

DIFFERENCES BETWEEN AUDIT QUALITY PROVIDED BY INTERNATIONAL AND LOCAL AUDIT FIRMS: THE RESEARCH ON AUDIT CLIENTS' PERCEPTIONS IN THE AUDIT MARKET OF LITHUANIA

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Abstract. *The article investigates the quality of audit services that international and local (operating nationally) audit firms are offering. There has been a great amount of effort put in recent years to improve audit quality due to the increase of auditing scandals in various corporations across the world. To improve audit quality, it is crucial to assure that all the stakeholders of the auditing triangular relationship would be satisfied with the outcomes (what is provided) and the process (how the service is provided) of audit services. Considerable attention should be paid not only to the external users (third-parties), but also to the audit clients as their perceptions of what is a quality audit are very subjective.*

In the last couple of decades, there has been a lot of effort put into research whether the best international audit firms do actually provide audits of higher quality than the local audit firms that are based nationally. The main criterion that these firms are compared in a vast body of literature is the accuracy of the information that was provided to the third parties in auditors' reports, i.e. in many studies the correct auditor's report is used as a proxy for audit quality.

The aim of this study was to investigate whether Lithuanian audit clients perceive audit services to be better in quality when employing local or international audit firms. This paper will theoretically discuss the audit quality differences between international and local audit firms, and it will present the results of the survey of Lithuanian audit clients.

The survey used the questionnaire based on 12 audit quality criteria assessable for the client. The criteria represented audit service's value added and the performance, i.e. how the audit was conducted. Results of the survey imply that both international and local audit firms provide their clients with the same level of added value and audit performance, except the following significant differences. It can be stated that Lithuanian audit clients perceive audit provided by local audit firms to be of a higher quality than those provided by international audit firms in terms of the insights on tax risks (value added criterion), partner's involvement in their audit, and perceived competence of audit assistants (audit performance criteria).

Key words: *audit quality, international audit firms, local audit firms, audit clients*

Introduction

There has been an extensive amount of debates in the recent years about the quality of independent financial audit (further – audit). What is really unique about this service is that the auditing triangular relationship contains two types of service users – third-

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parties (external users) as well as the audit clients (internal users). Although the auditor's report is mainly addressed to the third parties, fulfilling their needs of transparency and information accuracy, audit is often perceived as a valuable service for the clients (auditees) as well. This means it is not enough to conduct an audit in a full compliance with the professional standards and laws in order to achieve a high level of quality. The concept of audit quality should also capture the needs and expectations of audit clients, since the clients have an advisory vote while approving auditors for the next year audits. This leads to the opinion that auditors should meet clients' expectations driven by particular needs which arise due to various business problems they face in their daily activities. In order to fulfil their needs, the clients face a dilemma whether to assign a well-known international audit firms asking relatively higher audit fees, or to rely on smaller local audit firms which offer their services for reasonably lower prices.

This article focuses on the differences of audit quality provided by international and local audit firms. Scientific questioning whether the international audit firms provide higher quality audits than their smaller local competitors was started in 1981 when L. E. DeAngelo, the academician of University of Pennsylvania, presented the article "Auditor Size and Audit Quality" in "Journal of Accounting and Economics". The author theoretically demonstrated that well-known international audit firms provide higher quality audits due to their higher reputation and worldwide recognition. The reputation, according to L. E. DeAngelo (1981), can be seen as a collateral, prompting audit firms to achieve highest standards of quality in order to retain their flawless reputation. Due to one audit failure in a particular engagement, the reputation can be ruined irreversibly. In such cases, the international firms would have definitely more to lose as compared to local audit firms operating in one country. L. E. DeAngelo's (1981) article has triggered a plentiful amount of audit quality studies to some extent investigating this problem (Chen et al, 2001; Davidson, Neu; 1993, Francis, Yu, 2009; Francis, 2004; Simunic, 2003; Lawrence et al., 2011; etc.). The authors usually analyse audit quality using more third-parties-oriented approach, i.e. various criteria, mainly important for external users, are employed for audit quality, such as audit failures, misstated auditor's reports, violations of auditing standards, etc.

