

Ouertani, Insaf; Damak Ayadi, Salma

**Article**

## Auditor Engagement Decision: An Exploratory Study in the Tunisian Context

Journal of Accounting and Management Information Systems (JAMIS)

**Provided in Cooperation with:**

The Bucharest University of Economic Studies

*Suggested Citation:* Ouertani, Insaf; Damak Ayadi, Salma (2012) : Auditor Engagement Decision: An Exploratory Study in the Tunisian Context, Journal of Accounting and Management Information Systems (JAMIS), ISSN 2559-6004, Bucharest University of Economic Studies, Bucharest, Vol. 11, Iss. 3, pp. 371-390

This Version is available at:

<https://hdl.handle.net/10419/310498>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<http://creativecommons.org/licenses/by/4.0/>

## AUDITOR ENGAGEMENT DECISION: AN EXPLORATORY STUDY IN THE TUNISIAN CONTEXT

*Insaf OUERTANI and Salma DAMAK AYADI<sup>1</sup>*  
IHEC Carthage, Tunisia

### ABSTRACT

*This study seeks insights into the determinants of the acceptance decision made by Tunisian auditors. Through measurement scales of the auditors' perception of the decision's factors, the Factors Analysis highlights the decision's attributes. In our study, we used questionnaire surveys from 41 Tunisian auditors of 4 big affiliates and local audit firms. The results show that the audit Risk is the most important risk factor, followed by the client business Risk and finally the auditor's business Risk. Moreover, this study underlines the influence of investigation sources on this decision and the importance of the Risk Management Strategies in the compensation of the possible risks such as they were evaluated.*



*Client acceptance decision, engagement risk, factorial analysis, Tunisian context*

### INTRODUCTION

At the beginning of this century an important series of accounting scandals, especially those related to Enron and WorldCom had an enormous repercussion on the business world. These scandals have considerably shaken the investors' trust in the financial markets and their reliability on the information at their disposal. The auditing profession was also affected because of the implication of the famous audit firm, Arthur Andersen, in the Enron scandal.

Auditors have to assume a responsibility for the public interest since they play an important social role. In fact, the public must rely on their objectivity, integrity and their capacity to found rigorous systems of management and information to ensure the good performance of the economy. Some observers allot the scandals to a failure of the audit system. The auditors can be tried by the lure of gain and hence fail to answer the expectations of information users. In addition to this opinion,

---

<sup>1</sup> Correspondence address: Salma Damak-Ayadi, IHEC Carthage, Département Comptabilité, Tunisie, Tel: (00216) 71774720, Fax: (00216) 71775944, Email: salmadamak@yahoo.fr

there is another one which can explain these failures which is the risk management of an audit engagement. Indeed, one of the most significant reports and potentially most problematic is that existing between the auditor and the entity to be audited.

The auditor's decision to accept a new client is crucial because of the possible hazard of association with certain potential clients. The risks to which the auditor exposes themselves while engaging with a new client can extend from the financial loss and image deterioration, to the disappearance of the audit firm. The engagement risk is a critical stage for the total programme of the risk management of an audit firm. In addition, each acceptance decision affects the total risk of the audit firm's client portfolio (Johnstone & Bedard, 2003).

Thus, auditors should set up an acceptance process of new clients as the first phase of their risk management. This process requires the adoption and the application of acceptance procedures. This kind of procedures will provide the auditors not only with a relevant outline for the responsibility they should assume but will also give them a first evaluation of the importance of the work they should undertake.

Knowing that current regulation about the audit engagement is interested mainly in the evaluation of the risks lasting the preliminary phase of planning, which starts after the engagement acceptance, the process of the engagement's decision making is perhaps the most critical stage in the audit process. It is necessary to announce that researches interested in this phase of the audit process are utterly reduced nationally as well as internationally.

Moreover, some previous researches have focused on the study of the factors affecting the engagement decisions between auditor and the entity to be audited from the point of view of the entity. However, the engagement process is a complex one composed of the auditor decision on the one hand and of the entity to be audited on the other (Huss & Jacobs, 1991). The decision to accept a new client is the subject of several influences, and the examination of their impact on the acceptance process is an essential stage in the development of knowledge on the decision making (Gendron, 2001).

In spite of the importance of this decision, little is known about how audit partners make this complex and multidimensional decision (Johnstone, 2000). The objective of the current study is to expand knowledge on the audit engagement made by Tunisian auditors, thereby allowing the development of a guidance of how to actually make this decision by audit firms and to enhance audit quality.

Through measurement scales of the auditors' perception to the decision's factors, the Factors Analysis highlights the decision's attributes. In our study, we used questionnaire surveys from 41 Tunisian auditors of 4 big affiliates and local audit firms. The results show that the audit Risk is the most important risk factor, followed by the client business Risk and finally the auditor's business Risk. Moreover, this study underlines the influence of investigation sources on this decision and the importance of the Risk Management Strategies in the compensation of the possible risks such as they were evaluated.

