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An Empirical Study on Impact of Audit on Organisations Reputation

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Abstract : *In today's dynamic and interconnected business world, an organization's reputation is one of its most valuable assets. It influences the decisions of stakeholders, from investors and shareholders to customers and partners. Among the various factors that contribute to shaping an organization's reputation, the impact of audits is a subject of paramount importance. The impact of audits extends far beyond the boardroom and financial statements. It resonates with shareholders, investors, customers, and the broader public. A positive audit outcome can enhance investor confidence, bolster shareholder trust, and solidify customer loyalty. Conversely, negative audit findings can lead to erosion of trust, stock value depreciation, and customer concerns about the organization's integrity. In this exploration of the impact of audits on organizational reputation, we will delve into the consensus among respondents who strongly affirm the significance of audits, regardless of their educational qualifications. The study is Non-Doctrinal and Empirical in nature. Descriptive research is used to study the perspective of the research. Questionnaires were used and sent to people via google forms and the sample size is 203. Convenience sampling method is being adopted in the study to collect the data. Samples were collected from General public specifically from the Chennai region. The Independent variables are Gender, Age, Educational Qualification, Marital Status, ccupation. The researcher used graphs to analyse the data collected. The Dependent variable is what the ways in which the problem related to audit can be solved. Tools used by the researcher are correlation analysis and graphical representations. The aim of the study is to solve the problem related to financial audit.*

Key Words: Audit, Finance, Organisation, Shareholders, Investors.

1. INTRODUCTION

In today's dynamic and interconnected business world, an organization's reputation is one of its most valuable assets. It influences the decisions of stakeholders, from investors and shareholders to customers and partners. Among the various factors that contribute to shaping an organization's reputation, the impact of audits is a subject of paramount importance. The impact of audits extends far beyond the boardroom and financial statements. It resonates with shareholders, investors, customers, and the broader public. A positive audit outcome can enhance investor confidence, bolster shareholder trust, and solidify customer loyalty. Conversely, negative audit findings can lead to erosion of trust, stock value depreciation, and customer concerns about the organization's integrity. In this exploration of the impact of audits on organizational reputation, we will delve into the consensus among respondents who strongly affirm the significance of audits, regardless of their educational qualifications. Securities and Exchange Commission (SEC) regulates audits of publicly traded companies through the Public Company Accounting Oversight Board (PCAOB).For instance, the International Financial Reporting Standards (IFRS) are widely adopted globally to standardize financial reporting. Several factors can significantly influence the impact of audits on organizational reputation. These factors are multidimensional and can vary depending on the organization, its industry, and the broader economic and regulatory environment. Audit Quality, Transparency, Regulatory environment, Corporate governance. The use of technology, such as data analytics, artificial intelligence, and automation, is increasingly integrated into auditing processes. This

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enhances audit efficiency and accuracy while providing deeper insights into financial data. The COVID-19 pandemic accelerated the adoption of remote auditing techniques. Auditors can now conduct audits remotely, which offers flexibility but also presents new challenges in terms of data security and communication. India follows the Companies Act, 2013, and the auditing standards issued by the Institute of Chartered Accountants of India (ICAI).The USA follows the Sarbanes-Oxley Act of 2002 (SOX) for public companies. In China, the audit process is governed by various laws and regulations, including the Company Law and the Securities Law. The China Securities Regulatory Commission (CSRC) plays a crucial role in regulating audits of publicly listed companies. While these countries have distinct audit processes and regulations, the overarching goal of audits in all three is to ensure the accuracy and transparency of financial reporting, protect investors' interests, and maintain confidence in the financial markets.

OBJECTIVES:

- To find out the ways in which the problem related to audit can be solved
- To find out problem in audit when it comes to reputation of an organisation
- To find out the factors affecting financial audit process

