

Reliance of Banks/Loan Officers on the Audit Quality of Sole Practitioners: A Mixed Method Approach

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ABSTRACT

After the pandemic, MSMEs need financial assistance from banks and other financial institutions to rebound back to the pre-pandemic operations. Banks require audited financial statements which they use to assess the creditworthiness of the borrower. Questions arise as to the quality of the audit by small firms, including the sole practitioners. This study used a mixed method approach to assess the reliance of banks/loan officers on the audit quality of sole practitioners. The quantitative approach employed a descriptive-correlational analysis to determine if correlation exists between the amount of loans granted to microenterprises and the number of individual certified public accountants (CPA). For the qualitative approach, principal component analysis was performed to determine if banks/loan officers regard the audit made by sole practitioners as high quality. This study generated significant insights from bank managers, branch heads, operations officers and credit committee chairperson. Findings revealed that: (1) there is a significant correlation between the amount of loans granted to microenterprises and the number of individual CPA; and (2) banks/loan officers regard the audit made by sole practitioners as high quality comparable to that of the bigger counterparts. This study contributes to enriching the literature by using a mixed method approach to research on audit quality.

Keywords: audit quality, sole practitioner, small audit practice, audited financial statements.

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1. INTRODUCTION

In many countries especially developing ones, micro, small and medium (MSME) enterprises constitute more than ninety percent of the registered businesses (Dasewicz *et al*, 2020). Different countries have different categorizations of MSMEs (Esho and Verhoef, 2018) but all of them are emphasizing the importance of MSMEs in the economy. They propel the economic growth, contribute a bigger percentage to the gross domestic products, provide jobs and a significant source of the national income (Ordynskaya *et al*, 2016). Though regarded as an important driver of the economy, this sector is most vulnerable to economic turmoil (Caraka *et al*, 2021). The recent Covid 19

pandemic has caused MSMEs to dwindle globally (Liguori and Pittz, 2020). In most parts of the world, the Covid 19 pandemic continues to be an existential threat (Viney *et al*, 2020). Many MSMEs faced financial difficulties due to minimal inflow of revenues resulting from lockdowns, social distancing, and limited customers' capacity (Robinsons and Kengatharan, 2020). In some countries, many of this type of businesses have been totally closed because they were not able to absorb the no-revenue or the large decrease in revenues for several months during the onslaught of the coronavirus (Strain, 2020).

The Philippines is not an exemption to the shattering effect of Covid 19 on businesses and in the economy as a whole. These effects are seen on the negative changes in most of the economic indicators. Camba and Camba (2020) found a strong negative association of Covid 19 daily infection and the Philippine Stock Exchange Index, peso-dollar exchange rate and the retail pump price of diesel. Murakami (2020) found that remittances inflow and household consumptions significantly decrease as a result of the measures to mitigate the spread of coronavirus. Chong *et al* (2020) described the Philippines as one of the economies that experienced the largest drop in the GDP. Tibon (2022) in her study about the organizational agility emphasized that the COVID 19 pandemic affected most of the SMEs in the Philippines based on the 2020 Internet and Communication Technology (ICT) Business Impact Survey. Needless to say, MSMEs in the Philippines suffered the most compared to their larger counterparts. This was due to MSMEs limited access to finance which was contributory to their sensitivity to economic crises (Flaminiano *et al*, 2021).