The paper proceeds as follows. The first section provides background on the auditing process and explains the design of the research instrument. Section 2 and 3 discuss the data collection procedures and present the survey results, respectively. The last section provides a discussion of results and limitations.

## **1. LITERATURE REVIEW**

The acceptance decision's process is the sequence of stages and actions undertaken by the auditor which would allow him to make his "justified" decision of acceptance or rejection of a new client. According to Johnstone (2000), the acceptance decision of a new client was identified like a process of risks' evaluation and adaptation to these risks which can be presented as follows.

### **1.1 Engagement Risk Assessment**

Some analysis of the audit process concentrates on evaluating risks at the preliminary phase of planning, starting after the engagement acceptance. However, the pre-engagement decision-making process constitutes the most critical stage in the audit process, given the dramatic consequences which it would have in the event of a bad engagement evaluation and which can cause in some cases many problems to the auditor.

Ethridge *et al.* (2007) have exposed two main questions which an audit firm should ask before accepting a new engagement.

- Which client would the auditor accept?
- What is the impact of association with this client?

Because of profitability pressures for the audit firm and in particular the research of balance between the fees to be perceived and the efforts to be made, the acceptance decision becomes increasingly an important and a critical decision (Johnstone & Bedard, 2003). Thus, auditors should carefully consider the advantages and the potential costs of association with new clients (Ionescu & Turlea, 2011).

During the period which preceded the Enron's scandal, competition was the explanation of the weak interest granted by the audit firms to the investigation of the potential risks related to the association with new clients. Indeed, the audit firms were more concerned with the profit than by the integrity of the client (Johnstone & Bedard, 2003). However, the Enron scandal which was followed by the disappearance of Arthur Andersen, one of the biggest audit firms, increases the concern of the auditors for their reputation rather than their financial position.

### **1.2 Risk Engagement components**

The AICPA (1994) defines the engagement risk as being a unit made up of three components:

- The client business risk,

- The audit risk,
- The auditor business risk.

Every component can be evaluated during the phase of acceptance as well as during the engagement.

### ***1.2.1 The client business risk***

The client business risk can be defined as “the risk associated with survival and the profitability of the potential clients. It includes factors such as the fast changes in the client’s environment and the market in which it operates, problems of liquidities which are likely to prevent the client from achieving his targets and involving its disappearance” (Colbert *et al.*, 1996: 54). Generally, the client business risk is the risk that its economic conditions worsen in the medium or long term so that it would cause him important losses or even disappearance.

### ***1.2.2 The audit risk***

The SAS n° 47<sup>1</sup>: defines the audit risk as being “the probability of giving an inappropriate opinion on the financial statements”. The audit risk is a concept made up of three components. These components are defined as follows:

1. Inherent risk: it depends on the existence of significant errors in the financial statements of a company, due to its external environment (by supposing that the internal audit processes are not operational).
2. Control risk: it corresponds to the risk that a misstatement that may occur in an account balance or class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems.
3. Detection Risk (or Residual risk): it depends on the existence of significant errors in the audited financial statements of a company, due to the incapacity of the auditor to detect them (by supposing that the external environment and the internal environment of the company functioned as it is necessary to prevent the insertion of errors in the financial statements).

### ***1.2.3 The auditor business risk***

The auditor business risk consists in all the risks born from the association with potential clients such as the litigation costs, the loss of reputation and the risk of nonpayment. Therefore, the auditor business risk is controllable if analyzed correctly. The auditors can attenuate their own risks. Colbert *et al.* (1996) have distinguished several examples of each component. Thus with regard to the client business risk, they show that this kind of risk contains three categories:

- ***Risk factors related to the management of the client***: in particular its lack of conformity to the laws and the regulation, lack of integrity, an evasive and non cooperative behavior with the auditor.

- **Risk factors related to the client itself:** in particular vulnerability of this client vis-à-vis the fast technological changes of its environment, liquidities problems, dependency on a limited number of clients and/suppliers.

- **Risk factors related to the industry branch:** in particular, when it is about a very competitive or saturated sector or with an activity where the fixed costs are very high and with low variable costs.

The audit risk is then the totality of errors which can exist in the financial statements and which can emanate either from these three components, or from one or the other or from the three at the same time. Concerning the audit risk, Colbert et al. (1996) give the example of risks born because of the non current operations, or because of a very important volume of end of exercise operations, or because of an inexperienced accounting department or with inexperienced personnel.

Finally, concerning the auditor business risk factors, Colbert et al. (1996) present the following examples:

- High number of lawsuits implying the potential clients.
- The potential client shows a frequent change of his auditors, which implies the existence of problems or difficulties of engaging with such client.

