

# Initiating the Introduction of Audit Quality Indicators in North Macedonia, Slovenia and Estonia: A Qualitative Study on Established Audit Quality Oversight Practices

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## Abstract

Ensuring reliable financial reporting hinges on high-quality audits. However, the effective measurement of audit quality, due to the complexity of its key factors, presents a significant challenge, making it difficult to assess and improve audit practices. This study dives into this issue by exploring the audit quality oversight practices in North Macedonia, Slovenia and Estonia. The study applies the qualitative research approach, utilising existing literature, national audit regulations and aggregated inspection reports from these three countries. The core idea is to see how reported audit quality deficiencies could serve as a foundation for developing appropriate indicators to better measure audit quality.

Our analysis revealed that audit quality deficiencies, as documented in the aggregated inspection reports, can indeed inform the creation of audit quality indicators that can facilitate the assessment of audit quality by the key audit quality oversight stakeholders, academicians, scholars and the general public, as users of audited financial statements. Further, these indicators hold the potential to enhance audit documentation and streamline the measurement of audit quality. Yet, our findings also underscore notable differences in audit regulatory frameworks and oversight practices across these countries, highlighting a clear need for future quantitative research to fully address these complexities. Ultimately, this research significantly advances the understanding of audit quality measurement. By proposing the use of reported audit quality deficiencies to develop audit quality indicators, the study lays a crucial groundwork for future quantitative research in the area of measuring audit quality. These future studies can then refine these audit quality indicators, leading to more effective audit quality oversight practices and, ultimately, more reliable financial reporting.

## Keywords

## 1. Introduction

Audit quality is a critical concept within the field of accounting and auditing, impacting financial reporting's reliability and users' confidence. It is frequently discussed among scholars, academicians and other stakeholders, such as financial regulators, standard setters, audit companies and auditors (Hyun & Ki-Chang, 2020). However, audit quality remains a complex topic without a universally accepted definition or measurement approach (International Auditing and Assurance Standards Board, 2014).

This research aims to initiate the development of audit quality indicators in selected countries – North Macedonia, Slovenia and Estonia by exploring their audit quality oversight practices in identifying audit quality deficiencies. This is important because, while audit quality remains a complex and multifaceted subject, its exploration warrants further research, especially in light of facilitating its measurement. In this view, the research advances the thesis that the introduction of audit quality indicators can facilitate the measurement of audit quality and contribute towards rendering audit services of higher quality, emphasising auditor commitment to deliver more reliable audit opinions.

Various global initiatives have introduced audit quality indicators to standardise the measurement of audit quality. In July 2016, the Federation of European Accountants (FEE) released an information paper entitled "Overview of Audit Quality Indicators Initiatives", presenting a list of audit quality indicators, proposed by nine bodies, reflecting the ongoing efforts to develop a consistent approach to measure audit quality. These bodies are: Nederlandse Beroepsorganisatie van Accountants (NBA) from the Netherlands, Federal Audit Oversight Authority (FAOA) from Switzerland, Financial Reporting Council (FRC) from the United Kingdom, Public Company Accounting Oversight Board (PCAOB) from the United States of America, United States Center for Audit Quality (U.S. CAQ), Canadian Public Accountability Board (CPAB), Chartered Accountants of Australia and New Zealand (CAANZ), Accounting and Corporate Regulatory Authority (ACRA) from Singapore and International Organization of Securities Commissions (IOSCO). Up to date, Accountancy Europe, in May 2022, released a factsheet entitled "Audit Quality Indicators: A Global Overview of Initiatives", illustrating the audit quality indicators proposed by ten bodies: Institute of Public Accountants from Germany (IDW), Quartermasters from the Netherlands (QN), the Portuguese Security Market Commission (PSMC), FAOA from Switzerland, FRC from the United Kingdom, CPAB from Canada, the Institute of Chartered Accountants from India (ICAI), ACRA from Singapore, Independent Regulatory Board for Auditors from South Africa (IRBA) and U.S. CAQ.

This study applies the qualitative research approach, involving extant literature in defining audit quality, its impacting factors and its indicators; and an exploration of audit quality oversight practices in North Macedonia, Slovenia and Estonia, based on the established national audit regulations in these countries. The research utilises the aggregate reports of identified audit quality deficiencies of key audit quality oversight stakeholders in North Macedonia, Slovenia and Estonia to identify the challenges in measuring audit quality in these jurisdictions. The ultimate goal of the research is to propose possible solutions for overcoming identified challenges in measuring audit quality by initiating the development of audit quality indicators in selected countries. The research recognises that the development of such audit quality indicators warrants further considerations for overcoming identified challenges and further quantitative studies are necessary to identify specific audit quality metrics based on the developed audit quality indicators. The text of this article is organised in ten sections. The first section provides the study's essential introductory information. The second section explores the extent literature related to the

complexities of defining audit quality and its measurement challenges. The third section examines the audit quality factors in the literature, while the fourth section explores the audit quality indicators, introduced by various global initiatives. The fifth section presents the research methodology, while the sixth section explores the audit quality oversight practices in North Macedonia, Slovenia and Estonia. Ultimately, this section summarises the differences and commonalities between the selected countries in overseeing external audits and outlines their challenges in measuring audit quality. The eighth section refines the study's results, while the limitations and delineations of the study are presented in its seventh section. The areas for further research are presented in the eighth section and the study's tenth section presents the its ultimate conclusion.

## 2. Defining Audit Quality

Ciğer (2020) noted that the most influential definitions of audit quality, cited in the literature, was provided by DeAngelo (1981, cited in Ciğer, 2020), who described it as the joint probability that auditors will both detect a material breach in the auditee's accounting system and report it through their audit opinion. Sailendra *et al.* (2019) define audit quality as the likelihood of auditors identifying inconsistencies, thus ensuring reliability for financial statement users. DeFond & Zhang (2014) assert that higher audit quality offers greater assurance of high financial reporting quality. However, Elshafie & Nyadroh (2014) note that despite its importance, the assessment of audit quality remains a challenging issue.

Christensen *et al.* (2016) contribute to the literature by emphasising the value individual investors place on auditor competence as an indicator of high audit quality. Factors influencing audit quality include auditor skills, audit procedures and necessary resources (Crucean & Hategan, 2019). The International Auditing and Assurance Standards Board (IAASB) emphasises the importance of identifying these factors to encourage auditors, audit companies and other stakeholders to enhance audit quality within their specific contexts (IAASB, 2014). In this view, Rencheci (2023) contributes significantly to the literature, defining audit quality as "a level (measure) of performance and integrity in the audit process that consists of ensuring compliance with the expectations of key user groups, ensuring an appropriate level of confidence in the accuracy of audited financial information and rigorous compliance with professional auditing standards and ethical rules for auditors, including accepted auditing methods and the principles set out in the Code of Professional Ethics". Hence, audit quality represents the level of confidence users have in audited financial statements, as provided by auditors.

Dhania & Setiawan (2023) conclude that audit quality remains relevant research topic and raise concerns about how academicians view audit quality factors versus audit practitioners. They call for an inclusive approach when examining audit quality by academicians, responding the needs of audit practitioners (Dhania & Setiawan, 2023). In this view, Caloian (2007) suggests that audit quality can be measured externally, by professional audit institutes; and internally, by audit companies.

