sample of 452 large US industrial corporations. Vafeas (2000) suggests that firms should either institute strong boards for monitoring or substitute board weaknesses with extensive internal and external auditor tests. Rabah Gana and Lajmi (2013) found that audit quality is shaped by explanatory variables such as the size of the client board, its independence and diligence, and the separation of the role of chairman and CEO. Beasley's (1996) research results found that the inclusion of a larger proportion of outside members of the board of directors significantly reduces the likelihood of fraud. Carcello, Hermanson, Neal and Riley (2002) found that audit fees and specific board characteristics such as board independence, diligence, and expertise are correlated with demand for high-quality audit work. Griffin, Lont and Sun (2008) research documents that audit fees, and hence audit quality, and governance reflect two countervailing relations and that auditors increase or

decrease fees charged to clients depending on benefits of better governance or compensating for worse governance mechanisms and increased risk. Bliss (2011) provided evidence that board size is positively associated with audit fees, therefore larger boards require higher quality of audit work.
Although the size of the board is an important characteristic in determining the required quality of the audit process by the firm, it is not the only board characteristic influencing this behavior. Board gender diversity is complex and heavily investigated issue in the corporate world and in Serbia (Sarhan, Ntim and Al-Najjar, 2019; Carter, Simkin and Simpson, 2002; Knežević, Pavlović and Bojičić, 2021; Knežević, Pavlović and Bojičić, 2017; Pavlović, Knežević and Bojičić, 2022; Pavlović, Knežević and Bojičić, 2018; Shrader, Blackburn and Iles, 1997; Hassan & Marimuthu, 2016; Fernández-Temprano & Tejerina-Gaite, 2020).

Gul, Srinidhi and Tsui (2008) found that significantly higher audit fees are paid in companies that have at least one female director and in companies with a higher proportion of female directors on the board. Lay et al. (2017) found that firms with a gender-diverse board and audit committee pay 6-8 percent higher audit fees and are 6-7 percent more likely to choose specialist auditors compared to all-male boards. Miglani and Ahmed (2019) found a positive relationship between the presence of a woman financial expert on the audit committee and audit fees after controlling for several firm-specific and governance characteristics and potential endogeneity with the propensity-matching score analysis. Using interaction terms, the authors find that women with financial expertise on an audit committee have a stronger association with audit fees as the entity becomes more complex.
Several researchers tested the supply side gender effect (Karjalainen, Niskanen and Niskanen, 2018; Yang&Mai, 2018; Garcia-Blandon, Argiles-Bosch and Ravenda, 2019) They tested audit partner gender and modified audit opinion issued and found that after an audit partner switch, female audit partners are more likely to issue first-time MAOs (modified audit opinions); therefore providing support for a positive female auditor effect on the quality of audit services under the framework of empathy theory and gender role socialization theory.
Many researchers reported that CEO duality does not have a positive effect on firm performance; therefore, it harms audit quality and auditor choice.
CEO duality means that one person is both CEO and board chairperson. Some researchers believe that the CEO duality could decrease the board's ability to execute the function of oversight and governance (Fama & Jensen, 1983). Given that the board is to be composed of experts, it is natural that its most influential members are internal managers since they have valuable specific information about the organization's activities, but it is not effective if the board is dominated by the managers. If that is the case, e.g., CEO duality exists; it

signals the absence of separation of decision management and decision control (Fama & Jensen, 1983). Bliss (2011) pointed out that a high-quality audit is required in companies without CEO duality. The results support recommendations against CEO duality by showing that dominant CEOs may compromise the independence of their board of directors. Kamarudin, Ismail and Samsuddin (2012) found that the dual role of CEO and chairman would reduce the effectiveness of an independent audit committee. On the contrary, Baliga, Moyer and Rao (1996) suggest that the market is indifferent to firm duality structure and there is weak evidence that duality status affects long-term performance. Rechner and Dalton (1991) indicated that firms opting for independent leadership consistently outperformed those relying upon CEO duality. Tsui, Jaggi and Gul (2001) support the hypothesis that the negative association between audit fees and independent corporate boards is stronger (weaker) for firms with low (high) growth opportunities. Higher audit fees are charged for growth firms not because independent board membership is not evaluated by the auditor, but because of the risk of internal control mechanisms that are less effective. The board has the responsibility to hire the audit firm and to require adequate quality of audit work be done and when the structure of the board is dual and two positions are combined in one person it could lead to suboptimal decision making in all respects. To compensate for that external control, mechanisms are needed, and those mechanisms are correlated with high-quality audits.

