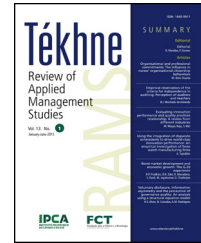




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ARTICLE

# The audit report as a dependent variable: An empirical analysis of Portuguese public hospitals

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**Abstract** The aim of this study is to find out if the dependent variable, audit report with respect to the Portuguese public hospitals, is related/correlated to the independent variables (assets, liabilities, equity capitals, turnover or the number of workers). The research was carried out for a specific type of entity, and is based on the empirical analysis of the audit reports, detailed for years, issued between 2003 and 2008, to which we applied the methodology of box plots, complemented by a variance analysis (ANOVA to a factor). The results allow us to conclude that the dimension of the audited companies, measured according to the criteria mentioned above, does not have an influence on the type of audit report. The research is innovative at an international level and has been implemented for the first time in Portugal as it tackles the specific universe of public hospitals.

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## 1. Introduction

The Law [27/2002](#), of the 8th November, improved and applied by the Decree-Laws n° [233/2005](#), of the 29th December, and [244/2012](#), of the 9th November, establish the legal framework for the management of the large Portuguese public hospitals which were transformed into public establishments of a business nature, as limited liability companies (SA) and, later, as corporate public entities (EPE). This change in paradigm had an underlying liberal philosophy,

as a general principal, based on the freedom of choice of health establishment, a service in real time and the rigorous compliance of the professional, ethical and deontological norms. This new philosophy is equally based on adequate provisional management instruments: plans of annual and multiannual activity and budgets. In addition, to accompany and control this new management strategy, all hospitals were part of a rigorous accountability process based on an evaluation founded on indicators measuring their performance and efficiency, despite the management of a public hospital being different from the management of a private hospital.

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Alongside with this supervision of the management activity, a statutory auditor (ROC) controls the accountability process where the internal auditor proceeds to the internal control in the financial, operational, IT and human resources accounting areas. The auditors' fees in the Portuguese public hospitals, in the form of a public corporate entity, are not defined in terms of public procurement, with the lowest price criterion. The auditors are appointed by the Ministry of Finance and currently their fees represent 22.5% of the salary of the Chairman of the Board of Directors, which amounts to a little more than €1000 (Article 15 of Decree Law 18/2017 of February 10). The appointment is made by the Ministry of Finance, which holds 100% of the shareholder control of EPE Hospitals. The reasons multinational auditors have not been appointed are unknown to us, however, it is understood that this measure avoids further strengthening the existing audit oligopolies.

It is important to note that the public hospitals SA/EPE are not a homogeneous reality. In effect, the first wave of transformation of the hospitals into SA comprises 31 hospitals belonging to the administrative public sector, with different sizes, when evaluated according to the assets, the liability, the equity capital, the business turnover and the number of workers.

From the analysis of the reports issued by the statutory auditors between 2003 and 2008, we noticed that the great majority of the audit reports were qualified with various reserves, and also comprised emphases on the most varied aspects of hospital management.

Given that the entities mentioned above were audited for the first time following the statutory auditor's model, we wanted to know if it was possible to establish correlations between the audit reports that express an auditor's opinion or judgement on the patrimony, finances of the hospital sector, and the dimension of the hospitals considered in the light of the indicators mentioned above: this is the theme of the study.

The theme is innovative in Portugal and, as far as we know, at an international level. Indeed, as far as we are aware, the relationships between the quantities reflected in the financial statements (DF) and the type of audit report have not been globally researched. This important particularity is the subject of research: public hospitals legally considered EPE/SA.

To carry out our research, we have reviewed in the second section the existing bibliography directly or indirectly related to this subject. In the third section, we present the methodology used in the approach, to then, in the fourth part analyse it. In the fifth section, we discuss the results. Finally, in the sixth section, we present the conclusions, the limitations of the study and the proposals for further research.

## 2. Literature review

The quality of an audit is fundamental for all the stakeholders interested in the company. This attribute is based on numerous judgments made by auditors during an audit, which are considered determinant elements in the type of opinion released. As referred by [Maijoor and Vanstraelen \(2012\)](#), the quality of an audit and the public trust are the

two sides of the same coin, and, without this, an audit has no value. These attributes – quality of an audit, judgement and report of opinion – are strictly connected and are based on a professional scepticism attitude, considered to be a fundamental anchor in the development of the whole audit process. In fact, this posture allows for the permanent adjustment of the nature, the time and the extension of the auditing procedures ([Popova, 2013](#)). Indeed, [Carmichael and Craig \(1996\)](#) consider that one of the main reasons for the failures in audits is the fact that the auditor does not keep the procedure of permanent doubt when gathering essential evidence for the adequate type of report. This attitude is also pointed out as fundamental by the regulators ([PCAOB, 2008](#)), [Gunny and Zhang \(2013\)](#) and by [Bluhm and Cowperthwaite \(2013\)](#) who supervise the quality of the work carried out by auditors – in which the report of opinion is included –, and they concluded that there is a lack of scepticism and objectivity in the performance of an audit. In turn, [Nelson \(2009\)](#) considers that the professional suspicion is related to the auditor's personal traits, and with the specific experience of dealing with a certain type of clients. Thus, the most incredulous auditors evaluate with more depth the evidence related to fraud than the less suspicious auditors ([Chen, Trotman, & Zhou, 2015](#); [Popova, 2013](#)).

Consequently, the behavioural factor is fundamental to ascertain the quality of the type of audit report, as referred by [Quadackers \(2007\)](#), [Rose \(2007\)](#) and [Shaub and Lawrence \(1996\)](#). This preoccupation was also recently voiced by [Bhattacharjee and Moreno \(2013\)](#). These authors examined the implications of emotions and moods in the quality of the auditors' judgments and confirmed [Akers and Porter's \(2003\)](#) research that suggests, as a criticism, the emotional intelligence for the success of judgments.

Along with the analysis of the qualitative component, expressed in the psychological component, as a determining factor of the final quality of the audit report, the institutional aspect approach is also considered important, both in the regulator's perspective ([Gunny & Zhang, 2013](#)), and in the view of the governance system of the auditing company itself: when we observe the transparency reports and their relevance in the quality of an audit ([Deumes, Schelleman, Bauwhede, & Vanstraelen, 2012](#)).

In the first focus, the authors suggest that there is a change in the paradigm when the supervision carried out by AICPA (American Institute of Certified Public Accountants) was transferred to PCAOB (Public Company Accounting Oversight Board), an institution that develops four essential programmes: subject, inspection, issue of norms and enforcement ([Brown, 2017](#); [Defond, 2010](#)). In this sense, [Carcello, Neal, Palmrose, and Shohz \(2011\)](#) and [Lenox and Pittman \(2010\)](#) concluded that the PCAOB's supervision encourages the auditors to carry out high quality audits. The supervision carried out by the auditing committee is also referred to as an instrument that can raise the quality of the audit report and of the disclosed financial information ([Bruynseels & Cardinaels, 2014](#); [Cohen, Hoitash, Krishnamoorthy, & Wright, 2014](#)).

In turn, [Deumes et al. \(2012\)](#) examined the transparency reports of some auditing firms and found a weak relationship between the audit report and the efficiency of internal control system ([Boyle, DeZoort, & Hermanson, 2015](#)). Indeed, the transparency reports, containing information about the

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