Aobdia (2018) emphasises the importance of professional auditor judgment and experience when measuring audit quality. Moreover, International standards on auditing (ISAs) form the basis for supporting audit quality (Aobdia, 2018). These standards outline auditors' tasks and responsibilities and establish minimum framework requirements for the proper application of professional auditor judgment. In this view, Aobdia (2018) proposes using auditors' assessments, focusing on adherence to ISAs and the sufficiency and relevance of audit evidence collected. Hence, audit quality demonstrates how well auditors and audit companies adhere to the professional auditing standards to gather sufficient and relevant audit evidence to support their audit opinion. This adherence to ISAs can be measured internally within audit companies and externally by relevant audit quality oversight stakeholders. However, the proper application of the

professional auditing standards depends on many factors. In this regard, IAASB's Framework for Audit Quality, adopted in 2014, describes the input, process and output factors, contributing to audit quality at the engagement (auditor), audit company and national levels. Furthermore, auditors are accountable for conducting quality audits of financial statements, which is best achieved in an environment that supports and facilitates appropriate interactions among the participants in the financial reporting supply chain (IAASB, 2014). IAASB's Framework for Audit Quality (2014) also considers these interactions as impacting factors on audit quality, including the contextual factors among the ecosystem which influence audit quality.

### 3. Audit Quality Factors

Floyd *et al.* (2020) discuss the critical role of auditors as gatekeepers for investors and other users of financial statements. Understanding the factors that affect these roles, such as audit fees, audit partner mandates and audit company size, is essential for auditors, audit companies and regulators (Floyd *et al.*, 2020). However, these factors can often be ambiguous, necessitating a more nuanced approach to evaluate audit quality (Floyd *et al.*, 2020). Hence, measuring audit quality has been a challenge due to its inherent complexity.

Reviewed literature revealed various factors influencing audit quality, summarised in Table 1.

| Table 1 <b>Audit quality factors.</b> |                                           |                                                                                                                                 |                                                                                                                     |
|---------------------------------------|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Audit quality factor                  |                                           | Association with audit quality                                                                                                  | Source                                                                                                              |
| Independence                          | The threat of client loss                 | Can pressure auditors to compromise their independence to retain business, especially in smaller audit companies                | International Federation of Accountants' Code of Ethics; Chouhan <i>et al.</i> , 2021                               |
|                                       | Economic independence of auditors         | Lack of financial ties enhances objectivity and audit quality, while fee dependency poses a threat to auditor independence      | International Federation of Accountants' Code of Ethics; Chouhan <i>et al.</i> , 2021                               |
| Ethics and reputation                 | Ethics of the audit company               | Promotes integrity and professionalism, leading to higher-quality audits                                                        | International Federation of Accountants' Code of Ethics; Chouhan <i>et al.</i> , 2021; Burnett <i>et al.</i> , 2014 |
|                                       | Audit partner reputation                  | Good reputation and regular partner rotation improve audit quality by maintaining objectivity and reducing independence threats | Chouhan <i>et al.</i> , 2021; Harber, 2018; Krauss <i>et al.</i> , 2014                                             |
| Risk assessment                       | Audit risk                                | Qualifications and risk management practices are crucial, influencing audit outcomes                                            | Adams & Zhou, 2018                                                                                                  |
|                                       | Economic risk                             | Higher economic risks lead to improved audit quality due to fear of financial losses and damage to reputation                   | Chouhan <i>et al.</i> , 2021                                                                                        |
| Audit committee monitoring            | Audit committee experience and competence | Experienced and competent audit committee members ensure thorough and rigorous audits, enhancing audit quality                  | Choudhary <i>et al.</i> , 2021                                                                                      |

|                           |                                          |                                                                                                         |                                                                        |
|---------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| Communication and process | Communication                            | Transparent communication is critical for high-quality audits and effective audit committee interaction | Choudhary <i>et al.</i> , 2021; Dao <i>et al.</i> , 2019; Aobdia, 2018 |
|                           | Auditor competence, integrity and ethics | Ongoing training, professional conduct and adherence to ethics enhance audit quality                    | Alsughayer, 2021                                                       |

Source: Authors' presentation. **Table 1** Audit quality factors (continued).

| Audit quality factor         |                                         | Association with audit quality                                                                                                                    | Source                                                      |
|------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Audit planning and execution | Audit risk assessment                   | Informs audit planning process by identifying areas of potential misstatements and their impact                                                   | ISA 315                                                     |
|                              | Scope and coverage                      | Essential for obtaining sufficient and relevant audit evidence to reduce audit risk to an acceptably low level                                    | ISA 300                                                     |
|                              | Resource allocation                     | Policies ensure engagement teams have appropriate competence and resources, supporting effective audit performance                                | International standard on quality management 1              |
|                              | Adherence to ISAs                       | Provides a framework for high-quality audits, ensuring compliance with ethical principles                                                         | Aobdia, 2018                                                |
|                              | Coordination and communication          | Effective communication ensures audit objectives and responsibilities are understood and agreed upon                                              | ISA 210                                                     |
|                              | Audit evidence                          | Basis for forming opinions on financial statements, requiring appropriate procedures to gather sufficient and relevant audit evidence             | ISA 500                                                     |
| Quality control              | Establishment of quality control system | Ensures adherence to ethical requirements and preserves auditor independence, contributing positively to audit quality                            | Shahibah <i>et al.</i> , 2020; IAASB, 2014                  |
|                              | Continuous assessment of audit quality  | Ensures compliance, identifies improvement areas, enhances quality and supports professional development                                          | IAASB, 2014                                                 |
| Regulatory environment       | Market conditions                       | Mandatory rotation rules and regulatory inspections enhance quality by reducing independence threats                                              | Sun <i>et al.</i> , 2020; Harber, 2018; Gunny & Zhang, 2013 |
|                              | Transparency and accountability         | Greater transparency by revealing the name of the audit partner enhances accountability and audit quality, though the empirical evidence is mixed | Dao <i>et al.</i> , 2019                                    |
| Audit company culture        | Audit team characteristics              | Expertise, experience and time allocation positively impact audit quality                                                                         | Aobdia, 2018                                                |

|  |                                                  |                                                                       |                                |
|--|--------------------------------------------------|-----------------------------------------------------------------------|--------------------------------|
|  | Continuous training and education                | Improves audit quality through ongoing auditor development            | Chersan, 2019                  |
|  | Audit company ownership                          | Limited-time audit mandates can enhance performance and audit quality | Azizkhani <i>et al.</i> , 2018 |
|  | Commitment to ethical values and professionalism | Fosters an environment conducive to high-quality audit services       | Sonjaya, 2024                  |

*Source: Authors' presentation.*

**Table 1 Audit quality factors (continued).**

|                               | <b>Audit quality factor</b> | <b>Association with audit quality</b>                                                                                                | <b>Source</b>             |
|-------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| <b>Client characteristics</b> | Corporate governance        | Effective governance structures support high-quality audits through active audit committees                                          | Herath & Patrick, 2024    |
|                               | Audit fees                  | Economic conditions affecting audit fees can influence audit quality, with higher fees often associated with increased audit efforts | Chen <i>et al.</i> , 2019 |

*Source: Authors' presentation.*

Adherence to professional auditing standards supports auditors' commitment to deliver high-quality audits (Aobdia, 2018). In this regard, auditors must follow the ISAs to deliver audit services of high quality. However, Table 1 reveals that audit quality is intricately associated with various factors, which can be internal, ethical and external to the auditors and audit companies. Hence, audit quality being associated with various factors poses challenges about its accurate measurement. This is because each of these factors shapes audit quality differently, requiring a different measurement instrument to evaluate their impact. For instance, internal audit quality factors, such as, risk assessment, audit planning and execution, communication and process, and quality control, can be measured using regulatory oversight and quality control reviews. On the other side, ethical aspects (i.e. factors) of audit quality, such as, independence, ethics and reputation, and audit company culture, are more challenging to measure and quantify, as these factors involve subjective evaluations and contextual variations. Ultimately, external audit quality factors, including regulatory environment, client characteristics and audit committee monitoring, further complicate the consistent measurement of audit quality. All these complexities highlight the necessity for a multifaceted approach to measure audit quality, balancing between quantitative with qualitative measurement metrics and evaluations.

