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Determinants of the Qualified Audit Opinion in Cameroon: The Role of the Company's Financial Situation and the Quality of the External Audit

Foka Tagne Alain Gilles[1*], Hikouatcha Prince[2], Ngantcha Tonda Joëlle[3], Djoutsa Wamba Léopold[4]

Abstract

The objective of this study is to explain the qualified audit opinion in Cameroon through the financial situation of the audited companies as well as the quality of the external auditor. Based on the chi-square independence test, the Kruskal-Wallis comparison test, and the logistic regression on the data collected by questionnaire from 75 preparers of accounts, the results reveal, on the one hand, that the average probability that a randomly selected company in the sample received a qualified audit opinion is 33%. On the other hand, the probability of receiving a qualified audit report increases significantly with the level of indebtedness of the company and the auditor's or audit firm's membership of an international network. Besides, the probability of receiving a qualified audit opinion decreases significantly with the company's profitability and its low level of liquidity.

Keywords: Qualified Audit Opinion, Financial Situation, Quality Of The Auditing, Agency Theory, Signal Theory.

JEL Classification: G20, M41, M42, Z23

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[1] Department of Finance and Accounting, Dschang University, Dschang Cameroon.
[2] Department of Finance and Accounting, Dschang University, Dschang Cameroon.
[3] Department of Finance and Accounting, Dschang University, Dschang Cameroon.
[4] Department of Finance and Accounting, Maroua University, Maroua Cameroon.
*Corresponding Author, E-mail: alainfoka58@yahoo.fr

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1. Introduction

Financial statements certified by the statutory auditors are information and communication tools for stakeholders (shareholders, financial markets, bankers, tax authorities, etc.). The produced financial statements are at the heart of companies' accounting manipulation. Indeed, the United Nations report (2018) shows that misappropriation of assets, corruption, and financial statements are among the three main categories of professional fraud[1]. Among these fraud strategies, misappropriation of assets is the most common (89% of cases in the sample) and the least costly (with a median loss of US$114,000), followed by corruption, which appears in 38% of cases in the sample, with a median loss of US$250,000. Financial statement fraud is the least common (10% of cases) because it is most costly (the resulting median loss is $800,000). This situation leads to the problem of the quality of the auditor's opinion. Usually, the purpose of auditing is to enable the professional auditor to formulate an opinion whose objective is to verify that the financial statements have been prepared per a well-identified accounting framework or principles[2]. This opinion can take three forms, namely qualified, adverse, and disclaimer of opinion[3]. Base on these international and national standards[4], it can be seen that the issuance of a reasoned opinion is an appropriate tool for his defense since the formulation of a qualified audit opinion relieves the auditor of his responsibility (Blaconière and Defond, 1997). In the same line, the auditor's responsibility in front of his client's failure is not engaged if he has previously signaled a reserve during the certification process (Laitinen and Laitinen, 1998). The audit report, therefore, aims to inform the various stakeholders about the company's actual financial situation.

In contradiction, it is noticeable that companies that have gone bankrupt internationally, and mostly in the USA have received an unqualified audit opinion. According to McKeown *et al.* (1998), more than

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50% of the American firms which declared bankrupt did not receive a qualified audit report. This is also observed in Indonesia with the collapse of Summa Bank, which led to its closure, despite having previously received an unqualified opinion from an independent auditor (Averio, 2020). Furthermore, this author reports that, based on existing evidence, 14 companies in the same country that received an unqualified opinion from external auditors in 1996 went bankrupt in 1997. This is justified by the auditor's reluctance to qualify the financial information quality when the firm is on the borderline between bankruptcy and survival. Blacconière and Defond (1997) find that 79% of the credit institutions in the United States received a qualified audit report one year before their bankruptcy. This figure is close to those of Mutchler (1985) and Dopuch et al. (1987) and confirms that the prediction of certain economic factors such as the risk of bankruptcy affects the formulation of the auditor's judgment. Similarly, Moizer (1997) notes that most firms certified with reservations in Anglo-Saxon countries survive and most firms that fail are those whose accounts have been certified without reservations.

This situation described at the international level is also relevant in sub-Saharan Africa and more precisely in Cameroon. Indeed, in Cameroon, we observe that some managers of public companies have been arrested and charged for financial malpractice. However, the accounts of these managers have been, for a long time, approved by the controllers. These directors have had to produce fraudulent financial statements that have been certified as credible by the auditors. It is the reason why Djongoué (2007) points out that business leaders in Cameroon manipulate financial statements by using three different accounts, each with a specific purpose. Indeed, the first presents the real situation of the company, the second is established for the tax authorities and the third is intended for investors or donors for decision-making. These accounting manipulations can therefore mislead the stakeholders about the real solvability of the company.

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Moreover, Djoutsa et al. (2015) estimate that the probability that a randomly chosen firm presents non-compliant accounting documents is 79%.

These statistics support the work of Foka et al. (2018), who observe that 60.7% of the companies in Cameroun adjusted their financial statements at the request of their statutory auditor. Moreover, 63.9% of these companies declare having undergone a tax adjustment. Reliable financial information is virtually unavailable in the Cameroonian environment. Besides, corruption is not to be outdone because, some independent auditors, to preserve their mandates or to increase their fees, are often obliged to issue a favorable opinion (Djongoué, 2007). In this regard, Sangué-Fotso (2015) points out that corruption makes it possible to formulate an opinion that is satisfactory to the manager. However, Djongoué (2007), finds that financial statements are mostly certified without reservation by chartered accountants registered to the National Order of Chartered Accountants of Cameroon (NOCAC). This is supported by the United Nations (2018), which estimates that 49% of fraud cases in Sub-Saharan Africa are due to corruption and 9% to financial statements.

