Journal of Global Business Review : Volume 15 No. 2 July-December 2013 pp. 1-13

PROBLEMS IN THE IMPLEMENTATION OF THE INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (ISQC 1): EXPERIENCE FROM SMALL AND MEDIUM AUDIT FIRMS IN THAILAND

Wachira Boonyanet[1*]

[1]*Department of Accountancy, Chulalongkorn Business School, Bangkok 10330, Thailand*

ABSTRACT

Previous findings showed that, broadly speaking, small and medium audit firms have been pessimistic in adopting quality controls to improve audit quality because of no guidance to implement audit quality standards and limited resources. Regulators and standard setters have attempted to improve audit quality by introducing the International Standard on Quality Control 1 (ISQC 1) to audit firms. Therefore, the main objective of this study is to identify potential problems in the implementation of ISQC 1. As a pilot project, a questionnaire survey was employed as a research methodology. Respondents included all levels of audit staff that have experienced ISQC 1. Both descriptive and inferential statistics were used in the analysis.

The 372 subjects raised some concerns about implementing ISQC 1, including Leadership responsibilities and quality control within the firm (tone at the top) and Engagement performance, ranging from 3.53 – 4.05 (out of 5). The details of the concerns include emphasis on competition rather than quality audit culture, less emphasis on firm's quality control systems, limitation of commitment of partners to long-term quality audit and time limitation on audit quality before issuing audit report. At the significant level of 0.05, the hypothesis testing shows that respondents who have more experience (high age and long-time work experience, higher education) are more likely to raise some concerns than those of less experience.

Keywords: International Standards on Quality Control, audit quality

* Corresponding author: E-mail address:wachira@acc.chula.ac.th

Introduction

Audit quality has been a controversial issue for several decades because low audit quality may result in severe events such as financial disaster for companies and bankruptcy for investors. Previous studies have pointed out some causes. For example, auditors are unlikely to perform their work because of incompetence, undue care and unethical behavior. In addition, the incompetence of audit committees could result in low quality financial statements. Also, the slow movement of auditing standards should be another concern for the audit profession. Among other efforts, regulators (i.e. the Stock Exchange Commission (SEC) and other independent regulators) and auditing standard setters have required auditors to properly perform their work. The International Standard on Quality Control 1 (ISQC 1) was introduced to auditing firms in 2004. It is believed that ISQC 1 provides reasonable assurance that firms and their personnel comply with professional standards and regulatory and legal requirements at firm level, rather than engagement level. ISQC 1 reports are required to be issued by the firm or engagement partners. The standard has brought some challenges to the auditing profession society, especially for small and medium auditing firms. Previous studies had long pointed out that big auditing firms (i.e. Big 4 and other big international firms) provided higher quality audits than small and medium firms (DeAngelo, 1981, Carcello, 1992); therefore, to implement ISQC 1 is not an issue for big audit firms. One of the important issues for the auditing society is how to develop small and medium audit firms to be a part of the auditing society. Unquestionably, the numbers of small and medium audit firms are higher than the number of big auditing firms. In addition, a study in Malaysia attempted to develop check-lists for small and medium firms to follow (Sanusi, 2009). Another study pointed out that small and medium auditing firms are reluctant to implement ISQC 1, but it did not identify specific problems (Research report, 2005). In addition, ISQC 1 has just been introduced to the Thai audit society. Therefore, this study aims to pinpoint problems raised by small and medium auditing firms when implementing ISQC 1. This is to help raise the awareness of the management of small and medium auditing firms when implementing ISQC 1.

Auditing standards relating to audit quality

In 2004, the International Federation of Accountants (IFAC) by the International Auditing and Assurance Board (IAASB) has approved the International Standard on Quality Control 1 (ISQC 1). ISQC 1 aims to improve audit quality at the firm level of firms that perform audits and reviews of historical financial information and other assurance and related services engagements. In addition, at the engagement level, IFAC introduced ISA 220 "Quality Control for audits of Historical Financial Information". However, ISQC 1 differs from ISA 220. The main objective of ISA 220 is to require the auditor to implement quality control procedures at the engagement level. .This should provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements and that the auditor's report issued is appropriate in the circumstances. However, weaknesses in a firm's quality control procedures over audit and regulatory work will often result in the firm's failure to achieve a satisfactory outcome as well as financial statement quality. ISQC 1 requires firms to implement a system of quality control that should include policies and procedures addressing each of the following elements: (1) leadership responsibilities for quality within the firm; (2) ethical requirements; (3) acceptance and continuance of client relationships and specific engagements; (4) human resources; (5) engagement performance; and (6) monitoring.