II. REVIEW OF LITERATURE

Jesse C. Robertson, Chad M. Stefaniak, Mary B. Curtis(2011) We investigate the effects of auditor-wrongdoer reputations for performance and likeability on fellow auditors' intentions to take action in response to a questionable audit act. we find auditors are more likely to whistle-blow internally than externally, and through non-anonymous outlets than anonymous outlets. Our contributions include exploring the impact of reputation on the actions of third parties, and advancing prior literature by considering the influence of wrongdoer attributes on reporting decisions and auditors' reporting channel preferences.**Truong,HamidMazloomi,PascualBerrone(2021)**examine how the firm's environmental actions impact its reputation. Based on institutional theory and signaling theory we propose that symbolic environmental actions negatively affect reputation, whereas substantive actions improve firm's reputation among its peers.The findings emphasize the danger of using symbolic actions to signal environmental commitment in a context of high-involvement information search and opportunistic behaviours.**Tang, F., Yang, L. and Gan, H. (2020)**The purpose of this paper is to investigate how internal auditors' performance reputation for auditing and assurance engagements affects corporate managers' reliance on their consulting recommendations.The results show that internal auditors' reputation for performing assurance engagements positively influences managers' reliance on their consulting recommendations. In addition, managers' compensation structure affects their perceptions of the importance of the decision, and the perceived decision importance in turn partially moderates the effect of internal auditors' performance reputation on managers' reliance decision.**Emily S. Blum, Richard C. Hatfield, Richard W. Houston(2022)**predict that perceived costs associated with these actions are lower for auditors with positive reputations, which, in turn, influences their actions. In our first experiment, participants perceive that auditors with negative reputations face a more constrained choice set when anticipating a budget overage.manipulate reputation in a live simulation and demonstrate a causal link between reputation and auditors' sceptical action.**Bergner, J, Marquardt, BB, Mohapatra, P(2020)**consolidate the dispersed literature on this hypothesis and introduce a framework that presents auditor reputation as a cycle. The overall conclusions support the predictions of our framework regarding reputation as an incentive for audit quality. also find that existing research has emphasized certain aspects of our framework while addressing others more sparsely. Relatively little is known about how audit firms earn their reputation or how they rebuild it after an audit failure. Mixed evidence in some areas, along with research gaps in the framework, provides opportunities for future research on auditor reputation. **C.J. McNair(1991)**This paper explores this dilemma, using an interpretative framework and data collected through interviews. The results suggest that, rather than directly addressing this dilemma, audit firms promote an attitude of compromise within individual audit staff members. **Arora, N., & Singh, B. (2019)**This study attempts to shed some light on the signalling role of prestigious auditors and underwriters and their interacted effects on IPO returns in an emerging market like India.The results reveal

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that underwriter reputation helps in reducing information asymmetry and signals firm quality to investors. Underwriter reputation documents a positive relationship while auditor reputation lacks statistical significance.**Sheikh, Ammar Qadir and Siddiqui, Danish Ahmed(2020)**The objective of this study is to investigate the impacts of audit firm characteristics, including audit firms' reputation and audit fees on the quality of auditing. The outcomes suggested that audit Fee seems to have a significant and negative effect on the quality of auditing, Audit quality also seems to affect ROA negatively, whereas, audit fee affected ROA positively. **Kiridaran Kanagaretnam, Chee Yeow Lim, Gerald J. Lobo(2010)**examine the relation between auditor reputation and earnings management in banks using a sample of banks from 29 countries. In particular, we examine the implications of two aspects of auditor reputation, auditor type and auditor industry specialization, for earnings management in banks. We find that both auditor type and auditor industry specialization moderate benchmark-beating (loss-avoidance and just-meeting-or-beating prior year's earnings) behavior in banks. **Lasse Niemi (2004)**This study examines the relation between auditor size and audit prices by using the data on hourly billing rates and the auditor characteristics from 103 small Finnish audit firms. This study documents, after controlling for the auditor's technical capability, the positive association between auditor size and audit pricing. The results suggest that both size and technical capability have a positive impact on auditor remuneration, implying that product differentiation also takes place among these small audit firms.**Clara Pérez-Cornejo, Esther de Quevedo-Puente, Juan Bautista Delgado-García(2019)**We analyse the effect of audit committee characteristics (i.e. independence and independent members' knowledge and diligence) on corporate reputation through their effect on ERM system quality. Our results for a sample of listed Spanish firms support consultants' arguments that ERM system is a useful tool for managing corporate reputation. Our results also show that audit committee independence improves corporate reputation through the ERM system. Finally, our findings also reveal a positive relationship between the average educational level of independent directors of the audit committee and ERM system quality. These results provide evidence that ERM systems are platforms to manage corporate reputations and suggest the importance of the audit committee as a supervisor of ERM system and as guarantor of corporate reputation.**Arif, M., Sajjad, A., Farooq, S., Abrar, M. and Joyo, A.S. (2021)**This paper aims to understand how AC attributes such as meeting frequency, and the number of independent directors influence the compliance with the global reporting initiative (GRI) guidelines and quantity of ESG disclosures.The results show a significant positive effect of AC activism and independence on the level of compliance with the GRI guidelines, indicating the favourable effect of AC attributes on ESG reporting quality.**Macve, R. and Chen, X. (2010)**the aim of this paper is to investigate both the nature of the success and the shortcomings of equator principles reporting.The paper is based on academic literature on motivations for corporate social responsibility and various publications by non-government organisations and professional accounting and legal organisations, together with analysis of the disclosures made by Barclays and HSBC.**Miglė Šontaitė-Petkevičienė(2015)**This paper analyses corporate social responsibility in relation to corporate reputation building and management. It provides theoretical analysis of reasons for corporate social responsibility and main practices of corporate social responsibility in relation to building good corporate reputation. However, main findings of this paper are related to the examination how corporate social responsibility activities increases and enhances corporate reputation. **Pavel Castka, Michaela A. Balzarova(2007)**This paper aims to investigate what views ISO member body delegations and invited participants in international standardisation of social responsibility had about the divergence from the meta-standard approach towards a guidance standard.As a result of this understanding, not only will insight into the first steps of standardisation of social responsibility be provided, but it will also shed light on the perception of ISO 9000 and ISO 14000 that are held by standard developers.**Alves, S. (2013)**This study aims to examine the combined effect of audit committee existence and external audit on earnings management.this study provide useful information for regulators in countries with an institutional environment similar to that of Portugal. **Olmedo-Cifuentes, I., Martínez-León, I.M. & Davies, G(2014)**The aims of this paper are to determine what constitutes internal reputation from the perspectives of both senior managers and employees and to use this understanding to create and assess measures of internal reputation. We also hypothesise and test the relationships between the views of each group and performance, using data from a survey of auditing firms. **Jesse C. Robertson, Chad M. Stefaniak, Mary B.**