This article presents an analysis of audit quality from the perspective of audit clients, using criteria which are assessable by the clients and which were not used in the prior body of studies. The *aim* of the article is to investigate whether Lithuanian audit clients perceive audit services to be of better quality when employing international or local Lithuanian audit firms, while disclosing the main areas where audit quality differs. In order to achieve the aim, the following goals were set:

1. To investigate the theoretical background regarding the differences of audit quality provided by local and international audit firms, distinguishing the criteria for audit quality measurement from the perspective of audit clients.

2. To compare and assess the audit quality provided by local and international audit firms in the Lithuanian audit market from the perspective of the clients by using a criteria-based questionnaire.

The aim is achieved using the following *research methods*: literature analysis and questionnaire survey. The choice of the research methods was based on the study's analytical approach, as well as on the aim set. Literature analysis has allowed to get acquainted with the results of the prior studies investigating the problem and to formulate the design of an empirical research. Since the aim of the paper is related with the perceptions of human beings representing the opinions of the companies, a questionnaire survey was used as a method to measure the perceptions of audit clients. The results of the survey were evaluated by using the ANOVA (variation analysis allowing to assess significance of the differences within different groups of respondents) and Cronbach alpha (the ratio indicating the consistency and reliability of the scale) techniques.

International and local audit firms: a theoretical background regarding differences of audit quality

Over the last few decades, audit quality has been investigated by many scholars, although it still hasn't been properly conceptualized and lacks one common definition (Financial Reporting..., 2006, Duff, 2004, Francis, 2011, Dassen, 1995). Different authors use different concepts and employ various criteria of audit quality. Based on the analysis of a vast body of audit quality researches, D. Vaicekauskas, J. Mackevičius (2013) present the following definition of audit quality: audit quality can be defined as a level of confirmation between the value an audit creates and the expectations to audit of third-party users and audit clients. The authors state that the expectations, driven by the stakeholders' needs, are met or exceeded if:

- auditors issue an accurate and reliable auditor's report;
- auditors reduce the likelihood of material misstatements due to fraud or error;
- the audit is conducted in compliance with professional standards, ethics, and applicable laws at all audit stages;
- auditors present useful insights and recommendations for the audit client, thus creating the added value of the service provided;
- audit is performed by the competent audit specialists and in accordance with the deadlines set.

This definition proposes two different audit quality approaches which favour different stakeholders. Using the third-party users oriented approach, audit quality is usually measured in terms of an auditor's restated opinions. Studies based on this approach employ various factors affecting the accuracy of auditor's report and use them as criteria to measure the audit quality. Criteria, such as independence, the auditor's

industry expertise, the audit firm's organizational culture, independent quality review are often employed. The clients-oriented approach sees clients as the main audit quality assessors. In these studies, the quality of audit is measured using various factors which add more value to the client's business and meet the client's expectations towards audit performance (for instance, consulting on accounting and taxation, free of charge, good working relationship with the client, etc.).

In their audit quality researches, many scholars focus on different types of audit firms, hypothesizing whether the audit firms of a particular type provide different service quality. Since the biggest four international audit companies (the Big 4) have been dominating in many audit service markets across the world, the authors are interested whether their success is caused by the quality they provide. In contrast, since smaller local audit firms cannot successfully compete with the Big 4, the questioning whether their services have some quality issues arises. Although there is no common definition of international and local audit firm, usually the audit firm is perceived as an international if:

- it operates in more than one country;
- it belongs to an international audit firm network;
- it has the name of one of the four biggest global audit firms (the Big 4).

