

EXAMINING THE FACTORS THAT AFFECT AUDIT QUALITY OF THE EXTERNAL AUDIT SETTING IN SRI LANKA

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ABSTRACT

The primary objective of this study is to examine the factors affecting audit quality in an external audit setting in Sri Lanka. Financial statement manipulation remains a prevalent concern in today's globalized market. Public confidence in financial reporting hinges on the quality of audits, yet its measurement poses significant challenges owing to its inherent complexity and lack of a universally accepted definition. This research bridges the gap in empirical studies surrounding audit quality in Sri Lanka, where the existing findings contradict those in both international and national contexts and contribute valuable insights into a currently understudied area. This study identifies the factors that significantly affect audit quality in the Sri Lankan external audit setting. The study employed a quantitative approach using a structured questionnaire and setting 120 external audit practitioners as the sample size. The researchers used convenience sampling while ensuring the representativeness of the population. The research found that auditors' personal characteristics (auditor competence and auditor mood) affect audit quality in the external audit setting in Sri Lanka. By contrast, conventional firm characteristics (audit tenure, firm size, audit fees, and auditor independence) do not significantly affect audit quality in the Sri Lankan context. Auditors can gain a valuable understanding of the factors that influence their performance and improve their practice accordingly. Regulators can leverage them to strengthen Sri Lanka's audit-quality framework. Finally, financial reporting users can trust the reliability and fairness of audit assessments more confidently. Thus, this study holds significant potential to enhance audit quality in Sri Lanka, promoting a more robust and transparent financial reporting landscape.

Keywords: Audit quality, external audit practitioners, financial statements manipulation