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External Auditor’s Trust in Internal Auditors

The Cultural Effect - A Study Between Greece and Sweden

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Preface

We want to thank everyone that answered our questionnaire and made this paper possible. We also want to thank our supervisor, who guided us during the writing of this paper. We also want to thank each other for a good cooperation that has made this paper possible and of course our families for the continuous support.

The paper has been made in its entirety by both authors together.

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Summary

Nowadays, the importance of the external auditing is demonstrated by the highly risky business environments, that fertilize the fraud and irregularities, which lead businesses to provide mistaken financial statements and misleading financial information. The uncertainty that occurs in the decision process in businesses, enhance the risks and requires the attention of the employees. More specifically, the audit profession is characterized by high levels of ambiguities, with a combination of serious responsibilities that affect the financial position of the companies. Following this, businesses started to consider the advantages of having an internal control department. This internal audit function would, on the one hand provide consulting services for the proper operation of the company, but would also assist the external control. With this intention, our research attempt to provide further clarification of a judgmental problem that appears when external auditors utilize the internal control’s work.

The external auditor’s judgments are affected by a variety of factors, such as the professional qualities and the communication abilities of the internal auditors, but also the external’s auditor personal experiences and personality. In our research we have chosen to demonstrate if culture is a factor that could affect the trust towards the internal audit function. This is because there is an increasing awareness that culture is an important factor that affects many actions and outcomes in finance (Lehnert et al. 2013). In order to identify the culture as a factor, we have utilized the theory of Hofstede and the uncertainty avoidance level; this is due to the high levels of uncertainty that occurs in decisions of trust. According to Hofstede et al. (2010, pp. 191), the avoidance of uncertainty is defined as “the extent to which the member of a culture feel threatened by ambiguous or unknown situations”.

Regarding our research, we have compared Greek with Swedish external auditors, so as to identify whether their cultural dimension in uncertainty avoidance affect the trust in the internal audit function. Our choice is due to the Hofstede results, in which Greece is in the higher level of the uncertainty avoidance, and Sweden is in the lowest. Thus, we have compared two totally different cultures in order to enhance the interest for our study.

The research was conducted with questionnaires that were demonstrated by questions divided in three categories, and a case study by Richard G. Brody (2012) “External auditors' willingness to rely on the work of internal auditors: The influence of work style and barriers to cooperation”; the case was adjusted
so as to meet the EU business regulatory environment. The first questions aim to provide information about the demographic characteristics of the participants, in the second part was measured the trust that the external auditor would show towards the internal control’s information and the third part was focused on the cultural aspect; the uncertainty avoidance. The questionnaire answers where gathered through email and phone communication with the audit firms.

The results of our research showed that Greek auditors follow Hofstede’s outcomes concerning their judgments the internal audit work. The Swedish auditors are totally different than expected. Consequently, the high regulatory system, the rules and the risks that occur within the profession, drive the Swedish auditors to present a different cultural style and avoid uncertainty more in their job responsibilities.

Thereupon, the Greek and the Swedish external auditors are avoiding the uncertainty in a high degree. Both of the cultures preferred regulations and rules, overtime work and advice from supervisors and experts. In conclusion of our research, our findings support that the cultural dimension, in avoidance of uncertainty, affected the judgments of the external auditors in terms of proceed additional activities for investigating the internal audit work.
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1. Introduction

The organizational management is primarily characterized by the uncertainty that occurs in the decision making processes. In order to judge an important issue, the employees need to deeply investigate the relevant information, and gather more evidences on the particular aspect that they are interested in (Ghauri & Gronhaug 2010). With this intention, our research attempt to provide further clarification of a judgmental problem that appears between internal and external auditing professional services. A study that was conducted by Brody (2012), showed that work style would influence auditors' assessment of the internal auditors' work. Brody (2012) also came to the conclusion that there is an interaction between competence, objectivity and budgetary pressures.

Internal audit is considered to have a growing importance for the organizations nowadays. The academic literature that exists has demonstrated various definitions about this business function. The Institute of Internal Auditor's define internal audit as “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization” (IIA 2016). At the same time, corruption and business scandals occurred, which raised the significance of the external audit of the financial information. The external auditors are expected to apply their relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in forming decisions about the courses of action that are appropriate in the circumstances of the audit engagement (Eilifsen et al. 2010). Given these points, the external auditor should investigate and judge the internal audit work.

There are various variables that influence the judgments of the external auditors which should be accomplished when they utilize the internal audit work. In particular, our paper would conclude if the culture is a variable that affects the trust that the external auditors present in the internal auditors. There is an increasing awareness that culture is an important factor that affects many actions and outcomes in finance (Lehnert et al. 2013). The huge cultural differences that occur between the Greek and the Swedish nationalities are supposed to conclude in enormous differences in our results. Thus, it would be extremely interesting to detect the possible convergences and declines regarding this specific profession that is characterized by extensive risks and sensitive responsibilities. During the years many researchers have studied the cultural dimension in the business environments (Weber & Hsee 2000), as the
companies expanded on an international level; having operations that are worldwide and multinational teams that should cooperate efficiently.

The differences in Greece and Sweden can be showed by the Uncertainty Avoidance factor that Hofstede (2010) has determined. Greece is on the upper part, having high uncertainty avoidance, while Sweden is on the lower part, having low uncertainty avoidance. Trust is connected to uncertainty and risk in the relationship between the external auditor and the internal auditor’s work. Measuring the uncertainty of avoidance would provide a sufficient determination if there is a cultural effect. Auditors with different tolerance levels of uncertainty would therefore approach the uncertainty with different amounts of information and time (Cowperthwaite 2010).

The idea of this paper started from the fact that the authors are originated from these cultures; Greece and Sweden. This enables an extensive interpretation of the research results, on how culture can affect the trust and judgment of the external auditor in the internal auditor's work. Furthermore, the uncertainty avoidance is the cultural dimension, which we find interesting, to lead our research question as the two countries represent these extreme differences in Hofstede study. Additionally, after the business failures during the recent years, the importance of effective controls has grown (Masli et al. 2010 cited in Cram & Gallupe 2016) and control issues still remain in complex environments (Mazmanian & Konkel 2013 cited in Cram & Gallupe 2016). Therefore, we believe that the high risks and the important responsibilities of the external auditors will drive the professionals to demonstrate different behaviors than expected regarding their cultural background.

1.1. Research Question

Does culture affect the trust of external auditors in the internal audit work?

1.2. Problem Statement

External auditors are affected by various reasons regarding their trust towards the internal auditor's work. The competence, the objectivity, the work performance of internal auditors could be some examples of these reasons that will be explained further in our paper. Regarding the academic researches, the culture could be a factor that affects the decision making and the judgments of the external auditors. However, there is no significant evidence from the academic literature about this assumption. Concerning our research, we
attempted to demonstrate the cultural effect based on the Hofstede model that measures the cultural differences among the world’s nationalities, by focusing on the Avoidance of Uncertainty cultural dimension, and a case study that would reveal the extent which the external audit will rely on internal audit work.

1.3. Delimitations

Concerning our research, we should point the limitations that existed. Firstly, it was not possible to collect answers from every audit firm in Greece and Sweden, even if we attempt by contacting them. Secondly, the participants may not respond to the case study as they would do in reality. Lastly, we assume that all the other variables that affect the external audit judgment on internal audit work remain constant and contribute in representing trust in the given information. Consequently, future research in this field is needed so as to provide further clarifications about the subject.
2. Theoretical Framework

This chapter will contain a description of the internal and external audit, as well as the relationship between them and the rules that the auditors should follow in each function. It will also contain the qualitative aspects that the internal audit should represent, according to previous studies, and would affect the external auditors trust in them. The chapter will end with a description of culture and avoidance of uncertainty dimension.

2.1. Internal Audit

According to Institute of Internal Auditors “Internal auditing is an independent objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit supports an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (IIA 2016). In other words, this means that the aim of internal audit is to review the organization's system and controls (O'Donnell 2015). The scope and the objective of internal audit function for companies that are following the IFRS standardization is stated by the International Accounting Standards Board (IASB). IASB underlines that the internal audit scope and objectives vary widely and depend on the size and structure of the entity and the management requirements.

