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The Role of National Culture in Shaping Auditing Strength: An International Evidence

Ahmed Mohamed Wageeh ELsawy

Assistant Professor of Accounting

Faculty of Commerce, Portsaid University

a.wageeh@com.psu.edu.eg

Ahmed Emad Eldin Ahmed¹

**Associate Professor, Accounting Department, Faculty of
Business, Ain Shams University**

Dr.ahmedemad@bus.asu.edu.eg

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¹ Corresponding author

Abstract

This paper explores the relationship between Hofstede's cultural dimensions and auditing strength. The study uses empirical data from 79 countries to examine how cultural dimensions affect auditing strength. The results suggest that cultural dimensions have a significant impact on auditing strength. Specifically, Individualism, long-term orientation, and Indulgence are significantly and positively related to auditing strength. On the contrary, it was found that uncertainty avoidance is significantly negatively related to auditing strength. Furthermore, the paper identifies potential limitations and challenges in studying the relationship between culture and auditing and provides suggestions for future research.

Keywords: National Culture; auditing strength; international-based analysis



1. Introduction

National culture is a powerful influence underlying human behavior and social values, including business practices. The accounting and auditing profession is not an exception. The differences in auditing practices among various countries have been a subject of interest for scholars for a long time. These differences can be assigned to various factors, including legal, economic, and cultural factors. Culture, in particular, has received increasing attention as a determinant of auditing practices. Hofstede's cultural dimensions have been widely used to study the relationship between culture and auditing practices (Bik and Hooghiemstra, 2018; Lenz and Hahn, 2015; Khlif and Guidara, 2018; Hope et al., 2008; Mihret, 2014; Cowperthwaite, 2010).

This paper helps to provide an overview of the relationship between national culture of Hofstede and auditing strength, the following sections of this paper are organized as follows. Section 2 includes the literature review concerning the relationship between Hofstede and financial reporting, Hofstede and taxation, finally Hofstede and auditing. Section 3 presents the empirical analysis to select the sample and analyses the relationship between national culture and auditing. Section 4 concludes the paper, presents and provides guidance for future research.

2. Literature review and hypothesis development

Many authors tried to study the factors that help in allowing a better explanation of different accounting practices among various companies and even various countries (Chand et al., 2012; Doupnik and Riccio, 2006; Han et al., 2010; ErMASova et al., 2019; Kemme et al., 2020; Richardson, 2008, Libby et al., 2002). Cultural differences are more often regarded as one of the reasons for these differences, influencing both the measure of assets and liabilities as well as the results in the financial statements and the information disclosed therein. Culture is a powerful tool; hence its impact on accounting practices cannot be neglected.

Many accounting researchers attempted to use the cross-national differences in culture to explain the top management behavior and some accounting aspects like (reporting practices, earning management, taxation, and social environmental reporting). Over the past 25 years, the Hofstede culture model has been enormously used in different accounting researches. The methodologies used in these studies are empirical, experiment, and meta-analysis. The topics

covered in these studies focused on the effect of culture dimensions on either firm-level accounting variables like (financial disclosure, social disclosure) or country-level data like (tax evasion and the level of national GAAP compared to IFRS) (Kurauone et al., 2021).

2.1 Hofstede and financial reporting

Financial reporting is an essential element of business operations, providing important information to stakeholders such as investors, creditors, and regulators. However, financial reporting practices can vary greatly between companies and countries. One factor that has been identified as influencing these differences is national culture, which relate to the values, beliefs, and attitudes shared by members of a society (Hofstede, 1984). Hofstede's cultural dimensions provide a framework for understanding these cultural differences, and have been used extensively in accounting research to explore the relationship between culture and financial reporting practices (Hofstede, 1980). One area where national culture can impact financial reporting practices is in reporting policies. The International Financial Reporting Standards (IFRS) are used to be applied consistently across different countries, but there can still be differences in how these standards are interpreted and implemented. This can be influenced by cultural factors such as the importance placed on rules versus principles, or the degree of Individualism versus collectivism in a society (Gray et al., 1995). For example, in societies that place a high value on rules and regulations, there may be a greater emphasis on compliance with IFRS, whereas in societies that prioritize Individualism, there may be more flexibility in how the standards are applied.

Earning management is another area where national culture can influence financial reporting practices. Earning management refers to the manipulation of financial statements in order to meet or exceed earnings targets (Viana Jr, 2022). This can be influenced by cultural factors such as the degree of uncertainty avoidance in a society or the importance placed on long-term relationships versus short-term gains (Riahi et al., 2013). For example, in societies with a high degree of uncertainty avoidance, there may be a greater emphasis on conservative accounting practices to minimize risk, whereas in societies that prioritize short-term gains, there may be more pressure to meet earnings targets through aggressive accounting practices.

Social and environmental reporting is an area where national culture can have an intensely strong impact on financial reporting practices.



Social and environmental reporting refers to the disclosure of information related to a company's social and environmental performance (Gray et al., 1988). This can be influenced by cultural factors such as the degree of Individualism versus collectivism in society or the importance placed on social responsibility (Khlif et al., 2018). For example, in societies that prioritize Individualism, there may be less emphasis on social and environmental reporting, whereas in societies that place a high value on social responsibility, there may be more pressure for companies to disclose this information.