As it was expected, most of the MSMEs need assistance to recover quickly and rebound back to the pre-pandemic level. This will redound to needs for loans which can be obtained from banks and financial institutions. The study by the Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness (Flaminiano *et al*, 2021), of the 700 MSMEs surveyed, 480 or 68.57% need less than PHP 100,000 (USD 2,000) to return and sustain operation. The remaining 31.43%, 18.31% need PHP 100,000 to PHP 500,000 (USD 2,000 to USD 10,000) and only 10% require PHP 500,000 – PHP 1,000,000 (USD 10,000 to USD 20,000), while 2.29% and .72% necessitate PHP 1,000,000 – PHP5,000,000 (USD 20,000 – USD 100,000) and more than PHP 5,000,000 (USD 100,000) respectively. However, financial institutions themselves were affected by the crisis hence have to be prudent in granting the loans else they will just absorb the financial distress such as increased non-performing assets, reduced liquidity and relatively high administrative costs (Lim 2020). Looking back at how they assessed loan applications before the pandemic, the most common reason for loan disapproval was poor credit standing of MSMEs revealed in the financial analysis (Aldaba, 2012). Financial analysis is performed based on the financial statements submitted by the borrowers. These financial statements are required to be audited by an external auditor to warrant reliability of the financial information. However, issues confronting the auditor may result to questionable audit quality (Lai *et al*, 2016; Ball *et al*, 2015; Rahmina and Agoes, 2014; Furiady and Kurnia, 2015) specially, if the financial statement is audited by small audit firm including the sole practitioners (Pham *et al*, 2014). In the Philippines, an individual certified public accountant (CPA) may practice public accounting as long as he/she possesses the requirements and is granted an accreditation by the Board of Accountancy (BOA), the accounting body that regulates auditing practice in the Philippines. At the onset, loan officers have to revisit

how they previously used financial statements in assessing the creditworthiness of the borrowers to appropriately make decisions for the approval or disapproval of the loans.

Independent auditor lends credibility to the financial statements. They give opinions on the fairness of the presentation of the information. This study was anchored on the following theories: the agency theory and the auditing theory. The agency theory states that an agent might act based on his/her personal benefits rather than the benefits of the principal. The external auditor, especially the sole practitioner being an agent of the MSMEs may be influenced by the desire to retain the engagement hence will be easily persuaded by the management in conducting an audit and eventually rendering an unqualified opinion on the MSMEs financial statements. The auditing theory states that auditors must adhere to the standards of auditing such that they must maintain their independence and competence in the conduct of audit. They should have the ability to find errors and irregularities in the financial statement and if found, they will report such errors and irregularities to maintain high quality audits.

1.1. Research problem

The financial statements are used by creditors in assessing the creditworthiness of the borrowers. To ensure that financial statements are fairly presented, they must be audited by an external auditor. This study aimed to determine if correlation exists between the amount of loan granted to microenterprises and the number of individual CPAs who audit the financial statements. This was to determine if the type of auditor being a sole practitioner caused the disapproval of the loan applications. This study also aimed to know the reliance of banks/loan officers on the audit quality of the sole practitioners. In this regard, the qualitative approach sought answers to the following: (1) What is the profile of the bank/loan officers who assess the audited financial statements? (2) What is the degree of reliance of the bank/loan officers on the audited financial statements? (3) Is the type of auditor an issue in the assessment of the audited financial statements? (4) What is the opinion of the bank/loan officers on the audit quality of sole practitioners?

1.2. Significance of the study

There is scarce knowledge on post disaster MSMEs (Badoc-Gonzales, *et al.*, 2021), and this study was conducted to contribute to this dearth of literature on MSMEs. It assesses the audit quality of the sole practitioners from the perspective of the loan officers which are considered the demand side of the audited financial statements. Thus, it will also contribute to the meager literature on the audit quality which most of the existing studies were conducted for big audit firms (Lai *et al.*, 2016; Seckel *et al.*, 2017; Toth, 2014). Findings of this study may elevate the reliance on the financial statements even if the auditor was a small audit firm including sole practitioners since most of the microenterprises cannot afford the high audit fees charged by big audit firms (Climent *et al.*, 2017) specially at this time when Covid 19 pandemic is almost over and most of the enterprises will be requiring funds for their recovery.

A mixed method approach to measuring audit quality is rare since most of the existing studies were conducted quantitatively wherein audit quality is measured using proxy variables such as discretionary accruals (Lai *et al.*, 2016; Wang and Dou, 2014), earnings management (Habbash and Alghamdi, 2016; Dang *et al.*, 2017; El Assy, 2015), audit report lag (Dao and Pham, 2014), number of audit hours (Lee and Park, 2016) and voluntary switching of auditors (Mohamed and Habib, 2013).

Other beneficiaries of this study include the sole practitioner (supply side). This study will give insights to the sole practitioners on how to perform the audit to maintain the quality from pre-engagement and conduct of field work to post-engagement activities. Creditors (demand side) will also benefit from this study particularly the loan assessors to determine up to what extent they can rely on the information provided in the audited financial statements. MSMEs (market side) will have the opportunity to choose an external auditor that will not burden them so much with audit fees while getting quality audit of the financial statements. Finally, future researchers will have a new understanding of the alternative way of approaching audit quality and contribute to the literature gap in future.