In 1948, the Thai accounting society started its accounting activities by setting up the Institute of Certified Accountants and Auditors of Thailand (ICAAT). The main objective of the ICAAT was to establish accounting and auditing standards in response to the rapid expansion of the Thai economic environment. In addition, the ICAAT was responsible for the approval of Thai CPAs using standard examinations. The turning point of the Thai accounting profession was driven by the establishment of the Stock Exchange of Thailand in 1962. The development of accounting standards and procedures in Thailand was initially influenced by US GAAP and later by the International Accounting Standards. In 2011, the Federation of Accounting Professions (formerly ICAAT) fully adopted the auditing standards recommended by IFAC. The Federation of Accounting Professions has announced that by 2015, the International Standard on Quality Control (ISQC 1) is required for all auditing firms regardless of size.

Literature reviews

The auditing society has faced increasing pressure from financial statement users and regulators regarding audit quality. One of the controversial issues is that when companies go bankrupt, the phrase "where were the auditors" is mentioned. This means auditors themselves or their audit process may not have been of high quality. Previous research was done on studying multiple dimensions to prove whether auditing firms provide the appropriate quality of work to society. It is quite clear that large audit firms provide their clients with higher quality audits than small firms. DeAngelo (1981) produced empirical results that a larger audit firm size is more likely to increase audit quality. Also, Moore and Scott (1989) drew the same conclusion as DeAngelo (1981), namely that audit firm size has a positive correlation with the extent of audit work undertaken. Later studies attempted to find out why audit firm size is the determinant of audit quality. Carcello et, al. (1992) pointed out that the reasons included the audit team, the firm's experience with the client, industry expertise, responsiveness when risks are identified and ability to comply with accounting and auditing standards. At least these two studies should encourage standard setters and regulators to raise audit quality for both big and small auditing firms.

Research on ISQC 1 is quite limited regarding the early stages of implementation. A survey in South Africa in 2005 showed that small and medium firms were quite unenthusiastic to implement ISQC 1. Firms with two to three partners did not support ISQC 1 due to the implementation being time-consuming and the informal structure of small and medium firms. However, Pflugrath et. al. (2007) insisted that ISQC 1 is relevant to the quality control of auditing firms and should have a positive impact on audit performance. These two studies may create some concerns for small and medium firms relating to audit quality. In 2008, Aida Hazlin Ismail, et. al. (2008) conducted a study and pointed out that the problems with implementing ISQC 1 included the delegation of responsibility for the implementation of ISQC 1, the wastage of firms' precious time to complete all the forms and checklists required by ISQC 1, the difficulty to get staff members to understand the concepts of ISQC 1 to be implemented in the firm and the lack of staff to be responsible for the quality control management and training that needs to be conducted for the staff members on ISQC 1. These findings may have resulted in the following study. In 2009, Zuraidah Mohd Sanusi et., al. (2009) introduced self-checklists to assist the audit practitioners in assessing their own audit quality control and setting up a system for this assessment through an on-line web-portal.

Research method

The research method employed in this study was a questionnaire survey. Using a questionnaire allows data from different perspectives and a wide range of respondents. The questionnaire was sent to a range of potential subjects in small and medium auditing firms. All subjects have experience of implementing ISQC 1. The questions were developed using the International Standard on Quality Control 1 (ISQC1), the work of Zuraidah Mohd Sanusi, et. al. (2009) and the author's experiences as an audit staff at one of the Big 4 auditing firms. As a result, the questions posed to respondents were developed based on potential concerns that the audit society may be having. The questionnaire used in the present study consisted of two main sections. The first section contained demographic data. The second section contained six topics required by ISQC 1. The statements were designed as bipolar adjective statements which were separated by five-point

Likert scales with the aim that subjects should select a number from the scale indicating their level of agreement with one or the other of the statements.