Methodology

Based on the above-developed literature review the following questions are formulated:

Is the gender of board members and auditor opinion and auditor type interrelated variables?

Is CEO duality of the client company and auditor opinion and auditor type interrelated variables?

We used firm-year data from financial statements and auditing reports of Serbian public and private companies from the Mendeley datasets. From this database we retrieved data for public and private companies with auditor opinions issued in the year 2019, size of auditing company issuing the opinion and gender of audit partner signing the opinion. The total sample consisted of 119 observations. Then we extend the database with hand-collected data regarding the following variables: the size of the corporate boards, number of male and female board members, and CEO duality in the year before the Covid outbreak. According to Mizdrakovic, Stanic, Mitic, Obradovic, Kljajic, Obradovic and Stanisic (2020), the most common audit opinion in Serbia is unqualified, which together with opinions with an emphasis on matter paragraphs comprise 73.64% of the total sample in this set. Out of modified opinions, qualified opinion is the most common, as sample auditors gave 1,278 out of 1,672 modified opinions. Unsurprisingly, adverse opinion is the rarest of all declared audit opinions. This paper used the audit firm size as a proxy of audit quality. It is defined as local firm (coded with 1), international (coded 2), and Big4 (coded 3). The notions behind these are studies developed by: Carcello, Hermanson, Neal and Rilez (2002) and Abbott, Parker, Peters and Raghunandan (2003). Audit opinion issued is also a categorical variable coded with -3 when adverse opinion is issued, -2 for disclaimer of opinion, -1 for qualified opinion, 0 for emphasis of matter of paragraph opinion, and 1 for unqualified opinion or clean opinion. We used the number of female directors on the board as a measure of board gender diversity (Miglani, & Ahmed, 2019; Sultana, & Cahan, 2020). Board size is measured as the natural log of the total number of members on the board of directors; (Miglani, & Ahmed, 2019) A dummy variable is used to measure the CEO duality. Firms that have a CEO also serving as chairman of the board are coded as 1, others as 0. Sultana and Cahan (2020) declared that gender diversity can be measured as (1) continuous measures (%Female), (2) a dichotomous measure (DumACFemale), and (3) the actual number of female audit committee members (#ACFemale). The continuous measure is the ratio of the total number of female audit committee members to audit committee size. In our research we have taken continuous measures (% of female board members) and an actual number of female members in the client company boards.

Descriptive statistics of independent variables and dependent variables

Table 1 displays statistics of the size of the board and gender structure for all companies in the sample that have received audit opinion (unqualified, the emphasis of the matter of paragraph, qualified, adverse, and disclaimer of opinion) while Table 2 displays continuous variable female board members. All of the above mentioned are independent variables.

Table 1 Size of the board and gender composition of board members of client companies

	N	Minimum	Maximum	Mean	Std. Deviation
Size	119	2	7	4.03	1.149
Female	119	0	3	.80	.953
Male	119	0	7	3.24	1.247
Valid N (listwise)	119				

Source: Authors' calculation

As seen in Table 1 size of the client company's board ranged from 2 to 7 members with a mean of 4 members on the board. In companies in the sample, the total number of female members ranges from 0 to 3 with a mean of 0.80 and male members from 0 to 7 with a mean of 3.24. Table 1shows that the majority of companies tend to have a higher number of male board members, therefore, showing gender inequality.

