

## AN ANALYTICAL STUDY OF THE EFFECTS OF EXPERIENCE ON THE PERFORMANCE OF THE EXTERNAL AUDITOR

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**Abstract**— This study aims to know the concepts of experience auditing and the way of its measurements and its effects upon the provisions of the auditors and to identify whether the experience of the external Libyan auditor contribute to the rationalization of its provisions, decisions and improve the quality of performance or that there is no effect on the performance of these tasks, Used the field experiment was used as a main tool for data collection, we reached to the following results

- That the provisions of the auditors do not vary according to years of exercising their profession
- That the provisions of the auditors do not vary according to their educational level

**Keywords**-external auditor;experience;auditor performance

### I. INTRODUCTION

Professional experience is one of the key determinants that affect upon the efficiency of performance in professional practice .The signs of behavioral studies which have focused on the subject of experience that the quality of performance in a particular area increases with their experience in that field, so the researcher's care increased in the last years in studying the subject of professional experience in accounting and auditing.

The professional experience is the power which can be obtained by the practice over time from past experiences and direct feedback and the general knowledge which lead to accomplish the task with high quality (Bedard and Chi, 1993, p.145), as the prevailing definition of experience in the past as a general practice, as well as the failure in taking into account the role of the knowledge , is one of the reasons that led to confusion between professional experience and practice (Choo, 1989, pp.124-125), have been characterized most audit studies to fail in distinguishing seniority out of the experience, also it is accompanied by ambiguity in its purpose , and failed to measure the experience, and as a result of this ambiguity in the previous researches , it can't be known whether the decision maker is a seasoned expert or seniority, because these researches have not given sufficient attention on whether the seniority or the number of years of service an adequate substitute to the experience or not .

The seniority doesn't mean that the auditor has special experience or an expert in a certain field Seniority is not the experience as most of the researchers had thought in psychology (choo and trotman, 1991, pp.466-469) Gibbins sees that the professional experience reflects possession of the auditor to the structure of developed knowledge includes general knowledge, which is the facts, theories and definitions which are mentioned in the books, magazines, and special knowledge and represented in the knowledge related to the completion of some tasks, these two types of knowledge are the basic interpreter for the quality of personal rule of the expert auditors , and is correlated to a large extent with the scope of the efficiency of memory and the personal attributes and beliefs affect the test and modernize the knowledge infrastructure, and the pace of increase in building good attitudes and having prior knowledge about them (Gibbins, 1984, pp.103-104), The organization of knowledge inside the structure of memory is impressive the performance of the expert, which have a well-organized knowledge into memory quickly and easily call for the knowledge on need . Experts would have better knowledge and more accurate planning of memory compared those of little experience, and no doubt the professional experience depends on two important processes which are organizing the memory and decision-making, as they affect and are affected by each other ( Frederick and libby ,1986:70-272).

Both Biggs and Watins , had reached to a result that the novices spend 32% of the time and effort to obtain preliminary information to solve the problem in the analytical review , while experts spend only 12.5% of the time and effort to obtain this information which means that the beginners do not have good planning of the problem, while experts have better planning of the problem (biggs and watins, 1988, pp.148-160) Each of Libby and Frrdrick had found that it is possible to imagine that the fundamental problem with the decision of auditor , diagnostic the errors in the financial statements in the sessions of the processes that lead to errors of financial statements, and therefore are supposed to be the organization of expert knowledge about the references of possible errors and potential in the financial statements, comprising the basic elements of a knowledge necessary to perform this act of personal assumptions.

Out of the risk factors, related to these assumptions and thus whenever the auditor gain experience, the greater the

knowledge of the types of errors the financial statements he discovers and increased the knowledge of rates of occurrence of these errors and increased organization to know the mistakes of the financial statements of the different aspects (libby and Frederick, 1990, pp.349-350).

## II. PREVIOUS STUDIES

1974 Ashton study. This study is considered the first study that paved the way for studies that focused on personal rule of the auditor This study dealt with a sample of sixty-three auditors, and presented them with thirty-two hypothetical case in internal control over wages, each contains six questions relating to internal control been answered by yes-no in order that these answers will explain strength or weakness points in internal control system, the study pointed out that the average percentage of the difference of governance, which is calculated on the basis of six factors and interactions of the first class didn't not affect by the level of experience, and the term ranges from 86 % to 86.9% Ashton had measured consensus, which ranged from 0.59 to 0.73 for the auditors within the levels of expertise and between 0.88 to 0.91 for agreement among the auditors in one of the experience levels and the other three levels of expertise , Moreover, the safety measures did not show how much different from throughout the level of experience and the correlations were 0.82, 0.80, 0.84, 0.82 for the four levels of experience, respectively, that any consideration of the dimensions were similar to the four levels of expertise, Ashton has concluded that overall, the level of expertise is not linked to the differences seen among auditors (Ashton, 1974, pp.143-159 )

Joyce 1976 study were selected thirty-five auditor, ranging experience between three and twenty-five years, were divided into three levels of experience from three to five years, and six to ten years and form eleven to twenty-five years, the task of this study is the planning and formulate a program review to examine the online customer accounts. The auditors were asked about the estimated number of hours required to review a particular area ,this study found that there are substantial differences in the estimated audit hours through the experience of the three groups and found that there is An important counterproductive between the length of experience and consensus on rule. The researcher has confirmed that the consensus among auditors is not sufficient as a proof evidence on the accuracy of the decision or the efficiency of the performance ( Joyce, 1976, pp.29-60) .