- A client who will be on the stock exchange market. Johnstone (2001) has studied the perception of American auditors, belonging to one of the Five Big audit firms, of the importance they attach to these three components. The study showed that the questioned auditors have classified the audit risk as being the most important factor for the acceptance decision, followed by the client business risk and finally the auditor business risk.

- Concerning the client business risk, the author have found that the auditors agree on the fact that the financial conditions of the client, his situation compared to his industry branch constitute the most important factors of this category of risk.

- Concerning the audit risk, divergences were observed between the most experienced auditors and the less experienced ones. Thus, the first group considers the management attitude vis-a-vis the internal control system as being the most important factor of this category. The second group gives more importance to the relation of the potential client with his precedent auditor. However, the two groups of auditors agree on the level of importance which they allot to the following factors: the level of professional judgment necessary for the assets evaluation, the growth of the industry branch, and the existence of an internal audit department.

- Concerning the auditor business risk, the author noted convergences of perceptions between the two groups of auditors. Thus, they agree on the fact that the experience of the audit firm in the client's industry, information concerning a possible initial public offering of stock, and the possibility of providing spin off work, are the most important factors of this category.

Considering the importance of this decision and its consequences for the auditor the professional standards, particularly the American ones, declare that the auditors must set up procedures of evaluation of the engagement risk and decision making as for the acceptance or the rejection of new clients.

### 1.3 Risk Management Strategies

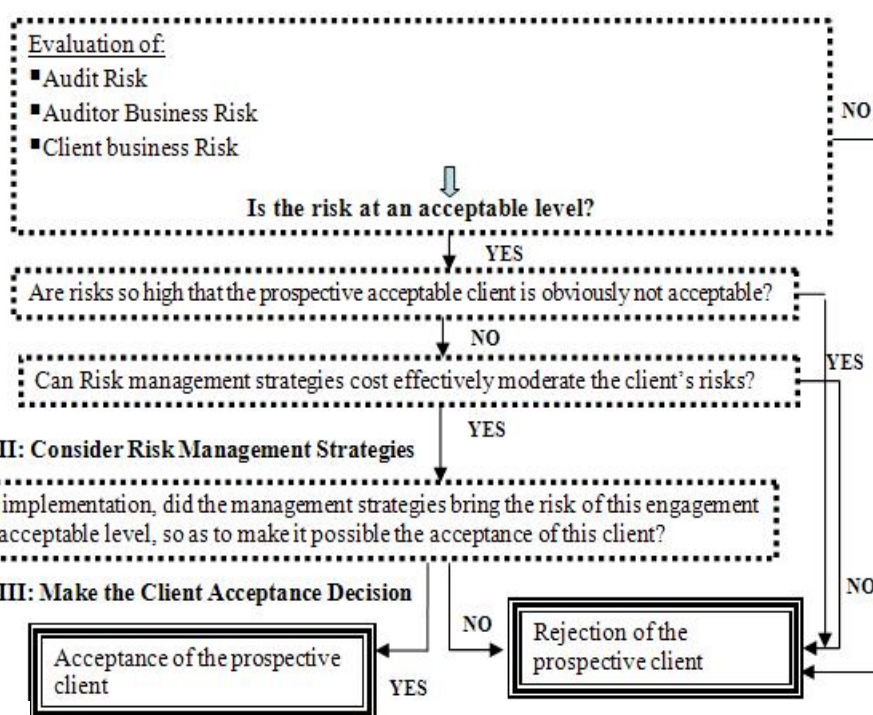
The management strategies can be defined as procedures and technical installations undertaken by the audit firms to moderate the effect of risk on client acceptance decisions, thereby assisting auditors in bringing potential client relationships to acceptable risk/return levels.

Different risk management strategies are considered to mitigate the risks as assessed in the previous stage according to the client acceptance model. Johnstone (2000) marked the beginning of the interest of research in those kinds of strategies. She conducted a behavioral experiment in which she studied the partners' use of more proactive risk-adaptation strategies (including the assignment of specialist personnel) to make "less acceptable" clients more acceptable.

However, few researches have studied this stage of the acceptance process. As much as the process itself is concerned, few studies worked on those strategies. It is hence still difficult to detect the auditors' motivations behind the choice of such strategy compared to another. Thus the decision making process can be schematized as follows<sup>2</sup>:

*Figure 1. A model of the Client Acceptance Decision-Making process*

#### Stage I: Risk Evaluation



In Tunisia, professional accounting organizations are conscious of the acceptance decision's importance. Indeed, Standard OECT 4 "Diligences of the CAC to the taking up the duties" specifies diligences to be achieved relating to the preliminary phase with the acceptance of the engagement. However, no obviousness is provided as for the factors to consider or the criteria to be examined to make such decision (Johnstone, 2001).

## **2. RESEARCH INSTRUMENT**

### **2.1 Development of the research instrument**

Given the exploratory nature of the study, we used structured interviews to solicit Tunisian auditors' opinions on factors that may affect their client acceptance decisions. The findings were used to refine the survey instrument to collect data from experienced auditors.