2. ACCOUNTING AND AUDITING PRACTICE IN THE PHILIPPINES

This study is framed on the context of accounting and auditing practices in the Philippines. Both the accounting and auditing practices are governed by standards set forth by the regulatory bodies. These standards are necessary in order to make the financial information more reliable. The audit warrants the credibility of the financial information.

2.1. The preparation of the financial statements

Accounting is popularly regarded as the language of the business because it communicates financial information to the various users. The information is used for decision-making. One of the most significant users of the financial information are the capital providers: the investors and the creditors. Investors are interested in the financial viability of the business in order to make a decision whether to invest or not. They are interested in knowing the financial status and the financial performance of the company to assess whether putting their hard-earned money in a particular company will give them the desired return on their investment. These are the same reasons why creditors are interested in the financial information. They need to know how the business is doing financially to make decisions whether to grant or not the loan applied for by the company. They need to assess properly in order to have a convincing basis for their decisions.

The financial information is found in the annual financial statements prepared by every company as a requirement of the Securities and Exchange Commission (SEC) for all registered partnerships and corporations whether micro, small, medium or large enterprises. For sole proprietorship, they also prepare the annual financial statements as a requirement in filing the annual income tax return.

2.2. Audit of the financial statements

A study made by Lee, C. and Azis, M (2023) using secondary data from 117 counties revealed that the adoption of the International Financial Reporting Standards (IFRS) positively affects the Corruption Perception Index (CPI). It can be noted that the financial statements prepared in accordance with the international accounting and local standards reduced biases in the financial statements. However, since the financial statements are prepared by the company, it cannot be avoided that it may be window dressed to serve the interest of the company. Window dressing is the intentional manipulation of the financial information to make it appear that the company is in good shape. This will depict the purposes of the users of the financial statements, specifically the loan providers. To avoid window dressing, financial statements are required to be

audited by an external auditor. External auditors are certified public accountants (CPA) which may be an individual practitioner or member of a firm. In the Philippines, A CPA may practice external auditing (public practice) if he/she is accredited by the Board of Accountancy and at the same time accredited by the Bureau of Internal Revenue (BIR) after presenting the necessary continuing professional education to warrant the qualification and professional development. As of June 2021, there are 251 accredited CPA Firms and 3,825 individual CPAs. Their services are sought by the MSMEs to render an opinion on the financial statements prepared. After doing the necessary audit procedures and techniques and obtaining the sufficient and appropriate evidence, the auditor will render an unqualified, a qualified or an adverse opinion. Rendering an unqualified opinion means that the financial statements prepared presents fairly in all material respects, the financial information about the company. A qualified opinion indicates that some aspects of the financial information may contain misrepresentation but such is not pervasive to the financial statements as a whole. While the adverse opinion, which is the most avoided in an audit, means that the financial statements as a whole are materially misrepresented and that the auditor cannot guarantee the reliability of the information provided in the financial statements.

2.3. Focus on audit quality

As mentioned earlier, the financial statements are assessed by the various users to make the decision. It is imperative that the information provided in the financial statements are relevant and reliable. Audit quality is important for a number of reasons: the reputation of the firm, the reliance on the audit opinion, the profession's mission to protect the public, peer reviews and regulatory scrutiny. Hence the audit quality is the ultimate objective of the financial statement audit. Audit quality can be obtained if the external auditor was able to perform the audit with due competence and independence. These are the two main components of a quality audit. Competence is the ability of the auditor to perform the audit with the necessary skills and expertise in the conduct of field work so that errors and irregularities are detected. Independence requires that there is no undue influence both internal and external to the auditor in giving an opinion so that errors and irregularities if found will be reported and corrected.