Study of Ashton and Kramer1980 :The researchers have developed the original study of Ashton in 1974 and was conducted by comparing the assessments of internal with thirty student with assessments with internal oversight auditors involved in the original study,. Their experience is ranging between the experience of between one and three years in the auditing profession, The result of the study showed that the auditors showed unanimity, and self-insight more students (70% against 66%), (89% against 77%), respectively, The indications showed great variation in

personal rule for the auditors in comparative with the students as well as the analysis showed weak relationship , but significant between the length of experience and a sense of in self-particular . The two researchers concluded that when interpreting the results, should be taken into account the nature of the task to be conducted personal provision, Also this study found that there is a simple relationship between experience and the quality of provisional measures (Ashton and Kramer, 1980, pp1-40).

Study of Hamilton & Wright 1982, interested in the submission of thirty-two different case, for a sample of seventy-eight auditor of expertise ranging between one and twenty-eight years of experience and a number of students interested in the review of this study to examine the relationship between experience and consensus on provisions, stability and governance, the relative importance of indicators for Interior control and to increase the dissemination of available information. Both researchers deleted the detailed information of the internal control and some of the specific data for the client and then comparing the answers of the students or non-expert with .answers of each group with the auditors or experts, the results of this study, had showed negative correlation between the consensus and the length of experience. And there was a direct simple correlation between experience and the importance of indicators; also it showed that there was no relationship between experience and the stability of provision (Hamiton and Wright 1982 pp.756-765),

Tabor1983 study : This study aims to divide the degree of consensus among auditors with regard to estimates of the reliability of the system of internal control and decisions on the sample sizes, and to determine the impact of the experience of the auditor on assessment provisions of the internal control system, a number of one hundred and ninety-four auditors from four audit firms, and was divided into two levels of expertise and the researcher asked those who under the subject of the study estimate the reliability of the internal control system on sales and determine the size of the sample, this study has found that the difference of level of experience did not lead to significant differences in measures of consensus, but led to significant differences in the resolutions of the provisions (Tabor, 1983, pp.348-354).

The study Abdolmohammad & Wright, which aimed to develop a model to predict the structure of relations between experience and self-knowledge and ability to solve problems in connection with references to the performance of audit functions to the estimated primitive expert professional to solve the problems directly affect the structural performance of the tasks of others, while indirectly affect gallant structural performance through its impact on the acquisition of knowledge as well as the relationship between performance and the nature of the task affected by the level of expertise and demand on the task (Abdolmohammad & Wright, 1978, PP.1-140) , To get-accustomed and the repetitive tasks help the individual to analyze accurately the data as well as help to access to appropriate information that is important to get used to repetitive tasks and help the individual to analyze the data accurately and easily, as well

as help to access to appropriate information (Colbert, 1989, pp.137-148)

### III. THE PROBLEM OF THE STUDY

Professional experience plays in performing the important references to the decision-making role essential to many of the most important reasons is that many of the provisions of the auditors are as personal and subjective, also the experience in industry and customers and attitudes affect the review of those provisions during the sequential stages of the task of auditors (Messier 1983 611 --612).

Some other researchers in the field of auditing used the number of years of specialization in a particular area or in the functional level or in the Accounting Office as a substitute for professional audit experience has shown that the time required for this experience is about three to five years (Ashton, 1991, pp.218-220) and that the process of acquiring experience are not done once and it is performed by the merging of education, practice and experience, in stages. the auditor in each stage gets a certain amount of knowledge, the capacity associated with the professional expertise, even up to the stage of knowledge, the capacity associated with the professional expertise, even up to the stage of full acquisition of professional experience, many researchers placed three stages to gain professional experience which are: the stage of perception - the stage of interdependence - the stage of spontaneity (Waller and Felix, 1984, PP.383-400) (Davis and Solomon, 1989, pp.153-154). A number of studies in internal control, and in the provisions of the subject expertise and the impact of those provisions, such as studies related to the provisions of continuity, risk assessment and audit, and disclosure, independence, and the relative importance, and the importance of the subject increased by the increasing in depending the users of the financial lists upon the financial data that had been already reviewed.. What we had noticed from the from the previous studies that the measuring of relation between the experience level and the performance depending upon the standards of consensus on the provision - stability, accuracy and the possibility of finding statistical solution and taking no consideration the nature of the performed functions and the differences of the kind of the function and whether this difference needs to a different expertise level for the auditors and the result, is that the problem of the research I summarized in answering the following question:

**What is the impact of professional experience upon the performance of the External Auditor of his functions in Libya?**

### IV. STUDY'S METHODOLOGY AND DATA ANALYSIS

To achieve the objectives of this study were presented the practical side, which includes the data obtained, which show the effects of experience on the expected performances of the functions provided by the External Auditor in Libya, and to test the validity of hypotheses for the study. We had chosen specifically community of auditors working in the offices of the accounting and auditing and auditors who are

working in the inspection and control Departments in the People's Libyan Arab Jamahiriya at Eastern Province.

In the light of the objectives of the study We had prepared (Field Experiment) for the purpose of collecting data from a sample of which we had divided the field experiment into three parts:

- Part I in the experiment field includes of the financial statements (balance sheet, income statement) for an industrial company, for four financial years is 97- 98- 99- 2000 with some amendments were made to these financial statements in order to achieve the purpose of the study and access to the desired goal Auditor expertise is the identification of participating in the study, Also, there are some fluctuations in the company resulted in a disparity in the figures of budget items and amendments to the previous years, which had been deducted from retained earnings and must pay attention to in the budget, We had calculated some of the financial indicators for these financial statements, of which the auditors should be used to judge the continuity of the entity and these proportions are, the ratio of net profit to sales - the proportion of net profit to total sales - the proportion of trading - the quick ratio, the ratio of cash balance to total assets - cash balance ratio to current liabilities - ratio of quick assets to total assets - the ratio of total liabilities to total assets - the ratio of total liabilities to total equity - rate of stock turnover - the rate of rotation of debtors - the rate of turnover of total assets

- Part II consists of the in the field experiment, of general information about participating of the auditor such as qualification of the participant - years of experience - His occupation inside the office.

- Part III in the field experiment, it is composed of indicators that can be used in judging the company's inability to continue, and a number of 27 indicators had been used in this matter. We has asked each one of the auditors to determine the relevance of each indicator upon his own decision on the extent of the capacity of business to continue to engage its activeness in accordance with to Likart standard composed of five points:

Very important (5), important (4), is important in a way (3), not important (2), not important at all (1).

These indicators had been formulated in order to identify the extent of differences between the provisions of auditors' judge upon the importance of these indicators for business continuity, according to the level of expertise and different educational level only, without addressing the issue of continuity and without an ideal rule can be invoked upon.

The distribution of the sample as a whole for the auditors who are working in the private offices, depending on years of practice of the profession and the scientific level.

The collected sample had been divided according to the place which the auditors who were subject to the professional study ,(private offices - the inspection and inspection-control departments ) and according to the practicing years for the auditors who are subject to study

and educational level, the distribution of the respondents who engaged in the audit profession in a private office into five categories of years of practice and five levels of the scientific level. We notice that a percentage of 2.90% of the participants have a Ph.D. in accounting and they are practicing this job for 15 years and over. The proportion of 24.64% of participants have a master's degree in accounting and most of them had practice the profession for 15 years and over. The proportion of 66.67% of participants have Bachelor degree in accounting and most of them who had practice the profession for 15 years and over, while a rate of 4.35% of the participants have a diploma in accounting, and the proportion of 1.44% of the participants received at other qualifications with years of exercise of 5 to less than 10 years.

The distribution of the sample as a whole for the auditors who are working at the inspection and control Departments in accordance with years of practice and the scientific level. The distribution of the sample who engaged in the audit profession at the inspection and control department, and five categories of years of practice for the auditing profession and five levels of the educational level of the auditors, whereas, we note that the participants of the study (the workers at the inspection and control), did not have postgraduate qualifications such as a doctorate degree in Accounting or Master degree in accounting, while the percentage of 67.74% have Bachelor's degree in accounting and most of those who practice the profession for the past three years, and the ratio of 29.03% have a diploma in accounting and most of them are practicing the profession of 15 years and over, and the proportion of 3.23%, holding other qualifications.

#### A. The first hypothesis

Number of years of experience does not materially affect the performance of the auditor.

The arithmetical averages and standard deviations of the indicators which affect the lack of continuity of establishment according to practice years, where, the more the arithmetic average the more important index, the smaller the standard deviation was, the indicator of the convergence of the answers will be. A period of five years be is considered the deciding factor between the with experience auditors and the less experienced, to illustrate the order of importance of indicators which make influences upon the of the establishment continuity for the auditors. These indicators have been evaluated to the liquidity indicators and the ratios of debt, Indicators of the profitability ratio, indicators of ratio activity, and other indicators.