The internal audit function, among others, includes the review of accounting systems, examination of financial information and the review of compliance with laws and regulations. The internal control system reviews all the techniques that the management utilizes in order to ensure the prevention of fraud, insurance of capital and the early preparation of useful financial statements (Drogalas et al. 2006). Internal audit has an important role as it conducts risk assessments and validates policies and procedures to be the first to identify possible waste, fraud or theft. Also, this function ensures that the company is following rules and regulations (O'Donnell 2015). The internal audit, seen by the stakeholders, has several key areas of perceived value (Piper 2015). Examples are the advisory work and the ability to help identify new opportunities, as well as being the audit committee’s eyes and ears. After the financial crisis, the period during 2007-2008, the internal audit involved to also approach risk management (Piper 2015). Enterprises that implement internal audit have achieved a competitive advantage (Zhuang 1997 cited in Drogalas et al. 2006).
The internal control systems are implemented to provide additional value to the company and achieve the effective operation of the organization (Scheleifer & Greenwalt 1996 cited in Drogalas et al. 2006). In order to better understand the role of internal audit in businesses, we provide further information about the function based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework CoCo as presented by Moeller (2004):

- Optimizing the use of resources. Internal control optimizes the resources with the management in order to ensure and monitor the right implementation of business policies.
- Prevention or detection of error and fraud. An objective is to prevent the utilization of misleading and fake information taking in consideration the cost element.
- Safeguard the assets. The internal control and the policies of the organization should protect the assets from unintentional exposure to risks.
- Maintaining reliable control systems. The internal control should enhance the reliability of information provided for the development of the financial statements.

The above information clarifies that the internal audit is considered to be the security belt of the businesses for avoiding erroneous situations and misleading results (Papastathis 2003 cited in Drogalas et al. 2006). An advantage of the internal audit, compared to the external audit, is that the internal audit has closer and more knowledge about the business that the organization works in.

### 2.1.1. Greece

The Hellenic Institute of Internal Auditors outlines the internal control as an independent, objective, adequately designed and organized procedure which through technical and scientific approaches, assess how adequately the system of internal control functions (HIIA 2011).

Internal Audit in Greece is not a popular subject in research, thus there is a need of further investigation and examination of this field of business. The internal audit function is a current trend in Greek businesses due to the high uncertainty of the economical and the political environment. It would be valuable to demonstrate the role of internal control function, as stated by Greek authors, in order to understand the role of this function in Greece.

More specifically, according to Karagiorgos et al. (2006), the internal audit department became a substantial factor of management, as it provides assurance for a high quality performance and efficient achievement of the business objectives. Moreover, internal audit is a core operation that approaches the
shortcomings and recommends realistic solution, regarding the high competition that occurs in Greece (Karagiorgos et al. 2006). The modern business environment demonstrates a framework which the internal control could represent a core role, as it transforms the main abilities of the organization in competitive advantages (Drogalas et al. 2006).

2.1.2. Sweden

The internal audit in Sweden is regulated by the Föreningen Auktoriserade Revisorer (FAR) and the function of the internal audit is described in ISA 610. The function is normally to be corroborant and provide consultancy activities made to evaluate and enhance the company's process for corporate governance, risk management and internal control (FAR 2014).

Activities concerning corporate governance
- Ethical and value related goals. Example of this can be goals for performance, the communication of risk and the management of the company.

Activities concerning risk management
- Identify and assess risk exposure and enhance risk management
- Help identifying irregularities

Activities concerning internal control
- Evaluate how control functions
- Examination of economical and operational information
- Reviewing the operating activities
- Reviewing the compliance for rules and regulations

The role of the internal auditor nowadays is more of a role as an advisor (Fredriksson & Wilander 2007). The importance of the internal audit has grown, due to both scandals such as Enron, and the implementation of Sarbanes-Oxley Act (SOX). Swedish companies must have internal auditing if they are listed, if they do not have internal auditing they have to explain why (Fredriksson & Wilander 2007).

2.2. External Audit

External audit is defined as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to the interest users” (Eilifsen et al. 2010, pp. 12). The role of the external auditor is to investigate
and examine the financial statements in order to ensure that the provided information is accurate and reliable for the users. The process of external audit is defined by specific steps which according to Eilifsen et al. (2010) are:

1. Client acceptance. There are specified procedures for the auditing firms in order to accept a new client. The purpose is to identify the risks and the lack of integrity that may the client present.

2. Preliminary engagement activity. There are two levels in this step; the determination of the engagement team requirements and the insurance that the audit firm and engagement team are in compliance with the ethical requirements.

3. Audit plan. This step includes at first a materiality evaluation of the client’s information and afterwards a written plan that sets the overall strategy, the nature, the extent and the limits of the external audit process.

4. Consider internal audit. Cooperation with internal audit so as to understand risks and probable misstatements.

5. Audit business processes and related accounts. Determination of the business accounting cycle and the related accounts that should be audited.

6. Complete the audit. Evaluation of the gathered evidences in order to justify a conclusion. Evaluate the results and issue the audit report. The final phase where the main product of audit is produced; the audit report. The client is asked to correct misstatements and then the external auditor express opinion in the report.

The auditor’s role is to determine whether the reports, prepared by the organization, confront the rules and the regulations for each firm. Therefore, the auditor’s verification of the financial information provides additional credibility to the report and reduces the information risks (Eilifsen et al. 2010). In conclusion, the external auditors are the main actors that are responsible to confront the agency problem that occurs within the organizations. With this intention, the main task is to investigate errors and misleading information in order to provide trustful financial statements to their users. Generally, the provision of accounting information and auditing are regulated in laws. The accounting and auditing professions interpret the laws and create “rules” and recommendations for accounting and auditing practice (Cf. Jönsson 1988, 1994 cited in Öhman et al. 2004).

2.3. Relationship Internal External Audit

According to IASB, the relationship between external and internal auditors is stated by rules which the external auditor should consider before utilizing the
internal audit work. Moeller (2004) provides a short description of these rules as:

- The role and the objective of internal audit are defined by the management and thus the external auditor should report independently on the financial statements.
- There would be maybe opportunities of useful information provided by the internal control that the external auditor could use in determining the nature, time and the extent of external audit procedures.
- The degree of independence differs between the internal and external control as the internal is a part of the organization. The external auditor is sole responsible and should judge alone the financial statements.
- The external auditor should understand and produce a preliminary assessment of the internal audit work with criteria such as organizational status of internal audit function, scope of internal audit function, technical competence and professionalism.
- The external auditor should also consider the timing of liaison and coordination.
- The external auditor should test and evaluate the work of internal auditing.

An important judgment for external auditors is whether to rely on internal auditors' work. This judgment has been one of great contention for years with external auditors tending to rely less than audit clients prefer (Brody 2012). It is clear that both the internal and external auditing has their respective role and objective to fulfill. However, at the same time the internal audit and external audit have overlapping activities. More specifically, we provide specific example in order to understand in depth the situation.

Firstly, both internal and external evaluates the reliability and integrity of the financial information (Engle 1999). Also, they evaluate systems established to ensure that the company is following laws and regulations that are impacting the financial statements. Additionally, they are responsible for evaluating the methods for safeguarding and verifying the assets, while also evaluating the internal control of the financial statements (Engle 1999).

Internal auditors are able to take actions and make efforts for coordination; this is mentioned in “Section 550 of the IIA Standards” which promotes the coordination between internal and external auditors (Engle 1999). Examples of coordination initiatives are frequent meetings, exchanging audit reports, providing information so that the external auditors could evaluate the internal audit work, and that the internal and external auditors use similar audit methods. Due to internal audit work and external audit work overlapping, and that coordination is allowed, duplicate work can be seen as unnecessary (Engle 1999). Duplicate work is a waste of time and expenditure of additional money.
The coordination efforts are encouraged by IIA and AICPA and can enhance the efficiency and effectiveness for both the internal and external audit.

The external auditors are possible to rely on the internal auditor's work if they are satisfied with the competence and objectivity of the internal auditor (Engle 1999). The external auditor can obtain direct assistance from the internal auditor. For instance, the external auditor is able to ask the internal auditor to accomplish specific procedures for the external audit. The rule-making bodies, of the internal and external audit professions, keep expanding the cooperation in a variety of areas (Engle 1999). The internal auditor's role is expanding to be more efficient and informed. Maximizing the relationship with the external auditor can be vital for a successful internal auditing (Engle 1999).

In order to discuss the effects of culture, in the external auditors trust to the internal control function, other variables also have to be recognized as they are possible to have an important effect on this relationship. The trust issue is considered as a very significant subject in the auditing profession. According to Brody (2012), the Public Company Accounting Oversight Board (PCAOB) has recommended to increase the trust in internal auditors in order to reduce the more than expected costs. Additionally, the PCAOB encourage the trust, in appropriate circumstances, to achieve an enhanced and efficient audit. Moreover, the reliance in internal control is possible to effect the time, the nature, the cost and the extent of the audit procedures of the external auditor (Munro & Stewart 2010). Concerning the high uncertainty of the business environments and the regulations that are connected with the auditing profession, the utilization of the internal audit work presents barriers that affect the trust of the external auditors.