The success of audit firms having one or more mentioned-before attributes is directly related with the reputation they have in the markets. If audit firms provide low quality audits (in accordance with the perceptions of regulators, i.e. not complying with the standards, misstating the auditor's reports, etc.), there is an increase of the risk that the auditors can be penalized or their firm's licence allowing to provide assurance services can be terminated. Penalties have a negative impact on the audit firm's reputation, which can be seen as a complex of people feelings and perceptions towards the organization (Šmaizienė, 2000). According to various researches (DeAngelo, 1981; Woodland, Reynolds, 2003; Turner, Sennetti, 2001; Lawrence et al., 2011), the need to retain high reputation positively affects the audit quality. This hypothesis is based on the so-called collateral theory (in other words – *“too big to collapse”*). The collateral theory states that in the case of a collapse the international firms would have definitely more to lose than the local firms operating in one country. Due to one failure the international firm would lose its reputation and would not be capable of succeeding in the future. The investors, bankers, business partners and other external users would lose their confidence in compromised auditors and their reports. Such auditors would not be desirable by any clients. The failure would force them to leave the audit market. In order to avoid these consequences, audit firms would always try to issue independent, accurate and useful reports. In such cases, the reputation would work as collateral for a quality audit (DeAngelo, 1981).

International auditors' superiority in audit quality can be argued also relying on such factors as human resources and organizational culture. The Financial Reporting Council

of Great Britain (Financial Reporting..., 2006) stresses an audit firm's organizational culture and audit staff skills and knowledge as the main audit quality drivers. A. Lawrence et al. (2011) states that international audit companies, especially the Big 4, promote the ethical organizational culture – the atmosphere in which the audit staff works, communicates, learns and grows as professional specialists. Also, these companies earn a higher revenue, thus enabling them to spend more on staff training.

When there is a discussion about audit quality, the professional independence is often stressed. The 1st International Standard on Quality Control points out the senior audit staff rotation and independent quality review as drivers for the preservation of independence. Having a significantly higher amount of employees and partners, international audit firms can implement the related requirements in practice. For instance, small audit firms, consisting only of one partner, are unable to comply with the requirement of mandatory auditor rotation nor to assure the review of the second partner. The regulators promote smaller companies to hire auditors from other companies to perform these tasks. These aspects imply international audit firms having an advantage over one-country based firms in the area of quality control system – the 1st International Standard on Quality Control accentuates human resources and audit conduction (which includes an independent quality review) as one of the main elements of the quality control system within an audit firm.

Audit quality is also closely related to the auditor's industry expertise (knowledge). Industry experts-auditors reach a higher level of audit quality while making more effective planning decisions, assessing the client's business risk, as well as the risk of material misstatement more effectively, complying at the highest rate with auditing standards (O'Keefe et al., 1994; Carcello, Nagy, 2004; Low, 2004). International audit firms are more often perceived as the experts of particular industry due to their relations with other audit firms within the same audit network. An audit network is a structure of audit firms, created for a mutual cooperation, profit sharing, costs saving, development of one common business strategy (Tarptautiniai audito..., 2011). Since the networks of audit firms operate globally, expertise gained in particular industries can be shared with other network firms in different countries. Analysing the Big 4 external communication on their internet pages, it can be noted that the companies present themselves as the experts of particular industries (like financial institutions, energy, non-profit organizations, etc.).

As we can see, the analysed researches rely on third-party users as the main audit quality assessors. However, there is a scarce amount of researches investigating clients' approach to audit quality issues, as well as clients' perceptions of different types of audit firms. V. Beattie, S. Fearnley (1998) disclose that some audit clients first of all see auditors as consultants of accounting, finance and business issues in general. Such clients can be called „source seekers” (Beattie, Fearnley, 1998). According to that, the concept of audit quality should be enriched with such elements as various important insights and

recommendations on accounting and internal control provided by auditors, beside the issued accurate auditor's report. According to A. Duff (2004), audit quality should also include a client service dimension. Similar opinion can be traced in the R. Fontaine and C. Pilote (2012) paper. The authors investigate the relationship between the auditors and their clients. They state that clients often perceive audit as a "not important service". If auditors meet the clients' expectations, closer relations are established. In turn, the good relations enable auditors to get acquainted with the client's needs thus providing more added value. Such audit service is perceived to be of higher quality. The authors of the paper, however, note that both sides – the auditors and the clients – still tend to keep their relations at arm's length, thus not violating professional ethics, especially complying with the requirements of independence.