## 4. Measuring Audit Quality

Various professional audit organisations and institutes (PAOs) and audit regulators on the global level aim to introduce audit quality indicators to facilitate the measurement of audit quality (Accountancy Europe, 2022; FEE, 2016). The key advantage is that audit quality indicators provide users with a perspective on auditors' commitment to deliver high-quality audits because they enable the establishment of measurement instruments, i.e. metrics (Accountancy Europe, 2023). Hence, audit quality indicators enhance auditors' transparency and accountability for

providing quality audits. The disadvantage is that measuring audit quality through indicators requires the establishment of audit quality benchmarks by audit regulators and PAOs to address various users' expectations from auditors for providing reliable financial statements (Accountancy Europe, 2023). This is because addressing these expectations reduces the comparability of audit quality data across different audit engagements due to the diverse metrics, i.e. measurement instruments (Accountancy Europe, 2023).

Although the application of audit quality indicators has advantages and disadvantages, the study will consider them in the following text with the aim to explore how audit quality may be measured in practices from users' perspective. This is necessary to gain insights on the basis for initiating the development of audit quality indicators for the selected countries.

FEE in its information paper entitled "Overview of Audit Quality Indicators Initiatives" released in July 2016 listed fifteen audit quality indicators by nine global bodies. Table 2 illustrates these indicators linked with the associated audit quality factors identified in the literature from Section 3. Moreover, Table 2 reveals that proposed audit quality indicators are not sufficient to measure audit quality. This is because they do not cover all audit quality factors, such as risk assessment, communication and process, audit committee monitoring, etc. In addition, proposed audit quality indicators do not cover all aspects of audit quality (Accountancy Europe, 2023).

**Table 2 Audit quality factors and indicators.**

| <b>Audit quality indicator</b>                               | <b>Audit quality factor</b>                   |
|--------------------------------------------------------------|-----------------------------------------------|
| Tone at the top                                              | Audit company culture                         |
| Staff satisfaction survey                                    |                                               |
| Staff turnover                                               |                                               |
| Industry expertise of audit personnel                        |                                               |
| Years of experience                                          |                                               |
| Number of audit staff per audit partner                      | Audit planning and execution                  |
| Partner workload                                             |                                               |
| Staff workload                                               |                                               |
| Technical resources support                                  |                                               |
| External inspections                                         | Regulatory environment                        |
| External investigations                                      |                                               |
| Investment in development of new audit methodology and tools | Quality control                               |
| Internal engagement quality reviews                          |                                               |
| Training hours per audit personnel                           | Audit company culture / Ethics and reputation |
| Independence                                                 | Independence                                  |

*Source: Adjusted based on FEE, 2016.*

Although audit quality indicators are not sufficient to measure audit quality, they deserve special attention for this study because their measurement instruments facilitate users' insights into auditors' commitment to audit quality (Accountancy Europe, 2023). FEE categorises audit quality indicators into: quantitative, qualitative and mixed; public, private and mixed; and principle-based versus rule-based (FEE, 2016).

Quantitative audit quality indicators include numerical metrics, such as ratios, averages and score results (FEE, 2016). Qualitative audit quality indicators include descriptive metrics through which auditors and audit companies explain their efforts for achieving high audit quality (FEE, 2016). Ultimately, mixed audit quality indicators encompass qualitative and quantitative audit quality indicators (FEE, 2016).

Depending on the level of sensitivity of information, audit quality indicators may be categorised into public and private (FEE, 2016). Public audit quality indicators entail public announcement of their measurement metrics, while private do not entail public announcement of their measurement metrics (FEE, 2016). Ultimately, principle-based audit quality indicators are more flexible, while rule-based audit quality indicators require mandatory announcement by audit companies (FEE, 2016).

Table 3 outlines FRC's quantitative audit quality indicators and their measurement instruments linked with the audit quality factors from Section 3, while Table 4 outlines CPAB's mixed audit quality indicators and their measurement instruments linked with the audit quality factors from Section 3.

Table 2 above, and Tables 3 and 4 below, outline that the development of audit quality indicators is an on-going global effort, with numerous PAOs and audit regulators dedicated to their introduction (Accountancy Europe, 2022). This is because audit quality indicators offer valuable guidelines for assessing auditors' and audit companies' commitment to audit quality (Accountancy Europe, 2023). Hence, while audit quality indicators cannot replace ISAs, their transparent disclosure by auditors and audit companies provides investors, regulators, audit committees and other users with valuable insights into their dedication to delivering high-quality audits. Ultimately, this enhances auditors' and audit companies' transparency and accountability about the outcome of their audit work. In other words, the application of audit quality indicators enables users, including audit regulators, to identify potential audit quality deficiencies or "red flags" while assessing and measuring audit quality.

**Table 3 Audit quality indicators by FRC.**

| <b>Audit quality factor</b>                     | <b>Audit quality indicator</b>                                                                                             | <b>Measurement instrument</b>                                                                 |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Audit company culture</b>                    | Percentage of favourable and unfavourable responses to the survey questions                                                | Audit staff responses to certain annual staff/culture survey questions                        |
|                                                 | Average number of mandatory training hours per person                                                                      | To demonstrate the level of investment in training offered to partners and staff              |
|                                                 | Percentage of individuals in the audit leadership, by gender and ethnicity                                                 | Gender and ethnic diversity of the audit company's leadership                                 |
| <b>Quality control / Regulatory environment</b> | Internal quality review hours as a percentage of total audit hours                                                         | Extent of review by audit company's internal quality review teams                             |
|                                                 | Percentage of audits inspected, by quality grading                                                                         | Results of external inspections of the audit company                                          |
|                                                 | Quality grading of audits internally reviewed (expressed as the percentage of number of audits reviewed during the period) | Results of internal inspections by the audit company                                          |
| <b>Audit planning and execution</b>             | Average hours spent on audits as a percentage of total audit hours by partners and responsible individuals                 | Extent of involvement of and/or supervision in audits by partners and responsible individuals |
|                                                 | Average staff utilisation rate by grade (or group of grades) in the audit practice                                         | Number of hours worked per week, as a percentage of contracted hours                          |
|                                                 | Average staff utilisation rate by grade (or group of grades) in the audit practice, for busy period (January to March)     | Number of hours worked per week, as a percentage of contracted hours                          |

|                                                                           |                                                                       |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Average staff attrition rates by grade in the audit practice              | The rate at which staff leave the audit company's audit practice      |
| Average number of audit staff managed by a partner/responsible individual | Capacity of partners/responsible individuals to supervise audit staff |