More specifically, for the external auditors is mandatory to use their professional judgment so as to determine if they can rely on the work of internal auditors. Brody (2012) in his research concluded that these judgments could be affected by three different categories of variables; competence perception, work performance and objectivity. Schneider (1985) also argued that the three primary factors affecting the evaluation and reliance decisions are the competence, objectivity and the work of the internal control. This assessment of the internal audit is important because if the internal audit provide false information and the external auditors utilize the given data then the external auditors will be blamed for misleading reports. To illustrate, the external auditor may perceive the trust in internal control as a no-win situation that increases their potential litigation risks because it may cause audit failures (Arel et al. 2012).
Assessments are based on a variety of variables that the researches have focused on during the years. Except culture that would be our object of research, we will now discuss the rest of the variables that affect the trust in internal control. With this in mind, the decision of trusting in internal audit work is based firstly on the competence and the objectivity of the internal audit staff in the perception of the external auditor. Another influence is derived by the communication and cooperation barriers. Additionally, among these factors is also the determination of the usefulness of the internal audit outcomes (Brody 2012). Furthermore, another factor is the previous experiences with cooperation with internal audit (Campbell 1993 cited in Brody 2012). These variables remained constant in our research and thus we provide a further analysis of each.

2.3.1. Competence Perception

Assessing the competence of internal auditor is achieved by working through specific key factors that are important, so as to determine the competence level (PCAOB 2015). First of all, education level and professional experience are checked in order to understand the background of knowledge and practical training of the internal auditor.

Furthermore, is the proof investigation, which means the clarification that the internal auditor demonstrates a continuous learning enhancement, and whether the internal auditors have received professional qualifications. After the educational perspectives, factors around the work experience are analyzed. The work procedure contains audit policies, programs, procedures and practices regarding the assignment of the internal auditor. The last part of the competence determination is the result orientation; meaning the supervision, the reviews, the quality of documentation, the reports and the evaluations of the internal auditors’ performance. The competence perception is important, as showed by Brody (2012), because if the internal auditor shows incompetence for example by not knowing terms, there is a risk that leads to poor communication and therefore less trust.

2.3.2. Objectivity

To assess the objectivity of the internal auditor, the external auditor should obtain information from prior years about factors of internal auditor's responsibility and policies that could support existence of objectivity. The responsibility factor could be interpreted on how much important is the internal auditor for the client’s company. For example, whether the internal auditor
reports their findings and provides recommendations to the board. The importance could be regarded even stronger if the internal auditor has direct contact, and reports regularly information to the boards, which means that the internal control function also has the role as a management consultant. Even more, if the board or the owner actually bases the employment decisions related to the information of internal auditors.

Nowadays the internal audit is assisting management in evaluating controls and operations (Drogalas & Karagiorgos 2006). The policies that support objectivity should also cover the spaces of business operations that the internal auditor can and cannot audit. To clarify, areas where the internal auditor has relatives that are employed, or other audit-sensitive factors, should be forbidden to work on. The internal auditor should also not work with auditing areas where they provide consultancy services and own responsibilities.

**2.3.3. Work Performance**

The internal auditing, as underlined above, affects the nature, the timing and the extent of the external auditor’s procedure (PCAOB 2015). To understand if the internal auditing actually is effective, the external auditor must evaluate and test the work of the internal auditor. Factors that should be considered when evaluating procedures are input and output oriented. Input could be determined as if the scope of work is appropriated to meet the objectives, that the audit programs are adequate and that they have documents covering the work performed, which include evidence of supervision and reviews. The other part of the evaluation is output-oriented, for example that the conclusions are consistent with the result. The external auditor is also able to examine some of the controls, transactions or balances that the internal auditor has examined, comparing these with what the external auditor has prepared and perceive as correct numbers. The quality of the internal audit is importance for the reliance in the internal auditor’s work (Brody 2012). It is self-explanatory that when it comes to evaluate a work, there is a higher chance that external audit will trust an internal auditor that has higher quality and performs well.

**2.3.4. Communication**

Communication is not always mentioned as a factor, but it can be important for the reliance on internal auditing (Munro & Stewart 2011). ISA 610 reports that communication is important between the external auditor and the internal
It is especially efficient when the internal auditor can communicate openly, where meeting is held at good intervals during the period (FAR 2014). It is also good if the external auditor has access to the internal auditor's work. It is also important that the external auditor is noticed when the internal auditor finds significant changes, that may affect the work of the external auditor. Communication is not just one-way, so the external auditor should inform the internal auditor if there is a significant change that will affect the internal auditor. There can be barriers to conduct good communication (Brody 2012). Budget constraints or a client that does not want to cooperate, can make the communication weaker. Earlier experiences with conflicts can also make the communication be less desirable, and therefore not as high on the prior list. This is because an external auditor's conflict management style will affect the communication and cooperation (Brody 2012).

### 2.3.5. Personality and Previous Experiences

The reliance decision-making for an external auditor can be based on prior experience with the internal auditor. This may influence the external auditor to make another choice than what another external auditor, without the prior experience, would do (Campbell 1993 cited in Brody 2012). This can make the reliance harder to achieve, or it to be false, because what was true in the prior experience, might not be true this time. Cultural and situational factors (Pickett 2007), and the communication skill and personality that the external or internal auditor have, can change the outcome. Individual’s differences may influence the judgment done by the external, or internal, auditor which is important to recognize (Brody 2012).

### 2.3.6. Other Variables

As earlier mentioned, PCAOB encourage the trust on the internal auditor's work, there still are some problems. Two main problems according, to Brody (2012), are the lower fees earned and the greater liability. External audit fees are determined by internal audit's contribution, where the greater contribution leads to lower fees (Felix et al. 2001). Arel et al. (2012) showed that the reliance on internal auditor's work is negative for the external auditor.

If the external auditor does not represent high trust towards the internal audit control, the external auditor should repeat some parts of the work that were already performed by the internal audit function. So it seems as the external
auditor would not rely on the internal auditor's work, as the external auditor may get lower fee and possible higher risks in their liabilities. Even though, it seems to be a “no win” situation, clients, regulators and politicians pressure the external auditors to trust so as to enhance the audit efficiency.

2.4. The Cultural Effect

Culture is the sum of values, behavioral patterns, morality and life perception that the individuals acquired while growing in a specific society. Nationality is closely connected with culture, and it is an undoubtable truth that different countries also present larger or smaller differences in their life perspectives, due to cultural contrasts. Culture is a product of a particular set of circumstances, thus making every culture unique (Cowperthwaite 2010). It has been defined as “the collective programming of the mind that separates the members of the group or category of people from another” (Hofstede 2001 cited in Hancioglu et al. 2014, pp. 909). The cultural differences that effect the organizational environments, have been studied across the years by many researchers (Weber & Hsee 2000), this is due to the continuous growth of international corporations and business globalization. In general, there is an increment of the awareness that culture consists as a significant element that affects the actions and the outcomes in financial professions (Lehnert et al. 2013).

Considering auditing profession, the culture has a significant role in the auditing process judgments that the auditors face daily. Cowperthwaite (2010) stated that the main reason that culture affects audit is the very nature of the profession, which require the application of professional skepticism and effective communication. Lehnert et al. (2013) argues that culture could play a role in the decision making process. Additionally, Cowperthwaite (2010) also underlined that the differences in culture likely contributes in forming different judgments.

2.4.1. Uncertainty Avoidance

It is important to indicate the cultural dimension, and how it could be associated with the trust between internal and external auditors. Regarding the studies of trust, between internal and external auditors, we detected that uncertainty has a major role in the decision making process of the professionals. Cowperthwaite (2010) argued that auditors with contrast tolerance for uncertainty would require different amount of information and time for conclusions. Consequently, the Hofstede theory about the four
dimensions of culture could provide a valuable base for our conclusions; this is because it states the uncertainty avoidance as a cultural dimension.

It is an undoubtable truth that business environments, and specifically the audit profession, involve high levels of uncertainty and risk that are challenges for the organizations and their people. Thus, uncertainty avoidance effects the decisions of the auditors and the managers in general. The essence of uncertainty is subjective and connected with the cultural environment that people grow. Correspondingly, Hofstede et al. (2010) said that this dimension is a heritage of societies which is sustained through basic institutions and relationships. Therefore, it concludes in a symmetric pattern among the members of the same nationality.

More specifically, in 1965 professor Geert Hofstede conducted a large survey among the IBM subsidiaries about the values of people in different countries (Hofstede 2010). Based on these results Hofstede stated the four dimensions of culture:

- Power Distance
- Collectivism versus Individualism
- Femininity versus Masculinity
- Uncertainty Avoidance

These dimensions could provide a sufficient model for the cross cultural contrasts that occur between the nationalities. Every country is represented by a score measurement on each dimension that indicates the feelings of each culture in the specified issues.