To sum up what has been said before, it could be stated that the international audit firms, due to their high reputation, the gained industry expertise and more effective quality control systems, can provide higher-quality audits in terms of more accurate and correct auditor's reports. However, as the literature analysis shows, there is an insufficient amount of researches investigating whether international and local audit firms provide different types of audit quality from the clients' point of view. Such researches should employ audit quality criteria, which are assessable by the client. Further in the paper, this problem is investigated analysing the Lithuanian audit clients' perceptions of audit quality provided by different types of audit firms. The differences of audit quality from the perspective of the client are investigated using the following criteria determined after the analysis of scientific literature (Vaicekauskas, Mackevičius, 2013, Vaicekauskas, 2013, Dassen, 1995, Duff, 2004) (the first seven are the criteria of added value of the audit and the other five are the criteria of the performance of the audit):

- auditors' insights on the company's business risks;
- the communication of inconsistencies and errors determined during the audit;
- financial accounting consultations provided during the audit free of charge;
- tax consultations provided during the audit free of charge;
- focus on the client needs;
- recommendations on the improvement of internal control;
- a detailed and useful management letter (written findings report);
- partner's involvement in the engagement;
- audit manager's involvement in the engagement;
- the assurance of auditor's assistants when performing the audit procedures;
- the compliance with deadlines of the audit performance;
- good working relationships with the client.

Methods

In Lithuania, the competition among both international and local audit firms is strong. According to reviews carried out by the Lithuanian Chamber of Auditors of the country's audit service market in the period from 2008 to 2012, it can be stated that the four biggest international audit firms, which together form only 2 per cent of all the providers of audit in Lithuania, have the greatest part of the audit market. Despite the fact that the firms form the minimum part of service providers in the market, they still provide audit services for almost the entire sector of public interest companies (only one of ten public interest companies choose a small audit firm). This number implies the fact that the market is concentrated in the hands of only several service providers. This power is also visible in the income structure of the audit market: the analysis of market reviews provided by the Lithuanian Chamber of Auditors show that 62 per cent of all the income received by audit firms in 2012 have been earned by four international audit firms, whereas the other 179 firms received only 38 per cent of the market income. The hourly rate of four leading audit service providers also differs 2 to 2.5 times. It also implies the hypothesis that the service of such firms is more expensive due to the higher quality of their service (Vaicekauskas, 2013).

The relevance of the problem in the conditions of the Lithuanian audit market led to the determination of the *aim* of the research, which is to determine the difference of audit quality between national and international audit firms from the point of view of the client. The research is carried out by performing the survey of audit clients as well as applying various statistical techniques for data processing and the interpretation of results.

Survey is the technique of data collection. When using it, the respondents exactly at the same time (or similar) give answers to the questions in written (questionnaire) and orally (interview) (Luobikienė, 2000). When answering the written questions, a questionnaire is normally used. It is based on a specific consistency and the logic of the research. The questionnaire helps to find out, to measure, to determine and to evaluate the scope of the problem, its relevance, causal relations. The present research uses the internet survey. The accessibility of the internet leads to the popularity of the survey. This type is rather perspective, since it can get the respondents interested in the topic and guarantee an effective feedback (Butkevičienė, 2011).

The questionnaire of the research is based on the criteria mentioned the first chapter of the paper. The criteria are expressed in the statements of the Likert scale with 5 points (from 1 meaning the completely unfulfilled expectations to 5 meaning fully fulfilled or exceeded expectations). The latter method helped to get an assessment showing the level of the fulfilment of clients' needs regarding the issues analysed.

When carrying out the survey, it is important to determine the target population of respondents as well as to select the sample of the population which is to be questioned. The population of Lithuanian audit clients is mostly composed of entities purchasing audit services voluntarily and mandatorily. Pursuant to the Law on Audit of the Republic of Lithuania (1999, Article 20), audit is mandatory for both state and municipal enterprises, companies of public interest, public companies, and private companies the shareholder of which is the state and/or municipality. It also applies to public companies, cooperative societies (cooperatives), general and limited partnerships, the real members of which are public or private companies and if at least two indicators of the ones mentioned above exceeds the following numbers on the last day of the financial year:

- sales income during the financial year is Lt 12 million;
- value of assets in the balance sheet is Lt 6 million.;
- the average annual number of employees of the financial year is 50.