Descriptive results and analysis

In this section, the descriptive results from the questionnaires are analyzed and interpreted. The demographic data is initially described, and then the potential problems that arose from the analysis of the questionnaires are presented. Lastly, hypothesis testing will be informed. Independent-sample t-test was used to analyze two different groups, while One-way ANOVA was employed to analyze more than two groups. In addition, when statistic significant points out at 0.95 confidential level, Bonferroni was used to analyze the data.

Subject profile

The questionnaire was sent to 400 subjects including all levels of audit staff of small and medium auditing firms. The response rate represents 93% of these groups. The response rate is quite high because the questionnaires were distributed during the ISQC 1 training sessions held by the Federation of Accounting Professions. The level of competence of subjects as indicated above should increase credibility to the measure of the problems raised from ISQC 1. Demographic details are shown in Table 1.

Table 1 subject profile

Age (years)	Frequency	%
Less than 25	140	37.6
25 - 35	228	61.3
More than 35	4	1.1
Total	372	100.0

Education	Frequency	%
Bachelor	304	81.7
Masters	68	18.3
Total	372	100.0

Work experience (years)	Frequency	%
Fewer than 5	204	54.8
5 - 10	128	34.4
More than 10	40	10.8
Total	372	100.0

Position	Frequency	%
Operational levels (Lower than manager)	316	84.9
Management levels (Manager and up)	56	15.1
Total	372	100.0

CPA	Frequency	%
Yes	136	36.6
No	236	63.4
Total	372	100.0

Findings

Tables 2 and 3 present significant concerns about the implementation of ISQC 1. Table 2 shows that the greatest concern of the subjects is the Leadership responsibilities and quality control within the firm (tone at the top) (Mean = 3.81, SD = .788), followed by the Engagement performance (Mean = 3.69, SD = 0.881). On the other hand, the Acceptance and continuance of client relationship and specific engagement is of least concern to the subjects. Deeper analysis of the six requirements reveals that the descriptive statistics indicate that the greatest concern comes from the policy emphasizing competition rather than quality audit culture (Mean = 4.05, SD = 0.740), limitation of firm's quality control systems (Mean = 3.87, SD = 0.723), time limitation on audit quality before issuing audit report (Mean = 3.85, SD = 0.843), commitment of partners to long-term quality audit (Mean = 3.75, SD = 0.729), insufficient qualified reviewers of audit quality (Mean = 3.65, SD = .936). On the other hand, the least concern raised from ISQC 1 includes that acceptance is based on firms' culture rather than emphasis on information seeking (Mean = 2.87, SD = 0.943) and reliance on specific partners (Mean = 2.89, SD = 0.929). In summary, the respondents are more likely to be concerned about Leadership responsibilities and quality control within the firm (tone at the top), especially Emphasis on competition rather than quality audit culture, followed by Human resources, while the respondents are least concerned about Acceptance and continuance of client relationship and specific engagement.

Table 2 Descriptive statistics of problems concerning ISQC 1

1. Leadership responsibilities and quality control within the firm	**Mean**	**SD**
1.1 Emphasis on competition rather than quality audit culture	4.05	0.740
1.2 Policy to allocate sufficient human resources	3.57	0.933
1.3 Commitment of partners to long-term quality audit	3.75	0.729
1.4 Limitation of firm's quality control systems	3.87	0.723
Average	**3.81**	**0.788**
2. Ethical requirements		
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.40	0.765
2.2 Time pressure which causes unawareness of important audit procedures	3.60	1.029
2.3 Anxiety of losing clients by doing unethical issue	2.92	0.821
2.4 Management force causing unawareness of important audit procedures	2.96	0.892
Average	**3.47**	**0.883**
3. Acceptance and continuance of client relationship and specific engagement		
3.1 Time limitation on seeking client background	3.25	0.634
3.2 Long-term relationship with clients	3.01	0.887
3.3 Reliance on specific partners	2.89	0.929
3.4 Based on firm's culture rather than emphasis on information seeking	2.87	0.943
Average	**3.01**	**0.816**
4. Human resources		
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	3.38	1.137
4.2 Insufficient reviewers of audit quality	3.65	0.936
Average	**3.51**	**1.022**
5. Engagement performance		
5.1 Time limitation on audit quality before issuing audit report	3.85	0.843
5.2 Insufficient qualified reviewers of audit quality	3.53	0.970
Average	**3.69**	**0.881**
6. Monitoring		
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.62	0.703
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.55	0.837
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.53	0.757
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.45	0.712
Average	**3.54**	**0.744**