2.2 Hofstede and taxation

Taxation is an essential source of revenue for governments worldwide. Tax revenue is used to finance public goods and services such as healthcare, education, and infrastructure. However, despite the importance of taxation, tax compliance remains a significant challenge for many governments. Tax evasion, a form of non-compliance, is prevalent in many countries and results in a significant loss of revenue for governments. The level of tax compliance and tax evasion is influenced by various factors, including the national culture of a country. The national culture of a country affects the way individuals perceive tax obligations, the degree of trust in government, and the level of social norms and values. One of the most prominent cultural dimensions that have been linked to tax compliance and tax evasion is power distance. According to Hofstede, power distance is defined as the extent to which less powerful members of a society accept and expect unequal distribution of power (Choi, 2010). Countries with high power distance are characterized by significant inequalities in wealth and power, and individuals in these societies tend to accept the unequal distribution of power as a natural part of life (Hofstede, 1980). These countries are also more likely to have authoritarian governments and lack transparency, which can facilitate tax evasion (Soschinski et al., 2021). Studies have shown that high power distance is associated with higher levels of tax evasion (Tsakumis et al., 2007; Mahaputra et al., 2018). This may be because individuals in high power distance cultures are more likely to believe that tax evasion is a legitimate way to avoid contributing to a system that is viewed as corrupt or unfair (Soschinski et al., 2021). Additionally, individuals in high power distance cultures may be more likely to engage in tax evasion because they perceive themselves as less likely to be caught and punished (Mahaputra et al., 2018). On the other hand, individualistic cultures have been found to be correlated with greater levels of tax compliance (Alm et al., 2006). Individualistic cultures emphasize personal autonomy and self-

expression, and individuals in these societies tend to prioritize their own interests over the interests of the group (Hofstede, 1980). As a result, individuals in individualistic cultures are more likely to comply with tax laws because they believe it is their individual responsibility to contribute to society (Mora, 2013). Masculinity is another cultural dimension that has been linked to tax compliance and evasion. Masculine cultures place a higher value on competition, achievement, and material success, while feminine cultures prioritize relationships, quality of life, and social welfare (Hofstede, 1980). Research has shown that higher levels of Masculinity are associated with lower levels of tax compliance (Soschinski et al., 2021). This may be because individuals in Masculine cultures prioritize individual achievement over collective welfare and may view tax evasion as a way to gain a competitive advantage over others (Soschinski et al., 2021).

2.3 National culture and auditing

Auditing is a critical aspect of business management, and it involves an independent evaluation of an organization's financial statements, internal control systems, and accounting procedures. The quality of auditing practices can be influenced by national culture, which refers to the shared values, beliefs, norms, and customs that characterize a country or a group of people.

The relationship between national culture and auditing can be explored from different angles, including the cultural dimensions that affect the behavior of auditors and the cultural factors that influence the acceptance and effectiveness of auditing practices. Some of the cultural dimensions that are relevant to auditing include Individualism vs. collectivism, power distance, uncertainty avoidance, and Masculinity vs. femininity, as defined by Hofstede's cultural dimensions theory (Hofstede, 2016).

Individualism vs. collectivism is a cultural dimension that reflects the degree to which people in a society prioritize individual goals and achievements over collective goals and harmonious relationships. In different individualistic cultures, such as the United States, auditors may emphasize the importance of their independence, objectivity, and accountability, and strive to maintain a professional distance from the audited organization. In contrast, in collectivistic cultures, such as Japan or China, auditors may prioritize the importance of maintaining harmonious relationships with the audited organization and may be more likely to take into account the organization's cultural context and values when evaluating its financial statements (Power et al., 2010).



Power distance is another cultural dimension that refers to the degree to which people in a society accept and expect an unequal distribution of power and status. In high power distance cultures, such as India or Mexico, auditors may face challenges in challenging the authority of senior management or top executives and may be more inclined to comply with their requests or expectations. This can compromise the independence and objectivity of auditing practices and lead to a lack of transparency or accountability (Chow et al., 1987).

Uncertainty avoidance is a cultural dimension that indicates the extent to which groups in a society are comfortable with ambiguity and uncertainty, or prefer clear rules, procedures, and guidelines. In different high uncertainty avoidance cultures, such as Greece or Russia, auditors may prefer to rely on established norms and conventions, rather than challenging the status quo or innovating new auditing methods or techniques. This can lead to a lack of adaptability and responsiveness to changing business environments or emerging risks (Ayoun et al., 2008).

Masculinity vs. femininity is a cultural dimension that indicates the degree to which a society values traditionally Masculine traits, such as competitiveness, assertiveness, and achievement, or feminine traits, such as cooperation, empathy, and quality of life. In high Masculinity cultures, such as the United States or Germany, auditors may be more likely to prioritize the achievement of financial goals and the satisfaction of stakeholders, and may be less concerned with ethical or social considerations. In contrast, in high femininity cultures, such as Norway or Sweden, auditors may be more likely to prioritize the well-being of all stakeholders and the long-term sustainability of the audited organization (Lu, J et al., 2021).