According to the annual Lithuanian audit market reviews carried out by the Lithuanian Chamber of Auditors, the number of audits of the year 2012 is equal to 3480. Since the audit market information for 2013 was not yet public, the data of this year are only predicted. The prognosis is carried out on the last actually known data of 2012, referring to the trend of the data line, adding or subtracting the standard deviation of the data series of the previous year. In such a way, the logically estimated population of the audit clients of 2013 was determined. It forms the number of 3545 audited subjects.

The sample size calculation was performed by using the sample calculation formula described by V. Rudzkienė (2005):

$$n = \frac{Nz^2pq}{\varepsilon^2(N - 1) + z^2pq}, \quad (1)$$

where:

n – size of the sample;

N – size of the population;

z – critical value of the z criterion (for a desirable reliability level);

p – estimation of response distribution;

$q = 1 - p$;

ε – margin of error.

When using the typical parameters in the social sciences – 95 per cent reliability and 5 per cent the margin of error, the sample size was 347. When using lower values for the parameters (90 per cent reliability and 10 per cent the margin of error), the sample size was significantly smaller – 67. The sample size assuring 95 per cent reliability with the 5 per cent margin of error was sought. Due to the predictable low responding rate and

difficulties to reach the respondents (auditees), an alternative sample size assuring 90 per cent reliability with the 10 per cent margin of error was also planned as acceptable.

After the sample size had been determined, the survey was performed in the following order:

- the questionnaire was sent to companies with annual sales exceeding Lt 5 million and employing at least 30 employees. The criteria are smaller than the mandatory audit rates in order to include the companies which bought audit services even though they were not required to by the law. The information about the companies was obtained from the database of Lithuanian companies;
- the questionnaire's suitability and validity were tested using the *face validity* (3 experts – 2 audit practitioners and 1 scientist to overview the survey and to provide observations for its improvement) as well as the Cronbach alpha (the ratio shows the internal consistency and reliability of the questions) techniques. In order to assess the significance of differences of the categories in question, the ANOVA (variation analysis) was used;
- the questionnaire was created and put on the internet in a specialized survey website. The analysis of survey data was carried out by applying the SSPS statistical package.

The survey of audit clients was carried out on August 2014. After 2677 firms had received the questionnaire, 57 of them filled the questionnaire in 48 hours. After 48 hours the invitation to participate in the study was resent – it resulted in additional 20 filled in questionnaires. Therefore, 77 filled in questionnaires were received (3 per cent response rate). This number of filled in questionnaires guarantees the 90 per cent reliability of the results with 10 per cent margin of error under the formula (1) while using the 0.5 value for the estimated distribution of responses.

Results

According to the auditing basis the respondents of the survey sample can be subdivided into four categories. The biggest part of the respondents were private and limited companies, with the exception of public-interest entities for which the audit is mandatory (54 companies, or 70 per cent of the sample). State and municipal enterprises as well as companies which purchase audit voluntarily represented respectively 14 and 13 per cent of the research sample (11 and 10 respondents). The remaining respondents were 2 public interest companies (3 per cent of the sample).

The survey respondents were classified into 4 categories which fully reflected the type of the audit firm that performed their audit. Respondents could select whether they were audited by (1) a local audit firm, (2) international audit firms of the Big 4, (3) an international audit firm which does not belong to the Big 4, as well as the answer (4) “currently I cannot answer this question” (see Fig. 1).