The instrument for the interviews was elaborated on the basis of the professional standards and inspired from the literature treating this subject (Huss & Jacobs, 1991; Stice, 1991) and especially from Asare *et al.* (1994). Structured interviews are carried out with twelve Tunisian auditors from both the 4 big audit firms and members of local Tunisian audit firms.

### **2.2 Content of the survey instrument**

The employed interview guide was inspired from that used in the Asare *et al.* (1994). The instrument contained both close and open ended questions organized into four sections. The first section included close ended questions about the respondent's firms and their personal background, including professional qualification and diploma, work experience, position into the audit firm, the number of audit engagements made by the audit firm and that they had participated in over the past three years. The other three sections related to the investigation sources which the auditors employ to learn about the potential client, the risk assessment and finally, about factors affecting the client acceptance decision.

Indeed, the authors have investigated the American auditor process for acceptance decision. Their interview guide was elaborated using the literature, the internal documents of the audit firm, and the audit normalization. We used the Asare *et al.* interview guide because it was considered as a reference in the previous literature. Their results were corroborated by many later studies (Johnstone, 2000, 2001; Gendron, 2001; Chow *et al.*, 2006).

The interviewed auditors are:

- Five auditors (chartered public accounts) belonging to the four big audit firms present in Tunisia;



- Six auditors (chartered public accounts) belong to local audit firm;
- One accountant.

Each interviewed auditor was asked to describe a decisional situation relating to the acceptance of a new client. The fact that they expose a case of an acceptance decision making enabled us to identify certain aspects and practices that the posed questions would not allow us to detect.

Various actions were taken to guarantee the reliability of the collected information. All the questioned auditors were advised, at the beginning of the interview on the anonymity and the confidentiality of both their identity and that of the firms they belong to. Moreover, considering the sensitivity of some questions, the interviews were not recorded. The data were rather transcribed progressively during the discussion. They were thereafter synthesized and restructured in the twenty four hours which followed the interview.

A content analysis of the transcribed conversations led us to the interpretation of interviewed auditors' perception. Thus, the interviews elicit information about:

- Partners' knowledge of the firm's policies, procedures and required documentation during client acceptance processes,
- The organizational level at which client approval takes place.

So this information provides insight into a firm's overall management philosophy and approach to risk management and the organizational level at which client acceptance decisions are made. Interviews allow us to identify the investigation sources, the risk factors and the risk management strategies to be studied through the questionnaire survey.

### **2.3 Data collection**

The development of our empirical frame analysis was realized through the following stages:

- The definition of items from the literature review and the semi-structured interviews' content analysis.
- The questionnaire was developed through the items' generation. Indeed, these items will allow us to identify factors that affect Tunisian professionals' decision to accept or reject a new client.

Before administrating it, the questionnaire was given to practitioners for a pre test. So their comments and their recommendations allowed us to bring certain corrections and to incorporate their suggestions for a better quality and clarity of the final questionnaire to be used for the data collection.

The questionnaire was administrated with the guarantee of the answers' confidentiality and anonymity and with focus on the purely academic object of our

research. In addition to the administration of the questionnaire by e-mail, it was necessary to proceed to direct contact to collect as more answers as possible. We constituted a sample of 80 participants, 40 auditors who are chartered public accountants (among the 916 members) and 40 auditors who are just accountants (among the 524 members). 41 completed questionnaires were returned for an overall response rate of 51%. It is to be stressed that the answers' rate of the chartered public accountants is much more important than that of the accountants: 77.5% for the first, against 25%. The descriptive statistics and the factorial analysis' results follow.

### 3. RESULTS

#### 3.1 Descriptive Statistics

Table 1 shows that 85% of the auditors are men, which reflects also the Tunisian auditors' population where men in this profession constitute the majority.

*Table 1. Participant background information*

		<b>Overall (n=41)</b>	<b>Mean (%)</b>
Auditors are	Man	35	85%
	Women	6	15%
Auditors' age	Between 25 and 35 years	30	73.2%
	Between 26 and 45 years	8	19.5%
	More than 45 years	3	7.3%
Auditors' experience	Less than 5 years	13	31.7%
	Between 5 and 10 years	21	51.2%
	Between 10 and 20 years	6	14.6%
	More than 20 years	1	2.4%
Qualification	Tunisia	36	87.8%
	France	5	12.2%
Audit firm size	Between 1 and 10	16	39%
	Between 11 and 50	9	22%
	Between 51 and 100	9	22%
	Between 101 and 500	6	14.6%
International	Yes	20	48.8%
audit firm network	No	21	51.2%

The majority of the auditors (83%) have less than 10 years of experience. Thus the sample is mainly made up of young auditors, against 15% having experience between ten and twenty years and 2% only having more than twenty years' experience. 88% of the auditors had their diploma in Tunisia which will give us certain homogeneity of perceptions since they had the same formation.