The cultural factors that influence the acceptance and effectiveness of auditing practices can also be analyzed from different perspectives, such as the legal and institutional frameworks, the educational and professional standards, and the ethical and social norms that shape the behaviour of auditors and the expectations of stakeholders. The legal and institutional frameworks that regulate auditing practices can vary significantly across different countries and can affect the scope, quality, and credibility of auditing practices.

For example, in countries where there is a strong legal and regulatory framework, such as the United States or the United Kingdom, auditors are subject to strict standards and guidelines that aim to ensure their

independence, objectivity, and professionalism. In contrast, in countries where there is a weak legal and regulatory framework, such as some developing countries in Africa or Asia, auditors may face challenges in enforcing their ethical and professional standards and may be more vulnerable to corruption or influence from powerful stakeholders (Ibironke, 2019).

The educational and professional standards that shape the training and development of auditors can also vary across different countries and can influence their competencies, skills, and attitudes towards auditing. In countries, such as the United States or Canada, auditors are required to obtain a professional certificates, such as a Certified Public Accountant (CPA) or a Chartered Accountant (CA), and to undergo rigorous training and continuing education to maintain their competence and credibility. In contrast, in some other countries, such as China or India, the educational and professional standards for auditors may be less stringent or diverse, which can lead to variations in the quality and effectiveness of auditing practices (Power et al., 2010).

The ethical and social norms that shape the behavior and expectations of auditors and stakeholders can also be influenced by national culture. For example, in some cultures, such as the Nordic countries or Japan, there may be a strong emphasis on social responsibility, transparency, and trust, which can enhance the acceptance and effectiveness of auditing practices. In contrast, in some other cultures, such as some Middle Eastern or African countries, there may be a higher tolerance for corruption, nepotism, or favoritism, which can undermine the credibility and integrity of auditing practices (McKinney et al., 2010).

The relationship between Hofstede's national culture and auditing can be explained from different perspectives, such as auditor choice, audit quality, and audit reporting.

The choice of auditor is an essential decision for companies. The auditor is expected to provide an independent opinion on the company's financial statements. However, the auditor's independence can be compromised if the auditor is selected based on factors other than the quality of service provided. The cultural dimensions of a country can influence the auditor selection process. For example, high power distance cultures tend to have a stronger preference for prestigious auditors, such as the Big Four firms, over local auditors.



Similarly, collectivistic cultures tend to have a stronger preference for auditors who have personal relationships with company management.

Audit quality is an essential aspect of the auditing process. The quality of the audit opinion affects the confidence of users of financial statements. Several studies have examined the relationship between cultural dimensions and audit quality. The results suggest that cultural dimensions have a significant impact on audit quality. For example, high power distance cultures tend to have lower audit quality due to weaker auditor independence. Similarly, high uncertainty avoidance cultures tend to have lower audit quality due to a stronger preference for conservatism and a lower tolerance for risk-taking. Moreover, collectivistic cultures tend to have lower audit quality because of the weaker emphasis on the individual auditor's accountability.

Audit reporting is an essential aspect of the auditing process. The auditor's report provides users of financial statements with information about the auditor's opinion on the financial statements' accuracy and completeness. The cultural dimensions of a country can influence the auditor's reporting decisions. For example, high power distance cultures tend to have weaker auditor reporting because of the stronger preference for maintaining harmonious relationships with management. Similarly, high uncertainty avoidance cultures tend to have weaker auditor reporting because of the stronger preference for conservatism and lower tolerance for risk-taking.

2.4 Culture dimensions and auditing

2.4.1 Power distance

The degree to which individuals in a society accept and expect power imbalances. In societies with high power distance, such as several Asian and African countries, there is a greater acceptance of authority and hierarchy. This can impact auditing by affecting how auditors interact with management and other stakeholders. In high power distance cultures, auditors may be less likely to question or challenge management's decisions and maybe more deferential in their interactions. Additionally, high power distance cultures may be more likely to have weak internal controls, as there may be a greater reliance on the authority of individuals in positions of power rather than formalized procedures and structures. High power distance cultures may lead to lower quality audits due to a lack of transparency and accountability. Companies in these cultures may prioritize hierarchical structures and authority over transparency and openness,

which can result in less willingness to disclose information to auditors (Kanagaretnam et al., 2016). Additionally, high power distance cultures may exhibit a lower willingness to challenge authority or question management, which can lead to auditors accepting management assertions without appropriate verification (Puni et al., 2020).

2.4.2 Individualism

The degree to which individuals in a society are assumed to act in their own self-interest rather than as part of a group. In individualistic societies, such as the United States and Western Europe, there is a greater emphasis on individual achievement and autonomy. This can impact auditing by affecting auditors' attitudes towards risk and control. In individualistic cultures, auditors may be more likely to prioritize the interests of the individual client over broader societal interests, which can lead to a greater tolerance for aggressive accounting practices. Additionally, individualistic cultures may be more likely to have decentralized decision-making structures, which can make it more difficult for auditors to obtain a comprehensive understanding of the organization. Individualistic cultures may lead to more aggressive auditing practices as auditors may prioritize their own interests over those of the company or other stakeholders. In these cultures, auditors may feel more pressure to meet performance targets and achieve personal success, which can lead to a focus on short-term outcomes rather than long-term sustainability (Suryanto et al., 2019).