Furthermore, we note that the audit opinion issued is dependent on the company's financial situation. Indeed, the literature reveals that several factors can explain the qualified audit opinion, but financial factors are the most important. Laitinen and Laitinen (1998), Spathis (2003), Moalla and Abelaziz (2015) and Averio (2020) observe that the financial situation of the company is an important element in the formulation of the auditor's opinion. Indeed, firms are sources of wealth creation in the economy and are sometimes attracted by manipulation of their financial statements in order to reduce the tax to be paid and even to give a more attractive image of the company to investors (Foka et al., 2020). The use of an auditor is

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important because the form of the opinion expressed by the auditor will allow appreciating the company's financial health.

Considering all the above, one may wonder on what is the basis of the independent auditor opinion in Cameroon, which raises the following question: what is the influence of the financial situation of the audited companies and the quality of external audit on the formulation of the auditor's qualified opinion in Cameroon? In other words, does the likelihood of receiving a qualified audit opinion from the auditor in Cameroon depend on the financial situation of the company and the quality of the external audit? The originality of this work comes from the fact that no study in Cameroon to our knowledge has dealt more precisely with the audit opinion with reservation. Indeed, the determinants of the qualified audit opinion have not attracted the attention of several researchers in sub-Saharan Africa as in the United States and Europe. Studies in Cameroon are more interested in the quality of financial reporting. In view of this, this study aims to explain the qualified audit opinion through the financial situation of the companies audited as well as the quality of external audit in Cameroon.

It is important to specify that this work finds its legitimacy in several theoretical foundations. Indeed, the probability of a firm receiving a qualified audit opinion is supported by three research paradigms (Laitinen and Laitinen, 1998). The first type of paradigm concerns the relevance of the audit report in predicting the risk of bankruptcy (Keasey and Watson, 1987; Hopwood et al., 1989). The second examines the relationship between the going concern assumption and firm bankruptcy (Koh and Killough, 1990; Koh, 1991; Hopwood et al. , 1994; Averio, 2020). The last deals with studies that attempt to explain while predicting the qualified audit opinion (Dopuch et al., 1987; Laitinen and Laitinen, 1998; Moalla and Abelaziz, 2015; Soltani, 2016; Averio, 2020). This study is part of the

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third research paradigm that aims to identify the determinants of the qualified audit opinion in an environment with a virtually non-existent financial market. This research will improve the literature on the determinants of qualified audit opinion in the Cameroonian context where the economy is dominated by Small and Medium Enterprises (SMEs).

The present work, in addition to this introduction, is organized around four sections. The second presents the literature review on the subject. The third deals with the methodological approach. The fourth presents and discusses the results of the study and finally the fifth is devoted to the conclusion and implications of the study.

2. Literature review

This section is organized into two points. The first presents the theoretical foundation of the auditor's judgment. The second presents empirical work on the role of the firm's financial position and audit quality as determinants of the formulation of the auditor's judgment.

2.1 Theoretical basis for the qualified audit opinion: an explanation by the triptych agency relationship, information asymmetry, and signal.

According to Jensen and Meckling (1976), any organization is made up of various economic agents whose opportunism leads them to maximize their personal interests against that of the entity. Similarly, according to firm theory, an organization concerns various stakeholders with often divergent interests. Agency theory highlight certain problems, the main consequences of which are asymmetry of information resulting in adverse selection and the risk of moral hazard. The signal theory (Ross, 1977), on the other hand, assumes that managers are supposed to be better informed about the growth opportunities of their firm than the various stakeholders (investors, creditors, or shareholders). They will seek to transmit

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information (to these stakeholders) in the form of a signal on the real characteristics of the company's financial structure. In Ross' approach, this is possible through two hypotheses. Firstly, the managers of a good quality company will publish information that will allow the stakeholders to distinguish it from another company of lesser quality. Second, bad companies will seek to communicate information to their environment that makes it believe that they are in good financial health. In order to reduce these differences of interest or opportunistic behavior of managers, investors use effective monitoring, and this is possible through the involvement of an independent auditor.

This governance mechanism makes available for both shareholders and creditors, a means of controlling the management of executives and the company's ability to meet its repayment schedule over time. The result of the audit carried out for the shareholders is used by the latter to ensure that the manager acts in the company's interest and to make sure that investors and bankers that the accounting documents are drawn up comply with the rule of prudence and the obligations of regularity and reliability that contribute to obtaining a true and fair view. For example, companies generally seek loans from credit institutions such as banks. For that issue, companies' reviewed and certified financial statements are required. In the case of a qualified audit opinion, this could influence the bank's appreciation of whether or not to grant the loan. This is because investors or bankers trust the information provided by the auditor through the formulation of his opinion. This opinion is useful for decision making, especially when it contains certain reservations. This is because a qualified audit opinion provides investors or bankers with new elements to assess the real financial situation of the company. For example, Ball *et al.* (1979) reveal that auditors are often reluctant to make reservations in their audit report because they believe that the publication of such reservations will have negative consequences on the investors' decision. Kinney and Martin

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(1994) concluded that auditing reduces bias in a firm's earnings and net assets. It can therefore be seeing that auditing can be used as a signal by managers to show that the management of the firm is sound and transparent and consequently reassure minority shareholders who take the risk of expropriation by the majority shareholders who are generally the owner of the firm (Claessens and Fan, 2002).

2.2 Impact of the company's financial situation and the quality of the external audit on the qualified audit opinion: empirical literature

The difficulty for the auditors in formulating a qualified audit opinion relates to several parameters, including the company's financial situation and the quality of the external audit perceived as a non-financial variable.