Over the years, various accounting and audit scandals not only in the Philippines but all over the world have caused issues on the audit quality. Challenges confronting audit quality continue to escalate. Auditor's busyness, industry specialization, dysfunctional behavior, non-audit services, affiliation with international audit organization, audit tenure, audit fees, audit firm age and size were among those that impair the audit quality. This study focused on the type of auditor whether being a sole practitioner is indicative of a low audit quality having limitations as to the human resource, financial resource and individual qualifications. To determine the audit quality, the perception of the bank/loan officers who are the primary users of the audited financial statements were explored to establish the extent of the reliance on the audited financial statement. They are considered the demand side of the audit industry because they are the ones who require, among others, that financial statements be examined by an independent auditor. Their insights as to whether the type of auditor either big audit firm or small audit firm including the sole practitioner, affect the approval of the loans.

2.4. Conceptual Framework

The conceptual framework shown in Figure 1 served as a guide in framing the study of the audit quality of sole practitioners. This study focused on the figures inside the broken lines. The sole practitioners prepare the audited financial statements (AFS) from the financial information provided by the MSMEs. The bank/loan officers use the AFS in assessing the creditworthiness of the MSMEs. Reliance on the information provided in the AFS is necessary in the decision/recommendation to approve or disapprove the loan applications. Hence, the audit quality is of prime importance to banks to be assured that the financial information is valid and legitimate.

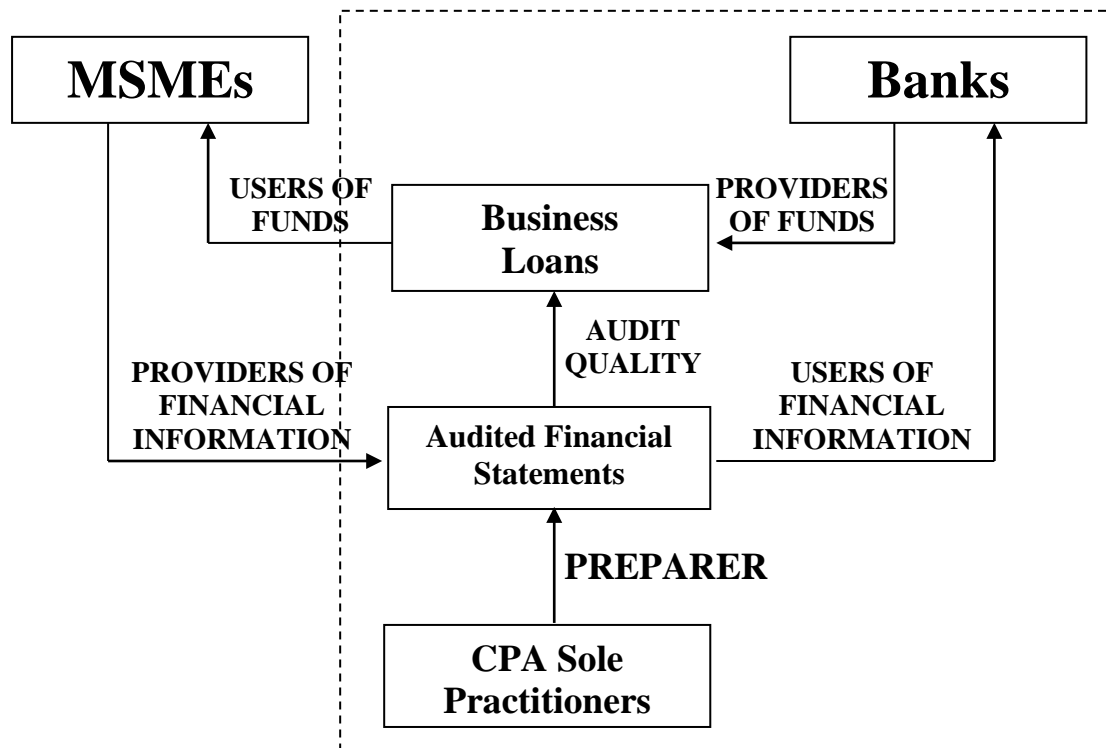


Figure 1. Conceptual Framework

3. METHODOLOGY

This study utilized the mixed method research which, according to Vibora and Mandigma (2022), employs the systematic integration of both quantitative and qualitative data. The quantitative approach began with the analysis of the trends from 2018 to 2022 for the total business loans granted to micro enterprises together with the number of individual certified public accountants who are accredited by the Bureau of Internal Revenue (BIR). In the Philippines, after acquiring the accreditation from the Board of Accountancy (BOA), a CPA needs another accreditation from the BIR to practice audit of the financial statements. Secondary data taken from the Bangko Sentral ng Piliplinas (BSP) and the BIR websites were tested using descriptive correlational tools to establish the relationships between the identified variables. Results of the correlation coefficient tests revealed that the variables “business loans granted to microenterprises” and “number of individual CPAs accredited were statistically correlated. Further discussions are given in the succeeding section.