With regard to the size of the audit firm, 39% of the auditors belong to a small audit firm not exceeding 9 collaborators and 36.6% belong to great structures having 50 to 500 collaborators. Our sample is equally divided between auditors affiliated to an international audit firm network (48.8%) and those affiliated to local audit firms (51.22%). Asked about the existence of engagement risk procedures, the results are below:

### **3.1.1 Implementation of special procedures for the client acceptance decision making**

Before studying the factors considered to be determining for the new client acceptance, we are interested in the existence and implementation of formal procedures which can facilitate and guide this decision making:

**Table 2. Application and degree of formalization of the specific procedures of evaluation and classification of the clients by risk categories**

	<b>Overall</b>	<b>(n=41)</b>	<b>Mean</b>	<b>(%)</b>
	Valid answers	Missed answers	Yes	No
Application of the specific procedures of evaluation and acceptance	38	3	92.7%	7.3%
Formalization of the procedures of evaluation	36	5	56.1%	31.7%
Classification of clients by risk categories	40	1	73.2%	24.4%

Table 2 shows that 93% of the auditors have specific procedures of evaluation and acceptance of new clients. 56% of these procedures are formalized. These observations confirm the importance of this decision and the need, through the formalization of those procedures, of a guide for the auditors to clarify their decision making.

Concerning the classification of the clients by risk category (high, moderate or weak), it reflects the auditors' degree of aversion or propensity to the risk.

**Table 3. Client portfolio composition**

% of each risk category in the whole client portfolio	Mean (%)
% of clients with weak risk	49.34%
% of clients with moderate risk	31%
% of clients with high risk	16.16%

Thus, 73.2% of the participants gather their clients according to their risk. The examination of table 3 shows that half of the client portfolio of the participants is composed of weak risk level clients, 31% are at the moderate risk and only 16%

judged high- risk clients. This reveals that the practitioners avoid risky clients and prefer engagement with clients having moderate to weak risk level.

### **3.1.2 The Investigation Sources**

In what follows, we studied the investigation sources which participants use in order to know more about the potential client before his acceptance. According to table 4, the sources used by the auditors to learn more about their potential clients are:

- 98% of the auditors used their acquaintances;
- 95% of the auditors examined the report of the preceding auditor and general documentation on the potential client and his industry branch;
- 93% of the auditors discussed with the client management before the decision-making;
- 90% of the auditors examine the legal documents of the potential client and his Internet website.
- Visit buildings, with 76%;
- To contact the Legal advisers/tax of the potential clients, with 54%.

*Table 4. Use of investigation sources*

<b>Investigation sources</b>	<b>Overall</b>	<b>(n=41)</b>	<b>Mean</b>	<b>(%)</b>
	Valid answers	Missed answers	Yes	No
Acquaintances	41	0	97.6%	2.4%
Discussions with the management of the potential clients	41	0	92.7%	7.3%
To contact the Legal advisers/tax of the potential clients	41	0	53.7%	46.3
To contact the banker of the potential clients	40	1	4.9%	95.1%
Examination of general documentation on the potential clients and/or the industry branch	41	0	95.1%	4.9%
Visiting of the potential clients buildings	41	0	75.6%	24.4%
Examination of the legal documents of the potential clients and/its Internet site	40	1	90.2%	7.3%
Examination of the report of the preceding auditor	41	0	95.1%	4.9%

The contact the banker of the potential clients is the less implemented source. Only 5% of auditors confirm using this source.

### 3.1.3 Risk Management Strategies

Table 5. Management strategies' use

Use of the strategy	Overall	(n=41)	Mean	(%)
	Valid answers	Missed answers	Yes	No
Assignment of specialists (in particular in data processing when the audit firm does not have necessary competence and when the mission requires it)	40	1	85.4%	12.2%
Assignment of more experienced personnel in the activity of the potential client and/or in the type of operations that he makes	39	2	92.7%	2.4%
Reinforce control and investigations: to add other types of controls to those envisaged in similar cases: in particular, to envisage more procedures and audit tests	37	4	87.8%	2.4%
Subcontracting during the overload time	35	6	41.5%	43.9%

Assignment of more experienced personnel in the activity of the potential client and/or in the type of operations that he makes and to reinforce control and investigations: to add other types of controls to those envisaged in similar cases, in particular, to envisage more procedures and audit tests, are the most employed strategies with percentages respectively of 92.7% and 87.8%, followed closely by the assignment of specialists (in particular in data processing when the audit firm does not have necessary competence and that the mission requires it) with 85.4%. The participants were divided about the subcontracting during the overload time. 41.5% confirm the use of this strategy.

### 3.2 Factorial analysis

In our study we chose to retain Alpha of Cronbach, a decimal expression that varies between 0 and 1. The more the alpha value approaches 1, the more the unit of elements is homogeneous. Thiétart *et al.* (1999), estimate that a value of 0.70 is acceptable for the confirmatory studies.