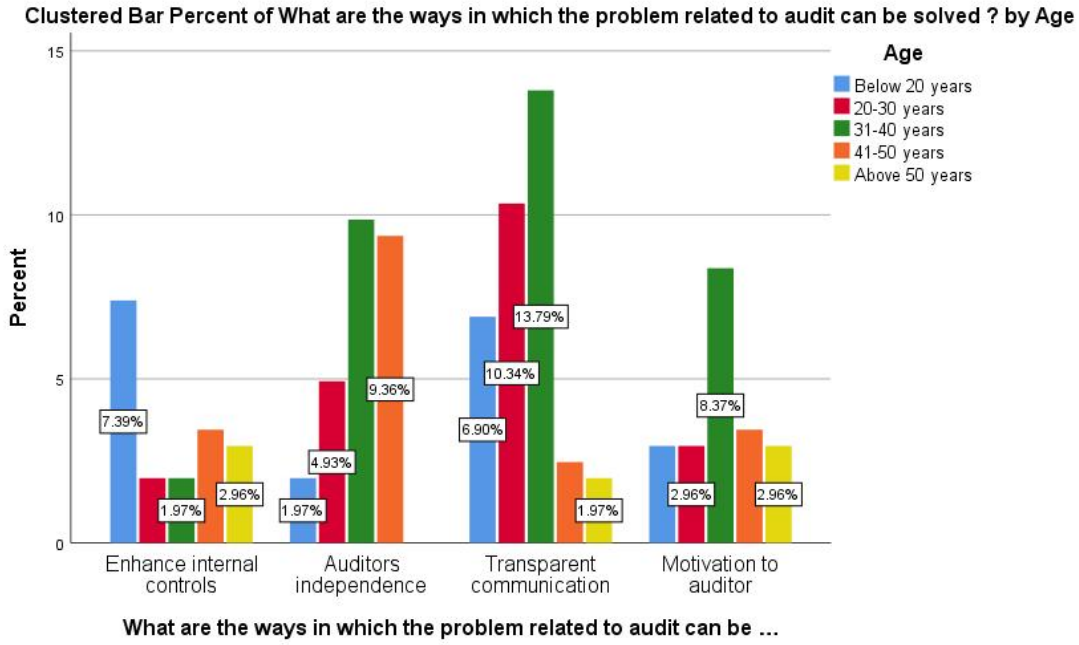
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Curtis(2011)investigate the effects of auditor-wrongdoer reputations for performance and likeability on fellow auditors' intentions to take action in response to a questionable audit act. We also use this context to explore auditor selection of reporting outlets, when they do choose to take action. In an experiment with 181 auditors, main effects suggest that likeability reputation is a significant determinant of intention to take action, while performance reputation is marginally significant. **Chowdhury, S.N. and Eliwa, Y. (2021)**The purpose of this paper is to examine whether audit quality influences real earnings management activities using a sample of UK listed firms that have strong incentives to manage earnings upward through meeting past year's earnings as a benchmark in the post-adoption period of International Financial Reporting Standards (IFRS).**Joseph H. Schroeder(2016)**This study examines the role of the external audit in management's decision about the amount of GAAP financial statement information to disclose in the annual earnings announcement. The earnings announcement is a key disclosure provided by public companies.