2.2.1 Influence of the company's financial situation on the qualified audit opinion

In the current state of research, the literature reveals that there is a strong relationship between financial distress and the likelihood of receiving a qualified audit opinion. In this line, Spathis (2003) shows that the audit opinion is significantly associated with certain economic factors such as liquidity, solvency, and the risk of bankruptcy. From this research, it appears that the qualified audit opinion is explained by the financial distress of the company measured by Altman's Z-score. It is therefore noted, according to this author, that the deterioration of the firm's financial situation may increase the dispute with the accounting profession. Consequently, the accounting professional would be tempted to cover himself through the formulation of a qualified audit opinion.

Existing work sufficiently shows that a company's financial situation is a discriminating factor concerning the audit opinion (Bell and Tabor, 1991; Spathis 2003). Indeed, out of the 665 US firms surveyed, Bell and

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Tabor (1991) found that 131 had received a qualified audit report. Moreover, according to them, the difference between the two groups of firms is due to several financial variables, including short-term liquidity, firm size, "*capital intensity*" and financial leverage. According to Spathis (2003), the difference between firms that received a qualified opinion and those which obtained an outright certification is related to the result achieved. On the other hand, according to Moalla and Abelaziz (2015), this difference is only the consequence of a bankruptcy forecast score and the quality of the audit.

Chan and Walter (1996), studying the relationship between deteriorating financial health and the qualified audit report, assessed financial health through three indicators. These are debt level, liquidity, and return. Their work shows that the higher the level of indebtedness, the more vigilant the auditor is and the more likely it is to issue a qualified opinion. This statement is consistent with the results of Soltani (2016) and Simamora and Hendarjatno (2019), who finds the same conclusion. According to Chan and Walter (1996), qualified certification is a negative function of a firm's liquidity, since serious liquidity problems lead to the formulation of a qualified opinion. Zdolsek *et al.* (2015), also reveals that firms with qualified audit reports are those with high debt, low liquidity, and low efficiency compared to firms with unqualified audit reports. Similarly, Zopounidis et al. (2007) and Spathis (2003) on the one hand, and Chan and Walter (1996) and Moalla and Abelaziz (2015) on the other hand, indicate that the probability of receiving a qualified audit opinion decreases with the low level of liquidity and profitability of the firm respectively. Consequently, audit professionals are led to issue a qualified audit report in order to avoid their liability, which will avoid the costs of litigation.

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Contrary to the general trend, Ireland (2003) and Moalla and Abelaziz (2015) found that most liquid companies are more likely to receive a qualified audit report. Furthermore, according to Loebbecke *et al*. (1989), Laitinen and Laitinen (1998), and Zdolsek *et al*. (2015) the least profitable companies are more likely to receive a qualified audit opinion. Finally, other authors such as Doumpos *et al.* (2007) argue that the probability of receiving a qualified audit opinion is strongly associated with the profitability index (Laitinen and Laintinen, 1998), firm size (Beasley *et al.*, 1999), and the firm's lapse when facing its commitments (Bell and Tabor, 1991). Tsipouridou and Spathis (2014) indicate that the profitability of the firm, the size of the firm, the audit effort, and the type of opinion issued in the previous year are the determining factors in formulating the auditor's opinion from a going concern perspective. Averio (2020) indicates that the profitability and liquidity of the company hurt the going concern audit opinion, whereas the size of the company and the audit delay do not affect the going concern audit opinion.

Despite the contrasts observed in certain studies, these studies confirm the existence of a link between the indicators of the financial health of the audited company and the issuance of a qualified audit opinion. In line with Chan and Walter (1996), Zopoundis et al. (2006), and Moalla and Abelaziz (2015), we can deduce the following hypotheses:

H1: The chances of receiving a qualified audit opinion increase when the level of debt is high.

H2: There is a negative relationship between the profitability of the company and the likelihood of receiving a qualified audit opinion.

H3: The likelihood of receiving a qualified audit opinion decreases with the company's low level of liquidity.

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2.2.2 Influence of external audit quality on the qualified audit opinion

According to DeAngelo (1981), the quality of service provided by audit firms is well-defined by two factors: the auditor's competence and independence. This author defines the auditor's competence as the auditor's ability to detect anomalies and independence refers to the power to report such anomalies. These two dimensions are not directly observable by users of financial information, which requires the mobilization of indirectly observable variables such as the level of reputation of the auditors, the size of the firm, the amount of audit fees, and the provision of other services not related to the audit of the accounts. For the purposes of this study, the quality of the audit is assessed by the fact that the auditor or firm belongs to an international network and by the independence of opinion (i.e. the fact that an auditor offers additional services to the same client in addition to the audit of the financial statements).

DeAngelo (1981) points out that the reputation and size of auditors are evaluated based on whether they belong to a firm affiliated with an international network or "BIG FOUR". Indeed, according this author, large auditing firms (BIG FOUR) are supposed to be more independent than small one in the formulation of their audit opinion, because they are more subject to the vigilance of regulatory authorities and put their reputation at stake in case of addictive behavior. This is how Moalla and Abelaziz (2015) and Soltani (2016) found a positive association between the quality of the audit assessed through the auditor's membership of an international network and the qualified audit opinion. Contrarily, an analysis of audit reports of distressed financial institutions carried out by Sikka (2009) in the United States and some European countries during the 2008 financial crisis indicated that these institutions received an unqualified opinion by one of the BIG FOUR just before they were declared distressed. According to the author, this shows that belonging to an international network does

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not guarantee the independence of the auditor. Despite this contrast, this variable for the simple reason that it is more important than others variables and also because it seems to be the most used variable concerning the audit opinion. The use of this variable will allow a better comparison of our results with those obtained in the literature. In line with the results find by authors (Moalla and Abelaziz, 2015; Soltani, 2016), we can deduce the following hypothesis:

H4: The likelihood of receiving a qualified audit opinion increases with the fact that the auditor is a member of an international network.