Based on Professional standards and previous literature we have identified factors related to client business risk, auditor business risk and audit risk. Appendix 1 summarizes these factors.

### 3.3 Client Business Risk factors

In order to know whether we can use the Factorial Analysis, we resorted to two tests, which are Bartlett sphericity test and Kaiser-Meyer-Olkin test of precision measurement of the sampling. Our theoretical predictions as well as perceptions of the auditors collected during the interviews are confirmed, by a significant Cronbach's Alpha, equal to 0.8691. The structure of this scale is:

*Table 6. Total statistics of items relative to the variable client business*

	Average of the scale in case of an element deletion t	Variance of the scale in case of an element deletion	Complete correlation of corrected elements	Cronbach's Alpha in case of an element deletion
Financial performance	30.1795	65.9933	0.4146	0.8673
Entity's age	31.5897	63.0904	0.4579	0.8659
positioning of the entity to be audited compared to its sector	31.0256	61.4993	0.6099	0.8551
Entity's size	30.4615	58.8866	0.5843	0.8575
The investment policy and strategic choices	30.8205	60.8880	0.6471	0.8525
A direction with accounting culture	30.8718	63.0094	0.5338	0.8602
A branch of industry having a constraining regulation	30.3333	60.2281	0.5407	0.8607
A flourishing branch of industry	30.7692	59.2348	0.7695	0.8443
A branch of industry in crisis	30.1795	63.8354	0.4232	0.8682
A branch of industry with fast technological changes	30.8718	62.3779	0.6228	0.8548
A stable branch of industry	30.8462	59.1862	0.7114	0.8475

First, Table 6 shows that the factors which can influence audit decision are related to:

- **Characteristics of the entity to be audited**, through the following items: the financial performance, positioning of the entity to be audited compared to its sector, the entity size, age of the entity, its investment policy and strategic choices, which is regarded as paramount at the time of this stage of pre-commitment.

• **Characteristics of the branch of industry in which the potential clients operate**, through a branch of industry having a constraining regulation, a flourishing branch of industry, a branch of industry in crisis, a branch of industry with fast technological changes and a stable branch of industry.

Second, some factors like: **Integrity of Management, the attitude of potential client with respect to the auditor, degree of conformity to laws and regulations as well as a less regulated branch of industry** are considered as secondary for the appreciation of the influence of the potential client business risk on the client acceptance decision. Thus, the potential client business risk will be retained as determinant for the client acceptance decision-making.

***Auditor business risk factors***

The factorial analysis and the confidence test post satisfactory results making it possible to retain three factors which compose the auditor business risk and which seem to be very important for the acceptance and decision-making.

*Table 7. Total statistics of items relative to the variable auditor business risk*

	Average of the scale in case of an element deletion t	Variance of the scale in case of an element deletion	Complete correlation of corrected elements	Cronbach's Alpha in case of an element deletion
Independence (in fact and appearance)	32.3750	18.3429	0.4365	0.6991
The existence of legal and/or lawful incompatibilities with the audit mission	32.3250	19.0968	0.2711	0.7185
The nature of the relation between the client and his preceding auditors (in particular through the frequent change of auditors by the potential clients)	32.8250	17.7378	0.3502	0.7074
Your Experience as for accounting and organizational complexities of the entity to be audited	33.5000	15.1282	0.5086	0.6767
The competence and the experience of the staff which will be appointed to this mission	33.3250	15.2506	0.5244	0.6729

The budget time to allocate to this mission compared to your availability, the period during which this client solicited you.	33.3250	15.3532	0.6073	0.6570
The effect of the acceptance of the potential clients on the image and the reputation of the audit firm	32.7500	18.7564	0.2578	0.7208
The profitability of the mission	33.0250	18.5378	0.2071	0.7325
Antecedents of the client as for the litigations with third parties (tax authority, partners.	32.9500	16.4590	0.4340	0.6925

The Cronbach's Alpha value is 0.7236. Thus we can affirm that the auditor business risk affects the decision making mainly through these three factors:

1. the competence and the experience of the auditor to ensure the audit mission quality, and also its availability to conclude this mission,
2. Independence, as well as the client relationship history who solicited the auditor, in particular with the predecessor fellows and third parties, as well as the auditor's interest to respect the professional and legal requirements during the acceptance of all new clients.
3. The pecuniary aspect of the mission.

The items that potential clients present in the stock exchange and the Effect of the acceptance of the potential clients on the solvency of the audit firm seem to be secondary for the acceptance decision-making.

Thus the assumption relating to the auditor business risk is verified.

#### ***The Audit Risk factor***

We can underline the reliability of our scale of measurement (Cronbach's Alpha value equal to 0.9193).