*Source: Adjusted based on FRC, 2022.*

**Table 4 Audit quality indicators by CPAB.**

| <b>Audit quality factor</b>  | <b>Audit quality indicator</b>        | <b>Measurement instrument</b>                                               |
|------------------------------|---------------------------------------|-----------------------------------------------------------------------------|
| <b>Audit company culture</b> | Experience of engagement team         | Delivery of agreed upon team skills / Years of audit experience             |
|                              | Training and professional development | Number of hours and type of professional development and technical training |
|                              | Management deliverables               | Achievement of timing of agreed upon deliverables                           |
|                              | Tone at the top                       | Tone at the top determined by audit company people survey results           |

*Source: Adjusted based on CPAB, 2018.*

Table 4 **Audit quality indicators by CPAB (continued).**

| <b>Audit quality factor</b>                     | <b>Audit quality indicator</b>        | <b>Measurement instrument</b>                                                            |
|-------------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------|
| <b>Audit company culture</b>                    | Experience of engagement team         | Delivery of agreed upon team skills /<br>Years of audit experience                       |
|                                                 | Training and professional development | Number of hours and type of professional development and technical training              |
|                                                 | Management deliverables               | Achievement of timing of agreed upon deliverables                                        |
|                                                 | Tone at the top                       | Tone at the top determined by audit company people survey results                        |
| <b>Quality control / Regulatory environment</b> | Results of inspections                | Results of internal and/or external inspections                                          |
| <b>Independence</b>                             | Independence                          | Results of independence findings                                                         |
| <b>Ethics and reputation</b>                    | Reputation                            | Reputation based upon news reports                                                       |
| <b>Audit planning and execution</b>             | Turnover of engagement team           | Turnover rates of key engagement team members                                            |
|                                                 | Partner/manager involvement           | % of audit hours compared to the entire engagement team                                  |
|                                                 | Partner workload                      | Information about the level of work                                                      |
|                                                 | Audit hours by risk                   | Time spent by the engagement team on significant risk areas                              |
|                                                 | Timing of audit execution             | Audit hours by phase                                                                     |
|                                                 | Audit progress milestones             | A timeline for the completion of the audit                                               |
|                                                 | Technology in the audit               | Use of technology initiatives in the audit                                               |
|                                                 | Specialist engagement                 | Where and how much are used                                                              |
|                                                 | Service delivery centres              | Amount of audit work centralised at service centres                                      |
|                                                 | Remediation of control deficiencies   | Efficiency of remediation of control deficiencies                                        |
| <b>Communication and process</b>                | Reliance on controls                  | Planned/unplanned reliance on internal controls                                          |
|                                                 | Communication with audit committee    | Effective and timely communications                                                      |
|                                                 | Sharing of insights                   | Number and quality of insights gained and shared with management and the audit committee |
|                                                 | Communication with audit committee    | Effective and timely communications                                                      |
|                                                 | Sharing of insights                   | Number and quality of insights gained and shared with management and the audit committee |

*Source: Adjusted based on CPAB, 2018.*

## 5. Methodology

This research applies the qualitative research method. Its aim is to identify the challenges in measuring audit quality in the Macedonian, Slovenian and Estonian external quality control systems by exploring the regulatory commonalities and differences across these jurisdictions in the context of audit quality oversight. To that end, the study utilises the annual aggregate reports of inspected audit quality in the selected countries, to examine the commonalities and differences in detected audit quality deficiencies and their origin. The study's goal is to replicate obtained results about detected audit quality deficiencies from selected countries on the European Union (EU) level to showcase how audit quality indicators can facilitate the measurement of audit quality. In this regard, the objective is to assist scholars, academicians, regulators and other stakeholders in assessing delivered audit quality by auditors and audit companies, not only in selected countries, but on the EU level as well, through illustrating the measurement instruments (i.e. metrics) of introduced audit quality indicators. This, however, warrants further quantitative research, utilising data and information from auditors and audit companies, about how they allocate their resources when executing external audits. In this view, the research calls for greater auditor transparency about presenting more data and information in their annual transparency reports, to facilitate the execution of future quantitative studies about audit quality measurement. Moreover, the research applies the accountability theory, because this theory warrants auditors and audit companies to be held accountable for their audit work. In turn, this fosters the necessity for transparent announcement of bigger volume of data and information about an audit company's internal quality control and/or management systems; and resource allocation – financial, technical and human – in the annual transparency reports of audit companies.

The thesis advanced in the research argues that the introduction of audit quality indicators could significantly enhance the measurement of audit quality by providing tools for assessing the quality of audit services. This would, in turn, help reinforce auditors' commitment to deliver more reliable and confident audit opinions. Ultimately, the research seeks to highlight the challenges faced by selected countries in monitoring and assessing audit quality, highlighting how the introduction of audit quality indicators can contribute to overcoming these challenges. To that end, the study calls for further exploration and development of solutions to overcome identified challenges, contributing to the establishment of effective audit quality indicators and improving the oversight of audit quality in these countries.

The unique contribution of this study is related to its aim - to explore the commonalities and differences in established audit quality oversight practices through the different legal systems of the three countries. This enables an in-depth understanding concerning the introduction of audit quality indicators in selected countries by considering their socio-communist economic regime in the past. To that end, the study sets a basis for future research, enabling the readers to use best local and international practices for introducing appropriate audit quality indicators in other countries from the eastern (post-communist) European block. This will facilitate the measurement of audit quality and will ensure auditor and audit company commitment to deliver reliable audit outcomes. In this view, the research emphasises auditor and audit company transparency, enabling the users to understand and assess the reliability of delivered audit outcomes, by providing trust in auditors' work when issuing their audit opinion about presented financial statements.

The choice to focus on North Macedonia, Slovenia and Estonia stems from the necessity to understand how audit quality oversight systems differ across countries with varying legal, economic and regulatory contexts in Europe. These countries represent a range of economic backgrounds and regulatory frameworks within the EU and broader Europe, offering an opportunity to analyse both commonalities and differences in how audit quality is regulated, monitored, measured and evaluated.

## 6. Exploring Audit Quality Oversight Practices

This section explores the audit quality oversight practices in North Macedonia, Slovenia and Estonia. The focus is on their external quality control systems to identify commonalities and differences about how these countries assess audit quality. The ultimate goal is to identify common challenges in the realm of measuring audit quality, facilitating the introduction of audit quality indicators.

### 6.1 North Macedonia

In North Macedonia, the primary body responsible for overseeing the audit activities is the Institute of Certified Auditors of the Republic of North Macedonia (the Institute). Established on 16th September 2005, the Institute functions as a professional chamber organisation encompassing all registered auditors and audit companies in the country (Law of Audit). Despite inspecting audit quality, the Institute is also responsible for conducting preliminary audit examinations, continuous professional development of its members and imposing sanctions on auditors and audit companies.

The Council for Advancement and Oversight of the Audit of the Republic of North Macedonia (the Council) administratively supports the Institute as Macedonian national audit regulator. According to Article 8 of the Law of Audit, the Council's role includes providing administrative assistance to the Institute in its operations and it is responsible for registering auditors and audit companies. Despite its supportive role, the Council faces challenges due to a lack of professional capacity to inspect auditors and audit companies effectively (World Bank Group, 2015).