Table 2 results show low female representation on boards. Table 2 indicates that 50% of boards have no women members (.00.).

Table 2 Percentage of female board members of client companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	60	50.4	50.4	50.4
	.14	2	1.7	1.7	52.1
	.20	9	7.6	7.6	59.7
	.25	9	7.6	7.6	67.2
	.33	12	10.1	10.1	77.3
	.40	9	7.6	7.6	84.9
	.43	2	1.7	1.7	86.6
	.50	3	2.5	2.5	89.1
	.60	3	2.5	2.5	91.6
	.67	8	6.7	6.7	98.3
	.75	1	.8	.8	99.2
	1.00	1	.8	.8	100.0
	Total	119	100.0	100.0	

Table 3 and Table 4 present the CEO duality variable which is categorized as having a value of 0 if CEO duality does not exist, otherwise, a value of 1 is recognized.

Table 3 CEO duality variable of client companies

	N	Minimum	Maximum	Mean	Std. Deviation
Ceo_Duality_	119	0	1	.67	.471
Valid N (listwise)	119				

Source: Authors' calculation

According to Table 3 in 119 observations mean value of CEO duality is 0.67.

Table 4 CEO duality presentation

		Frequency	Percent	Cumulative Percent
Valid	0	39	32.8	32.8
	1	80	67.2	100.0
	Total	119	100.0	

Source: Authors' calculation

Table 4 indicates that 32% of companies in the sample do not experience CEO duality and that in 67.2% of companies, CEO duality exists.

Regarding dependent variables (auditor type, audit opinion, and gender of the auditor), the statistical results are presented in tables 5, 6, 7, and 8. The gender of the auditor is a categorical variable taking the value of 1 for women and 2 for men.

Table 5 Auditor type, Audit opinion and Auditor gender data

	N	Minimum	Maximum	Mean	Std. Deviation
Auditor_type	119	1	3	1.39	.598
Audit_opinion	119	-3	1	-.45	1.163
Auditor_gend	119	1	2	1.55	.500
Valid N (listwise)	119				

Source: Authors' calculation

Table 5 displays auditor type with a mean of 1.39, showing a tendency of engaging local and international auditors in doing audits for client companies. Audit opinion in a total number of observations has a mean of -0.45 showing that more often qualified opinions and emphasis of matter of paragraph opinion are issued.

Table 6 Auditor type

		Frequency	Percent	Cumulative Percent
Valid	Local	80	67.2	67.2
	International	32	26.9	94.1
	Big4	7	5.9	100.0
	Total	119	100.0	

Source: Authors' calculation

Table 6 shows that a local audit company did the audit in 67.2% of the companies in Serbia while 26.9 % of companies give contracts to international audit companies. This makes a total of 94.1% of all companies in the sample engage local or international audit companies with the rest of 5.9% doing audit work by the Big 4.

Table 7 Audit opinion

		Frequency	Percent	Cumulative Percent
Valid	Adverse Opinion	3	2.5	2.5
	Disclaimer of Opinion	21	17.6	20.2
	Qualified	38	31.9	52.1
	The emphasis of Matter Paragraphs	22	18.5	70.6
	Unqualified Opinion	35	29.4	100.0
	Total	119	100.0	

Source: Authors' calculation

It can be seen in Table 7 that only 2.5% of companies are given an adverse opinion, while a disclaimer opinion is given to 17.6% of companies. In our sample, 31.6% of client companies received a qualified opinion. The emphasis on the matter of paragraph is given to 18.5% and clean or unqualified opinion received 29.4% of companies. When we compare audit reports with the total we found 52% of all audit reports issued are qualified, disclaimer, and adverse opinion reports and 48% of them are positive or clean reports for Serbian incorporated businesses.