The term uncertainty avoidance was firstly stated by American sociologist James G. March as the ways of handling uncertainty as part and parcel of any human institution in any country (Hofstede et al. 2010). Unexpected consequences and ambiguity are perceived as dangers in some countries, to the end, that they avoid changes and different lifestyles (Hancioglu et al. 2014).

According to Hofstede et al. (2010, pp. 191) the avoidance of uncertainty is defined as “the extent to which the member of a culture feel threatened by ambiguous or unknown situations”. Cultures with strong uncertainty avoidance tend to delight structured organizations and relationships that increase the probabilities for successful predictions and reduce the unknown consequences. Therefore, these societies are having more regulations and control rules about the rights and the duties of the organizational members. However, this does not ensure that all of these regulations work properly.
Regarding the workplace, people with strong uncertainty avoidance tend to provide more effort, attempt being busy in a daily basis and present a constant interest for job responsibilities which severely affects their work life balance. Conversely, people in cultures with weak uncertainty avoidance tend to accept the detected, or not detected, risks and engage themselves in situations that have no regulations. With this intention, these cultures feel confident about solving their issues without formal rules, and believe that the establishment of regulatory systems should be done in case of absolute necessity. In the workplace, these people have the inclination to work hard whenever in needed, have low level of stress and are not motivated from a need of continuous focus on the job responsibilities (Hofstede et al. 2010).

In order to clarify deeply the differences, we demonstrate in Table 1 the key differences between weak and strong uncertainty avoidance societies for work, organization and motivation (Hofstede et al. 2010, pp. 217). These cultural differences could result in real differences in the audit process (Cowperthwaite 2010).
Table 1: Key Differences between Weak and Strong Uncertainty Avoidance Societies
Work, Organization and Motivation

<table>
<thead>
<tr>
<th>WEAK UNCERTAINTY AVOIDANCE</th>
<th>STRONG UNCERTAINTY AVOIDANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>More changes of employer, shorter service</td>
<td>Fewer changes of employer, longer service, more difficult work life balance</td>
</tr>
<tr>
<td>There should be no more rules that strictly necessary</td>
<td>There is an emotional need for rules, even if they will not work</td>
</tr>
<tr>
<td>Work hard only when needed</td>
<td>There is an emotional need to be busy and an inner urge to work hard</td>
</tr>
<tr>
<td>Time is the framework for orientation</td>
<td>Time is money</td>
</tr>
<tr>
<td>Tolerance for ambiguity and chaos</td>
<td>Need for precision and formalization</td>
</tr>
<tr>
<td>Belief in generalists and common sense</td>
<td>Belief in experts and technical solutions</td>
</tr>
<tr>
<td>Top managers are concerned with strategy</td>
<td>Top managers are concerned with daily operations</td>
</tr>
<tr>
<td>More new trademarks</td>
<td>Fewer new trademarks</td>
</tr>
<tr>
<td>Focus on decision process</td>
<td>Focus on decision content</td>
</tr>
<tr>
<td>Entrepreneurs are relatively free from rules</td>
<td>Entrepreneurs are constraint by the existing rules</td>
</tr>
<tr>
<td>There are fewer self-employed people</td>
<td>There are more self-employed people</td>
</tr>
<tr>
<td>Better at invention, worse at implementation</td>
<td>Worse at invention, better at implementation</td>
</tr>
<tr>
<td>Motivation by achievement and esteem or belonging</td>
<td>Motivation by security and esteem or belonging</td>
</tr>
</tbody>
</table>

In regards to our research, we have chosen the comparison between Greece and Sweden so as to identify whether the culture affect the reliability of the external auditor to the internal audit function. The reason for our choice is that these
countries represent an absolutely different cultural dimension, considering the avoidance of uncertainty. In particular, the results from Hofstede survey are demonstrated in Table 2.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>UNCERTAINTY AVOIDANCE (1-115)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>112</td>
</tr>
<tr>
<td>Sweden</td>
<td>29</td>
</tr>
</tbody>
</table>

Table 2 reveals the extreme differences between the two countries when it comes to uncertainty avoidance. Sweden represents a strong degree of tolerance towards the uncertainty. This fact could also be supported by more evidences that indicate Sweden as a country that enhances innovation and risk taking. In contrast Greece tends to be a country that represents a bureaucratic environment with a constraint regulatory system. Consequently, the comparison between these two countries is expected to conclude in enormous differences about the trust of external auditors to internal audit.

2.4.2. Greece

According to Hofstede research, Greece has the highest score on Uncertainty Avoidance. Consequently, Greeks are not comfortable with situations that present high uncertainty. To demonstrate the members of this culture, tend to be more stressful in the business environments and feel anxious towards the consequences of their decisions. The regulatory system is bureaucratic and fulfilled with laws and regulations for all the aspects of the organizations. It is important to underline that, in this way, the Greeks feel safer and protected by the unexpected situations that may occur. Furthermore, due to the high avoidance of uncertainty, people in this culture easily express their emotions and their enthusiasm even with their body language. Additionally, they search opportunities for relaxation and joyful situations in order to balance their working and personal life.

2.4.3. Sweden

In contract, Hofstede has the Swedish culture has one of the lowest scores in avoidance of uncertainty, which indicates a nation that deals efficiently with situations that present high uncertainty and risks. Correspondingly, Swedish
people demonstrate a calmer attitude and feel comfort with the utilization of principals instead of rules. Formal regulation is perceived as a need for indicating the legal rights of people. The Swedish organizational environment includes flexibility, hard work when it is mandatory and care about precision and punctuality. Additionally, as stated before, Sweden is a country that enhances innovative techniques and ideas without interpreting them as risky investments.
3. Methodology

This chapter contains the research approach and plan. It includes the hypotheses, the questions in the questionnaire and qualitative assurance. The chapter also contains the limitation of the study.

3.1. Research Approach

The purpose of this thesis is to determine, whether the cultural differences effect the trust of the external auditors when it comes to trust of external auditors to the internal control's work. These decisions of the external auditors are effected by a variety of reasons that we described before so as to enhance the understandability of our results. A research design should be effective in producing the wanted information within constraints specified by the researchers (Ghauri & Gronhaug 2010). Correspondingly, in our project the target is to identify the role of culture by examining the differences between Greek and Swedish external auditors, and simultaneously keeping all the other possible effects constant. It is a causal research and thus there is a confronted cause-and-effect problem (Ghauri & Gronhaug 2010), so that is why we isolated the cultural effect. The cultural measurement is based on the Avoidance of Uncertainty level by Hofstede, which will be analytically described further.

The sampling method is defined as survey sampling. To clarify, the sampling represents elements of the auditor's population to answer our questions and provide results for our research. The survey will be based on probability samples that would allow inference for our target population. The probability sample refers to a random sample that each member of the population represents a known non-zero probability of being included in the sample. This kind of survey produces statistical measurements of the target population with specific assumptions of a simple regression analysis that would be examined via statistical programs.

3.2. Hypothesis Development

In order to make inferences, if the culture affects the trust in internal audit function from the external auditors; we assume a relationship between the two variables.

According to our theoretical framework the auditing profession consists of high levels of responsibility, and therefore it represents high degree of risk in the decision making when it comes to the utilization of the internal audit work.
Additionally, based on Hofstede research, Greeks have strong avoidance of uncertainty; in contrast with the Swedish that have lower uncertainty avoidance. To that end, the Swedish auditors are expected to trust more the internal audit work than the Greek auditors. We also think that there is a difference in avoidance of uncertainty between a regular Swedish organization, and a Swedish audit firm. This leads to the following hypotheses:

H$_{1A}$: Culture does not affect the auditors trust.

H$_{1B}$: Culture affects the auditors trust.

H$_{2A}$: Culture will not change the work when faced with a problem.

H$_{2B}$: Culture will change the way they work when faced with a problem.

H$_{3A}$: Avoidance of uncertainty will not differ in Sweden between audit firms and other organizations.

H$_{3B}$: Avoidance of uncertainty will differ in Sweden between audit firms and other organizations.

3.3. Data Collection Method

The data collection method was based on primary data. The primary data collection was implemented by questionnaires that leaded to identification of the characteristics, and the attitude of Greek and Swedish external auditors towards internal control function and uncertainty avoidance. The target population is the external auditor's in Greece and Sweden. With this intention we conducted an internet based search in order to identify the list of the auditing firms in Greece and in Sweden; which is our sample frame. Afterwards, we contacted them by phone and emails in order to handle the questionnaires and enable the external auditors to complete the survey. The questionnaire was accompanied by a case study that demonstrated an issue about the information provided by the internal control function that the external auditor had to judge and make an inference. Afterwards, the auditors were requested to answer selected questions based on the uncertainty avoidance cultural characteristics by Hofstede, their trust towards the information given and demographic characteristics.