The auditor's independence in reporting is perceived by the auditor's ability to express his or her opinion on the results of the audit with complete freedom (Mautz and Sharaf, 1961). Moreover, Djoutsa and Foka (2014) conclude that an independent auditor is one who has the freedom to plan audit activities as well as the freedom to communicate the results of the audit. Contrarily, a dependent auditor receives remuneration other than audit fees and offers additional services to the same client. In this line, Francis and Bin (2006) conclude that when an audit firm submits to this practice, its ability to disclose anomalies diminishes. Considering the above literature, the following hypothesis is deduced:

H5: The likelihood of receiving a qualified audit opinion decreases with the provision of other services by the audit firm outside of the audit of the financial statements.

3. Methodology

This section presents the sampling and data collection technique, the econometric model, the variables operationalization, and finally the estimation method.

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3.1 Sampling and data

The studied population is essentially made up of Public Limited Companies (PLC) in Cameroon, for which there is a requirement to present annual financial statements and obligation for the certification of their financial statements by at list one statutory auditors. Sampling is done by reasoned method insofar as this technique is generally used in developing countries (Ngok Evina, 2010), where databases are unavailable or non-existent and the financial market is virtually non-existent[5]. Thus, in all PLC referenced in the city of Douala (more precisely 115 Public Limited Companies have been considered), 80 have expressed an interest in collaborating for the present work. The data[6] collection was done face to face using a questionnaire administered between March and June 2018 in the city of Douala. Among the 80 responses, 75 were deemed usable, corresponding to 93.75% answer rate. It, therefore, constitutes the sample for this study.

3.2 Variables and econometric model

The literature allows us to establish a relationship between the company's financial position, the quality of the external audit, and the qualified audit opinion. The modeling of this relationship has been based on a hypothetical-deductive approach and the epistemological positioning adopts is positivism, because it is appropriate to explain such a relationship.

In this study, the econometric model used to highlight this link is as follows:

$$\mathrm{OPINION_i} = \beta_0 + \sum_{i=1}^{n} \beta_i X_i + u$$

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Where**:**

- **OPINION$_i$,** referring to audit opinion**.** It is the dependent variable.

-X$_i$ are variables describing respectively the financial situation of the company, the quality of the external audit, and the control variables, that is, there are independent variables.

-B$_0$, is the constant term.

-**Bi** are the coefficients of the estimation.

-u is the error term.

From the study of Moalla and Abelaziz (2015), the empirical form of the model can be written as follows:

$$OPINION_i = \beta_0 + \beta_1 Leverage + \beta_2 Prof + \beta_3 LIQ + \beta_4 INT\_NET + \beta_5 O\_SERV + B_6 IPO + B_7 Duality + u$$

The description of the above-mentioned variables is presented in Table 1:

Table 1. Operationalization of Study Variables.

Variables	Measures selected by reference to the literature
Variables related to the company's financial situation	
Leverage	Total debt level : a nominal variable that takes the value of 1 if the total debt level has remained stable over the last two fiscal years, 2 if it has fluctuated upwards and 3 if it has fluctuated downwards.
Prof	The profitability of the company : nominal variable taking the value of 1 if the company declares that its net income has increased compared to the last two fiscal years, 2 if it has remained stable and 3 if it has decreased.
LIQ	Level of liquidity. This is a dummy variable that takes the value of 1 if the company's liquidity level has risen over the last two fiscal years, 2 if it has fallen, and 3 if it has remained stable.

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Table 1. (continued) Operationalization of Study Variables.

Variables related to audit quality	
INT_NET	The firm belongs to an international network. This is a nominal variable taking the value of 1 when the firm claims to be audited by an auditor whose firm belongs to an international network and 2 otherwise.
O_SERV	Offers of other services to the same customer by auditors. This is a dummy variable taking the value 1 when the company indicates that there are receiving from their auditor other services than auditing and 2 otherwise.
Control variables	
IPO	Importance of the company for IPO. This is a dummy variable taking the value of 1 if the company attaches very high importance to the IPO, 2 if it is moderately important and 3 if it is not important at all. Indeed, the idea of listing the company on the stock exchange could influence the auditor's opinion insofar as a qualified audit opinion would be a signal to the financial market.
$Duality$	Combination of the functions of Chief Executive Officer and Chairman of the Board of Directors. This is a nominal variable that takes the value of 1 if the functions of Chief Executive Officer and Chairman of the Board of Directors are assumed by the same person and 2 otherwise. It is important to separate the functions of Chairman of the Board of Directors from those of Chief Executive Officer. Indeed, the chairman of the board theoretically plays a leading role in the production of good financial statements and in the selection of the auditor.
Dependent variable	
$\boldsymbol{OPINION_i}$	Audit opinion. This is a dichotomous variable that takes the value of 1 if the company has received a qualified opinion and 0 if the opinion received is an outright certification. Reservations relate to non-compliance with financial statements (for example, reservations related to changes in accounting policies or principles or to the correction of financial statements).

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3.3 Estimation method

Two types of analysis were used to process the data: descriptive and explanatory analyses. For the descriptive analysis, flat screenings were used. The explanatory analyses consist of bivariate analysis (Chi-square independence test analysis and Kruskal-Wallis comparison test analysis) and multivariate analysis (binary logistic regression).

