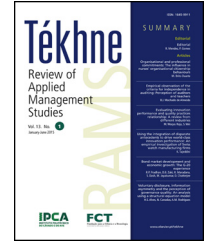




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ARTICLE

Audit role in today's society: The Portuguese perspective

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Abstract The main goal of this investigation is to study the relationships between society and audit in Portugal, through a methodology based on a questionnaire sent in 2015 to public companies listed in the stock exchange and insurance companies, as well as to financial analysts. For this purpose, a group of 25 questions addressing audit main issues was developed. A five-point Likert scale, followed by an appropriate statistical treatment – percentage, *p*-value, correlations of Spearman, test of Mann–Whitney, allowed us to discover correlations and statistical associations of strong and moderate intensity. The results suggest that audited financial statements users' perception regarding the auditors' independence, the audit report, the audit market, the going concern assumption and the search and disclosure of fraud and illegal acts committed by companies are aligned with the international tendencies.

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1. Introduction

Audit does not operate separately. In fact, it is not only linked with the economic system, subject accountability rules, but also with the social, political and ethical system as well as with non-human elements of the global involvement, such as the cultural values, that being influenced by economic, political, legal, educational and religious system, affect the values of the profession and consequently the accountability system. The degrees of economic

development and technology are correlated with the degree of complexity of the accountability system (Ikabal, 2002). In fact, the degree of property power concentration imposes specific needs of financial information disclosure. The concentration of power in pensions funds tends to impose a larger emphasis on the future and on the analysis and administration of business risk (Giroux & Cassell, 2011). The financing sources from banks or stock exchange impose specific rules of financial reporting. A political system and a stable economy improve the development of a more transparent accountability system (Ikabal, 2002).

Society, conceived in a systemic way, includes the existence of a wide and complex web of relationships that, in

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the context of markets globalization, have quickly expanded without a regulator structure capable of monitoring and regulating its development. So the need to develop a civil society becomes urgent. In fact, global companies increase the gap between rich and poor countries, destroying the environment and, in some cases, supporting totalitarian regimes, placing a threat to the existence of a civil society (Annissette & Trivedi, 2013).

The market economy develops accountability that leads to the emergence of *quasi* government agencies (PCAOB, 2006) with the goal to monitor and control the economy and the audit functions. In today's society the investors and the public in general request a more trustful financial and non-financial information as a logical input of the decision making process. A regulated economy needs a structure for the development of the relationships among: responsibilities, transparency, productivity, efficiency and economy. The development of the economic sector includes negotiation and work to synthesize the differences and to increase a larger interaction between the private interest and the public welfare (Louwers, Ramsay, Sinason, & Strawser, 2013; Whittington & Pany, 2010).

Having contextualized the problem, and defined the objective in the summary, it can be stated that this study is unique in Portugal and, at an international level, can be differentiated from other studies (Arens, Elder, & Beasley, 2010; Chu, Xingqiang, & Jiang, 2011; Kaplan & Williams, 2013; Kausar & Taffler, 2004; Lajili & Zéghal, 2005; Mills & Bettner, 1992; Mutchler, 1984; Newman, Patterson, & Smith, 2005; Wright & Capps, 2012) that research the problem of this study through a reductionist and Cartesian approach, centering on very specific themes and users. The study carried out demonstrates in a systematic and integrative way – through 25 questions – the role of auditing in society, and seeks to obtain correlations between the questions analyzed, a perspective that is absent from the aforementioned studies.

In the following section, a review of the literature on the subject is undertaken. In the third part, the methodology is explained. In the fourth section, the results are analyzed, whilst in the fifth, the results are discussed. Finally, conclusions are put forward, limitations of the study are discussed and suggestions for further research proposed.

2. Literature review

The Green Paper (European Commission, 2010) guides the auditor's function in direction of companies going concern problems and in the investigation of frauds and illegal acts, based on the assumption that the development of the European common market should be based on the transparency of the financial information disclosed by companies, which is considered essential to consolidate the well-being and the competitiveness of the European Union (Hergaty, 1997). As the financial information is used for a wide group of economic-social decisions it is considered as a public welfare, raising the need for regulators to parameterize the annual reports information (Newman et al., 2005).

In fact, the combination of globalization, technology and institutional investors' growing power changed the relationships among companies, markets and the way that financial

information is disclosed: a smaller trust is granted to the traditional financial reports, which are put in second place in relation to the introduction and analysis of the risk in administration reports (Lajili & Zéghal, 2005). This situation induces an increase of regulation confining the auditors' activity (PCAOB, 2006; SOX, 2002) as proposed by Porter (1997). Initially, audit was interpreted as a group of techniques of analysis and investigation, in which the users were considered an exogenous variable. However, being considered a social phenomenon (Flint, 1988), and inserted in the accountability relationships (Flint, 1988; Gray, Owen, & Adams, 1996), it assumes a social dimension since it affects human behavior and economic involvement. In this context, the social concept of audit is adaptable and its operational interpretation depends not only on the ethical values, but also on the value of judgments made by society in relation to aspects to which the accountability rules should be applied.

According to Flint (1988), the audit function should embrace information beyond the accounting dimension, involving aspects related with value for money, that is to say, the economy, the efficiency and the effectiveness of organizations. Audit is based on a social need, involving an interaction among auditors, audit organisms and other social groups, so that audit function should adapt to society values. The audit value inside the accountability process transcends the compliance audit, embracing the analysis of how management handles the resources with efficient and effectiveness (Lee, 1996; Sherer & Kent, 1983; Tincker, 1982). This audit role is criticized by Mills and Bettner (1992) who argue that the audit process, and the supporting standards that support it, are destined to mask the existent social conflicts, even suggesting that audit is a mere ritual to maintain the social order and to legitimate the auditor's action (Mills & Bettner, 1992) being so stigmatized by supporting the ideology of the capitalism (Portwood & Fielding, 1981). Together with these general investigations that discuss the paper of audit in today's society, more specific analyses are being developed centered on more partial aspects of the global problem that is the relationships between audit and society, such as: the size of the audit companies and their independence, the perception that the society has of the audit report, the enlargement of the audit function for the evaluation of the going concern assumption and the continuous pressing and present search of illegal acts, frauds and corruption and, finally, the understanding, for the society, of the proper characteristics and attributes of an audit.

In result of great financial scandals (Enron, Worldcom and Tyco, etc.), the investigation was centered on auditor's independence as a main and inherent theme to the proper foundations of audit (Intosai, 2009; Sawalga & Qtish, 2012; Stewart & Subramanian, 2009; Wright & Capps, 2012). Auditors and organization have demonstrated that the lack of the auditor's independence is already perceived by the public, and that there is a relationship between independence and the supply of audit services, suggesting that, in the small audit companies, the independence can be influenced by clients weight, as stated by Kaplan and Williams (2013) and Chu et al. (2011).

Regarding society perceptions on the audit report, several authors (Chanruang & Ussahawanitchakit, 2011; Pongpanpattana & Ussahawanitchakit, 2012; Pongsatitpat

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