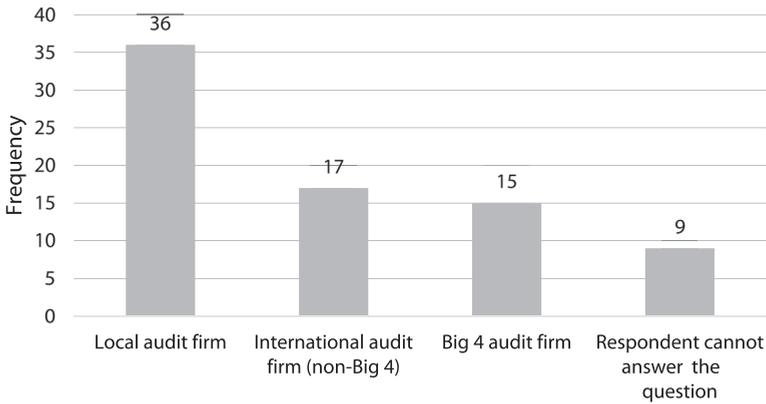


FIG. 1. Distribution of audit firms which audited respondents' companies

Source: compiled by the author.

The analysis of Fig. 1 shows that the survey was mostly filled by the subjects the audit of which had been performed by the local audit firms (36 respondents, or 47 per cent of the entire research sample). The number of respondents which were audited by international companies not belonging to the Big 4 (17 subjects equal to 22 per cent of sample), was more than two times smaller; besides, the number of subjects audited by the Big 4 audit firms was even smaller (15 subjects and 19 per cent of the sample). Nine respondents (2 per cent) could not precisely classify their auditors to one of the categories in question.

Respondents had to assess to what extent in a five-point scale the auditors managed to fulfil their expectations regarding the development of additional value by consulting, providing various observations, etc. The question asked to assess the following variables: (1) auditors' observations on business risks, (2) communication of inconsistencies and errors determined during the audit, free (3) financial accounting, and (4) tax consultations, (5) orientation towards the needs of the client, and (6) recommendations on the improvement of internal control. The internal consistency of the question scale as well as its credibility are proved by a high Cronbach alpha rate (0.85) which shows that the assessments of respondents were reliable and consistent. In order to highlight the differences of the assessment of two categories – local and international – audit firms, the answers which include 1 or 2 option (the firm of the Big 4 or other international company) were combined, and the answers “currently I cannot answer this question” were eliminated. The comparative results are provided in Fig. 2.

The analysis of Fig. 2 shows that in all the categories, except business risks, the needs of the clients are better met by local audit firms; however, the overall level of meeting the expectations cannot be considered as extremely high (average ratings are below the



FIG. 2. Evaluation of added value variables (averages)

Source: compiled by the author.

average level of 4 points). When comparing the types of audit firms, the assessment of tax consultations seems to be particularly striking (2.97 average point – international audit firm, 3.47 – local audit firm). Regardless of these differences which are shown in Table 1 (refer to Appendix 1), they are not statistically significant ($p > 0.05$, in the event of a lower reliability $p > 0.1$), and the consultation on tax issues is nearest the 90 per cent statistical reliability limit. Pursuant to the observations listed above, it can be stated that both international and local audit firms provide to their clients the same level of additional value; therefore, no significant differences were observed.

Another question of the survey tried to find out whether auditors manage to fulfil clients' expectations when the audit testing stage is ended and audit reports are drawn up, i.e., whether the auditors have met the clients' expectations with the additional audit reports, such as the management letter. Additional question identified the respondents whose management body received a management letter from the auditors (or a similar audit report). The management letter usually includes only the most significant, important observations, related risks and recommendations on their mitigation; 69 respondents received such a document, out of which 68 could easily assign its auditors to one of the categories. Later, the survey asked whether and to what extent did the document meet their expectations. The answers to this question are provided in Fig. 3.

Figure 3 implies that written reports prepared by local audit firms are rated by higher points by their respondents. The Cronbach alpha of this question is equal to 0.85 and shows a high reliability level of answers as the well as internal consistency of the



FIG. 3. Evaluation of management letter variables (averages)

Source: compiled by the author.

scale. The most distinguishing is the evaluation of tax returns and tax risks. Local audit firms meet this expectation the on average by 4.06 and international only by 3.50. The evaluation of other variables of this question is not so significantly different. For this particular reason, different treatment of tax returns and risk assessment can be regarded as significant, i.e. differences of groups in question are statistically reliable (near the 90 per cent reliability level ($p < 0.1$)) (see Table 2 in Appendix 1). Such results support the hypothesis that small audit firms tend to satisfy the client with free of charge tax consulting, thus trying to gain a comparative advantage in comparison with their bigger competitors who are more likely to sell their consulting services for an additional charge (Vaicekauskas, 2013).