The data will be compared to the findings of by Hofstede Institute, so as to identify whether the auditing profession follows the trend of uncertainty avoidance that has been stated before by Hofstede for
each culture. Hofstede findings have been utilized in various academic researches, included for the auditing profession. The Hofstede results and their interpretation for Swedish and Greek culture were demonstrate in the official page of the Hofstede Institute as they were stated in the previous chapter. Concerning our research, we refer to the uncertainty avoidance results regarding the two selected countries.

### 3.4. Task and Case Materials

The questionnaire is based on a case study that the participants were asked to answer. The case study and the represented data is based on Richard G. Brody (2012) “External auditors' willingness to rely on the work of internal auditors: The influence of work style and barriers to cooperation” and the case is adjusted so as to meet the EU business regulatory environment. According to Brody (2012) the case provided the inventory turnover ratios for the current and the prior year and the percentage change. The participants were asked to fulfill three sets of questions in our research. The first is represented by questions about the demographic characteristics. The second part measured the trust in the information provided by the internal audit function. Regarding, the third part, the questions focused on the cultural aspect based on Hofstede characteristics for uncertainty avoidance.

More specifically, in the second part, the participants were requested to estimate the probability that the inventory decrement was caused by accounting errors and/or irregularities. After this, the external auditors were asked to provide a percentage of their time allocation for this task, if they would need more explorations for the inventory change and finally, to rate from 1 to 5 their reliability in the given evidence.

The third part detected the culture based on Hofstede research. The participants were asked to evaluate whether they need more rules, whether they favor to ask for advice a specialist or their supervisor, their need for thinking before act and time related questions about the overtime work and their schedule.
3.5. Participants

Table 3: Demographic of the respondents.

<table>
<thead>
<tr>
<th></th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Sweden</td>
<td>8</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>15</td>
<td>28</td>
</tr>
</tbody>
</table>

The table above shows how the respondents are divided between the genders and countries. In total there are 28 respondents.

3.6. Variables Independent

In our research project, the independent variable is the culture. Concerning the results of Hofstede, about the Greek and the Swedish culture, we utilized the avoidance of uncertainty characteristics of these countries regarding the auditing profession. To clarify, we tried to measure the avoidance of uncertainty in the auditing profession with the following questions.

3.6.1. Need for Rules and Regulations

“To what extent do you need more rules than those you already have in order to judge the evidences?”

This question attempted to indicate the external auditors need for regulations and rules regarding the decision making in the scale rate 1 (very low) to 5 (very high). Cultures with high uncertainty avoidance tend to require more and more rules and less flexibility in contrast with the cultures with low uncertainty avoidance.

3.6.2. Time Management

“Assuming that you need to work overtime to make a conclusion about the problem. To what extent you are willing to work overtime for this problem detection?”

“To what extent do you feel comfortable to spend more time than scheduled for this task?”
The next two questions in the research aim to demonstrate the time management issues for the external auditors. The scale rates are 1 (very low) to 5 (very high). According to Hofstede, cultures with low uncertainty avoidance tend to use time as a framework for orientation and spend more time when is definitely needed.

### 3.6.3. Advisory

“To what extent would you ask the advice of an expert on inventory for the problem?”

“To what extent would you ask the advice of the manager/partner?”

These questions attempt to illustrate the extent which the external auditor would require the advice of a specialist or a supervisor so as to make conclusions in the scale 1 (very low) to 5 (very high). Cultures with high uncertainty avoidance tend to ask more for support based on Hofstede results.

### 3.6.4. Brainstorming

“To what percentage would you spend time for brainstorming before you investigate?”

The last question has the objective to provide evidence on the amount of time that the external auditors would spend before they act. Hofstede measurements stated that in cultures with low uncertainty avoidance the time spend for brainstorming before decision making is higher.

### 3.7. Manipulation of Independent Variables

The independent variable was manipulated by two statements based on Brody (2012) research.

#### 3.7.1. Constant Variables

The first statement is demonstrated so as to hold constant the other variables that affect the trust in the internal audit function based on previous researches.

“Your staff (External Audit Staff) evaluates the client’s internal audit department as STRONG based on past performance, educational background and experience, and objectivity. The internal audit procedures examined provided evidence of satisfactory instructions and supervision. Additionally, the internal audit documentation is satisfactory in both quantity and quality for one
hundred percent of the audits. On a sample basis the internal audit did test selected new critical controls that were checked by the management so as to reduce the fraud and the risks.”

3.7.2. Time Limitation

The second statement was utilized in order to eliminate the time framework of the external auditors.

“You have other publicly held clients and have found demands placed on your time for publicly held clients who must have both their financial statements and the internal controls over those financial statements audited according to IFRS/IAS.”

3.8. Dependent Variables

The research aims to measure the trust of the external auditors in the internal audit control function. Coupled with the fact that our case study and questionnaire are based on Brody (2012) research the dependent variables are defined as:

1. The reliability of information provided by internal audit - Risk assessment
2. The need to investigate further - Extended procedures
3. The time allocation for the specific audit task - Extended procedures
4. The usefulness of information provided by internal audit - Usefulness of internal audit work

3.8.1. Risk Assessment

“The probability that the decrease in Springdale's turnover ratio was caused primarily by accounting errors and/or irregularities instead of environmental change is:”

The participants were asked to specify a certain probability in percentage, whether the inventory turnover ratio decrement is a result of an accounting error, or irregularity instead of an environmental change.

3.8.2. Extended Procedures

“Give us a percentage of your time you would allocate to this task considering the overall audit time for the company.”

“To what extent do you believe it is necessary to further explore and verify the reasons for the inventory turnover change?”
According to Brody (2012), the external auditors, in order to evaluate the internal audit control function, should decide whether there is the need for further tests and investigation of the evidences. The participants were asked to provide a percentage of the time that they would be willing to spend for this task. Additionally, the participants provided a percentage regarding the necessity of further verification and investigation of the inventory turnover decrease.

### 3.8.3. Usefulness of Internal Audit Work

“To what extent do you believe the information provided by Internal Audit department?”

The participants were asked to evaluate the work of the internal auditors in the scale 1 (very low) to 5 (very high). The question aims to provide a measurement on the perception of auditors about the usefulness of the internal audit function work.

### 3.9. Validity and Reliability of Data

When collecting empirical data, there are two requirements that has to be fulfilled, the data must be both valid and reliable (Jacobsen 2002). These two requirements are important in order to produce reliable conclusions.

#### 3.9.1. Validity

In order to achieve validity, the collected data has to be validated and relevant. This means that the data which are examined should be relevant for the dedicated study (Jacobsen 2002). Additionally, it should be sufficient to generalize the results to determine that a true statement that applies to some, applies to all. This can be for example people, effects, procedures and so on. For this study, we have collected information about what the external auditors believe of the internal auditor’s work, as well as how the external auditors think in certain situations that revolves around the cultural dimension, avoidance of uncertainty. The respondents have around five to eight years on the auditing field and many of them have prior experience with internal auditors. The data is used to analyze if there is a cultural effect, which makes the data valid.

#### 3.9.2. Reliability

For reliability to be achieved, the collected data has to be reliable and credible. Reliable and credible in this circumstance means that study has to be trustworthy (Jacobsen 2002). Examples of mistakes that cannot exist are obvious
measurement errors or wrong assumptions. These mistakes make the findings untrustworthy and in the end, bad conclusions. We have double checked the data and findings, and cannot find any obvious measurement errors. We had a starting assumption that Sweden and Greece was on the opposite side of the avoidance of uncertainty. Making assumptions that are wrong can ruin the reliability of the paper. To counter this assumption, we also measure the avoidance of uncertainty with questions in the questionnaire. We cannot see any problem with the data and the data should therefore be reliable.

3.10. Limitation of the Study

There are two main limitations for the study. The first limitation is limits and the second is loss. Limits in the room, time and other variables are the most common limits (Jacobsen 2002). Limits in the room means that you can only say something about those that you are studying. In our case that would be Swedish and Greek auditors. Limits in time mean that you can only say about something in a specific period. In our example this is true during the writing period, but it might change due to people moving or having new rules and regulations. The last limit is often used to reduce the population (Jacobsen 2002). This can for example be age or gender.