Audit quality inspectors have a crucial role in monitoring audit quality. Full-time professionals are permanently hired by the Institute to carry out external quality control reviews of audit activities regularly (the Institute, 2018). Their work involves assessing the compliance of auditors and audit companies with professional auditing standards and ethical requirements and regulations, ensuring that audit practices meet the required levels of quality and integrity.

The Institute, with the support of international experts, has adopted and applied a comprehensive inspection methodology (the Institute, n.d.). This methodology includes detailed procedures for conducting external quality control reviews. The methodology ensures that all aspects of the audit process are thoroughly examined, from planning and documentation to execution and reporting. This structured approach helps in identifying deficiencies and areas for improvement within audit practices.

The external quality control reviews conducted by the Institute have revealed several significant audit quality deficiencies. The findings are integrated into annual aggregate reports prepared by the Institute, providing a comprehensive overview of audit quality in North Macedonia based on inspections conducted by the audit quality inspectors. Table 5 presents the identified audit quality deficiencies by the Institute based on the Annual Report of Audit Quality Findings 2022/2023 (the Institute, 2024), linked with the audit quality factors, explored in Section 3.

**Table 5 Audit quality deficiencies and audit quality factors in North Macedonia.**

| <b>Audit quality deficiency</b>        | <b>Audit quality factor</b>  |
|----------------------------------------|------------------------------|
| Untested opening balances              | Audit planning and execution |
| Untested related party transactions    |                              |
| Audit findings not properly summarised |                              |
| Audit plan not properly documented     |                              |
| Materiality not properly documented    |                              |

Local audit companies do not have a comprehensive hour-registration system of their employees at the engagement level

Audit documentation not properly dated

Modified audit opinions not supported with audit evidence

Preliminary analytical procedures not properly documented

Local audit companies do not have a rotation plan for audit partners

Quality control / Ethics and reputation

*Source: Adjusted based on the Institute, 2024.*

**Table 5 Audit quality deficiencies and audit quality factors in North Macedonia (continued).**

| <b>Audit quality deficiency</b>                                                                                                  | <b>Audit quality factor</b>                    |
|----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| Untested going concern matters                                                                                                   |                                                |
| The risk of material misstatements not set up at the level of financial statement and management assertions                      | Audit planning and execution / Risk assessment |
| Auditors do not perform tests of internal controls                                                                               |                                                |
| Assessments of fraud risks not properly documented                                                                               |                                                |
| Local audit companies do not have written procedures for identification and mitigation of potential conflicts of interest        | Quality control / Independence                 |
| Local audit companies do not have a comprehensively documented audit approach                                                    |                                                |
| Local audit companies do not conduct an evaluation of all employees                                                              | Quality control                                |
| Local audit companies do not have criteria for determining which engagements will be subject to internal quality control reviews |                                                |
| Local audit companies do not properly plan continuous professional development for their employees                               | Audit company culture                          |
| Lack of professional scepticism of auditors                                                                                      |                                                |

*Source: Adjusted based on the Institute, 2024.*

The distribution of listed audit quality deficiencies in Table 5 above, between local audit companies and international audit networks, highlights the operating challenges of smaller audit companies, which may face limited resources compared to large audit networks (Che *et al.*, 2020). Addressing these deficiencies requires strengthening the professional capacities of local audit companies and ensuring robust regulatory oversight to meet high audit quality requirements. This focus on improving audit quality is essential for maintaining the integrity and reliability of financial reporting in North Macedonia, ultimately contributing to financial market integrity and investor confidence (World Bank Group, 2015).

## 6.2 Slovenia

The Slovenian Institute of Auditors (SIA), established in the early 1990s, played a crucial role in the initial development of the audit profession in Slovenia. Currently, it is empowered to conduct preliminary auditing examinations, continuous professional development and the registration of auditors and audit companies in Slovenia (Auditing Act of the Republic of Slovenia).

The Slovenian Agency for Public Oversight over Auditing (the Agency) was established on 1st March 2009, followed by the EU's requirements for independent regulatory bodies to oversee professional auditing activities (the Agency, 2021a). Currently, the Agency (as Slovenian national audit regulator) is responsible for conducting external quality control reviews, imposing sanctions and ensuring compliance with auditing standards (the Agency, 2021a).

The Expert Council of the Agency and the Audit Council of SIA are both involved in overseeing audit quality. However, communication issues between these bodies have occasionally led to misunderstandings about audit deficiencies (the Agency, 2015).

Full-time audit quality inspectors are permanently hired by the Agency to regularly inspect external audit activities (the Agency, 2021a). They inspect audit quality based on the inspection procedures outlined in the Common Audit Inspection Methodology (CAIM) developed by Committee of European Audit Oversight Boards (CEAOB).

Reported audit quality deficiencies by the Agency highlight critical areas where improvements are necessary to enhance the effectiveness and reliability of audits in Slovenia. Addressing these deficiencies through targeted training, improved procedures and stricter compliance with auditing standards can contribute to better audit quality and increased stakeholder confidence in financial reporting. The most significant audit quality deficiencies identified by the Agency (2021b; 2023a; 2023b) are presented in Table 6, linked with the audit quality factors, explored in Section 3.

**Table 6 Audit quality deficiencies and audit quality factors in Slovenia.**

| <b>Audit quality deficiency</b>                                                                                                                                                                                                                                                                                                                                                                                | <b>Audit quality factor</b>  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| Lack of appropriate quality control policies<br>Outdated quality control manuals<br>Insufficient follow-up quality improvements<br>Insufficient internal quality assessments<br>Lack of periodic quality system reviews                                                                                                                                                                                        | Quality control              |
| Weak ethics control systems                                                                                                                                                                                                                                                                                                                                                                                    | Ethics and reputation        |
| Lack of comprehensive checklists for annual financial statement disclosures and presentations                                                                                                                                                                                                                                                                                                                  | Risk assessment              |
| Issues with preparation, storage and management of audit documentation<br>Breaches of Slovenian national audit regulations<br>Incomplete or poorly defined audit procedures<br>Planned hours are reported as actual without proper tracking<br>Accurate daily records of actual hours worked are required for proper reporting<br>Internal guidelines often fail to specify clear rules for document archiving | Audit planning and execution |
| Missing or unclear employee policies on incentives and promotions                                                                                                                                                                                                                                                                                                                                              | Audit company culture        |

*Source: Adjusted based on the Agency, 2021b; the Agency, 2023a; the Agency, 2023b.*

The review of audit quality oversight in Slovenia highlights persistent deficiencies in both local audit companies and international audit networks (the Agency, 2021b; the Agency, 2023a; the Agency, 2023b). This reveals ongoing challenges in ensuring high-quality audit practices in Slovenia.

### 6.3 Estonia

Estonia, a former Soviet Union member, operated under closed-market principles with fixed prices on all services and products. All companies were state-owned and under the control of the Communist Party of Lenin (Bauc, 1995). Estonia joined the EU on 1st May 2004 (Schengenvisa.info, n.d.).