2.4.3 Masculinity

The degree to which a society values traditional Masculine traits such as assertiveness and competitiveness. In Masculine cultures, such as Japan and the United States, there is a greater emphasis on achievement and success. This can impact auditing by affecting auditors' attitudes towards materiality and evidence. In Masculine cultures, auditors may be more likely to prioritize the importance of achieving financial targets and meeting performance metrics over ethical considerations. Additionally, Masculine cultures may be more likely to have a "win at all costs" mentality, which can increase the risk of fraud and financial misstatements. Cultures with high levels of Masculinity may prioritize competition and assertiveness, which can lead to more aggressive auditing practices. Auditors in these cultures may focus on achieving their own goals and objectives rather than prioritizing the interests of the company or other stakeholders (Toumi et al., 2022).



2.4.4 Uncertainty avoidance

The degree to which individuals in a society feel uncomfortable with ambiguity and uncertainty. In societies with high uncertainty avoidance, such as Japan and Greece, there is a greater desire for structure and predictability. This can impact auditing by affecting how auditors approach risk assessment and materiality. In high uncertainty avoidance cultures, auditors may be more likely to view all potential risks as significant and may be more conservative in their judgments about materiality. Additionally, high uncertainty avoidance cultures may be more likely to have complex regulatory environments, which can make it more difficult for auditors to navigate and understand the relevant requirements. Cultures with high levels of uncertainty avoidance may exhibit more conservative auditing practices as auditors may prioritize minimizing risk and uncertainty. In these cultures, auditors may be more likely to use conservative accounting estimates and approaches, which can result in lower reported earnings and a more cautious approach to auditing (Puni et al., 2020).

2.4.5 Long-term orientation

The degree to which a society values long-term planning and perseverance. In societies with high long-term orientation, such as China and Japan, there is a greater emphasis on patience and persistence. This can impact auditing by affecting how auditors evaluate the adequacy of reserves and provisions. In high long-term orientation cultures, auditors may be more likely to view the long-term outlook of the organization as critical and may be more cautious in their assessment of potential contingencies. Additionally, high long-term orientation cultures may be more likely to have complex ownership structures, which can make it more difficult for auditors to understand the relationships between different entities and the associated risks. Cultures with a long-term orientation may prioritize sustainability and resilience, which can lead to more thorough and sustainable auditing practices. Auditors in these cultures may prioritize long-term outcomes over short-term gains and focus on ensuring the company's long-term success and sustainability (Toumi et al., 2022).

2.4.6 Indulgence

Indulgence is another cultural dimension identified by Hofstede, which refers to the extent to which individuals in society allow themselves to enjoy life's pleasures and indulge in activities that are gratifying, such as eating, drinking, and socializing. Countries with high indulgence

scores tend to be more permissive and accepting of unconventional behaviour, while those with low scores tend to be more conservative and adhere to traditional values. Indulgence can also have an impact on auditing practices. For example, in countries with high indulgence scores, there may be a greater tolerance for non-compliance or unethical behavior. Auditors working in such environments may need to be more vigilant and use stronger audit procedures to ensure the accuracy and reliability of financial statements. Additionally, countries with high indulgence scores may have a more relaxed attitude towards deadlines and schedules, which can impact auditing practices. Auditors may need to be flexible in their approach and adjust their procedures to accommodate the local culture. On the other hand, countries with low indulgence scores may be more disciplined and have a stronger focus on rules and regulations. Auditors working in such environments may need to pay closer attention to compliance and ensure that all relevant laws and regulations are being followed.

Overall, the cultural dimension of Indulgence can impact auditing practices in a variety of ways and should be taken into account when conducting audits in different countries and cultural contexts. Indulgent cultures may prioritize enjoyment and pleasure, which can cause a lack of discipline and rigour in auditing practices. In these cultures, auditors may prioritize their own enjoyment and pleasure over their professional responsibilities and ethical obligations, which can result in lower-quality audits (Erkens et al., 2012)

Accordingly, our main hypothesis is:

H1: There is a significant relationship between culture dimensions and auditing strength.

H1a: There is a significant relationship between power distance and auditing strength

H1b: There is a significant relationship between Individualism and auditing strength.

H1c: There is a significant relationship between Masculinity and auditing strength.

H1d: There is a significant relationship between uncertainty avoidance and auditing strength.

H1e: There is a significant relationship between Long-term orientation and auditing strength.



H1f: There is a significant relationship between Indulgence and auditing strength.

3 Empirical analysis

3.1 Sample selection

Table 1 shows the countries selected in our sample and the scores for auditing strength and six cultural dimensions.