Loss can come from different factors and can be divided into four groups, incomplete lists of the population, probability sample, lack of answers and useless or “wrong” answers (Jacobsen 2002). After passing through the whole population to get to what you actually have, you have a big loss, so it is important to understand that the theoretical population is not the same as the final population. Some losses that we have experienced are auditors that did not answer on the questionnaire and because the research took place during Greek national holiday. Most of the non-responses was due to the external auditors did not have the time to answer. Two very common answers were that they had a lot of work, or that they already had too many students asking them for answers, so they have to decline some questionnaires.
4. Results

This chapter presents the results, which were derived by the questionnaires that were handled in the audit firms in Greece and Sweden. The following pages contain a presentation of the results, regarding each question that referred to demographical information of the sampled population, cultural dimension data and trustiness in the internal auditors. The final part includes also a demonstration about the correlations that we found due to our research.

4.1. Greece

The demographical data for Greece is described in the table down below.

<table>
<thead>
<tr>
<th>Participants</th>
<th>Years of Experience (Average)</th>
<th>Role in Company</th>
<th>Worked with Internal Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female 5</td>
<td></td>
<td>Junior 1</td>
<td>Yes 9</td>
</tr>
<tr>
<td>Male 4</td>
<td>8.67 Years</td>
<td>Senior 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manager 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partner/Senior Manager 2</td>
<td>No 0</td>
</tr>
<tr>
<td>Total 9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The total amount of auditors that answered the questionnaire is nine (9) in which five (5) were women and four (4) were men. The average years of experience is eight point sixty-seven (8.67), which is valuable as then the respondents have experience in the field of auditing. Correspondingly, the answers were given mainly by Manager and Senior positions and every responded had experience with internal auditors.

What is different for this study, compared to Brody (2012), is that the cultural variables and questions were added. These questions are summarized and also added to a total sum in the table below.
Regarding the Greek culture, the dimension of uncertainty avoidance, based on Hofstede results, was also confirmed by our research results. More specifically, in a proportion of 2.67/5 the Greeks would need more rules and regulations for doing their responsibilities. In terms of time and scheduling, the Greeks again corresponded accordingly with the Hofstede results as they were willing to spend more time investigating the task (Overtime Work 3.33/5 and More Time than Scheduled 2.89/5). Further, Greeks tend to require advice of their supervisor, or an expert (Expert of Inventory 3.78/5 and Manager or Partner 3.56/5). However, the difference in Hofstede results is the Brainstorming part as Greeks supposed not to spend too much time brainstorming, but in our research a 3.33/5 represent that they were willing to spend time thinking before they act.

The next table is a summary of the questions that were utilized by Brody (2012). These questions represent the external auditor opinions about the internal audit work, and if they would trust the given information concerning that the data are correct or there is the possible need for further investigations.

**Table 6: Describing the non-cultural measurements in Greece.**

<table>
<thead>
<tr>
<th>Accounting error (%)</th>
<th>Environmental Change (%)</th>
<th>Time Allocated for this Task (%)</th>
<th>Further Exploration and Verification (%)</th>
<th>Believe in the Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>56.67</td>
<td>43.33</td>
<td>48.89</td>
<td>73.89</td>
<td>2.89 (57.8 %)</td>
</tr>
</tbody>
</table>

The table reveals that the Greek external auditors were questionable regarding the nature of the inventory change. The difference between those that answered that it was an accounting irregularity was only 13.34 % higher than the possibility of having an environmental problem. They are willing to spend enough time for this task and verify further the reasons for inventory change, almost half of their time and more than seventy percent (73.89 %), so as to ensure that there would
be no mistakes in their report; correspondingly with the percentages of additional time expenditure in the cultural questions. In general, they do not believe in a strong degree in the information given by the internal auditors, this was only 57.8 %.

4.2. Sweden

The demographical data for Sweden is described in the table down below.

Table 7: Data describing the respondents in Sweden.

<table>
<thead>
<tr>
<th>Participants</th>
<th>Years of Experience (Average)</th>
<th>Role in Company</th>
<th>Worked with Internal Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>8</td>
<td>Junior 3</td>
<td>Yes 10</td>
</tr>
<tr>
<td>Male</td>
<td>11</td>
<td>Senior 6</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>Manager 10</td>
<td>No 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partner/Senior Manager 0</td>
<td></td>
</tr>
</tbody>
</table>

The total amount of auditors that answered the questionnaire is nineteen (19), in which eight (8) were women and eleven (11) were men. The average years of experience is five point twenty-six (5.26), which again means that the respondents have experience in the field of auditing. Correspondingly, the answers were again given mainly by people in manager positions, and ten (10) of the respondents had experience with internal audit. Even though our questions were based on assumptions, we still were able to be answered by every responded.

What is different for this study, compared to Brody (2012), is that the cultural variables and questions were added. These questions are summarized and also added to a total sum in the table below.
Table 8: Data from the questionnaire concerning Swedish culture.

<table>
<thead>
<tr>
<th>Rule</th>
<th>Overtime Work</th>
<th>More Time than Scheduled</th>
<th>Expert of Inventory</th>
<th>Manager or Partner</th>
<th>Brainstorming</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>x/5</td>
<td>3.68</td>
<td>4.00</td>
<td>3.79</td>
<td>2.32</td>
<td>3.42</td>
<td>1.42</td>
</tr>
</tbody>
</table>

The cultural dimension of uncertainty avoidance in Sweden, based on Hofstede results, was not confirmed by our research results, which could be explained considering the high responsibilities of the profession. To explain further, the Swedish auditors in a 3.68/5 proportion would need more rules and regulations for doing their job task; this is in contrast with the Hofstede findings that they need more flexibility than rules. In terms of time and scheduling, the Swedish auditors again responded aversively compared with the Hofstede’s results, as the auditors in Sweden were willing to spend time to investigate the task (Overtime Work 4/5 and More Time than Scheduled 3.79/5), this was even more than the Greek auditors. Additionally, Swedish tend to require the advice of their supervisor more than an expert (Expert of Inventory 2.32/5 and Manager or Partner 3.42/5), which again was in with the preference of Greek auditors. The difference in Hofstede results is found again in the Brainstorming part, as Swedish are supposed to spend much time brainstorming, but in our research a 1.42/5 represent that they were willing to spend time thinking before they act. Consequently, in our research the Greeks follow the results according to Hofstede, but Swedish auditors are totally different.

The next table is the summary of the questions that were utilized by Brody (2012). To repeat, these questions represent the external auditor opinions about the internal audit work, and if they would trust the given information concerning that the data are correct or if there is the possible need for further investigations.
Table 9: Describing the non-cultural measurements in Sweden.

<table>
<thead>
<tr>
<th>Accounting error (%)</th>
<th>Environmental Change (%)</th>
<th>Time Allocated for this Task (%)</th>
<th>Further Exploration and Verification (%)</th>
<th>Believe in the Information (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>39.11</td>
<td>60.89</td>
<td>18.32</td>
<td>38.47</td>
<td>3.42 (68.4 %)</td>
</tr>
</tbody>
</table>

The table demonstrates that the Swedish external auditors showed enough trust in the internal auditors, regarding the environmental nature of the inventory change, in contrast with the Greeks that they were more questionable in the given information. The difference between those that answered that an accounting irregularity is 21.78 % lower than the possibility of having an environmental problem. They are not willing to spend much of their time only an 18.32 %. Additionally, they would not spend that much effort to further verify and investigate the reasons for the environmental change (38.47 %). In general, they believe in a stronger degree than the Greeks in the information given by the internal auditors (68.4 %).

4.3. Correlation Test

The correlation test will combine the two countries to measure if there are any correlations between the different measurements, more specifically, the sum of the cultural questions and the questions in table 6 and table 9. These are represented in the table below.

Table 10: Correlation between culture and the other non-cultural measurements.

<table>
<thead>
<tr>
<th></th>
<th>Accounting Error</th>
<th>Time Allocated for this Task</th>
<th>Further Exploration and Verification</th>
<th>Believe in the Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Culture</td>
<td>Pearson Correlation</td>
<td>0.499</td>
<td>0.458</td>
<td>0.584</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.007</td>
<td>0.014</td>
<td>0.001</td>
<td>0.093</td>
</tr>
</tbody>
</table>

As seen in the table 10, there is a significant correlation, significant at the 0.01 level, between the total culture and accounting error and between the total culture and further exploration and verification. There is also a significant
correlation, at the 0.05 level, between total culture and time allocated for the

task. Lastly, there is not a significant correlation between total culture, and if the

external auditor believes in the information provided by the internal auditor.
5. Analysis

This chapter contains the analysis of the result and how it is connected to prior research. First the data will be split-up into Greece and Sweden, and then the data will be analyzed together. In the end, we will have a final analysis representing the results of the hypothesis tests.