Estonia’s audit profession has evolved significantly, largely shaped by its history as part of the Soviet Union. During the Soviet era, Estonia did not have an independent audit profession, as the communist regime dominated the economy until Estonia regained independence on 20th August 1991 (Estonian World, 2023). The centrally planned and closed-market economy under Soviet rule did not necessitate an independent audit profession, as state-owned enterprises were controlled by the Communist Party (Bauc, 1995).

Upon independence, Estonia had limited experience with Western financial reporting principles (PWC, 2016). Estonian authorities, aiming to protect national capital, formalised the audit profession at the national level by enacting the first Auditors’ Activities Act in 1999 (PWC, 2016). This act laid the foundation for the audit profession and established the Estonian Board of Auditors (BoA) as the national Estonian PAO (PWC, 2016).

BoA was established as a legal entity in public law, governed by all Estonian auditors (PWC, 2016). BoA’s initial mandate was to organise the audit profession, oversee accountancy activities and protect public interest (PWC, 2016). BoA members were registered auditors with at least three years of experience in financial reporting and control (PWC, 2016).

In 2010, the second Auditors’ Activities Act introduced significant changes, including the establishment of the Oversight Board (OB) to ensure audit quality and public trust in audited financial statements. BoA and OB collectively formed the Estonian Auditors’ Association (EAA). OB assumed the role of the national Estonian audit regulator, overseeing the quality of audit engagements (Auditors’ Activities Act).

Currently, external quality control reviews are conducted by professional staff employed by EAA. These inspectors are authorised to initiate disciplinary proceedings against audit companies found to be inadequately applying the ISAs. The disciplinary committee of EAA is responsible for implementing disciplinary measures, with decisions subject to approval or rejection by the OB based on complaints from affected audit companies (Auditors’ Activities Act). While conducting external quality control reviews, authorised inspection personnel from EAA apply procedures by following the adopted inspection methodology by BoA (Auditors’ Activities Act).

Identified audit quality deficiencies in Estonia reveal that ongoing challenges in measuring and improving audit quality remain, particularly for local audit companies (European Commission, 2021; European Commission, 2024). However, EAA continues to work towards enhancing audit quality by adhering to ISAs and regulatory requirements, providing continuous support through the methodology commission and developing smart IT solutions for all registered auditors and audit companies in Estonia (EAA, 2024; PWC, 2016; Ruubel & Tšistjakov, 2015). Table 7 links identified audit quality deficiencies by EAA (2024) with the explored audit quality factors in Section 3.

Table 7 **Audit quality deficiencies and audit quality factors in Estonia.**

| Audit quality deficiency                                         | Audit quality factor         |
|------------------------------------------------------------------|------------------------------|
| Lack of appropriate analytical procedures                        | Audit planning and execution |
| Mandatory inquiries may be incomplete or inadequately documented |                              |
| Irrelevant accounting principles                                 |                              |
| Issues with fair value assumptions and related-party disclosures |                              |

|                                                                                            |                           |
|--------------------------------------------------------------------------------------------|---------------------------|
| Inadequate disclosure of contingent liabilities and pledged assets                         |                           |
| Non-compliance with financial statement disclosure requirements                            |                           |
| Insufficient completion of disclosure questionnaires                                       |                           |
| Issues with proper planning and execution of group audits                                  |                           |
| Lack of critical assessment of management's assertions against other collected information | Communication and process |
| Lack of communication with predecessor auditors                                            |                           |
| Issues with professional liability insurance                                               | Regulatory environment    |
| Engagement contracts not signed with the auditee                                           | Quality control           |
| Continuous professional development requirements not fulfilled                             | Audit company culture     |

*Source: Adjusted based on EAA, 2024.*

## 6.4 Commonalities and Differences in Explored Audit Quality Oversight Practices

This sub-section summarises the commonalities and differences in explored audit quality oversight practices of the selected countries. The aim is to identify common challenges in measuring audit quality, facilitating the introduction of audit quality indicators. In this view, the sub-section aims to initiate the introduction of such audit quality indicators for assessing auditor and audit company commitment to deliver reliable audit outcomes. Table 8 summarises the identified commonalities and differences in explored audit quality oversight practices of the three countries.

The audit quality oversight system in North Macedonia reflects a proactive alignment with international practices, underpinned by national priorities. The Institute plays a pivotal role in inspecting audit quality, despite the Council facing challenges in its professional capacity. Utilising audit quality inspectors and a detailed inspection methodology, conducted external quality control reviews have revealed significant audit quality deficiencies in both local audit companies and international networks. Addressing these deficiencies is crucial for enhancing the professional capacity of local audit companies and ensuring robust audit quality oversight. Ultimately, improving audit quality is essential for maintaining the integrity of financial reporting and fostering investor confidence in North Macedonia.

Audit quality oversight in Slovenia is characterised by a regulatory framework that balances domestic needs with international requirements. Key stakeholders include the SIA and the Agency, both crucial in maintaining high audit quality requirements. Despite established procedures, communication issues between the two key stakeholders have occasionally caused misunderstandings about audit quality deficiencies. Significant deficiencies identified by the Agency highlight areas needing improvement to ensure effective and reliable audits. Addressing these challenges through enhanced training and stricter compliance with auditing standards and regulations is essential for bolstering audit quality and investor confidence in Slovenia.

Estonia's audit profession has undergone significant transformation since its independence from the Soviet Union in 1991. Key oversight stakeholders, such as the BoA and OB, are established to organise the profession and ensure audit quality. Despite formalising the audit profession with the Auditors' Activities Act of 1999 and its subsequent revisions, audit quality reviews have identified several deficiencies. EAA continues to address these challenges by enhancing adherence to ISAs and audit regulatory requirements. Ongoing efforts, including support through

the methodology commission and smart IT solutions, aim to improve audit practices and bolster public trust in Estonia's financial reporting.

**Table 8 Commonalities and differences in explored audit quality oversight practices.**

| Aspect             | North Macedonia                      | Slovenia                             | Estonia                                | Commonalities                                                   | Differences                                                           |
|--------------------|--------------------------------------|--------------------------------------|----------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------|
| Historical context | Part of former Yugoslavia until 1991 | Part of former Yugoslavia until 1991 | Part of former Soviet Union until 1991 | Transition from closed-market economy to capitalist environment | Different former economic regimes                                     |
| EU membership      | Not a member                         | Member since 2004                    | Member since 2004                      | Two countries are members of the EU                             | North Macedonia is not a member of the EU but it is intending to join |