The qualitative approach utilized phenomenological inquiries to explore the personal experiences and opinions of the selected bank/loan officers to determine whether the type of auditor, either big audit firm or small audit firm including the sole practitioners affects the decision to grant or not grant the loan applications of business enterprises. It also gave insights into whether bank/loan officers view the audit performed by sole practitioners as quality audit hence information provided by the financial statements are considered reliable. Due to the on-going health protocols, structured interviews were done via zoom. Emails were sent to 15 interviewees who were selected based on their availability and willingness for a virtual interview due the limitation of the face-to-face encounter. They were informed about the objectives of the interview and their consent were sought before the interviews were scheduled, 13 responded positively, they have either a direct or indirect authority on loans applications and approval. The procedures were recorded in the zoom and were transcribed by the proponent. The transcriptions were subjected to constant comparative analysis to come up with concluding responses on the research questions. Significant documentations of the data were presented in tables to show the relevant themes, meanings, counts and important statements given by the respondents.

4. RESULTS AND DISCUSSIONS

This section shows the results of the quantitative and qualitative research approaches. The quantitative approach demonstrates the amount of business loans granted to microenterprises and the number of individual CPAs accredited by the BOA and the BIR. Results of the correlations tests were presented in tables. The qualitative approach shows the result of the principal component analysis showing the emergent themes.

4.1. Quantitative Analysis.

Table 1 below shows the year on year estimated business loans granted to microenterprises.

Table 1. Year on Year Estimated Business Loans Granted to Microenterprises

Year	Estimated Business Loans Granted to Microenterprises *in billion Pesos
2018	7,284
2019	7,880
2020	7,804
2021	8,247
2022	9,071
Mean	8,057
Standard Deviation	593

Source: Bangko Sentral ng Pilipinas

Table 1 shows the estimated business loans granted to microenterprises. These amounts were obtained by multiplying the outstanding loans granted to residents for production by economic activity and the ratio of microenterprises to total number of establishments as per 2021 Philippine MSME Statistics List of Establishments.

Table 2 below shows the number of active individual CPA as per Accredited Tax Practitioner Per Bureau of Internal Revenue (BIR).

Table 2. Number of Active Individual CPA as Per Accredited Tax Practitioner Per BIR

Year	Number of Active Individual CPA as Per Accredited Tax Practitioner Per BIR ²
2018	862
2019	1,512
2020	2,384
2021	3,308
2022	3,441
Mean	2,301
Standard Deviation	1,001

Source: Bureau of Internal Revenue (BIR)

Table 2 shows the number of active CPA accredited by the Bureau of Internal Revenue (BIR) as of December 31, 2022. In the Philippines an individual CPA to practice assurance services and file income tax return of an enterprise is required to be accredited by the BIR aside from the accreditation of the Board of Accountancy (BOA). To be accredited, a CPA must comply with the 120 hours of continuing professional development for the three-year period.

Tables 3, 4 and 5 shows the results of the descriptive correlation tests using Pearson's R, Kendall Tau and Spearman's Rank Order Correlation.

Table 3. Correlation Between Estimated Business Loans granted to Microenterprises and Number of Active CPA as per Accredited Tax Practitioner Per BIR Using Pearson's R

Variables	Estimated business loans granted to micro enterprises	Number of active individual CPA as per Accredited Tax Practitioner Per BIR
Estimated business loans granted to micro enterprises	1	
List of active individual CPA as per Accredited Tax Practitioner Per BIR	0.869*	1

* correlation is significant at the 0.05 level (2 tailed)

Table 4. Correlation Between Estimated Business Loans granted to Microenterprises and Number of Active CPA as per Accredited Tax Practitioner Per BIR Using Kendall Tau