Table 1 all data of all variables that are included in our model

Country	AUDITING	PDI	INDIV	MAS	UNCERT	LONGORT	IDUL
Albania	4.47	90	20	80	70	61	15
Algeria	3.85	80	35	35	70	26	32
Argentina	4.24	49	46	56	86	20	62
Armenia	4.66	85	22	50	88	61	25
Australia	5.87	38	90	61	51	21	71
Austria	6.21	11	55	79	70	60	63
Azerbaijan	4.95	85	22	50	88	61	22
Bangladesh	3.62	80	20	55	60	47	20
Belgium	5.83	65	75	54	94	82	57
Bosnia	3.71	90	22	48	87	70	44
Brazil	4.67	69	38	49	76	44	59
Bulgaria	4.84	70	30	40	85	69	16
Canada	5.90	39	80	52	48	36	68
Chile	5.64	63	23	28	86	31	68
China	4.55	80	20	66	30	87	24
Colombia	4.96	67	13	64	80	13	83
Croatia	3.89	73	33	40	80	58	33
Czech Rep	5.19	57	58	57	74	70	29
Denmark	5.74	18	74	16	23	35	70
Dominican Rep	4.83	65	30	65	45	13	54
El Salvador	4.90	66	19	40	94	20	89

The Role of National Culture in Shaping Auditing Strength: Dr. Ahmed Mohamed Wageeh Elsayy, Dr. Ahmed Emad Eldin Ahmed

Estonia	5.46	40	60	30	60	82	16
Finland	6.53	33	63	26	59	38	57
France	5.43	68	71	43	86	63	48
Georgia	4.40	65	41	55	85	38	32
Germany	5.38	35	67	66	65	83	40
Ghana	4.03	80	15	40	65	4	72
Greece	3.79	60	35	57	100	45	50
Hungary	5.03	46	80	88	82	58	31
Iceland	5.77	30	60	10	50	28	67
India	4.75	77	48	56	40	51	26
Indonesia	4.59	78	14	46	48	62	38
Iran	3.64	58	41	43	59	14	40
Ireland	5.28	28	70	68	35	24	65
Italy	4.43	50	76	70	75	61	30
Japan	5.81	54	46	95	92	88	42
Jordan	5.12	70	30	45	65	16	43
Kazakhstan	4.23	88	20	50	88	85	22
Korea South	5.30	60	18	39	85	100	29
Latvia	4.90	44	70	9	63	69	13
Lithuania	5.19	42	60	19	65	82	16
Luxembourg	6.13	40	60	50	70	64	56
Malaysia	5.43	100	26	50	36	41	57
Malta	5.52	56	59	47	96	47	66
Mexico	5.17	81	30	69	82	24	97
Moldova	4.27	90	27	39	95	71	19
Montenegro	4.32	88	24	48	90	75	20
Morocco	5.42	70	46	53	68	14	25
Netherlands	6.19	38	80	14	53	67	68



New Zealand	6.08	22	79	58	49	33	75
Nigeria	4.58	80	30	60	55	13	84
Norway	5.98	31	69	8	50	35	55
Pakistan	3.99	55	14	50	70	50	0
Peru	4.58	64	16	42	87	25	46
Philippines	5.14	94	32	64	44	27	42
Poland	4.67	68	60	64	93	38	29
Portugal	4.34	63	27	31	99	28	33
Romania	4.80	90	30	42	90	52	20
Russia	4.28	93	39	36	95	81	20
Saudi Arabia	5.53	95	25	60	80	36	52
Serbia	4.21	86	25	43	92	52	28
Singapore	6.26	74	20	48	8	72	46
Slovak Rep	5.54	100	52	100	51	77	28
Slovenia	4.93	71	27	19	88	49	48
South Africa	5.05	49	65	63	49	34	63
Spain	5.52	57	51	42	86	48	44
Sweden	5.97	31	71	5	29	53	78
Switzerland	6.09	34	68	70	58	74	66
Taiwan	5.90	58	17	45	69	93	49
Tanzania	4.19	70	25	40	50	34	38
Thailand	4.94	64	20	34	64	32	45
Trinidad and Tobago	4.55	47	16	58	55	13	80
Turkey	4.37	66	37	45	85	46	49
Ukraine	3.86	92	25	27	95	55	18
United Arab Emirates	5.30	74	36	52	66	22	22
United Kingdom	5.40	35	89	66	35	51	69
United States	5.79	40	91	62	46	26	68

Uruguay	5.48	61	36	38	98	26	53
Venezuela	4.09	81	12	73	76	16	100

Source: <https://data.worldbank.org/> ; <https://www.hofstede-insights.com/country-comparison-tool>

3.2 Regression analysis and discussion

The analysis of the summary statistics in Table 2 reveals significant insights into the auditing strength and cultural dimensions across the sampled countries for the year 2019. The average auditing strength, measured on a scale from 1 to 7, is 5.01, with a standard deviation of 0.73. This suggests a moderately high baseline level of auditing strength globally but with some variability across countries, highlighting differences in auditing enforcement and compliance standards.