5.1. Greece

Hofstede research had the same results, as our survey, regarding the Greek cultural dimension of the uncertainty avoidance. Accordingly, the Greek external auditor wanted more rules and regulations (2.67/5) for implementing their job responsibilities. There is an emotional need for rules in the strong uncertainty avoidance cultures, such as the Greek, even if they do not work (Hofstede et. al 2010). Therefore, in the perception of Greek auditors the principals based environment, is not producing comfort in implementing their responsibilities and thus they are asking for more formal regularities to lead their decision making and their judgments. Concerning uncertainty avoidance as an extent to unease ambiguities, then the employees are seeking rules and guidance (Dorfman & Howell 1988 cited in Zhang & Zhou 2014).

Furthermore, there is the willingness from the Greek auditors to spend more time in this task, which could be explained by the Hofstede findings that there is an emotional need to be busy, and an inner urge to work hard (Overtime Work 3.33/5 and More Time than Scheduled 2.89/5). Consequently, the Greek auditors accept positively to spend more time at work in order to ensure that their results would represent truthful financial information and would not mislead the users.

Additionally, according with the Hofstede results, the Greeks would ask for advice of an expert or of their supervisor similar with our research percent (Expert of Inventory 3.78/5 and Manager or Partner 3.56/5). The percentages are quite similar, which means that both of the supervisors and the experts are concerned significant professionals that could contribute efficiently in the judgments of the external auditors. The auditors that followed the recommendations of a specialist regarding an inventory measurement were evaluated more favorably by jurors (Kadous 2000 cited in Arel 2012). However, the choices of the external auditors about who to ask may differ regarding other factors that we do not examine in our research.
In contrast to Hofstede’s outcome, the brainstorming in our results showed that Greeks would spend more time to thinking before they acting. This result would not be that surprising if we consider the attention to detail that the external auditors should demonstrate when they perform their job responsibilities. Therefore, whether they will ask for advice or not, the external Greek auditors are motivated to think and brainstorm instead of provide fast answers that maybe false.

In regards to the trust that the Greek external auditors show to internal audit function, the results reveal that there is not that much trust towards the given information. An important factor to underline that in the auditor’s decision to rely or not is the source of the evidences (Glover et al. 2008 cited in Arel 2012). Most of the auditors believed that an accounting irregularity is more possible to happen than an environmental problem. This perception might be explained by other factors, in the external Greek business environments, that we do not examine in study. Thus, the Greek auditors are willing to make further investigations and spend plenty of time in order to verify the nature of the inventory change. Even if there is the tendency to encourage the reliance in internal auditors, the external auditors may be penalized (Arel 2012) and this maybe contributes to these results. Generally, the trust in internal auditors is low and therefore the avoidance of uncertainty compile with the presented results.

5.2. Sweden

As demonstrated in Hofstede’s research, Sweden was the second weakest on the uncertainty of avoidance amongst the countries participating in the study (Hofstede et al. 2010). Sweden had a score of 29, which was very low at the time. This score could be translated as an almost 25.22 % in our measuring scale. Consequently, we recognized a major difference with the number that we got for Sweden; 18.63 points which is about 62.1 %. A first explanation for this difference could be the era difference as Hofstede findings are dated more than thirty years ago in which there existed many political and economic changes. Additionally, the observed antithesis could also have appeared due to that auditing is a profession of control and responsibility (Eilifsen et al. 2010), which can mean that there is a variation between organizations.

According to the collected answers, Sweden seems to be quite rule-intense, with a score of 3.68/5. This is not surprising as auditing contains many rules that are challenging to handle (Cf. Jönsson 1988, 1994 cited in Öhman et al. 2004).
Auditors are also used to work overtime if they need to do so and especially in situations that there is a problem that should be treated. Therefore, the percentage of 80 %, on overtime working willingness, is not that surprising either. Furthermore, the auditors are almost neutral with using more time for this task than was previously scheduled and the score of 75.8 % confirmed that.

When it comes to asking an expert, the Swedish auditors are more hesitant than asking a partner or manager. Asking an expert has a proportion of 2.32/5, while asking a manager or partner is 3.42/5. Trust in supervisor means that in risky situations employees want to accept vulnerability based on the positive expectations from their supervisor’s intentions and behavior (Mayer et al. 1995 cited in Zhang & Zhou 2014). Lastly, in the brainstorming question the Swedish auditors are very hesitant to brainstorm before acting (28.4 %) which is in contrast with the results of Hofstede’s research. Overall the outcome of our research shows that Swedish auditors are higher on the uncertainty of avoidance level.

The Swedish auditors believe, a bit over average (68.4 %), in the information given by the internal auditors. Their belief that the nature of the inventory change is an accounting error was 39.67 %, and further exploration and verification was 40.07 %, these two measurements could be considered as the “counterpart” of trust. If they are about 70 % confident in the information, their belief that an accounting error exists, should be around 30-40 %. Also, the accounting error should give a reference point to how much the auditor is willing to further explore and verify if the information is correct or not. Additionally, time allocated for this task was 18.87 %; this is not a big surprise as the Swedish auditors scored 3.79 out of 5 points on more time than scheduled. The questions were almost the same, so there should not be a big difference between them. Seen as 3 in this case in none or little extra time, 0.79 over 3 can be seen as around 20-30 % work increase. The external auditors, for Sweden, believe that the change happened due to an environmental change rather than an accounting error. This seems to fall in line that the Swedes trust the work of the internal auditor.

5.3. Correlation

Previous researches show that Greece and Sweden are totally different. Sweden is on the lower part of the scale in the uncertainty avoidance cultural dimension, in contrast to Greece that is on the higher part of it (Hofstede et al. 2010). This might be true in other types of organizations where trust, in another person or
group, is not that regulated or preserved as high risk-taking. Audit risk and materiality impact the auditor’s decisions (Eilifsen et al. 2010).

A main difference between the countries is visible in the table 6 and table 9, where Greek external auditors are more likely to believe the information is wrong due to accounting error. The Greek external auditors will also proceed to further investigate the information. Moreover, the Swedish external auditors are not that far away from the Greek auditor’s beliefs, but they are less likely to act in the same way as the Greeks.

To demonstrate, the Swedish auditors seem not to follow the Hofstede model of the Swedish culture, and thus they present similarities with the Greeks auditors in the cultural questions. Nevertheless, the interesting part is that the trust, in internal auditors, is higher that the Greek auditors regarding their answers about the audit time spent and their reliance in the given information.

Our research demonstrates that there is a significant correlation between culture and the nature of the inventory change, not in terms of belief but in terms of provide further work. To explain, the cultural factor did not play an important role when it comes to decide whether the information given by the internal auditors is truthful. In contrast, the cultural factor also had a relationship with the further exploration and verification of the reasons that resulted in the inventory change. According to Eilifsen et al. (2010) some of the most notorious accounting frauds in history have involved inventory manipulation and thus this could explain the wiliness of the auditors for further research.

Furthermore, the time allocation was also affected by the culture of the auditors. Hence, the cultural dimension which was measured, by the avoidance of uncertainty of the external auditors, showed to be correlated with the further work that the auditors would present. More specifically, the cultural dimension affected the perception and the acceptance of the internal audit work, and according to this factor, the auditors were driven in order to identify the time and the quantity of their work regarding this task.

Consequently, in Greece the internal audit work would be repeated as the avoidance of uncertainty would prevent the auditors to directly trust the internal auditors; this even occurs if they believe that is truthful, resulting in that additional costs may occur. The extent to which the external auditor trusts the internal audit and utilize their work has a significant impact on the audit fees (Felix et al. 2001, 2005 cited in Munro & Steward 2010).
5.4. Hypotheses

There were three hypotheses in the methodology chapter that needs to be answered. First we had the hypotheses $H_{1A}$, that culture does not affect the auditors trust, while the alternative hypotheses $H_{1B}$ was that culture affects the auditors trust. After conducting two t-test, one for accounting error and one for the belief in information, the t-test shows that for accounting error $t = 1.97$ and for believe in information $t = 1.60$. This means that we cannot reject any of the t-test which will lead to that we cannot reject $H_{1A}$. This means that combined the data shows that there is a correlation, but compared with each other we cannot say the same.

Secondly, we had the hypotheses $H_{2A}$, that culture will not change the work when faced with a possible problem. The alternative hypothesis $H_{2B}$, was that culture will change the way they work when faced with a possible problem. The t-test for time allocation showed that $t = 3.98$ and the t-test for explore and verification was $t = 3.25$. The time allocation had a problem with not having equal variances. To fix this problem we did not use the pooled estimate for the error term for the t-test as well as made an adjustment to the degrees of freedom using the Welch-Satterthwaite method. The new t-test for time allocation was $t = 2.83$, which makes it significant at the 0.05 level. This means that we can reject $H_{2A}$, because both are significant at a 0.05 level. Therefore, culture will change the way they work when faced with a problem.