Table 3 (a) – (e) indicates the hypothesis testing of factors influencing problems in the implementation of ISQC 1. The study expects that the difference of subject profile, including Age, Education, Work experience, Position and CPA status should indicate some differences of problems raised from ISQC 1. Not surprisingly, it is found that when classified by Age, higher age is more likely to raise concerns than younger age. This means that higher age is one of the factors to foresee the problems when implementing ISQC 1. Similarly, when classified by work experience, the higher the work experience, the more problems could be foreseen. When classified by Education, the subjects whose education are at masters level, are more likely to raise some concerns than at bachelor on Requirements 2, 4 and 5, while when classified by Position, the higher position of subjects are more likely to raise some concerns on Requirements 1, 2 and 5. Lastly, when classified by CPA status, the subjects who had a CPA license seem to pay attention to Requirements 4, 5 and 6. In conclusion, the hypothesis testing points out significant findings that when subjects have been in the audit profession for a long time (i.e. higher age, long-time work experience, higher position, higher education and CPA license), the problems in the implementation of ISQC 1 will be more foreseeable than those of younger subjects.

Table 3 (a) Problems Concerning ISQC 1, Classified by Age

1. Leadership responsibilities and quality control within the firm	**Less than 25 (A)**	**25-35 (B)**	**More than 35 (C)**	**P-Value (2- Tailed) F-Test**	**P-Value (2- Tailed) KW-Test**	**Noted**
1.1 Emphasis on competition rather than quality audit culture	4.09	4.02	5.00	**0.025**	**.010**	C>A, B>C
1.2 Policy to allocate sufficient human resources	3.60	3.56	3.00	0.438	0.135	
1.3 Commitment of partners to long-term quality audit	3.66	3.79	5.00	**0.001**	**.001**	C>A, B>C
1.4 Limitation of firm's quality control systems	3.80	3.91	4.00	0.330	0.615	
2. Ethical requirements						
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.20	3.51	4.00	**0.001**	**0.001**	B>A
2.2 Time pressure which causes unawareness of important audit procedures	3.57	3.61	4.00	0.668	0.750	
2.3 Anxiety of losing clients by doing unethical issue	2.77	3.02	3.00	**0.019**	**0.040**	B>A
2.4 Management force causing unawareness of important audit procedures	2.77	3.05	4.00	**0.001**	**0.001**	B>A, C>A
3. Acceptance and continuance of client relationship and specific engagement						
3.1 Time limitation on seeking client background	3.20	3.25	5.00	**0.001**	**0.001**	C>A,B
3.2 Long-term relationship with clients	2.69	3.21	3.00	**0.001**	**0.001**	B>A
3.3 Reliance on specific partners	2.51	3.09	3.00	**0.001**	**0.001**	B>A

1. Leadership responsibilities and quality control within the firm	Less than 25 (A)	25-35 (B)	More than 35 (C)	P-Value (2- Tailed)		Noted
				F-Test	KW-Test	
3.4 Based on firm's culture rather than emphasis on information seeking	2.83	3.30	3.00	**0.001**	**0.001**	B>A
4. Human resources						
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	2.83	3.72	3.00	**0.001**	**0.001**	B>A
4.2 Insufficient reviewers of audit quality	3.20	3.93	3.00	**0.001**	**0.001**	B>A
5. Engagement performance						
5.1 Time limitation on audit quality before issuing audit report	3.57	4.02	4.00	**0.001**	**0.001**	B>A
5.2 Insufficient qualified reviewers of audit quality	3.00	3.84	4.00	**0.001**	**0.001**	B>A
6. Monitoring						
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.71	3.56	4.00	0.072	0.206	
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.34	3.67	4.00	**0.001**	**0.001**	B>A
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.23	3.70	4.00	**0.001**	**0.001**	B>A
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.43	3.46	4.00	0.283	0.177	