4. Results and Discussions

This section, which presents the results of the study, is structured in two sections. The first deals with descriptive statistics. The second section deals with bivariate and multivariate explanatory analyses.

4.1. Descriptive statistics

4.1.1. Sample characteristics

Concerning the characteristics of the respondent, statistics reveal that 4% among them are General Manager, 12% are Assistant Managers and 84% are Accounting and Finance Directors. The majority of these respondents are men (72%). Furthermore, 18.7% of the respondents have less than 2 years of experience in the position, 41.3% have between 2 and 5 years of seniority in the position, 20% have between 5 and 8 years, and more than 10 years of seniority in the position respectively. Concerning the age pyramid, 25.3% are under 30 years old, 8% are between 30 and 35 years old, 37.3% are between 35 and 40 years old, 4% are between 40 and 45 years old and 25.3% are over 45 years old. Among these managers, 53.3% have a post-graduate degree, 42.7% have a bachelor's degree and only 4% have a secondary education level. As far as company characteristics are concerned, the statistics reveal that all the companies in the sample have the legal form of a Public Limited Company with a board

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of directors. This type of company is therefore obliged to use at least one independent auditor for the certification of their account. 56% of these companies have served as their main activity sector, 33.3% trade, and only 10.7% industry. The statistics reveal that 17% of the companies surveyed are multinationals. The turnover criterion indicates that 25.3% of the companies have less than 500 million CFA francs turnover, 9.3% have a turnover between 500 million and 1 billion CFA francs, 14.7% have a turnover between 1 billion and 1.5 billion CFA francs, 9.3% have a turnover between 1.5 billion and 2 billion CFA francs and 41.3% have a turnover of more than 2 billion CFA francs. Also, 16% of companies have fewer than 50 employees, 44% have between 50 and 100 employees, 9.3% have between 100 and 150 employees, 4% have between 150 and 200 employees and 26.7% have more than 200 employees.

4.1.2 Characteristics of the financial situation of the surveyed companies

The financial situation of the company is assessed in this study by the level of debt, profitability, and liquidity. Descriptive statistics reveal that the net income of 52% of the companies surveyed has remained stable over the last two financial years, 33.3% of them say that their net income has risen and only 14.7% believe that their income has fallen over the same period. Regarding the level of debt of the companies sample over the last two fiscal years, 20% believe that it has evolved positively, while 32% and 48% of these companies believe that their level of debt has decreased and remained stable over the same period, respectively. As regards the company's liquidity level, 60% saw their liquidity level rise during the past fiscal years, 27.7% saw their liquidity level fall and 13.3% remained stable.

4.1.3 Characteristics of external audit quality

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The profile of the external auditor is considered in this study through the fact that the auditor or audit firm belongs to an international network and offers other services to the same client apart from the audit of the accounts. The results reveal that 38.7% of the surveyed accountants say they prefer firms belonging to international networks. Companies indicate at 53.3% receiving from their auditor's other services than account auditing and 46.7% say they never do.

4.1.4 Characteristics of the control variables

The importance is given to the IPO and the combination of the positions of Chief Executive Officer and Chairman of the Board of Directors are the control variables. The survey reveals that 25.3% of companies attach very high importance to an IPO, 40% consider it to be moderately important and 34.7% find no interest in going public. Regarding the duality, 22.7% of respondents believe that the CEO of their company is also chairman of the board of directors, and 77.3% state the opposite.

4.1.5 The attitude of the auditors to the formulation of the audit opinion in Cameroon

Figure 1 below shows the statistical distribution concentrated to the left. In other words, a large proportion of the sample (67%) receives outright certification from their auditor. The average probability that a randomly selected company in the sample received a qualified audit opinion is 33%. The review of the literature revealed that the financial situation of the company and the quality of the external audit can be considered as factors in the formulation of a qualified audit opinion. The question is whether there is a significant relationship between these factors

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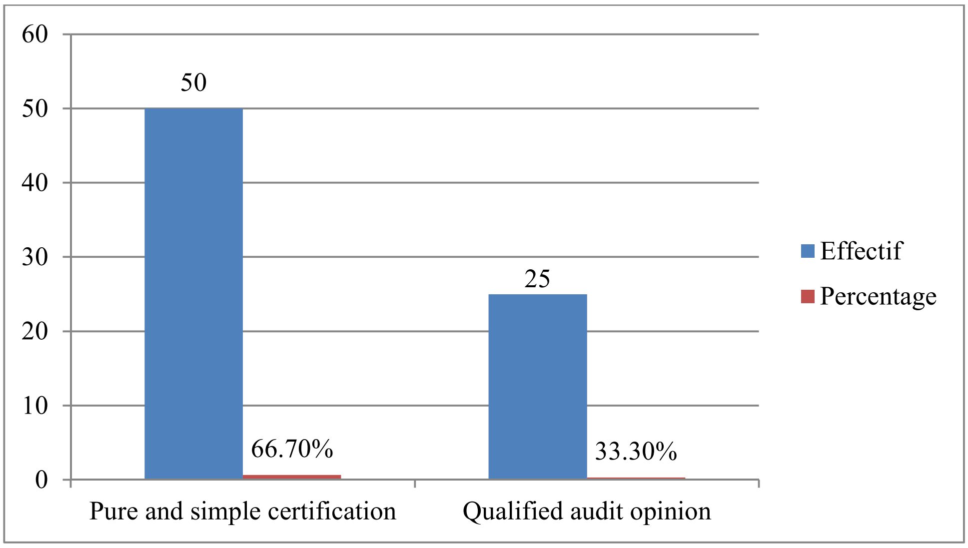
and the qualified audit opinion. To do this, the chi-square independence test, the Kruskal-Wallis comparison test, and logistic regression were used.