III. METHODOLOGY

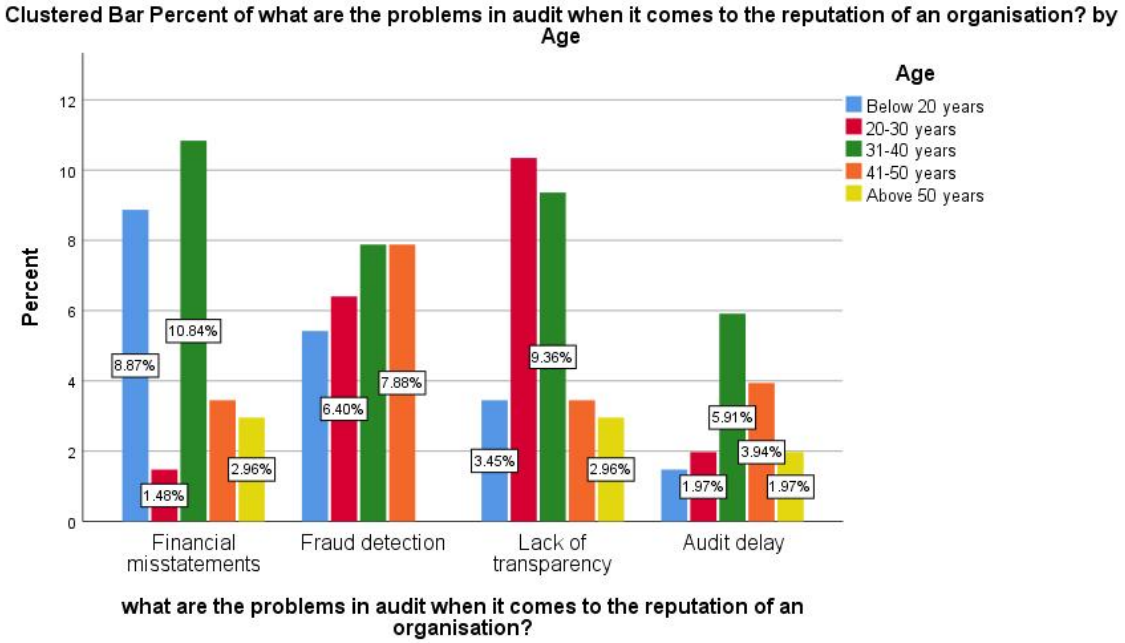
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IV. ANALYSIS