Variables	Estimated business loans granted to micro enterprises	Number of active individual CPA as per Accredited Tax Practitioner Per BIR
Estimated business loans granted to micro enterprises	1	
List of active individual CPA as per Accredited Tax Practitioner Per BIR	0.733*	1

* correlation is significant at $p = .038$ (2 tailed)

Table 5. Correlation Between Estimated Business Loans granted to Microenterprises and Number of Active CPA as per Accredited Tax Practitioner Per BIR Using Spearman's Rank Order Correlation

<i>Variables</i>	<i>Estimated business loans granted to micro enterprises</i>	<i>Number of active individual CPA as per Accredited Tax Practitioner Per BIR</i>
<i>Estimated business loans granted to micro enterprises</i>	1	
<i>List of active individual CPA as per Accredited Tax Practitioner Per BIR</i>	0.829*	1

* correlation is significant at $p = .05$ (2 tailed)

Tables 3, 4 and 5 illustrate a robust positive correlation between the amount of loans granted to microenterprises and the number of active CPA as per accredited tax practitioner per BIR. In all the tests, the results demonstrated a strong correlation between the two variables: Pearson's R ($r = .868$, $p = .05$), Kendall Tau ($\tau = .733$, $p = .039$) and Spearman's ($\rho = .829$, $p = .05$) indicating a significant association. Thus, investigating the impact of the amount of loans granted on the number of individual CPA is crucial. The findings suggested that as the amount of loan granted to microenterprise rises, the number of individual CPAs accredited to practice financial statement audit also rises. It means that the type of auditor being sole practitioners does not cause the disapproval of the loans. These results are supported by the qualitative data analysis discussed in the succeeding paragraphs.

4.2. Qualitative Analysis. The demographic profile of the bank/loan officers are presented in Table 6 to highlight the qualifications of the participants. Relevant findings of this study were not meant to generalized but simply to highlight a deep understanding of the views and opinions of bank/loan officers on the audit quality of the sole practitioners in the Philippines.

Table 6. Demographic Profile of the Participants

Participant #	Age	Sex	Education Level/Degree	Position
Participant 1	23	M	College/Entrepreneurship	Branch Manager
Participant 2	56	F	College/Accounting	Business Manager
Participant 3	53	F	College/Marketing	Branch Manager
Participant 4	58	F	College/Accounting	Head-Global Compliance
Participant 5	54	M	College/Business Administration and Accounting	Branch Operations Head
Participant 6	38	F	Master/Business Management	Senior Manager
Participant 7	36	F	College/Banking & Finance	Operations Officer
Participant 8	48	F	College/Commerce	Branch Manager
Participant 9	28	F	College/Hotel & Restaurant Management.	Customer Relation Officer
Participant 10	31	M	College/Nursing	Operations Officer
Participant 11	30	F	College/Financial Management	Operations Officer
Participant 12	58	F	College/Banking & Finance	Branch Head

Participant 13 54 F Graduate Studies/MBA Credit Committee Chair

Source: Authors, 2022

The Table 6 above indicates that the participants are in the best position to opine on the quality of the audit. They are in the forefront of loan operations. They initially receive applications and are the first to scrutinize the submitted documents. One thing that they look at the requirements is the audited financial statements. They require that the financial statements are the same financial statement submitted to the Bureau of Internal Revenue (BIR) for income tax filing, it doesn't matter what type of external auditor. Once the documents are complete, they do the initial assessments. If the loan applications comply with the requirements of the bank, they will be forwarded to the head office for further review and the eventual approval or disapproval. Included in the documentary requirements submitted to the loans department are the financial statement analysis. In the head office, the financial statement analysis is further reviewed to determine if the borrower has the capacity and capability to repay the loan if granted. Continuous comparative analysis of the transcripts revealed three major themes: (1) compliance with regulatory requirements, (2) competence resulting from continuous professional development and (3) professionalism of the sole practitioners in the conduct of audit.

4.3 Theme 1: Compliance with regulatory requirement

Participants were asked whether they rely on financial statements audited by sole practitioners and what is the degree of their reliance on the audited financial statements in assessing the credibility of the borrowers. Table 7 presents the varying views of bank/loan officers on the reliance on audited financial statements by sole practitioners.