Table 2 Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
AUDITING	79	5.00557	0.731831	3.62	6.53
PDI	79	62.70886	21.21632	11	100
INDIV	79	42.60759	22.63615	12	91
MAS	79	48.79747	18.95161	5	100
UNCERT	79	69.03797	20.86922	8	100
LONGORT	79	47.72152	23.50501	4	100
IDUL	79	46.03797	22.19808	0	100

Source: Authors' computations

The Power Distance Index (PDI), which measures the extent to which less powerful members of organizations and institutions accept and expect power to be distributed unequally, has an average of 62.71. This relatively high mean indicates a general acceptance of hierarchical order without justification in many of the countries in the sample. However, the range from 11 to 100 and a standard deviation of 21.22 indicates substantial variation, which can have profound implications on organizational transparency and accountability, affecting auditing practices.

The mean score for Individualism (INDIV) stands at 42.61, pointing towards a tilt in many countries towards collectivist practices, where ties between individuals are tighter and loyalty to one's group or



community plays a critical role in social norms and business practices. This could impact the auditing processes where collective interests might overshadow individual accountability.

Masculinity (MAS), with a mean of 48.80, is fairly balanced across the sample, suggesting a mix of assertive and nurturing traits influencing corporate cultures and, consequently, auditing norms and expectations.

Uncertainty Avoidance Index (UNCERT) has a high average of 69.04, indicating a strong preference in many countries for avoiding ambiguity, which supports strict adherence to rules and regulations, a quality beneficial to rigorous auditing.

Long Term Orientation (LONGORT) and Indulgence (IDUL) show considerable diversity in their values (47.72 and 46.04, respectively), which implies varying degrees of pragmatism and indulgence versus restraint cultural traits influencing business operations and ethical standards, thus indirectly affecting auditing strength.

These statistics provide a foundational understanding of how deeply ingrained cultural traits can influence auditing practices, potentially leading to variations in auditing strength across different national contexts. Such insights are crucial for multinational organizations and regulatory bodies aiming to standardize and improve auditing effectiveness globally.

Table 3 Correlation matrix

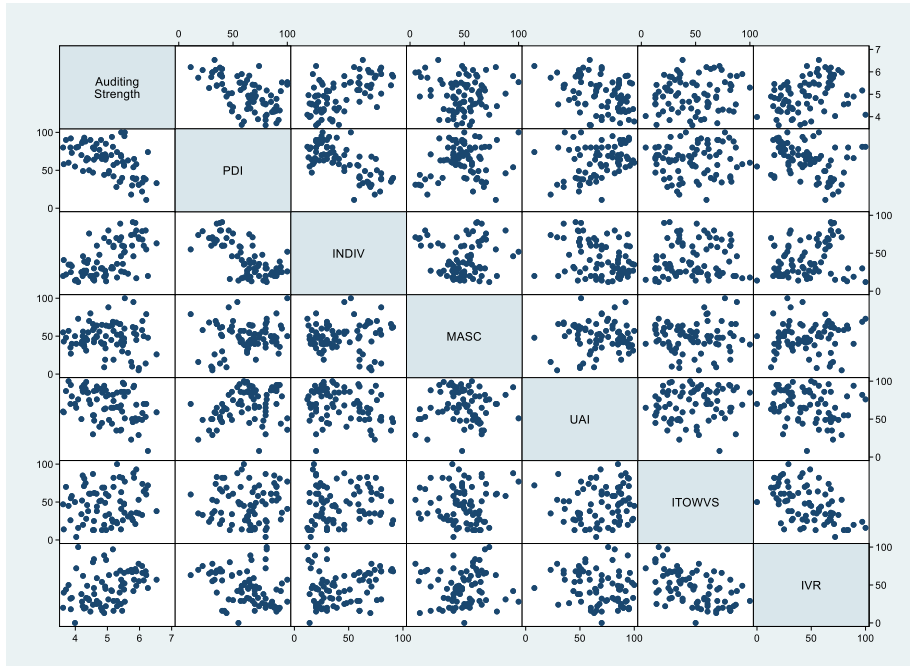
	AUDITING	PDI	INDIV	MAS	UNCERT	LONGORT	IDUL
AUDITING	1						
PDI	-0.5614*	1					
INDIV	0		1				
MAS	0.5632*	-0.7047*	0.0073	1			
UNCERT	0	0	0.9492	0.0079	1		
LONGORT	-0.0386	0.1617	0.0067	0.9449	0.132	1	
IDUL	0.7358	0.3371*	-0.3026*	0.0629	0.2463	-0.5133*	1
	0.0007	0.0024	0.0703	0.5815	0.032	0	

Source: Authors' computations

Table 3 shows the correlation matrix, which provides valuable insights into the relationship between auditing strength and cultural dimensions. There are some key findings of the correlation matrix; There is a significant negative correlation between PDI and auditing strength (-0.5614), indicating that countries with higher power distance tend to have weaker auditing practices. This could be due to centralized power structures, which may limit the effectiveness of auditing due to less transparency and accountability. Also, A strong positive correlation (0.5632) is observed, suggesting that countries with higher levels of Individualism tend to have stronger auditing frameworks. This might be related to the emphasis on personal responsibility and accountability in individualistic cultures, which supports stringent auditing.