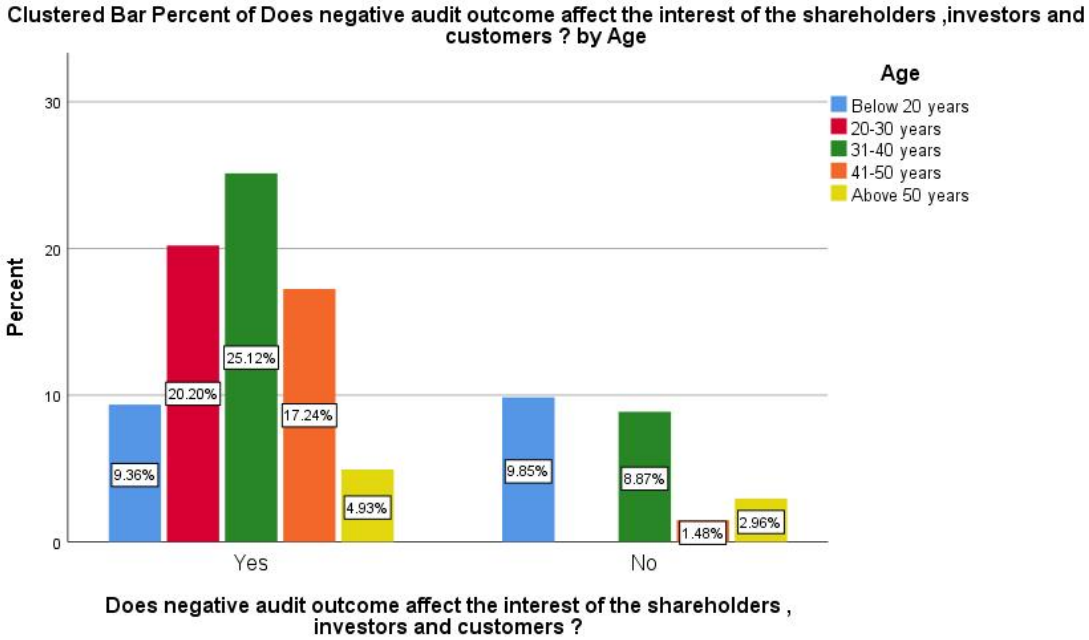


LEGEND: The figure 1 shows the ways in which the problem related to audit can be solved? which is influenced by age of the respondents.

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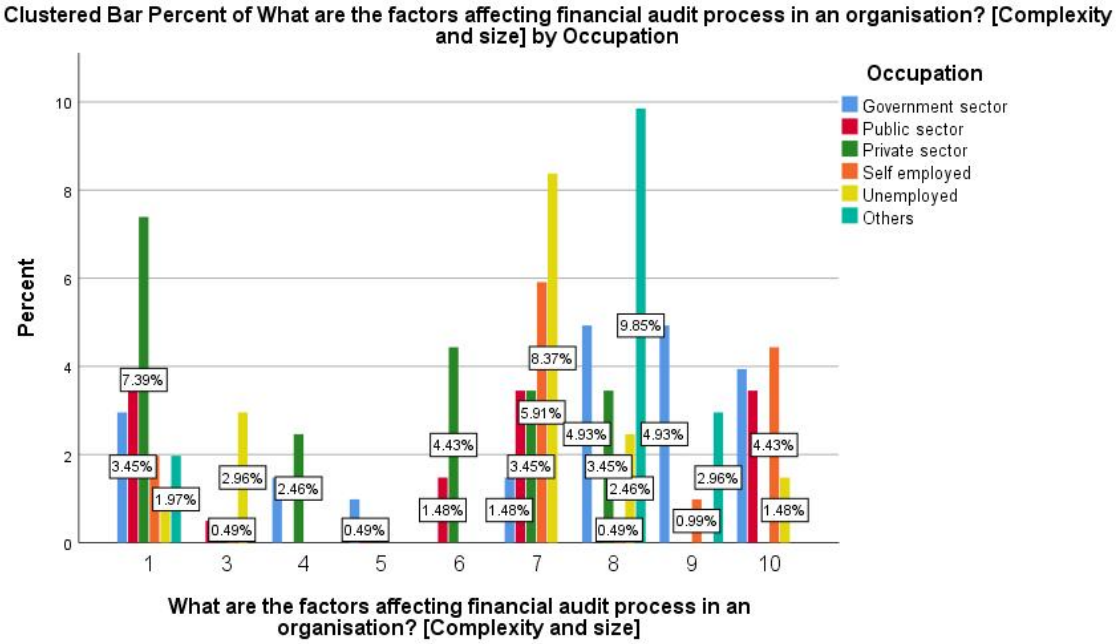


LEGEND: The figure 2 shows what are the problems in audit when it comes to the reputation of an organisation? which is influenced by age of the respondents