Table 7. Bank/loan officers' degree of reliance on the audited financial statements by sole practitioners

Degree of Reliance	Meaning	Count	Selected Statement
Very High	The bank/loan officers regard the audited financial statements as reliable because of high audit quality	4	<p>“First of all, it is compliance. The audited financial statements speak of good management of the borrower”</p> <p>“CPAs have trainings seminars conducted by PICPA. They are updated with the requirements for audit”</p>
High	The bank/loan officer is satisfied with the information provided in the financial statements.	6	<p>“As long as audited and submitted with stamp of the BIR, the financial statements are truthful”</p> <p>“If audited, there is check and balance. The checking and the review are stricter”</p> <p>“Of course, the auditor's license is at stake, so I think they will do it properly”</p>
Low	The bank/loan officers require additional documents from	2	<p>“We also ask in-house financial statement because it is more realistic”</p> <p>“We ask them to submit the audited financial statement because it is required</p>

	borrowers.		by the BSP (Banko Sentral ng Pilipinas)”
Very Low	The bank/loan officers do not use the audited financial statements in loan processing.	0	

Note: 1 participant did not indicate reliance on the audited financial statement.

Source: Authors, 2022

The Table 7 above indicates that the majority of the bank/loan officers give high reliance on the audited financial statements. They believed that a CPA complies with the requirement to do the audit. And once they certify the financial statements, the information provided can be used in analyzing the capability of the company to pay the loans if granted. They also believed that training and the continuous professional development makes the sole practitioner comply and they will not make any irregularities because their names and licenses are at stake.

On the other hand, there are still some bank/loan officers who do not trust the audited financial statements because they believe that the information provided is manipulated and that companies prepare in-house financial statements which are unaudited but provide more realistic information.

4.4. Competence resulting from continuous professional development

Most of the bank/loan officers are not aware of the rigid requirements in the public practice. But when they were informed, they view that CPAs are competent in performing the audit because of the continuing professional development required for the accreditation to do public practice. Table 8 presents the bank/loan officers’ perspective on the qualification of an auditor to do public practice.

Table 8. Bank/loan officers’ perspective on the qualification of an auditor to do public practice

Awareness of the Audit Process	Meaning	Count	Selected Statement
Aware	The bank/loan officer is fully aware of the rigid requirements to practice audit in the Philippines.	4	“I guess the parameters set can qualify for a good audit since the auditor continue to upgrade and update” “The requirements to be accredited help them to enhance their knowledge about audit”
Not Aware	The bank/loan officer is not aware of the rigid requirements to practice audit in the Philippines.	9	“As far as I know, as long as CPA, can do the audit. Being a CPA is a proof that the auditor is competent” “Only now I came to know. Yes, I believe that they are competent since there is a value in accreditation” “Based on the scenarios you said, I think

they are competent enough although sometimes they miss, nobody is perfect”
 “I think if that is the process then they need to comply”
 “Yes of course because they are updated, they have this current information because of the CPD

Source: Authors, 2022

The Table 8 above indicates that the majority of the bank/loan officers are not aware of the requirements to practice public accounting in the Philippines. After obtaining a license, the CPA cannot immediately do public practice. They need to apply for accreditation from the Board of Accountancy, the body that regulates the accountancy profession in the country. To be able to acquire an accreditation, the CPA must comply with the meticulous requirements such as among others, the code of good governance of the individual CPA, internal quality review procedures, ethical and technical standards required of the practice of public accountancy, a sworn statement that the CPA has undergone adequate and effective training on all the current accounting and auditing standards, code of ethics, and laws. Having complied with these tedious requirements, it warrants the competence of the sole practitioners to do quality audit.

Having been informed of the preceding checklists, bank/loan officers realized that as long as the sole practitioners have gone through all these requirements, their audit is the same quality as that of the bigger counterparts.

4.5. Professionalism of sole practitioner in the conduct of audit

Participants were asked if there has been an issue as to the type of auditor: small audit firms (including sole practitioners) or big audit firms (Big 4). As far as the institutions they are working with, it is not an issue but as to their personal belief, there are varying views. Table 9 presents the perspective of the bank/loan officers on the audit performed by sole practitioners compared to that of the big audit firms.