In addition, there is a notable negative correlation (-0.3736), showing that countries with a high need to avoid uncertainty tend to have weaker auditing strength. This might expect that higher uncertainty avoidance would correlate with stricter compliance to rules, including auditing standards. The correlation coefficient (0.3744) indicates a positive relationship, where societies that are more indulgent, allowing relatively free gratification of human drives, tend to have stronger auditing practices. This might reflect a broader tolerance for openness and diversity of practices, including in the financial and regulatory realms. Regarding the long-term orientation, The relationship here is not significant, suggesting that the influence of long-term thinking on auditing practices might be minimized by other cultural factors.

Figure 1 Correlation between auditing strength and cultural dimensions



Source: Authors' computations

The scatterplot matrix in Figure 1 visually complements the correlation matrix by showing the spread and direction of data points between the different variables: The scatterplot between PDI and auditing strength visually confirms the negative trend, with higher PDI scores generally associated with lower auditing strength scores. Similarly, the positive trend between INDV and auditing strength is clear, with clusters forming that show higher Individualism correlating with stronger auditing. The relationship between UAI and auditing strength, as well as between IVR and auditing strength, can also be visualized, supporting the statistical correlations found.

Table 4 Regression analysis

Source	SS	df	MS	Number of obs	=	79
				F(6, 72)	=	12.67
Model	21.45377	6	3.575628	Prob > F	=	0
Residual	20.32118	72	0.282239	R-squared	=	0.5136
				Adj R-squared	=	0.473
Total	41.77495	78	0.535576	Root MSE	=	0.53126
AUDITING	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
PDI	-0.00581	0.004426	-1.31	0.194	-0.01463	0.003015

INDIV	0.009188	0.00388	2.37	0.021	0.001453	0.016923
MAS	-0.00171	0.00331	-0.52	0.607	-0.00831	0.004888
UNCERT	-0.00638	0.003118	-2.05	0.044	-0.01259	-0.00016
LONGORT	0.010611	0.003074	3.45	0.001	0.004484	0.016738
IDUL	0.012786	0.003502	3.65	0.000	0.005805	0.019767
_cons	4.407038	0.538266	8.19	0	3.334024	5.480052

Source: Authors' computations

The VIF values for all variables are below the commonly used threshold of 5, indicating no serious multicollinearity concerns within our model. This supports the reliability of the regression coefficients. The Shapiro-Wilk test for normality of residuals has a p-value of 0.338, indicating that we cannot reject the hypothesis of normal distribution of residuals. Skewness and kurtosis tests also do not show significant deviations from normality ($p = 0.5503$), confirming that the assumptions of normality hold reasonably well for our model residuals. The robust regression analysis was employed to reinforce the reliability of our model findings, particularly considering potential issues like heteroscedasticity, which could affect the standard errors and, thus, the inference drawn from our original regression analysis. The robustness adjustments provide a more accurate understanding of the relationships between cultural dimensions and auditing strength, given that the standard errors are adjusted to be more resilient against violations of classical regression assumptions.

Table 4 shows the regression analysis. The regression analysis provides a detailed examination of how various cultural dimensions affect auditing strength across different countries. The model includes six cultural variables: Power Distance (PDI), Individualism (INDIV), Masculinity (MAS), Uncertainty Avoidance (UNCERT), Long Term Orientation (LONGORT), and Indulgence (IDUL), with auditing strength as the dependent variable. The model has a relatively robust fit, with an R-squared of 0.5136, indicating that approximately 51.36% of the variability in auditing strength is explained by the included cultural dimensions. The adjusted R-squared of 0.473 further affirms the model's validity, adjusting for the number of predictors and the sample size. The F-statistic of 12.67, with a highly significant p-value ($\text{Prob} > F = 0$), suggests that the model is statistically significant at standard levels. The coefficient for PDI is -0.00581, indicating a negative relationship with auditing strength, albeit not statistically significant ($p = 0.194$). This suggests that higher levels of accepted