Table 8 Auditor gender

		Frequency	Percent	Cumulative Percent
Valid	Female	54	45.4	45.4
	Male	65	54.6	100.0
	Total	119	100.0	

Source: Authors' calculation

The gender of the auditor is also determined as a dependent variable that takes the value of 1 for a female and 2 for a male auditing partner signing the report. Table 8 shows that 45.4% of companies in the sample have female auditors, while 54.6% have male auditors. This shows that in auditing companies, equal attention is paid to male and female auditors, so there is no gender inequality in the context of our data. Although the client companies cannot influence the gender of the auditor signing the report on behalf of the audit team, certain correlations with the structure of the board of directors could reveal certain tendencies and that is why this variable is analyzed.

Table 9 shows multiple dependent variables correlated with the gender of the president of the board.

Table 9 President_of_board_gender and dependent variables

President_of_board_gender		Company	Auditor type	Audit opinion	Auditor gender
Female	N	21	21	21	21
	Mean		1.48	.00	1.71
	Std. Deviation		.602	.949	.463
Male	N	98	98	98	98
	Mean		1.37	-.55	1.51

	Std. Deviation		.599	1.185	.502
Total	N	119	119	119	119
	Mean		1.39	-.45	1.55
	Std. Deviation		.598	1.163	.500

Source: Authors' calculation

Only 21 companies have a female president while the remaining 98 have a male president of the board showing tendency to gender inequality. According to the statistics presented in Table 9, boards with a female board president choose international and local auditors (mean 1.48). When a female is the president of the board, on average, the audit opinion received is unqualified or unqualified with the emphasis of matter of paragraph (mean 0.00). In female president firms, more of those opinions are signed by a male auditor (mean 1.71).

In companies with the male president of the board, the auditor type is the same as aforementioned, but opinions are more prone to be qualified (mean -0.45) while auditor gender tends to be male on average (mean 1.55).

Table 10 CEO duality and variables of company auditor type; audit opinion and auditor gender

CEO duality and board member		Company	Auditor-type	Audit_opinion	Auditor_gender
0	N	39	39	39	39
	Mean		1.33	-.44	1.49
	Std. Deviation		.478	1.119	.506
1	N	80	80	80	80
	Mean		1.41	-.46	1.58
	Std. Deviation		.650	1.190	.497

Total	N	119	119	119	119
	Mean		1.39	-.45	1.55
	Std. Deviation		.598	1.163	.500

Source: Authors' calculation

Table 10 shows that when CEO duality exists, such as in 80 firms from the sample, auditor type is local and rarely International (mean 1.41) while audit opinion tends to show some of the qualified opinions issued (mean -0.46) and auditor gender is male on average (mean 1.58). In 39 companies with no CEO duality, the arithmetic mean for all dependent variables does not show much difference than in the previous group.

Correlation results and Regression Analysis

In the next section correlation and regression analysis are run to reveal trends between dependent and independent variables. The correlation matrix shows that certain variables are correlated, which is statistically significant (see Table 11).

Table 11 Independent variable correlation (President of the board and % female and male) with dependent variable (Audit opinion) correlation

Correlations

		Presid_of_board_gender	Percent_female	Percent male	Audit opinion
President_of_board gender	Pearson Correlation	1	-.587**	.587**	-.181*
	Sig. (2-tailed)		.000	.000	.048
	N	119	119	119	119
Percent_	Pearson Correlation	-.587**	1	-1.000**	.112

female	Sig. (2-tailed)	.000		.000	.225
	N	119	119	119	119
Percent male	Pearson Correlation	.587**	-1.000**	1	-.112
	Sig. (2-tailed)	.000	.000		.225
	N	119	119	119	119
Audit opinion	Pearson Correlation	-.181*	.112	-.112	1
	Sig. (2-tailed)	.048	.225	.225	
	N	119	119	119	119

**. Correlation is significant at the 0.01 level (2-tailed).

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

Source: Authors' calculation

President of the board gender variable and the percentage of the female is negatively correlated, meaning that male board presidents tend to preside with more male boards (Corr. -0.587, Sig. 0.000). On the other hand more male board presidents run companies to whom qualified opinion is given (Corr. -0.181, Sig. 0.048) which is also statistically significant. When audit opinion is taken into consideration it is negatively correlated with the gender of the president of the board. On the other hand, the higher the percentage of female board members is the more positive or unqualified opinion is given (Corr. 0.112, Sig. 0.225) but this is not considered to be a statistically significant correlation.