This scale allows the release of only one factor which is related to the characteristics of the staff of the accounting department of the potential client and to its practices as regards internal control. This factor gathers items such as the qualification of the accounting department of the entity to be audited, the duration of the financial statements preparation, accounting practices and the internal control system of the potential client and the existence of an internal audit department.



Table 8. Total statistics of items relative to the variable audit risk

	Average of the scale in case of an element deletion t	Variance of the scale in case of an element deletion	Complete correlation of corrected elements	Cronbach's Alpha in case of an element deletion
The duration of the financial statements preparation	9.2250	9.7686	0.6076	0.9568
The qualification of the accounting department of the entity to be audited	9.3750	7.4199	0.8699	0.8755
Accounting practices and the internal control system of the potential clients	9.2750	7.3327	0.9309	0.8534
The existence of an internal audit department	9.4000	7.2205	0.8737	0.8746

The factor of Fraud Risks which could not be gathered with the other factors is quite important for the acceptance decision-making.

## DISCUSSION AND CONCLUSION

The client acceptance decision is an extremely important part of the audit process because of the potential negative impacts it may have on the audit firm. This study was conducted to improve the understanding of Tunisian auditors' client acceptance decision making. Specifically, we were interested in investigating whether the different proposed factors are determinant for the client acceptance decision. Regarding the risk factors, the results will be interpreted in reference to the value of the Cronbach's Alpha. The more important the Alpha value is, the more the corresponding variable will be regarded as significant for the appreciation of the determinants for the acceptance of new clients.

Our results reveal that the audit Risk occupies the first place (with a Cronbach's Alpha value equal to 0.9193), followed by the client business Risk with an Alpha value equal to 0, 8691 and finally the auditor business Risk classified third as a determinant factor of the acceptance decision-making. Our result agrees with the Johnstone's (2001) study. Indeed, this author provided evidence about factors related to client business risk, auditor business risk and audit risk, classified by American audit partners, according to their order of importance in the acceptance decision making. He found that the three types of risks have the same ranks and the same order of importance as that found in our study.

It is necessary to note that the weight of the factors classification differs between our study and that of Ethridge *et al.* (2007) who, by studying the same question, found that the client business Risk was classified in third position, behind the audit risk which is placed in second position and the auditor business Risk which took the first position.

Once the evaluation of the engagement with a new client was undertaken, the following stage consists in implementing strategies known as adaptation strategies in order to attenuate the potential risks related to this new engagement. Given the exploratory character of the strategies' study and our incapacity to subject them to a factorial analysis, we carried out descriptive statistics and evaluated the importance of these strategies through the percentages of the answers given by participants.

The Tunisian auditors confirm their use of all the strategies suggested under investigation. The most effective strategies are those related to the reinforcement of controls and investigations, and the assignment of more experienced staff in the activity of the potential client and/or in the type of operations that he makes.

Our results join previous studies. Ethridge *et al.* (2007) which found that the assignment of more experienced staff and increasing the extent of evidence gathered to support conclusions are the most effective strategies. Johnstone and Bedard (2003) have studied the use of the management strategies to manage risks related to a new engagement. They have found that the assignment of specialist personal in the potential client activity or in the type of operations he carries out makes it possible to moderate the negative relation between the audit Risk (in particular through the risks related to the fraud and the errors) and the probability of increasing client acceptance decision.

However, the engagement process is a complex one, made up of the decision of the auditor on the one hand, and that of the entity to be audited on the other (Huss & Jacobs, 1991). Thus, our work could guide the future actions of regulatory and professional bodies and provide the practitioners with a handy guide that can help them improve the efficiency and effectiveness of their practices and their engagements.

It is important to recognize that despite this study's relatively wide scope (the rate of answer obtained 51%) it has only provided a preliminary view into a small subset of issues and factors. It is important to gather information from a larger sample of auditors. The second limit refers to the exploratory character of our results which must be corroborated with multiple research methods, types of data, particularly by the examination of documentation and the check-lists set up by the audit firms.

Future research could increase our understanding of this decision making, in particular by making comparative studies between countries that can bring fuller explanations for the auditors' perceptions of the factors affecting their acceptance decision. Moreover, studies exploring the determinants of the choice of a client of his auditor will make it possible to bring more light to this complex relation of auditor - audited.

## ACKNOWLEDGEMENTS

We thank the editor in chief of the journal, Dr. Nadia Albu. We acknowledge the helpful comments made by the participants at the 6th International Conference of Accounting and Management Information Systems (2011, Bucharest, Romania) and at the 33ème congrès de l'Association Francophone de Comptabilité (2012, Grenoble, France).