*Source: Authors' own theorising.*

**Table 8 Commonalities and differences in explored audit quality oversight practices (continued).**

| Aspect                                      | North Macedonia                                        | Slovenia                                                          | Estonia                                                              | Commonalities                                                  | Differences                                                                                 |
|---------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Regulatory stakeholders                     | The Institute and the Council both established in 2005 | SIA established in early 1990s and the Agency established in 2009 | EAA comprising of BoA established in 1999 and OB established in 2010 | Multiple regulatory stakeholders established post-independence | Specific roles and interactions among the regulatory stakeholders                           |
| Primary audit quality oversight stakeholder | The Institute                                          | The Agency                                                        | EAA                                                                  | National audit quality oversight bodies established            | Different governance structures and roles related to audit quality oversight                |
| Preliminary audit examinations              | Conducted by the Institute                             | Conducted by SIA                                                  | Conducted by BoA                                                     | Conducted by national PAOs                                     | Curricula and covered topics may vary                                                       |
| Continuous professional development         | The Institute                                          | SIA and approved private providers by the Agency                  | BoA and approved private providers by EAA                            | Focus on continuous professional development                   | Different implementation strategies for continuous professional development                 |
| Key legislation                             | Law of Audit                                           | Auditing Act of the Republic of Slovenia                          | Auditors' Activities Act                                             | National regulations adopted for audit quality oversight       | Different authorisations for key regulatory stakeholders related to audit quality oversight |

|                                         |                                                                     |                                                                     |                                                |                                                          |                                                          |
|-----------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| Inspection methodology                  | Inspection methodology developed with international support         | CAIM                                                                | Inspection methodology developed by BoA        | Adoption of inspection methodologies                     | Specific inspection procedures may vary                  |
| Audit quality inspectors                | Employed by the Institute                                           | Employed by the Agency                                              | Employed by EAA                                | Full-time audit quality inspectors oversee audit quality | Number and employment status of audit quality inspectors |
| Reporting of audit quality deficiencies | Annually by the Institute                                           | Specifically by the Agency                                          | Reporting by EAA                               | Regular reporting of audit quality deficiencies          | Format of reporting audit quality deficiencies           |
| Audit quality deficiencies              | Mostly related to audit planning and execution, and risk assessment | Mostly related to audit planning and execution, and quality control | Mostly related to audit planning and execution | Similar audit quality deficiencies identified            | Specific audit quality deficiencies may vary             |

*Source: Authors' own theorising.*

**Table 8 Commonalities and differences in explored audit quality oversight practices (continued).**

| Aspect                | North Macedonia                              | Slovenia                                        | Estonia                                      | Commonalities                                                | Differences                                |
|-----------------------|----------------------------------------------|-------------------------------------------------|----------------------------------------------|--------------------------------------------------------------|--------------------------------------------|
| Regulatory challenges | Lack of professional capacity in the Council | Communication issues between SIA and the Agency | Ongoing challenges for local audit companies | Facing challenges for maintaining audit quality requirements | Specific challenges unique to each country |

*Source: Authors' own theorising.*

Table 8 above suggests certain common challenges which selected countries face in overseeing audit quality. These challenges may be categorised into: challenges related to audit quality deficiencies; and regulatory challenges.

### **Challenges Related to Audit Quality Deficiencies**

All three countries face similar audit quality deficiencies, particularly related to audit planning and execution.

The European Commission considers audit planning and execution failures as the most common audit quality deficiencies across the EU due to identified issues in applied audit methodology by auditors and audit companies, undocumented audit partner review procedures, unsigned ethical declarations by the audit team members, improper archiving of audit files and security access issues and the lack of audit evidence about internal control testing and audit risk assessments

(European Commission, 2024). In addition, audit planning and execution failures may impact the reliability of financial statement disclosures due to the lack of audit documentation about the identification of departures from the financial reporting framework disclosure requirements, conducted audit procedures and effective review of financial statement disclosures (CEAOB, 2023a). About financial institution auditees, CEAOB (2023b) notes that common audit quality deficiencies across the EU member states refer to the lack of audit procedures in audit planning and execution related to the requirements of ISA 315, ISA 330 and ISA 540. Hence, it appears that, the common challenges in audit quality measurement on the European level are related to the lack of audit evidence or improper documentation of audit work, disabling the measurement of audit quality. In other words, audit documentation represents the ground field to measure audit quality and audit quality indicators can facilitate the documentation of audit work and the measurement of audit quality.

### **Regulatory Challenges**

Each country faces unique regulatory challenges. North Macedonia lacks professional capacity in its national audit regulator, i.e. the Council, to inspect audit quality. Slovenia faces communication issues between the key oversight stakeholders involved in inspecting audit quality (SIA and Agency) about identified audit quality deficiencies. Estonia faces ongoing challenges by local audit companies in maintaining high audit quality requirements.

## **6.5 Addressing Identified Challenges through the Introduction of Audit Quality Indicators**

The introduction of audit quality indicators can address the challenges of the countries by: Standardising audit quality measurement; Enhancing continuous professional development; Benchmarking and accountability; Addressing regulatory capacity and local challenges; and Improving communication and collaboration between the key audit quality oversight stakeholders.

### **Standardising Audit Quality Measurement**

Audit quality indicators can provide a standardised, measurable framework for assessing and comparing audit quality across different jurisdictions (Rajgopal *et al.*, 2021). This can address common deficiencies in audit planning and execution (audit documentation, risk assessment, audit evidence, etc.) by offering a clear set of performance metrics and expectations for auditors to meet. In addition, regular reporting and monitoring of audit quality indicators' metrics can help identify these deficiencies in real-time and enable targeted improvements (Rajgopal *et al.*, 2021).

### **Enhancing Continuous Professional Development**

Audit quality indicators can guide the continuous professional development efforts in all three countries by identifying specific competencies and areas where auditors need to improve. This would standardise and focus training and professional development efforts across countries and national audit regulators (Harris & Williams, 2020).

### **Benchmarking and Accountability**

Audit quality indicators would introduce a system of benchmarking that would allow national audit regulators and auditors themselves to compare performance against global or regional standards (Bedard *et al.*, 2010). This could drive greater accountability in audit practices, ensuring that auditors meet defined audit quality requirements, especially in countries with weak regulatory frameworks or inadequate audit quality inspections (Martin, 2013).

### **Addressing Regulatory Capacity and Local Challenges**

North Macedonia's lack of professional capacity within its national audit regulator could be mitigated by using audit quality indicators to better allocate resources and target areas where regulatory capacity is most needed. This can help in prioritising training and development initiatives for audit quality inspectors and professionals (Harris & Williams, 2020). Estonia's challenges in maintaining audit quality can be addressed through audit quality indicators by providing a clearer, data-driven approach to its national audit regulations. In this view, audit quality indicators can help local audit companies identify areas where their quality may be lacking and offer a roadmap for continuous improvement, while audit regulators can utilise audit quality indicators to streamline their oversight activities (Harris & Williams, 2020).

### **Improving Communication and Collaboration between the Key Audit Quality Oversight Stakeholders**

In countries like Slovenia, where communication issues exist between the key audit quality oversight stakeholders, audit quality indicators could serve as a common language and tool for assessing and discussing the measurement of audit quality. This can improve the mutual collaboration not just between the key audit quality oversight stakeholders, but also between various other regulatory bodies, ultimately improving audit quality oversight and reducing conflicts or miscommunication (Pinello *et al.*, 2019).

## **7. Limitations and Delineations**

This study has two major limitations, which refer to its limited geographical scope and reliance on secondary data.

The study is focused on the audit quality oversight practices in only three European countries - North Macedonia, Slovenia and Estonia. While these countries offer a diverse range of economic and audit regulatory environments, the findings may not be generalizable to other European countries with different audit quality oversight frameworks and economic contexts. This limits the broader applicability of the study's conclusion.

To address this limitation, the study presents the insights from North Macedonia, Slovenia and Estonia, offering indicative considerations for other countries with comparable economic and audit regulatory frameworks. In this view, the utilisation of audit quality indicators within the study provides a standardised and measurable framework that could serve as a model for wider application. By employing these indicators to tackle challenges in the selected countries, the study sets a precedent that can be adapted for utilisation in other regions with similar or different audit regulatory environments. This demonstrates that audit quality indicators are not confined to the chosen countries but are versatile enough to be implemented or tailored for broader utilisation across various jurisdictions.