To test the hypothesis we run the following regression analysis (see Set of Table 12 and Set of Table 13).

Set of Table 12 answers the question is gender diversity of client board and auditor opinion interrelated variables?

Set of Table 12 Regression Analysis between gender of board

members and Audit opinion

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.112[a]	.013	.004	1.160	.013	1.485	1	117	.225

a. Predictors: (Constant), Percent_female

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.999	1	1.999	1.485	.225[b]
	Residual	157.497	117	1.346		
	Total	159.496	118			

a. Dependent Variable: Audit opinion

b. Predictors: (Constant), Percent_female

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.561	.138		-4.062	.000	-.835	-.288
	Persent_female	.552	.453	.112	1.219	.225	-.345	1.450

a. Dependent Variable: Audit opinion

To assess the overall regression model in Set of Table 12, we found that the percentage of female board members on client boards and audit opinion as a dependent variable have R of 0.112, R square of 0.013 while adjusted R square is positive and small, at a level of 0.004 with the significance of Sig. 0.225 which is higher than 0.05. According to an adjusted R square, 0.4% of the total variance in auditing opinion can be explained by the percentage of females in the client board. It is a very small variation in the dependent variable which is accounted for by the regression model. Adjusted R square value tells us how much variance in the dependent variable (audit opinion) would be accounted for if the model had been derived from the population from which the sample was taken. Researchers suggest that this value must be equal to or greater than 0.19. In our case, this does not hold and the female percentage on the client board does not affect the auditing opinion issued.

Set of table 13 answers the question is CEO duality and audit opinion interrelated variables?

Set of Table 13 Regression Analysis between CEO duality and audit opinion

Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.011[a]	.000	-.008	1.167	.000	.014	1	117	.907

a. Predictors: (Constant), CEO Duality

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	1	.019	.014	.907[b]
	Residual	159.477	117	1.363		
	Total	159.496	118			

a. Dependent Variable: Audit Opinion

b. Predictors: (Constant), CEO Duality_

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.436	.187		-2.332	.021	-.806	-.066
	CEO_duality	-.027	.228	-.011	-.117	.907	-.478	.425

a. Dependent Variable: Audit Opinion

Source: Authors' calculation

To assess the overall regression model in Set of Table 13 we found that CEO duality in client boards and audit opinion as a dependent variable have R of 0.011, R square of 0.000 while adjusted R square at a level of - 0.008 with the significance of 0.907 which is higher than 0.05. It means the explanatory variable (CEO duality) is insignificant.

We also run a regression analysis for the other research question in which the dependent variable has been the type of audit company as a proxy for audit quality (see Set of table 14 and 15).

Set of Table 14 answers the question are gender diversity of the client company boards and type of audit company interrelated variables?

Set of Table 14 Regression Analysis between gender of board and type of audit company

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.036[a]	.001	-.007	.600	.001	.149	1	117	.701

a. Predictors: (Constant), Percent female

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.054	1	.054	.149	.701[b]
	Residual	42.165	117	.360		
	Total	42.218	118			

a. Dependent Variable: Auditor type

b. Predictors: (Constant), Percent female

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.404	.071		19.641	.000
	Percent_female	-.090	.234	-.036	-.386	.701

a. Dependent Variable: Auditor type

Source: Authors' calculation

To assess the overall regression model in Set of Table 14, we found that gender diversity measure with percent female in client boards and audit type (Big 4, International, Local) as a dependent variable have R of 0.036, R square of 0.001 while adjusted R square at a level of - 0.007 with the significance of 0.701 which is higher than 0.05 This means the explanatory variable (gender diversity) is insignificant for choosing the type of audit company.