## REFERENCES

- American Institute of Certified Public Accountants (AICPA) (1983) *Statement on Auditing Standards (SAS) No. 47: Audit Risk and Materiality in Conducting an Audit*, New York
- American Institute of Certified Public Accountants (1997) *Statement on Auditing Standards (SAS) No 84: Communications Between Predecessor and Successor Auditors*, New York
- American Institute of Certified Public Accountants (AICPA) (1994) *Practice – Alert 94-03: Acceptance and Continuance of Audit Clients*, New York
- American Institute of Certified Public Accountants (AICPA) (1994) *Practice – Alert 94-03: Acceptance and Continuance of Audit Clients*, New York
- Asare, S., Hackenbrack, W. & Knechel, R. (1994) *Client Acceptance and Continuation Decisions*, Proceedings of the 1994 Deloitte & Touche/University of Kansas Symposium on Auditing Problems, University of Kansas
- Chow, C. W., Ho, J.O. & Lai Lan Mo, P. (2006) "Toward Understanding Chinese Auditors' Structuring of Audit Approaches, Client Acceptance Decisions, Risk Assessment, and Stringency of Imposed Reporting Standards", *Journal of international accounting research*, vol. 5, no. 1: 1–23
- Colbert, J.L., Luehlfiging, M.S. & Alderman, C.W. (1996) *Engagement Risk*, *The CPA Journal* vol. 66, no. 3: 54-56
- Ethridge, J.R., Marsh, T. & Bonnie, R. (2007) *Engagement Risk: Perceptions And Strategies From Audit Partners*, *Journal of Business & Economic Research*, vol. 5, no. 4: 25-32
- Gendron, Y. (2001) "The Difficult Client-Acceptance Decision in Canadian Audit Firms: A Field Investigation", *Contemporary Accounting Research*, vol. 18, no. 2: 283-310

- Huss, H.F. & Jacobs, F.A. (1991) "Risk Containment: Exploring Auditor Decisions in the Engagement Process", *Auditing: a Journal of Practice and Theory*, vol. 10, no. 2: 16-32
- Ionescu, I.O. & Turlea, E. (2011) "The financial auditor's risk behaviour – the influence of age on risk behaviour in a financial audit context", *Accounting and Management Information Systems*, vol.10, no. 4: 444-458
- Johnstone, K. & Bédard, J.C. (2003) "Risk Management in Client Acceptance Decisions", *The Accounting Review*, vol. 78, no. 4: 1003–1025
- Johnstone, K.M. (2001) "Risk Experience and Client Acceptance Decision", *National Public Accountant*, vol. 46, no. 5: 27-38
- Johnstone, K.M. (2000) "Client-Acceptance Decisions: Simultaneous Effects of Client Business Risk, Audit Risk, Auditor Business Risk, and Risk Adaptation", *Auditing: A Journal of Practice and Theory*, vol. 19, no. 1: 1-25
- Ordre des Experts Comptables de Tunisie (2004) *Code d'éthique professionnelle*
- Ordre des Experts Comptables de Tunisie (2003) *Recueil des textes relatifs à la profession d'expert comptable*
- Stice, J.D. (1991) "Using Financial and Market Information to Identify Pre-Engagement Factors Associated with Lawsuits Against Auditors", *The Accounting Review*, vol. 66, no. 3: 516-533
- Thiétart, R.A. (1999) *Méthodes de recherche en management*, Dunod, Paris

*Appendix 1. Factors related to client business risk, auditor business risk and audit risk*

Business risk	Auditor risk	Audit risk
The exploitation continuity	Independence	Earning Risk
The financial performance of the entity	The existence of legal and/or lawful incompatibilities with the audit mission.	Fraud Risks
The age of the entity to be audited	The nature of the relation between the client and his predecessor auditors	The duration of the financial statements preparation.
The positioning of the entity to be audited compared to its sector	Your Experience as for accounting and organizational complexities of the entity to be audited.	The qualification of the accounting department of the entity to be audited
Size of the entity	The competence and the experience of the staff which will be affected to this mission.	Accounting practices and the internal control system of the potential clients
The investment policy and strategic choices	The budget time to allocate to this mission compared to your availability in the period during which this client solicited you.	The existence of an internal audit department.
Integrity of the management.	Potential client present in the stock exchange.	Total factors= 06
A direction with accounting culture.	The effect of the acceptance of the potential clients on the image and the reputation of the audit firm.	
The degree of conformity to laws and regulations	The mission's profitability	
The attitude with respect to the auditor	The possibility to offer other services to the client's acquaintances.	
A branch of industry having a constraining regulation	Antecedents of the client as for the litigations with third parties (tax authority, partners...).	
A branch of industry with little regulated	The effect of the acceptance of the potential clients on the solvency of the audit firm	
A flourishing branch of industry	Total factors=12	
A branch of industry in crisis		
A branch of industry with fast technological changes		
A stable branch of industry.		
The exploitation continuity		
The financial performance of the entity		
The age of the entity to be audited		
The positioning of the entity to be audited compared to its sector		
Total factors= 16		

<sup>1</sup> Audit Risk and Materiality in Conducting an Audit (1983).

<sup>2</sup> According to Johnstone & Bedard (2003: 1007) and after modification to take into account the Tunisian normalization.