The research relies heavily on existing literature, national audit regulations and aggregate reports from conducted audit quality inspections. This dependence on secondary data means that the findings are contingent upon the accuracy, completeness and potential biases inherent in these sources. As a result, the study may not capture real-time or nuanced developments in audit quality oversight practices, affecting the measurement of audit quality.

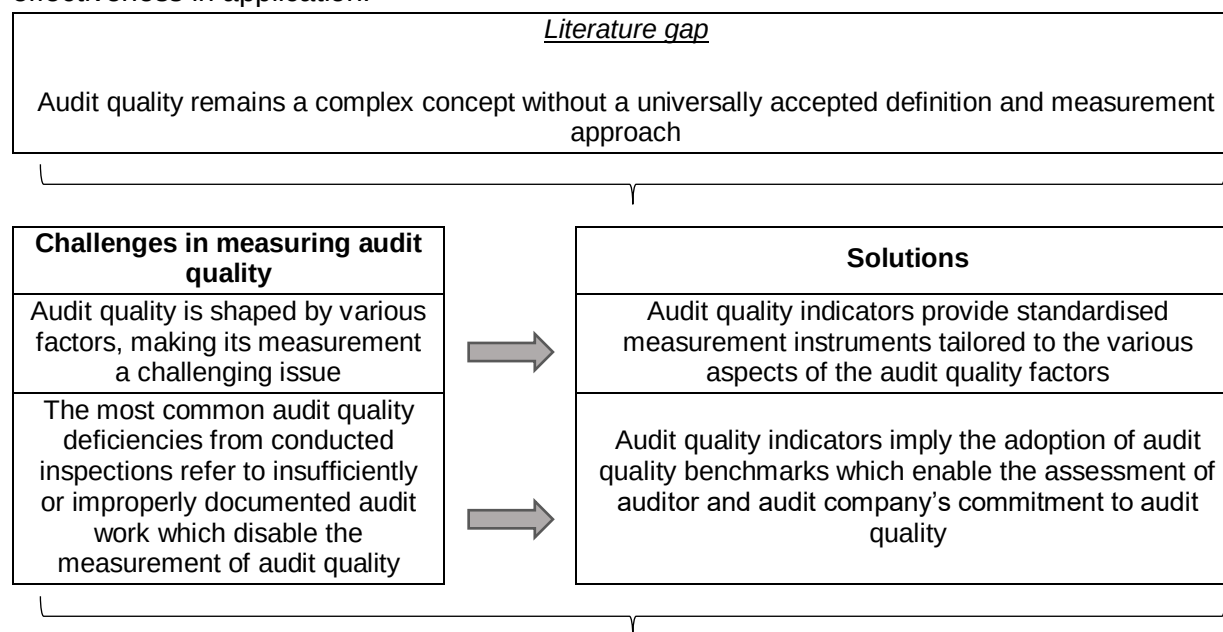
To address this limitation, the study incorporates a critical assessment of the data sources to acknowledge potential biases and limitations explicitly. Additionally, recommendations for future research should include the utilisation of primary data collection, such as surveys and interviews with audit professionals (registered auditors and audit partners from audit companies) and

representatives from audit quality oversight stakeholders (PAOs and audit regulators), to validate and enrich the findings with current insights.

## 8. Refinement of the Study's Results

Figure 1 was prepared for this research to refine the its results. Its aim is to facilitate the formulation of the study's ultimate conclusion about the introduction of audit quality indicators to facilitate the measurement of audit quality and its universal defining. In other words, Figure 1 summarises the study's results about the literature gap related to the non-existing universally accepted definition of audit quality and measurement approach (IAASB, 2014). As presented in Section 3, this stems from the various influencing factors which shape audit quality differently.

Figure 1 below illustrates that the introduction of audit quality indicators offers a promising solution to common challenges, such as addressing common audit quality deficiencies, communication gaps between audit quality oversight stakeholders and limitations in professional capacity for inspecting i.e. measuring audit quality. In this view, identified audit quality deficiencies from conducted inspections form a solid foundation for the development of audit quality indicators because these indicators can facilitate the documentation of audit work and the measurement of audit quality. Ultimately, this helps users of audited financial statements to assess the reliability of audit outcomes in issued audit opinions. As a resultant, this improves auditor and audit company accountability and transparency about the quality of audit work performed. This is consistent with Little Jr. & Lehkamp (2018) who discussed the PCAOB's conclusion about the "Audit Quality Indicators Project" as a means of solving issues related to audit quality measurement and assessment, aiming for a universal definition of audit quality and the introduction of a proper assessment and measurement framework and instruments. Hence, it is important to acknowledge that standardising the measurement of audit quality through these indicators could enhance the overall effectiveness of audit quality oversight across diverse jurisdictions. However, further research is needed to evaluate the impact of introduced audit quality indicators on audit quality, especially in relation to its influencing factors. This dimension of audit quality indicators has not been thoroughly investigated in this study, highlighting the necessity for additional quantitative research to fully understand their implications and effectiveness in application.



Utilisation of audit quality indicators:

- Suggest an adoption of audit quality metrics to cover the various aspects related to the measurement of audit quality;
- Enables the identification of improvement areas for auditors and audit companies through targeted continuous professional development trainings;
- Requires the adoption of audit quality benchmarks to enable the comparison of auditor performance across the divergent jurisdictions;
- Enables the identification of “red-flags” in audit quality which require further regulatory scrutiny to ensure audit quality where most critical; and
- Enhances communication - facilitates dialogue among the key audit quality oversight stakeholders on addressing the detected audit quality deficiencies.

Contribution to the literature gap

Audit quality indicators can facilitate the documentation of audit work and contribute to the global efforts of providing a universally accepted definition of audit quality

**Figure 1** Refinement of the study's results

*Source: Authors' own theorising.*

## 9. Areas for further research

The study acknowledges that the impact of audit quality indicators on audit quality and its influencing factors has not been thoroughly investigated. Therefore, further quantitative research is necessary to examine their effect on audit quality, particularly in relation to its influencing factors. While the study highlights the potential of these indicators to standardise audit quality measurement, their practical implication and effectiveness across various jurisdictions remain underexplored. This calls for additional quantitative research to investigate the relationship between audit quality, its impacting factors and the relevant audit quality indicators.

## 10. Conclusion

This study illustrates that the utilisation of audit quality indicators can enhance the documentation of audit work, enable the identification of improvement areas for auditors and audit companies and provide benchmarks for comparing audit performance across diverse jurisdictions. Ultimately, the introduction of audit quality indicators can improve the overall accountability and transparency of auditors and audit companies, thereby helping users of audited financial statements assess audit reliability. In this view, introduced audit quality indicators can be utilised by various stakeholders in the audit environment, such as the audit quality oversight stakeholders, academicians, scholars and other interested parties to reliably measure and assess audit quality. However, while this research highlights the foundational utility and numerous benefits of audit quality indicators in addressing current challenges in assessing audit performance and contributing to a universal definition of audit quality, it also emphasises that further quantitative research is necessary to thoroughly evaluate their actual impact and effectiveness on audit quality and its influencing factors in audit practice.

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