Set of Table 15 answers the question is CEO duality and type of audit company interrelated variables?

Set of table 15 Regression Analysis Between CEO duality and Audit type

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.062[a]	.004	-.005	.600	.004	.457	1	117	.500

a. Predictors: (Constant), CEO duality

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.164	1	.164	.457	.500[b]
	Residual	42.054	117	.359		
	Total	42.218	118			

a. Dependent Variable: Auditor type

b. Predictors: (Constant), CEO duality

Coefficients[a]

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.333	.096		13.889	.000	1.143	1.523
	CEO duality_	.079	.117	.062	.676	.500	-.153	.311

a. Dependent Variable: Auditor type

Source: Authors' calculation

As it is shown in Set of Table 15, we found that CEO duality in client boards and the type of audit firm (Big 4, international, local) as a dependent variable have R of 0.062, R square of 0.004 while adjusted R square at a level of - 0.005 with the significance of 0.500 which is higher than 0.05. It means insignificance of the explanatory variable (CEO duality) for audit type.

Discussion

Separation of ownership and management which makes the independent external audit especially important for corporate governance and the oversight of public and private companies (Francis, 2004) was the primary focus of our research in the paper.

It was found that on boards with male board chairmen, more qualified opinions were given, which is in line with Gul, Srinidhi and Tsui (2008). This result supports the next one in which is that the higher the percentage of female board members more positive or unqualified opinions are given (Corr. 0.112, Sig. 0.225). Those results are in line with Lai et. al (2017) and Migliani and Ahmed (2019) who found that gender-diverse boards tend to pay higher audit fees, therefore having better quality audits. One aspect of this correlation shed light on our discussion. It seems that when women preside the board of directors the firm is better in a financial context and the audit opinion is more prone to be unqualified or positive/clean, which is why women tend to pay higher audit fees and generally engage Big 4 or international firms rather than local ones.

Our results, that gender diversity in client board does not influence audit quality is supported by Mustafa, Ahmad and Chandren's (2017) results which states that there is no relationship between female directors and audit quality. This indicates that females possess the inability to impact the board room in terms of auditor selection. Mixed and inconsistent findings of female influence on the audit are supported by using other variables in the analysis such as the legal and financial expertise of board members (Alhababsah, & Yekini, 2021). But as a result of this research female gender and legal expertise do not influence audit quality. Eseoghene and Oliver (2021) found heterogeneous effects of corporate governance mechanisms on audit quality as moderated by firm size. Specifically, board gender diversity significantly and negatively affected the audit quality of quoted oil and gas companies in Nigeria. Taufiq and Fadila (2021) found that female members and audit quality reduce fiduciary relationship, so having more females negatively affects audit quality. Soyemi, Afolabi and Obigbemi (2021) results revealed that independent external audit quality is positively influenced by the firm's size but negatively influenced by board independence and the proportion of female directors on board. Alkebsee, Tian, Usman, Siddique and Alhebrz (2021) suggest that the presence of female directors on the audit committee improves internal monitoring and communication, which reduces the perceived audit risk and the need for assurances from external auditors. The results also suggest that female directors demand high-quality audits and further assurance from external auditors when the firm is more complex and riskier.

Several studies show vague effects of gender on audit quality. Athavale, Guo, Mend and Zang (2022) in China find that signing auditors and firm audit quality are negatively related. Miladi and Chouaibi (2021) find that audit quality moderates the negative relationship between the presence of women on the top management teams and bank earnings management. Riswandi (2021) introduced political connections as another variable of influence between audit quality and gender of CEO. Political connections increase audit fees as a proxy for audit quality, but CEO gender does not affect choosing auditors and paying audit fees. Rizgia and Lastiati (2021) introduced financial expertise as a variable of influence on audit quality and tax avoidance. Sergeevna (2021) found that in Rusia there is a direct positive link between board and committees' characteristics and auditor of the company but here it should be taken into account the fact that there may be some third factor affecting both of these variables and leading to such relationship.