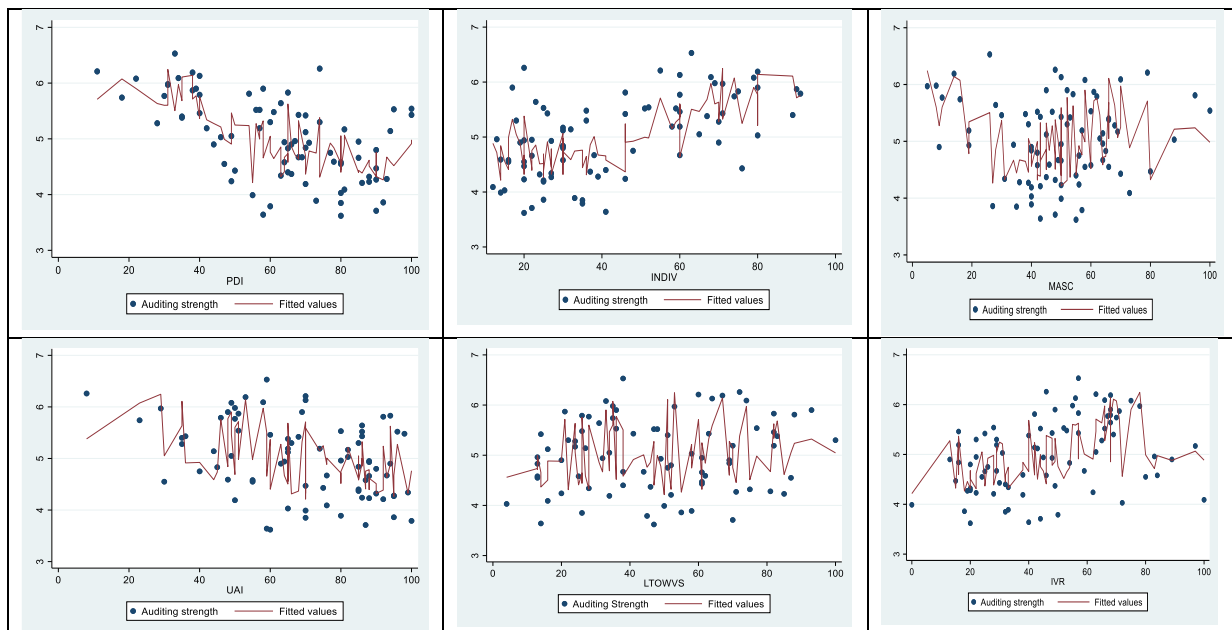


power inequality might slightly decrease auditing strength, though the data does not confirm this robustly.

The individualism dimension shows a positive coefficient of 0.009188, which is statistically significant ($p = 0.021$). This implies that societies that value individual actions and decisions tend to have stronger auditing mechanisms. Masculinity has a coefficient of -0.00171, with no significant impact on auditing strength ($p = 0.607$), indicating that the competitive versus cooperative nature of a society does not significantly alter auditing standards.

Uncertainty avoidance has a negative coefficient of -0.00638 ($p = 0.044$) suggests that higher levels of uncertainty avoidance negatively influence auditing strength. This could be due to overly rigid compliance structures that do not adapt well to dynamic global auditing demands. Long Term Orientation with a coefficient of 0.010611 and a p-value of 0.001, this result indicates that cultures with a longer-term outlook significantly foster stronger auditing practices, perhaps due to a greater emphasis on sustainable and prudent management practices. Indulgence shows a positive and significant effect (coefficient = 0.012786, $p = 0.000$), suggesting that societies that permit relatively free gratification of basic and natural human drives related to enjoying life and having fun tend to support stronger auditing systems.

Figure 2 Relationship between culture dimensions and auditing strength



Source: Authors' computations

4. Conclusion and implication

This study has extensively explored the relationship between Hofstede's cultural dimensions and auditing strength across 79 countries, highlighting how cultural underpinnings can significantly influence the efficacy of auditing practices. The regression analysis and correlation matrices provided robust statistical evidence that cultural dimensions such as Individualism, Long Term Orientation, and Indulgence have a positive impact on auditing strength, while Uncertainty Avoidance exhibited a negative relationship. Power Distance and Masculinity showed less influence, which suggests that these aspects of culture may not be as critical in shaping auditing practices as previously thought.

The findings suggest that countries with cultures that promote individual accountability (high Individualism), future-oriented practices (high Long Term Orientation), and a greater degree of freedom in fulfilling emotional and physical needs (high Indulgence) tend to develop stronger auditing systems. Conversely, cultures that are highly averse to uncertainty tend to have weaker auditing mechanisms, potentially due to overly rigid and conservative approaches that may not adapt well to changing global standards and practices.

There are different implications for this study for International Regulatory Bodies: The study underscores the need for international auditing standards to consider cultural differences in their formulation and implementation. Regulatory bodies such as the International Auditing and Assurance Standards Board (IAASB) could use these insights to customize guidelines that account for cultural variability, thereby enhancing the global consistency and effectiveness of auditing practices. For Multinational Corporations: Multinational corporations should be aware of these cultural influences when evaluating the reliability of financial statements across different countries. Understanding that cultural dimensions impact auditing strength can aid these corporations in risk assessment and decision-making processes concerning investments and operations in foreign markets. For Academic Research: This research contributes to the academic discourse on the intersection of culture and corporate governance by quantitatively validating the impact of specific cultural dimensions on auditing practices. It opens avenues for further research to explore causal mechanisms and other cultural variables that might affect auditing and financial reporting quality. For National Auditing Bodies:



Local auditing bodies and standard-setters can benefit from this research by understanding the cultural biases inherent in their current auditing practices. This knowledge can guide the reform of auditing standards and practices to better suit their cultural context, potentially leading to more robust and effective auditing outcomes.

Finally, this study enhances our understanding of the dynamic interplay between culture and auditing. By acknowledging and integrating cultural dimensions into the design and enforcement of auditing standards, both at a national and international level, the global financial community can foster a more transparent, reliable, and efficient auditing environment. This culturally informed approach will not only benefit regulatory compliance but also contribute to the overall stability and integrity of global financial markets.

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