Figure 1. Likelihood of Receiving a Qualified Audit Opinion in Cameroon.



4.2 Bi-varied and multi-varied explanatory analyses

The aim here is to present the results of the chi-square independence test, the comparison test, and logistic regression.

4.2.1 Determinants of the qualified audit opinion: chi-square test of independence

Table 2 below presents the relationship between the company's financial position, the quality of the external audit, the control variables, and the audit opinion.

Table 2 indicates that there is a significant relationship between certain explanatory variables and the probability of receiving a qualified

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audit opinion. Indeed, the probability of receiving a qualified audit opinion is significantly related to the company's level of indebtedness (at the 10% threshold), to the company's net income (at the 1% level), and to the importance given by management to the IPO (at the 1% level).

Table 2. Chi-Square Association Test Results

Study Variables	Audit opinion		
	Value	**ddl**	**Sig.**
Level of indebtedness	4.888*	2	0.087
Net income (profitability)	11.149***	2	0.003
Level of liquidity	0.300	2	0.861
Membership of the auditor in an international network	0.850	1	0.356
Offers other services to the same client outside the audit of accounts	0.27	1	0.870
Importance IPO	13.350***	2	0.001
Combination of management and chair of the Board	0.466	1	0.495

***, * : Significant at 1% and 10% levels respectively

4.2.2 Discriminating between the reserve and pure certifications: Kruskal-Wallis test

Table 3 presents a bivariate comparison of the average ranks between the different sub-samples (qualified audit opinion and outright certification) and the variables used to measure the company's financial condition, external audit quality, and control variables. For this purpose, the Kruskal-Wallis comparison test was used.

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Table 3. Univariate Comparisons.

Variables	Medium Ranks: Qualified audit opinion N=25	Medium Ranks: Pure and simple certification N=50	Chi-2	ddl	Significance of the difference between sub-samples
Level of indebtedness	42.86	35.57	2.197	1	0.138
Profitability	46.44	33.78	6.864***	1	0.009
Level of liquidity	38.40	37.80	0.017	1	0.898
Membership of the auditor in an international network	34.50	39.75	1.359	1	0.244
Offers other services to the same customer	38.50	37.75	0.026	1	0.871
Importance IPO	49.06	32.47	10.996***	1	0.001
Duality	40.50	36.75	0.938	1	0.333

***: Significant difference at 1% threshold level

Several conclusions can be drawn from the results of Table 3. First, concerning the financial situation, it can be seen that companies that received a qualified audit opinion have an average level of indebtedness of 42.86% compared to 35.57% for those that received an outright certification. In general, these companies are those with profitability of 46.44% and 33.78% (and a liquidity level of 38.40% compared to 37.80%) respectively.

Second, a comparison of audit characteristics shows that companies with a qualified audit opinion have an average of 34.50% of auditors belonging to an international network compared to 39.75% for those who received an outright certification. In addition, those companies that have received a qualified opinion have 38.50% of auditors who offer them other services apart from auditing the accounts.

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Third, concerning the control variables, it can be observed that 49.06% of the executives who attach importance to the IPO are those of the companies that received a qualified opinion, compared with 32.47% for the other category of companies. Referring to the duality, 40.50% of the companies having received a qualified audit opinion have managers who hold both the position of Chief Executive Officer and Chairman of the Board of Directors.

Finally, the Kruskal-Wallis comparison test shows a significant difference at the 1% threshold between the two groups of companies in terms of company profitability and the importance that managers attach to the IPO. The impact of the average rankings of these variables (company profitability and importance to IPO) in companies that received a qualified audit opinion is higher than in companies that received an outright certification. It is also obvious that the audit opinion is not significantly different if one considers only the level of indebtedness, the level of liquidity, the belonging to an international network, other services offering to the same client apart from the audit of the accounts and the duality.

4.2.3 Results of the estimation of the model parameters by the "Logit" method

The advantage of "Logit" estimation method is that it takes into account the interrelationships that may exist between the studied variables. Table 4 summarizes the results.

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Table 4. Determinants of the Qualified Audit Opinion in Cameroon.

	B	E.S.	Wald	ddl	Sig.	Exp(B)
Level of indebtedness			6.191**	2	0.045	
Stable	-0.074	0.922	0.006	1	0.936	0.929
On the rise	3.596	1.595	5.083**	1	0.024	36.454
Net income (loss)			7.249**	2	0.027	
On the rise	-4.328	1.609	7.234***	1	0.007	0.013
Stable	-2.357	1.332	3.132*	1	0.077	0.095
Level of liquidity			6.867**	2	0.032	
On the rise	-2.371	1.538	2.376	1	0.123	0.093
Downward	-4.666	1.823	6.551**	1	0.010	0.009
International network membership						
Yes	2.686	1.032	6.776***	1	0.009	14.679
Offers other services						
Yes	0.772	0.784	0.968	1	0.325	2.163
Importance of the IPO			1.381	2	0.501	
Very important	-24.313	6787.593	0.000	1	0.997	0.000
Moderately important	0.980	0.834	1.381	1	0.240	2.664
Cumulating function						
Yes	-2.848	1.291	4.864**	1	0.027	0.058
Constant	3.176	2.023	2.464	1	0.116	23.947

Chi-square value = 48.533*** P=0.000
-2log-likelihood= 46.944
R-two of Cox & Snell = 0.476 R-two of **Nagelkerke** = 0.662
Accuracy level : Pure and simple certification =92%.
Level of accuracy : Qualified opinion =76%.
Percentage of overall model accuracy = 86.7%.