Table 9 Bank/loan officers’ perspective on the quality of audit by sole practitioners versus the big audit firms

Audit Firm Size	Meaning	Count	Selected Statement
Issue	The bank/loan officer prefers big audit firm to audit financial statements because it is more reliable	1	“The difference is the experience and the exposure”
Not an Issue	The bank/loan officer believes that the size of the audit firm does not affect the quality of the audit.	10	“I would like to believe that auditing is very truthful. If the auditor finds a material issue, the CPA is going to bring the matter to the attention” “The audit nowadays is more reliable than before”

			<p>“Sole practitioner can audit SMEs but big audit firm can audit large corporations but I believe the quality are the same”</p> <p>“Yes, I think if they found irregularities, they will report because their names are at stake”</p> <p>“I think they are true to their oath as a CPA”</p> <p>“As for me, they are the same as long as they comply with the requirements”</p>
No idea	The bank/loan officer does not care about the auditor as long as the financial statements are audited	1	“I don’t have any idea because I am not an accountant”

Note: 1 participant did not indicate if there is difference in the audit of sole practitioners and big audit firms.

Source: Authors, 2022

The Table 9 above indicates that almost all of the bank/loan officers perceived that there is no difference in the quality of audit made by sole practitioners compared to the big audit firms. This confirms the applications requirements that as long as the financial statements are audited, it doesn’t matter who the auditor was. They have confidence in the professionalism of the CPA who does the audit that if they find irregularities while reviewing the financial statements, they will bring the matter to the attention of the company’s management for proper disposition and correction so it won’t affect the fairness of the presentation of the financial statements. They are certain that the individual CPA performing the audit has done all the required tests to make sure that they are satisfied with the result of the audit so they can issue a certification that the financial statements taken as a whole are free of material misstatements.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study presented the correlation between the amount of loan granted to microenterprise and the number of individual CPA accredited by the BIR to practice audit of the financial statements. Descriptive correlation analyses indicated that the significant correlation exists between the two variables. It can be concluded that the approval and disapproval of the loans was not affected by the type of auditor whether big audit firm or small audit firm including sole practitioners. Results of the quantitative analyses are supported by the qualitative analyses using phenomenological inquiries on the perspective of the bank/loan officers on the quality of the audit of the financial statements performed by sole practitioners. Bank and loan officers regarded the financial statements audited by sole practitioners possessed reliable and useful information as long as the individual CPA complied with the requirements of the audit and of the regulating bodies as to the continuing professional development. They also

perceived that the audit is of high quality and was comparable to the audit performed by big audit firms.

The tedious requirements set forth by the regulatory bodies to practice public accountancy in the Philippines made the individual CPA competent to perform an audit on the financial statements. Their competency equated the quality of their audit to that of the bigger counterparts. This made the bank/loan officers give high reliance on the information provided in the financial statements in assessing the creditworthiness of the borrowers.

Bank/loan officers had high regards to the professionalism of the individual CPA. They are certain that sole practitioners did not put their name and license at stake in performing an audit of the financial statements. They were confident that if the auditor discovered material irregularities, they brought the matter to the attention of the concerned individuals so that proper dispositions were made and that they required the proper adjustments to correct the misstatements. Sole practitioners valued their profession so that they did what is right in the practice of their profession.

The findings of this study had proven that there is no difference in the quality of audit performed by sole practitioners and big audit firms. Hence, bank/loan officers put high reliance on the information provided in the audited financial statements. Bank and loan officers, gave due consideration to the compliance, competence and professionalism of the individual CPA whether sole practitioner or employed by big audit firms.

5.2. Recommendations

This study focused on the demand side of the audited financial statements. Aside from the owner/managers of the MSMEs, bank and loan officers were the ones that required audited financial statements because they used the information in assessing the creditworthiness of the borrowers. The findings of this study can be validated by further studies based on the perspective of the owner/manager on how they regard the audit performed by sole practitioners. Further recommendation could be a study on how the auditor themselves as the supply side view the quality of their audit. This could be done by asking the CPAs themselves of their perception. Quantitative approach may also give a meaningful insight on the quality of audit made by sole practitioners. Lastly, since the academe is a rich ground for professionals who are trained to participate in interdisciplinary teams on functional areas (Mandigma, 2017), integration of audit quality in the curriculum for would-be CPAs is highly recommended.

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