Regarding the effects of board independence, measured by CEO duality, on audit, our findings suggest that duality does not affect audit quality which is in line with Rabah Gana and Lajmi (2013) that external audit quality and board characteristics (independence and diligence) are complementary mechanisms.

However, they were not able to conclude any significant relationship of audit quality with board dual structure and its size. On the contrary, Bliss (2011) found that CEO duality undermines the financial prospects of firms and therefore audit quality. Mustafa, Che Ahmand and Chandren (2017) found that only interlocking directorship and boards members having master's degrees have a positive impact on client demand for high audit quality. Results of Alawaqleh, Almasria, Alsawalhah (2021) suggest a negative effect of CEO duality on audit quality. Dakhli and Mtiraoui's (2021) result also shows a negative and significant relationship between audit quality and managerial entrenchment based on four mechanisms such as CEO duality, CEO age, CEO seniority, and CEO tenure.

Results for Serbia in which it was found that gender and CEO duality do not affect audit quality are not surprising. Having done the above-mentioned analysis in developing countries we cannot expect to reach the same results as in other countries. One explanation is offered by Chien et al. (2008) who found that the fundamental agency problem for listed companies in emerging markets is not a conflict of interest between outside investors and managers but the conflict of interest between controlling shareholders and minority shareholders. So, the auditor selection process is influenced by the deviation of control rights and cash-flow rights. Chien, Chen and Wu's (2008) results indicate that the listed companies with greater entrenchment effects are more likely to hire industry specialist auditors. This, in turn, affects the higher quality of audit work done, which is much needed in the Covid period with its remote work.

Conclusion

This study’s main concern is on gender board diversity and board independence (CEO duality) as two of many influential factors in choosing the right firm to do the financial statement audit. The primary goal is to improve the board monitoring effectiveness and audit engagement process that in turn will enhance financial reporting quality and minimize information asymmetry in Serbia. Although our findings confirm no relationship between variables in question, and open discussion for future researchers in Serbia to extend the research in the area of finding better surrogates for audit quality variables. One possible explanation for not finding supporting results between audit quality and client board characteristics in Serbia could be the assertions that audit quality is multidimensional and directly unobservable and there is no good proxy for it.

Rabah Gana and Lajmi (2013) offered the creation of an audit quality index but their research did not confirm that board influences this index. Riley, Jenkins, Roush and Thibodeau's (2008) panel discussion found that after the Enron, WorldCom, and other scandals, accounting firms have moved “back to the basics," both in accounting and auditing. The PCAOB inspection process has highlighted the importance of high quality audits and changed the focus of firms to emphasize quality with an attitude of "let's get the audit right." In Serbia, we are at the beginning of this process, focusing on how to survive in the environment where 76 audit firms are at the supply side, offering sometimes suspect quality of audit work for the companies and doing client -audit firm negotiations when needed to get the client and maintain the audit contract in the future. Also, more local audit firms (67%) are engaged in audit than international and Big 4 firms, so regulatory concern in this area is needed. What makes us optimists here is the number of qualified opinions issued by auditors in Serbia making an obvious change in client mindset in terms of not pressuring the auditor to issue opinions. This indirectly involves strengthening of auditor independence of local auditors in Serbia.

Despite the results, the importance of this study is twofold. From the academic angle, it extends the growing literature on the linkage between audit quality and client board characteristics in the context of developing countries and it urges other researchers in Serbia to change the measures of audit quality or to find the right one for our environment. From the regulatory angle, it affects the Chamber of Authorized Auditors in Serbia and the Security and Exchange Commission to change audit quality policy and inspection process when knowing that 67% are local firms engaged in audit and to strengthen the education and training process of auditors with the emphasis on ethical challenges that might arise from it. This could lead to providing a complete, accurate and clear audit process in the future and extending the investor confidence interval focused on financial statements of Serbian listed and non-listed companies.

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