Mann-Whitney test were used to identify the significant differences in the provisions of auditors in different years, and the exercise of the auditing profession, and to test this hypothesis statistically formulated as follows:  $H_0: M_1=M_2$ ,  $H_1: M_1 \neq M_2$ .

- Fabrication hypothesis ( $H_0$ ): Number of years of experience does not materially affect the performance of the External Auditor in Libya.

- The alternative hypothesis ( $H_1$ ): Number of years of experience materially affect the performance of the External Auditor in Libya.

Where we notice from the table ( I ) that there was no statistically significant differences at the level of moral 0,382, and then, we can say that the number of years of experience does not materially affect the performance of the External Auditor in Libya, 90% degree of confidence and so the first hypothesis is accepted.

#### B. The second hypothesis

Qualifications do not materially affect the performance of the External Auditor in Libya.

To test this hypothesis, were created averages and standard deviations of the indicators that affect the continuity established in accordance with the educational level of the auditors who were under subject to this study and the level of bachelor degree and over was the arbitrator among the auditors of less experience, and those indicators are divided into to indicators of liquidity, profitability, debt, activity, and other indicators. Mann-Whitney test were used to identify the significant differences in the provisions of qualified auditors according to scientific qualifications of the auditors and to test this hypothesis, it was formulated statistically as follows:  $M_1 = M_2$ ;  $H_0$ ,  $H_1: M_1 \neq M_2$ .

- Fabrication hypothesis ( $H_0$ ): The scientific Qualifications of the auditors do not materially affect the performance of the External Auditor in Libya.

- The alternative hypothesis ( $H_1$ ): The scientific Qualifications of the auditors affect materially the performance of the External Auditor in Libya.

The Table (II) showed the results of applying the Mann-Whitney test for the arithmetical averages of all indicators.

Where we note from the table that there was no statistically significant differences at the moral level 0,585 and can therefore say that the scientific qualification does not materially affect the performance of the External Auditor in Libya, 90% degree of confidence and therefore the first hypothesis is accepted.

TABLE I. TEST RESULTS THE FIRST HYPOTHESIS

Years of Practice	No. of Samples	Intermediate Ranks
Less than 5 years	27	54.67
More than 5 years	73	48.96
Total		100
Mann-Whitney U		725.8
Z		-0.874
Moral Level		0.328

TABLE II. TEST RESULTS THE SECOND HYPOTHESIS

Years of Practice	No. of Samples	Intermediate Ranks
Less than Bachelor Degree	19	47.00
From Bachelor Degree and over	81	51.32
Total		100
Mann-Whitney U		703.00
Z		-0.585
Moral Level		0.559

### The Results

1- The Study showed that about (69%) of the participating auditors in this study are working in private offices. And the proportion of (31%) of the participating auditors in this study are working in the inspection and control Department. Regarding the scientific qualifications held by the auditors who had participated in this study, the study showed that a percentage of (3%) holding doctoral degrees and the percentage of (17%) holding a master's degree in accounting, and the proportion of (66%) who hold a bachelor's degree and proportion (2%) have other qualifications, while (12%) hold an Diploma degree in accounting. Regarding the years experience who are participated in this study The study found that a percentage of (51%) of the auditors have experience more than 10 years and the percentage of (49%) have experience less than 10 years and this is an indication that the study includes the different categories in terms of the audit place practice and scientific qualifications for the auditors and beside the years of practice for the auditors who had participated in the study, which helps in achieving the objectives of this study.

2- From the foregoing information, it is cleared that there is no specific policy to for contracting with new workers in the audit offices who are participating in this study and in the inspection and control departments in Libya, which provides the opportunity to appoint and accept people who do not have the experience or qualification required for admission to those offices and with the inspection and popular control departments, and therefore such a behave reflects a negative impact on the conduct of those offices and upon the auditors to performance his functions.

3 - There are no statistically significant differences (total value of 0.382) among the provisions of the participated auditors in this study on the importance of the indicators of the disability in their capacity in continuing the business which depend upon the different years in exercise the audit profession, and so, we can say that the provisions of the auditors do not vary according to years of exercising the for their audit job. Degree of confidence 90%.

4 -There are no statistically significant differences (at the moral level of 0.559) between the provisions of the auditors who are participated in this study, upon the importance of the indicators of the disability of capacity of business, depends upon the differences of their level of

education according to the audit profession, confidence of 90%.

5 - The auditor acquires knowledge in relation with the auditory, and the field of practice and teaching and this knowledge interacts with the personal capabilities of the auditor to configure the experience of the auditor and it affects upon the terms and audit functions.

6 - Some of the components of the provision may need a level of expertise, while others did not need to an experience, and this requires the need to identify the necessary knowledge of each component of provisions t and method of its acquisition.

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