Another question provided respondents with the statements related to the role of the audit engagement team members when providing services. The main objective of this question was to assess the compliance of audit with client expectations. The statements in question were formed in relation to the responsible partner of the engagement team, team leader, assistants, the compliance with the terms set for service performance as well as working relationships between the audit team members and client representatives. The evaluation of the variables was also carried out under two categories of characteristics (local and international audit firms) (see Fig. 4).

Figure 4 shows that similarly to the case of the added value, the assessment of audit performance is better rated by respondents when dealing with local audit firms: when assessing all 5 variables, a higher average score is observed. The Cronbach alpha ratio of

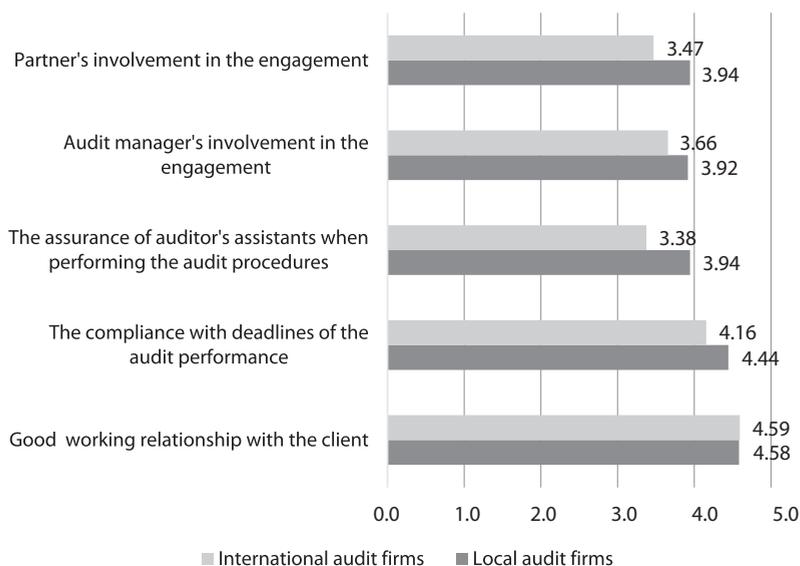


FIG. 4. Evaluation of audit performance variables (averages)

Source: compiled by the author.

question statements is equal to 0.82. It shows a high credibility of results and the internal consistency of the formation of statements. The statistical significance of differences in the assessment is shown in Table 3 (see Appendix 1). The values of the F criterion and p values represented in the table imply that partners working in local audit firms more actively engage in audit activities than their colleagues from international companies ($p < 0.1$ – 90 per cent reliability), whereas auditor assistants working in local audit firms create a higher reliability and a higher level of professional competence ($p < 0.05$ –95 per cent reliability). These results can be explained by the fact that local audit firms have less human resources; therefore, the responsible partner often has to perform certain tasks himself. In bigger audit firms, these tasks are carried out by assistants. For this particular case, the auditor of a local audit firm communicates with the representatives of the client more directly and is “more visible”. Limited human resources and different personnel policies can also be used to explain the higher perceived level of expertise of the auditor’s assistants. International firms usually employ young, inexperienced employees, the employee turnover of which is rather high; however, the auditor’s assistants in smaller firms work longer and, due to smaller groups for the implementation of engagement, they get to perform various works which in bigger groups would be simply done by less experienced assistants. In such a way, assistants in the local audit firms eventually get a higher professional competence.