***, **, * : Significant at 1%, 5% and 10% threshold level respectively.

From table 4, one observes that the model is well specified (86.7%). The results related to the specification of the logistic regression revealed that the model is globally robust (Cox & Snell R^2 = 0.476 and Nagelkerke R2 = 0.662). We then conclude from the Nagelkerke R^2 that, the variables used to characterize the financial situation of the company, the quality of the external audit and the control variables explain at 66.2% the probability for the accountants to receive a qualified audit opinion. Moreover, the

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chi-square statistic attests that the model is globally significant at the 1% threshold level.

Based on the significant value of Wald's coefficients, this table shows that the level of indebtedness, the net income for the year, the level of liquidity, belonging to an international network, and the duality are variables that significantly influence the formulation of the audit opinion in Cameroon.

This table shows that the overall level of debt is significant at the 5% threshold level with the probability of receiving a qualified audit opinion. This relationship is positive and significant at the 5% threshold when the level of indebtedness has risen. This result states that the probability of a company receiving a qualified audit opinion increases when its level of indebtedness is high. This result confirms the conclusions of Chan and Walter (1996), Moalla and Abelaziz (2015), and Soltani (2016), who concluded that the higher the level of indebtedness, the more vigilant the auditor is and the more likely it is to issue a qualified audit report. Moreover, according to the agency's theory, a high level of debt can lead to a risk of bankruptcy, which pushes shareholders to undertake the riskiest investment programs. This result allows the validating the first hypothesis.

About net income, estimates results in table 4 show that the latter has a significant influence at the 5% threshold level on the probability of the auditor issuing a qualified audit report. This relationship is negative and significant at the 1% threshold when the net income varies upwards and at the 10% threshold when the income is stable. This result suggests that compared to a decrease in earnings, the probability of the auditor issuing a qualified audit report decreases when earnings increase. This result supports the work of de Loebbecke et al (1989), de Laitinen and Laitinen (1998) and Moalla and Abelaziz (2015) who find that the least profitable

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companies receive the most qualified audit opinions, thus validating the second hypothesis.

Besides, the company's liquidity level is significantly associated at 5% threshold with the reception of a qualified opinion. This relationship is negative and significant at the 5% threshold when the level of liquidity has varied downwards. This result suggests that the propensity to receive a qualified audit report decreases when the firm's liquidity level decreases. This result is in accordance with the conclusion of Zopoundis et al. (2006) and Moalla and Abelaziz (2015), who note that the probability of receiving a qualified opinion decreases with the firm's low level of liquidity. This result allows to validate the third hypothesis H3.

Table 4 also reveals that there is a positive and significant relationship at the 1% threshold between the fact that the auditor is a membership of an international network and the reception of a qualified opinion. This result means that the likelihood of receiving a qualified audit report increases when the auditor or audit firm belongs to an international network. This conclusion is in line with the arguments of Moalla and Abelaziz (2015) and Soltani (2016) who find a positive association between the quality of the audit assessed through the auditor's membership in an international network and the qualified audit opinion. This result supports the fourth hypothesis of this study.

Concerning the control variables (the importance the company attaches to the IPO and duality), it appears that only the duality has a negative and significant influence at the 5% threshold on the probability of having a qualified audit report. Thus, the probability of receiving a qualified audit opinion decreases when the Chief Executive Officer also holds the position of Chairman of the Board of Directors. This result could be explained by the fact that the Chairman of the Board theoretically plays a

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leading role in the production of the financial statements and on the choice of auditor. Indeed, for an unfavorable audit report, the Chief Executive Officer, who is also Chairman of the Board of Directors could influence the auditor's judgment by blackmailing him, especially regarding the non-renewal of his work contract or the reduction of his fees.

Offering additional services to the same client outside of the audit did not produce a statistically significant result. This allows us to rejects the fifth hypothesis.

Overall, these results show that the company's level of indebtedness, the net income for the year, the company's level of liquidity, and the fact that the auditor belongs to an international network are the main determinants of the qualified audit opinion formulation in Cameroon. Specifically, the likelihood of receiving a qualified audit report in Cameroon depends on the financial situation of the company and the quality of the auditor.

5. Conclusion

This study aimed at explaining the qualified audit opinion in Cameroon based on the financial situation of the companies audited as well as the quality of the external audit. For this purpose, we measured the financial situation of the company by the level of indebtedness, profitability, and the level of liquidity of the company. The quality of the audit was measured through the fact that the audit firm belongs to an international network and whether or not it offers other services to the same client apart from the audit of the accounts.

The analysis of data collected by questionnaire on a sample of 75 accountants (Public Limited Companies) in Cameroon between the months of March and June 2018, allowed us to obtain the following results. First of all, the descriptive analysis shows that the average probability that a randomly selected company in the sample received a qualified audit

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opinion is 33%. Second, the analysis of the chi-square test shows that the company's level of indebtedness, the net income for the year, and the importance that management attaches to the IPO are significantly associated with the probability of receiving a qualified audit opinion. Similarly, the results of the Kruskal-Wallis comparison test identified the discriminating factors between qualified and unqualified certification. These are the profitability of the company and the importance attached by management to the IPO.

Finally, the results of the estimation by the "*Logit*" method reveal that the level of company debt, its profitability, the level of liquidity, the fact that the auditor company belongs to an international network, and the duality are the main determinants of the formulation of the qualify audit opinion in Cameroon. Globally, these results are supported by agency theory and signal theory. According to the agency theory, it has been demonstrated, in particular through the shareholder-creditor relationship, that the shareholders of a company in a difficult situation (or of a company in debt) may be led to follow a sub-optimal investment policy by rejecting projects with a positive present value, the benefits of which would essentially accrue to creditors. This theory allows to highlight the importance of auditing as a mechanism for resolving agency conflicts, but also to align the interests of the various partners and limit their discretionary power with regard to accounting manipulation. As for the signal theory, the audit of financial statements by the external auditor leads to the establishment of an audit report in which he expresses his opinion on the quality of the audited accounts. In this case, a qualified opinion will provide investors or lenders with new elements for assessing the real financial situation of the company.