Table 3 (b) Problems Concerning ISQC 1, Classified by Education

1. Leadership responsibilities and quality control within the firm	Bachelor	Masters	P-Value (2- Tailed)	
			T-Test	MW-Test
1.1 Emphasis on competition rather than quality audit culture	4.03	4.18	0.321	0.156
1.2 Policy to allocate sufficient human resources	3.57	3.59	0.226	0.898
1.3 Commitment of partners to long-term quality audit	3.76	3.71	**0.011**	0.434
1.4 Limitation of firm's quality control systems	3.86	3.94	**0.026**	0.539
2. Ethical requirements				
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.43	3.24	**0.021**	**0.083**
2.2 Time pressure which causes unawareness of important audit procedures	3.54	3.88	0.904	0.007
2.3 Anxiety of losing clients by doing unethical issue	2.89	3.06	**0.011**	**0.162**
2.4 Management force causing unawareness of important audit procedures	2.99	2.82	**0.001**	**0.187**

1. Leadership responsibilities and quality control within the firm	Bachelor	Masters	P-Value (2- Tailed)	
			T-Test	MW-Test
3. Acceptance and continuance of client relationship and specific engagement				
3.1 Time limitation on seeking client background	3.17	3.59	0.076	**0.001**
3.2 Long-term relationship with clients	2.93	3.35	**0.032**	**0.001**
3.3 Reliance on specific partners	2.78	3.29	0.070	**0.001**
3.4 Based on firm's culture rather than emphasis on information seeking	3.05	3.41	0.149	**0.001**
4. Human resources				
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	3.18	4.24	**0.020**	**0.001**
4.2 Insufficient reviewers of audit quality	3.50	4.29	**0.001**	**0.001**
5. Engagement performance				
5.1 Time limitation on audit quality before issuing audit report	3.71	4.47	**0.003**	**0.001**
5.2 Insufficient qualified reviewers of audit quality	3.37	4.24	**0.014**	**0.001**
6. Monitoring				
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.67	3.41	**0.001**	0.106
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.42	4.12	0.180	**0.001**
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.51	3.59	0.792	0.468
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.51	3.18	0.446	**0.001**

Table 3 (c) Problems Concerning ISQC 1, Classified by Work Experience

1. Leadership responsibilities and quality control within the firm	Less than 5 years (A)	5 - 10 (B)	More than 10 years (C)	P-Value (2- Tailed)		Noted
				F-Test	KW-Test	
1.1 Emphasis on competition rather than quality audit culture	4.08	3.88	4.50	**0.001**	**0.001**	C>A,B
1.2 Policy to allocate sufficient human resources	3.63	3.22	4.40	**0.001**	**0.001**	C>A,B
1.3 Commitment of partners to long-term quality audit	3.71	3.78	3.90	0.264	0.236	
1.4 Limitation of firm's quality control systems	3.73	3.84	4.70	**0.001**	**0.001**	C>B,A

1. Leadership responsibilities and quality control within the firm	Less than 5 years (A)	5 - 10 (B)	More than 10 years (C)	P-Value (2- Tailed)		Noted
				F-Test	KW-Test	
2. Ethical requirements						
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.37	3.44	3.40	0.254	0.801	
2.2 Time pressure which causes unawareness of important audit procedures	3.59	3.69	3.40	0.293	0.393	
2.3 Anxiety of losing clients by doing unethical issue	2.84	3.09	2.80	**0.015**	**0.037**	B>A
2.4 Management force causing unawareness of important audit procedures	2.84	3.25	2.60	**0.001**	**0.001**	B>A, B>C
3. Acceptance and continuance of client relationship and specific engagement						
3.1 Time limitation on seeking client background	3.24	3.19	3.50	**0.021**	**0.011**	C>B,A
3.2 Long-term relationship with clients	2.69	3.41	3.50	**0.001**	**0.001**	C>B,A
3.3 Reliance on specific partners	2.57	3.28	3.10	**0.001**	**0.001**	B>A, C>A
3.4 Based on firm's culture rather than emphasis on information seeking	2.86	3.44	3.40	**0.001**	**0.001**	
4. Human resources						
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	3.00	3.94	3.50	**0.001**	**0.001**	C>B,A
4.2 Insufficient reviewers of audit quality	3.47	3.97	4.00	**0.001**	**0.001**	C>B,A
5. Engagement performance						
5.1 Time limitation on audit quality before issuing audit report	3.63	4.16	4.00	**0.001**	**0.001**	C>A, B>A
5.2 Insufficient qualified reviewers of audit quality	3.16	3.94	4.10	**0.001**	**0.001**	C>A, B>A
6. Monitoring						
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.76	3.63	2.90	**0.001**	**0.001**	C>A, B>A
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.43	3.56	4.10	**0.001**	**0.001**	C>A, B>A
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.33	3.81	3.60	**0.001**	**0.001**	B>A
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.47	3.47	3.30	0.363	0.280	