To sum up the survey results, it can be stated that the Lithuanian auditors (both from local and international firms) fail to sufficiently fulfil clients’ expectations for

an added value and certain audit performance aspects. Clients would like to get from their auditors more business insights, recommendations on the improvement of internal control, tax consultations provided during the audit process, a more detailed and helpful management letter. During the process of audit, the clients would like to see more active audit leaders – responsible partners – who would involve in the performance of the audit, as well as a greater certainty of audit assistants when performing procedures entrusted to them. The analysis carried out by using the variation of the answers of respondents suggests that the responsible partners of Lithuanian local audit firms are more active in the process of audit, whereas the assistants of such companies, looking from the point of view of the client, perform their work better than their colleagues from international firms. According to the clients, local audit firms also meet their needs for the insights on tax risks presented in the management letter in a better way.

Conclusions

1. Audit quality can be defined as a level of confirmation between the value audit creates and the expectations to audit of third-party users and audit clients. This definition proposes two different audit quality approaches which favour different stakeholders. Using the third-party users oriented approach, audit quality is usually measured in terms of an auditor's restated opinions. The clients oriented approach sees clients as the main audit quality assessors.
2. Over the last few decades, many scholars have focused on different types of audit firms, hypothesizing whether the audit firms of particular type provide different service quality. Based on the third-parties approach, a need to retain flawless reputation, plentiful human resources, an effective quality control system and industry expertise are the factors due to which many authors consider that the international audit firms provide higher quality audits than their local competitors operating nationally only. Much less is investigated whether audit quality differs between international and local audit firms from the audit clients' point of view.
3. The differences of audit quality between international and local audit firms from the perspective of the clients have been investigated in the market of Lithuania while conducting the survey of Lithuanian audit clients. The survey employed the questionnaire based on 12 audit quality criteria assessable for the client. The criteria represented audit service's added value and the performance, i.e. how the audit was conducted. The survey results imply that clients' perceptions on audit added value provided by local and international audit firms do not differ significantly, except perceptions on the usefulness of the management letter – the management letters of local audit firms contain more in-depth and useful observations on tax returns' accuracy

and tax risks than the management letters provided by the international audit firms. It is important to note that both types of firms do not completely meet nor exceed clients' expectations concerning the added value to clients' businesses. Within the frame of the criteria used, Lithuanian auditors are best at communicating errors detected and providing consultations in financial accounting at no charge. The auditors have to significantly improve their efforts in terms of tax consulting at no charge, internal control recommendations and providing insights on client's business risks.

4. While comparing the performance of two types of audit firms, there are significant differences concerning the partner's involvement in the engagement and clients' perceptions on audit assistants and their competence. The clients of local audit firms are more satisfied with the work of partners and assistants. Such results can be supported by the fact that local firms have limited human resources. This leads partners to be more active during the engagement while performing various audit procedures. Also, due to the smaller audit teams, audit assistants in local firms become more all-around, i.e. gaining more knowledge and skills in various audit areas.

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APPENDIX 1. ANOVA analysis statistics

TABLE 1. Statistics of added value variables' evaluation

Variable	F	p value
Auditors' observations on business risks	0.104	0.749
Communication of inconsistencies and errors determined during the audit	0.321	0.573
Financial accounting consultations, free of charge	0.644	0.425
Tax consultations, free of charge	2.727	0.103
Orientation to client's needs	0.354	0.554
Recommendations on internal control	0.726	0.397

Source: compiled by the author.

TABLE 2. Statistics of management letter variables' evaluation

Variable	<i>F</i>	<i>p</i> value
Errors and breaches in financial accounts	0.185	0.669
Identifying deficiencies in internal control	0.064	0.801
Evaluation of accounting system organisation	0.785	0.379
Evaluation of managerial processes	0.001	0.975
Other important auditor's communication	0.001	0.973
Tax returns and tax risk evaluation	3.867	0.054

Source: compiled by the author.

TABLE 3. Statistics of audit performance variables' evaluation

Variable	<i>F</i>	<i>p</i> value
Partner's involvement in the engagement	3.521	0.065
Audit manager's involvement in the engagement	1.025	0.315
The assurance of auditor's assistants when performing the audit procedures	4.056	0.048
The compliance with deadlines of the audit performance	0.937	0.337
Good working relationship with the client	0.005	0.946

Source: compiled by the author.