The financial situation of the company and the quality of the auditor are not the only determinants that could explain the formulation of the

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qualified audit opinion in Cameroon, other variables could provide relevant information, for example, the governance mechanisms and other indicators of the financial situation such as the lack of working capital, negative cash flow, and an unfavorable financial ratio. Other studies could investigate the impact of the informative content of the audit report on the time it takes to sign on the one hand, and on the behavior and decision of bankers in granting credit on the other. Also, given the generally questionable quality of the data obtained by the questionnaire, quantitative research through the exploitation of companies' financial statements or secondary data would be of interest.

NOTES

1: This refers to a survey of 2690 cases of professional fraud in 125 countries around the world.
2: International Standard on Auditing (ISA) 200, paragraph 11.
3: International Standard on Auditing (ISA) 705, revised paragraph 2.
4: According to article 70 of the new AUDCIF and SYSCOHADA, the CACs have the possibility: " -either to issue an opinion indicating that the financial statements are regular and sincere (...); -or to express a qualified or unfavorable opinion or indicate that they are unable to express an opinion, stating the reasons therefor". The same applies to Article 73-1 of AUDCIF and SYSCOHADA, which highlights the fact that the CACs must henceforth issue their opinion on IFRS financial statements intended for the financial market.
5: Indeed, for more than a decade of existence, it appeared that only three companies were listed on the Douala Stock Exchange (DSX) before the merger between the DSX and the Central African Stock Exchange, with the BVMAC as the absorbing entity.
6: Survey organized by the Research Centre for Studies in Economics and Management.

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Appendix

QUESTIONNAIRE

Dear Madam, dear Sir: - Director General;
- Deputy Managing Director;
- Accounting and Financial Director;

This questionnaire, which is part of an academic research project, is a survey of Cameroonian business leaders. Your assistance is absolutely necessary for the realization of this research work which deals with **the determinants of the qualified audit opinion in Cameroon**. We would like to ask you to answer this questionnaire by simply ticking the corresponding box with a cross (X) or by filling in the number of your choice in the box designed to collect your opinion.

Aware of the embarrassment we are causing, we ask you, to kindly help us in our research by answering this questionnaire.

We look forward to hearing from you. Please accept, Sir, our best regards and thanks.

I. CHARACTERISTICS OF THE RESPONDENT

N	QUESTIONS	CODE
1	**What position do you hold in the company?** 1-Director General 2-Deputy Director General 3-Accounting and Financial Director	/____/
2	**How long have you held this position in the company?** 1-Less than 2 years 2- Between 2 and 5 years 3- Between 5 and 8 years 4- Between 8 and 10 years 5 - More than 10 years	/____/
3	**You are:** 1-A man 2-A woman	/____/
4	**Over what interval can you place your age?** 1-Less than 30 years old 2- Between 30 and 35 years old 3-Between 35 and 40 years old 4-Between 40 and 45 years old 5-More than 45 years old	/____/
5	**What is your level of study?** 1-Primary 2-Secondary 3-Superior first cycle 4-Superior second cycle	/____/

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II. CHARACTERISTICS OF THE COMPANY

N	QUESTIONS	CODE
6	**What is the legal status of your company?** 1-Public Limited Company with Board of Directors 2- Public Limited Company without Board of Directors	/____/
7	**What is your main sector of activity?** 1-Trade 2-Industry 3-Service	/____/
8	**Over what range can you place your company's turnover (in CFA Francs)?** 1-Less than 500 million 2-Between 500 million and 1 billion 3-Between 1 and 1.5 billion 4-Between 1.5 and 2 billion 5- More than 2 billion	/____/
9	**Over what interval can you locate the number of employees in your company?** 1-Less than 50 2- Between 50 and 100 3- Between 100 and 150 4- Between 150 and 200 5- More than 200	/____/

III. DETERMINANTS (Financial situation of the company, Duality, Importance of the company for IPO and Audit quality)

N	QUESTIONS	CODE
10	**Over the past two years, how can you judge the development of your company's net profit?** 1-Increase 2- Stable 3-Decrease	/____/
11	**Over the last two years, how can you judge the company's total debt level?** 1-Stable 2-Increase 3-Decrease	/____/
12	**Over the last two years, how do you view the evolution of your company's liquidity or cash position?** 1-Increase 2-Decrease 3-Stable	/____/
13	**How important is the IPO to you?** 1-Very high importance 2-Moderately important 3-Not at all important	/____/
14	**Are the functions of Chief Executive Officer and chairman of the board of directors assumed by the same person in your company?** 1- Yes 2-No	/____/
15	**Does your statutory auditor or audit firm belong to an international network?** 1- Yes 2-No	/____/
16	**Your statutory auditor or external audit firm offers you services apart from auditing the accounts.** 1- Yes 2-No	/____/

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III. AUDIT OPINION

N	QUESTIONS	CODE
17	**During the past financial year, what type of audit opinion did you receive from your external auditor or statutory auditor?** 1-Reserved opinion 2- Outright certification	/____/
18	**If this is a qualified audit opinion, what was the qualification about?** 1-Non-compliance of the financial statements (Changes in accounting methods, correction of financial statements,...) 2-Continuity of operations 3-Other to be specified……………………………………………………	/____/

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