The last hypotheses $H_{3A}$, was that avoidance of uncertainty will not differ in Sweden between regular organizations and audit firms. The alternative hypotheses $H_{3B}$, was that avoidance of uncertainty will differ in Sweden between regular organizations and audit firms. The t-test gave $t = 27.82$, this shows that $H_{3A}$ should be rejected. In other word, with a significant level of 0.001, we can say that the avoidance of uncertainty will differ between regular Swedish organizations and audit firms.

To conclude the analysis, the hypothesis $H_{1A}$ is not rejected, while the hypotheses $H_{2A}$ and $H_{3A}$ are rejected.
6. Conclusion

Considering the high uncertainty of the business environments, the decision making process became a subject for various studies that intended to identify the factors that affect the results of the decision outcomes. External auditors have a significant role in reducing the uncertainty that occurs in the business environments, although in their profession the uncertainty is enhanced through this fact. In order to support the operations, and the external auditing, the businesses create the internal audit function. In this situation, the external auditors are expected to apply their relevant knowledge and experience in forming decisions about the actions that are appropriate according to laws and regulations. Therefore, the external auditors are expected to investigate and provide clarifications, regarding the internal audit work, so as to utilize it and prevent overlapping tasks and further costs.

We identified that even though many different dimensions have been studied, concerning what affects the judgement of the external auditor in utilizing the internal audit; culture is not one of them. Consequently, our research attempted to clarify whether the culture is a factor, measured by uncertainty avoidance of Hofstede, is a significant factor in trusting the internal auditors. Concerning our origins, from Greece and Sweden, and the huge differences that occur between the Greek and the Swedish culture, we concluded that these nationalities would be interesting to be analyzed and researched.

The results for Greece showed that the cultural factor is similar with Hofstede’s conclusions. This means that the Greek auditors avoid uncertainty, in a very high degree, by expressing their need for further rules and regulations, being emotionally keen on work overtime, being continuously busy and ask for advice. Therefore, Greek auditors were also questionable, regarding the information provided by the internal audit, and showed willingness for further investigations and verifications.

Surprisingly, Sweden presented totally different results, in our research, with what Hofstede’s research resulted in. This means that the high responsibilities and the risk level overlap the cultural factor. Swedish auditors asked for more rules and regulations, utilize the overtime work and need to ask their supervisor when it comes to the professional judgments. This can be important to know when studying a Swedish audit firm. Swedish organizations overall might be relaxed and more confident in other people and organizations. The businesses
that control and check important information have to present a more bureaucratic approach with more rules and regulations.

Considering the trust that the auditors demonstrated, the Greeks showed that they do not trust the internal audit function and thus they have chosen to repeat the internal audit work. The Greek auditors go even further to research and verify the reasons, that lead to the questionable situation, that was presented in our case study.

On the other hand, the Swedish auditors presented an average trust on the provided information, and they showed lower willingness to proceed in overlapping activities for the task that were already done by the internal audit function.

The results could probably be explained by the rule-based profession that the audit firms have to follow due to the complexity that characterizes their operating environment. Thus, the risks and the responsibilities are considered as extremely sensitive and should be directed with attention and accuracy by the external auditors.

To conclude, the cultural dimension, in avoidance of uncertainty, played a major role in the additional activities that the external auditors were willing to do in order to investigate the internal audit work. Consequently, the audit firms should be aware that the culture is possible to have a significant impact in their auditing processes and outcomes. Furthermore, our research provides evidences that should be considered by the audit regulators and audit professionals but also future researches in order to clarify further audit issues.

6.1. Future Research

Considering the limitations of our research, we strongly believe that the subject should be further investigated as the findings could support additional improvements and advantages for the profession and for the organizations in general.

A suggestion of future research, that we think is interesting, is to investigate more countries to examine whether the avoidance of uncertainty level apply in the audit firms as in other organizations. This kind of research could attempt to define a pattern that would support the implementation of decision making techniques, the enhancement of problem solving and the reconsidering of internationalization of the audit and accounting standard. Furthermore, in these
studies, the comparison between opposite cultures could provide better results in clarity and understandability.

Additionally, another valuable study could be about the reasons that affect the auditors and drives them to present different cultural characteristics in their work. With this intention, the audit firms could take the advantage of quicker recognition of the suitability of the audit candidates. This research could be extremely beneficial for Sweden, as it demonstrated very different culture in our survey than in previous academic researches.

Moreover, future research in the field of the relationships between internal and external auditors, could try to identify all the possible reasons that affects the decision between the external auditors and the utilization of internal audit work. Especially for Greece, the researchers are limited and there is not enough knowledge about the internal audit function, which became very important the last years in the country due to the economic crisis.
7. References


Appendix 1: Questionnaire

Karlstad Business School

Trust in Internal Audit: The Cultural Effect

Our research attempts to identify whether the culture affects the trust of the external auditors in the internal control department. The questionnaire is based on a case study from the research paper of Richard G. Brody (2012) “External auditors' willingness to rely on the work of internal auditors: The influence of work style and barriers to cooperation” that is adjusted so as to meet the EU business environment. The questions 1-5 attempt to measure participants characteristics, the questions 6-9 attempt to measure your trust in the internal control department and the questions 10-15 your risk avoidance as a dimension of culture.

This case deals with your firm’s audit of Springdale Industries. Springdale is an old, relatively small publicly trader (Stock Exchange) corporation founded in 1949. Springdale engages in the manufacture of a variety of plastic and ceramic/glass products for both commercial and domestic use. Summarized, unaudited information provided by the client fir the current year is provided below:

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>48,017,200</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(38,379,500)</td>
</tr>
<tr>
<td>Expenses</td>
<td>(5,648,900)</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,988,800</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>7,407,500</td>
</tr>
<tr>
<td>Other Assets</td>
<td>35,277,800</td>
</tr>
<tr>
<td>Total Assets</td>
<td>42,685,300</td>
</tr>
<tr>
<td>Equity</td>
<td>21,492,100</td>
</tr>
<tr>
<td>Liabilities</td>
<td>21,193,200</td>
</tr>
<tr>
<td>Total Equity &amp; Liabilities</td>
<td>42,685,300</td>
</tr>
</tbody>
</table>

Your staff (External Audit Staff) evaluates the client’s internal audit department as STONG based on past performance, educational background and experience, and objectivity. The internal audit procedures examined provided evidence of satisfactory instructions and supervision. Additionally, the internal audit documentation is satisfactory in both quantity and quality for one hundred percent of the audits. On a sample basis the internal audit did test selected new critical controls that were checked by the management so as to reduce the fraud and the risks.
You have other publicly held clients and have found demands placed on your time for publicly held clients who must have both their financial statements and the internal controls over those financial statements audited according to IFRS/IAS.

In performing the required analytical procedures for preliminary audit planning, typically several ratios are considered. One significant ratio is inventory turnover (cost of goods sold divided by average inventory). Presented below are recent inventory turnover ratios for Springdale.

<table>
<thead>
<tr>
<th>Inventory Turnover</th>
<th>Prior Year / Unaudited</th>
<th>Current year/ Audited</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.47</td>
<td>4.99</td>
<td>-10%</td>
<td></td>
</tr>
</tbody>
</table>

The significant difference between the two years’ inventory turnover could be a results of: (a) An environmental change or (b) An accounting error or irregularity in the unaudited financial statements. Environmental change includes all explanations other than accounting error or irregularities.

Questions

1. Country
   Sweden
   Greece

2. Gender
   Female
   Male

3. Years of Experience

4. Current Position
   Junior/Trainee
   Senior
   Manager
   Partner
   Other

5. Experience cooperation with Internal Auditors.
   Yes
   No
6. The probability that the decrease in Springdale's turnover ratio was caused primarily by accounting errors and/or irregularities instead of environmental change is:
   
7. Give us a percentage of your time you would allocate to this task considering the overall audit time for the company:
   
8. To what extent do you believe it is necessary to further explore and verify the reasons for the inventory turnover change?
   
9. To what extent do you believe the information provided by Internal Audit department? 1=Very Low 5=Very High
   
10. To what extent do you need more rules than those you already have in order to judge the evidences? 1=Very Low 5=Very High
   
11. Assuming that you need to work overtime to make a conclusion about the problem. To what extent you are willing to work overtime for this problem detection? 1=Very Low 5=Very High
   
12. To what extent do you feel comfortable to spend more time than scheduled for this task? 1=Very Low 5=Very High
   
13. To what extent would you ask the advice of an expert on inventory for the problem? 1=Very Low 5=Very High
   
14. To what extent would you ask the advice of the manager/partner? 1=Very Low 5=Very High
   
15. To what percentage would you spend time for brainstorming before you investigate.
   
   %