Table 3 (d) Problems Concerning ISQC 1, Classified by Positions

1. Leadership responsibilities and quality control within the firm	Operational Level	Management Level	P-Value (2- Tailed)	
			T-Test	MW-Test
1.1 Emphasis on competition rather than quality audit culture	3.97	4.50	0.786	**0.001**
1.2 Policy to allocate sufficient human resources	3.44	4.29	**0.001**	**0.001**
1.3 Commitment of partners to long-term quality audit	3.73	3.86	0.115	0.384
1.4 Limitation of firm's quality control systems	3.75	4.57	0.175	**0.001**
2. Ethical requirements				
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.43	3.21	0.218	**0.046**
2.2 Time pressure which causes unawareness of important audit procedures	3.68	3.14	**0.035**	**0.001**
2.3 Anxiety of losing clients by doing unethical issue	3.00	2.50	**0.028**	**0.001**
2.4 Management force causing unawareness of important audit procedures	3.05	2.43	**0.041**	**0.001**
3. Acceptance and continuance of client relationship and specific engagement				
3.1 Time limitation on seeking client background	3.24	3.29	**0.002**	0.785
3.2 Long-term relationship with clients	3.00	3.07	0.396	0.344
3.3 Reliance on specific partners	2.84	3.07	0.191	**0.038**
3.4 Based on firm's culture rather than emphasis on information seeking	3.13	3.07	0.059	0.504
4. Human resources				
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	3.33	3.64	0.068	0.068
4.2 Insufficient reviewers of audit quality	3.57	4.07	**0.001**	**0.001**
5. Engagement performance				
5.1 Time limitation on audit quality before issuing audit report	3.78	4.21	**0.001**	**0.001**
5.2 Insufficient qualified reviewers of audit quality	3.44	4.00	**0.001**	**0.001**
6. Monitoring				
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.72	3.07	**0.001**	**0.001**
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.47	4.00	**0.001**	**0.001**
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.51	3.64	**0.018**	0.198
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.47	3.36	0.110	0.189

Table 3 (e) Problems Concerning ISQC 1, Classified by CPA status

1. Leadership responsibilities and quality control within the firm	**CPA**	**Non-CPA**	**P-Value (2- Tailed)**	
			T-Test	**MW-Test**
1.1 Emphasis on competition rather than quality audit culture	4.09	4.03	0.076	0.623
1.2 Policy to allocate sufficient human resources	3.71	3.49	0.197	0.056
1.3 Commitment of partners to long-term quality audit	3.94	3.64	**0.001**	**0.001**
1.4 Limitation of firm's quality control systems	4.21	3.68	**0.038**	**0.001**
2. Ethical requirements				
2.1 Rotation of engagement partner and the engagement quality control reviewer	3.47	3.36	0.265	0.220
2.2 Time pressure which causes unawareness of important audit procedures	3.59	3.61	0.252	0.713
2.3 Anxiety of losing clients by doing unethical issue	2.97	2.90	0.880	0.523
2.4 Management force causing unawareness of important audit procedures	3.12	2.86	**0.047**	**0.007**
3. Acceptance and continuance of client relationship and specific engagement				
3.1 Time limitation on seeking client background	3.29	3.22	0.882	0.357
3.2 Long-term relationship with clients	3.47	2.75	**0.001**	**0.001**
3.3 Reliance on specific partners	3.32	2.61	0.052	**0.001**
3.4 Based on firm's culture rather than emphasis on information seeking	3.53	2.88	0.089	**0.001**
4. Human resources				
4.1 Unspecific roles of audit staff (i.e. field auditor vs. reviewer)	3.94	3.05	0.031	0.001
4.2 Insufficient reviewers of audit quality	4.18	3.34	0.025	0.001
5. Engagement performance				
5.1 Time limitation on audit quality before issuing audit report	4.15	3.68	0.308	0.001
5.2 Insufficient qualified reviewers of audit quality	4.06	3.22	0.004	0.001
6. Monitoring				
6.1 Evaluation of the effect of deficiencies noted as a result of the monitoring process	3.44	3.73	0.002	0.002
6.2 Insufficiency of monitoring staff to follow up the collection of deficiencies	3.68	3.47	0.001	0.014
6.3 Unclear deficiencies provided by audit reviewer due to inexperience	3.91	3.31	0.325	0.001
6.4 Unclear and inappropriate implication and communication recommended by reviewer	3.53	3.41	0.521	0.052