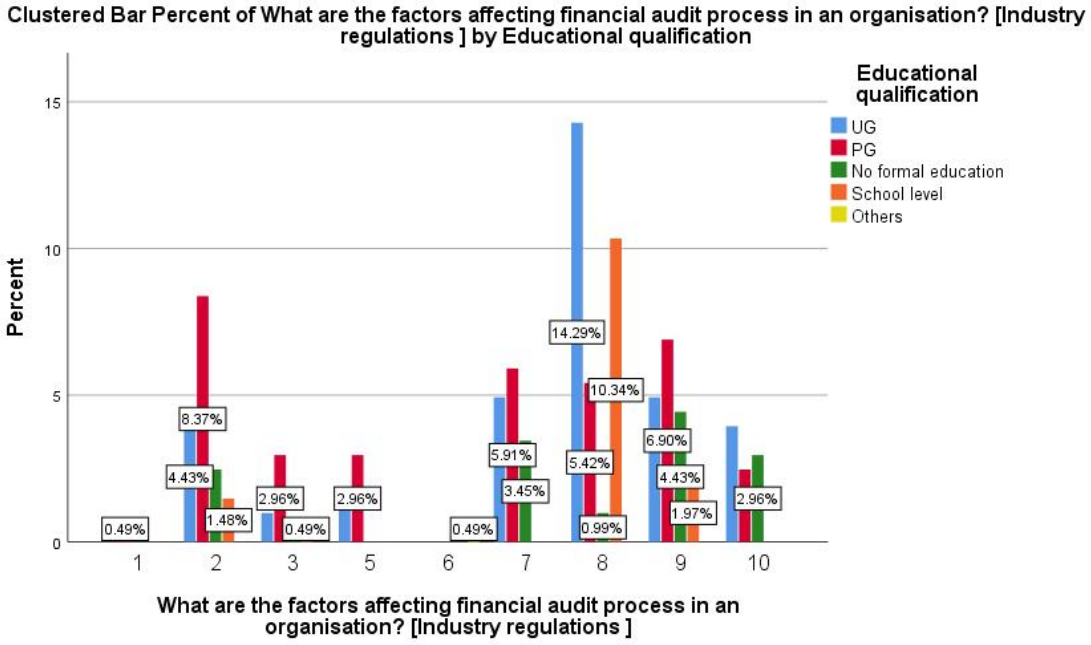


LEGEND: The figure 3 shows "Does negative outcome affect the interest of the shareholders, and investors,and customers? Which is influenced by age of the respondents.

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LEGEND: The figure 4 shows what are the factors affecting financial audit process in an organisation?(complexity and size)



LEGEND: The figure 5 shows what are the factors affecting the financial audit process in an organisation?(industry regulations)

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V. RESULTS

From the figure 1 we could see that 7.39% of the respondents have said enhance internal control 9.36% of the respondents have said auditors independence 13.79% of the respondents had transparent communication and 8.37% of the respondents said motivation to auditor for the above graph. **From the figure 2** we could see that 10.84% of the respondents have said financial miss statements 7.88% of the respondents have said fraud detection 9.36% of the respondents said lack of transparency 5.91% of the respondent acid audit delay as their opinion for the above graph which says about what are the problem in audit when it comes to reputation of an organisation. **From the figure 3** we could see that 25.12% of the respondents have said yes and 9.85% of the respondents have said no for the statement that negative audit outcomes affect the interest of the shareholders,investors and customers. **From the figure 4** we could see that 9.85 % of the respondents have given 8 ratings for the above graph which says what are the factors affecting the financial audit process in an organisation?. **From the figure 5** we could see that 14.29 % of the respondents have given 8 ratings for the above graph which says what are the factors affecting the financial audit process in an organisation?(Industry regulations).

LIMITATIONS

The Major limitation of the study is the sample frame. The sample frame Collected mostly through online platforms like sending mail, sending links via WhatsApp is the limitation of the study.The sample size is another drawback of the research.Collection of data via online platforms is limiting the researcher to collect data from the field. Since the data is collected on an online platform wherein the researcher does not know the real opinion of the respondents .The researcher could only come to an approximate conclusion of what the respondent is feeling to convey.

VI. CONCLUSION

In today's dynamic and interconnected business world, an organization's reputation is one of its most valuable assets. It influences the decisions of stakeholders, from investors and shareholders to customers and partners. Among the various factors that contribute to shaping an organization's reputation, the impact of audits is a subject of paramount importance.The impact of audits extends far beyond the boardroom and financial statements. In conclusion, the impact of audits on an organisation's reputation is undeniable and multifaceted.found that audits play a pivotal role in building trust and confidence among shareholders, investors, and customers. The strong agreement of respondents, irrespective of their educational qualifications, underscores the universal recognition of this critical aspect.Prioritize Transparency: Being open and transparent during the audit process is key. Shareholders and stakeholders should have access to clear and honest financial information.Invest in Quality Auditing: Engage reputable auditing firms or professionals to conduct thorough and unbiased audits. Quality audits are essential for credibility.

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