Conclusions and Implementation

This study presents significant information about the recent concerns when implementing ISQC 1 for small and medium audit firms in Thailand. In addition, the study also pinpoints the concerns given by practitioners when implementing ISQC 1. Using a questionnaire of 372 subjects allows data from different perspectives and a wide range of respondents. Most subjects agreed that the implementation of ISQC 1 for small and medium auditing firms would affect them negatively. This finding is consistent with the studies conducted in South Africa (Research report (2005)) and Malaysia (Ismali, (2008)). This study analyzes the issues of the negative effects in detail. These represent Leadership responsibilities and quality control within the firm (tone at the top), including Emphasis on competition rather than quality audit culture, Commitment of partners to long-term quality and Limitation of firm's quality control systems. Under Engagement performance, the subjects pointed out that the concern is about Time limitation on audit quality before issuing audit report. Furthermore, the study also finds that the greater the maturity of respondents (i.e. age, work experience, position), the more problems with the implementation of ISQC 1 will be foreseeable.

These important findings on the concerns about implementing ISQC 1 could assist small and medium audit firms to perceive current situations facing partners and regulators. Based on the fact that the greatest concerns are about Leadership responsibilities and quality control within the firm, it can be concluded that small and medium audit firms have not balanced the quality of the audit process and audit fees earned. Partners of small and medium firms should be aware of this issue by setting policies to handle the situation properly. For example, to reduce management costs, it is a good idea for small and medium audit firms to cooperate. For example, they can share audit assistants and even partners, especially Engagement Quality Control Reviews (EQCR) partners. The idea of co-training sessions should be one of cost reduction. These issues must be managed by top management of small and medium audit firms; otherwise, the situation of an imbalance between audit quality and cost could cause the termination of small and medium audit firms. In addition, regulators should take significant roles to support small and medium audit firms in this issue. For example, they should not just try to be "policemen"; the role of advisors should take into consideration the transitional stage, helping small and medium audit firms to create check-lists and also following up on the implementation of these check-lists. This system will allow small and medium audit firms to adjust themselves to survive in such a period. This should also help to balance the number of audit firms (i.e. big and small and medium firms); otherwise, in the long-term, big firms would have an even greater majority market share in the auditing industry. Another idea could also be useful. It is to divide practitioners into two layers, namely listed and non-listed company auditors. Practitioners who audit listed companies should be better resourced than those auditing non-listed companies. Regulators (i.e. the Stock Exchange Commission) should be more serious to inspect the implementation of ISQC 1. On the other hand, lower regulators (the Federation of Accounting Professions) should take the role as a guardian of auditors of non-listed companies. This should help the audit society to develop in the future rather than let "the Big 4 conquer the world".

References

Carcello, R. H., et. al. (1992) Audit Quality Attributes: The Perceptions of Partners, Preparers, and Financial Statement Users. Auditing: *A Journal of Practice & Theory; 1-15.*

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics 3;* 183-199.

Federation of Accounting Professions. (2011). *The International Standard on Quality Control* 1 (ISQC 1).

Federation of Accounting Professions. (2011). *ISA 220 "Quality Control for audits of Historical Financial Information".*

Ismail, Aida Hazlin, et. al. (2008). *Implementation of Audit Quality Control System: Preliminary*

Evidence from Small and Medium Audit Practices in Malaysia. Paper presented to the 9th Asian Academic Accounting Association Annual Conference.

Pflugrath, G., Martinov-Bennie, N., Chen, L (2007). The impact of codes of ethics and experience on auditor judgments. *Managerial Auditing Journal, 22*(6), 566-589.

Research Report, (2005). *Implementation of International Quality Control Standards in South Africa. School of Accountancy, University of the Witwatersrand, South Africa.*

Sanusi, Zuraidah Mohd, et. al. (2009). *AQuR System: Augmenting Audit Quality in Malaysia. Research report submitted for Malaysian Accountancy Research and Education Foundation (MAREF).*