

The Impact of Adopting International Auditing Standards on audit quality in Saudi Arabia

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Abstract: This study will investigate the Impact of Adopting International Auditing Standards on audit quality in Saudi Arabia. The current research focuses on Saudi Arabia. This relatively large country in the Middle East is known for two main things, its oil and Islam. The research objectives can be identified as: To evaluate the current state of auditing practise in Saudi Arabia, to identify the need for the adoption of international auditing standards in Saudi Arabia, to identify the challenges in the adoption of international auditing standards in Saudi Arabia, and to evaluate the impact of the adoption of international auditing standards in Saudi Arabia. The research is adopting a mixed methods strategy that will combine both qualitative and quantitative research. This research is making several contributions to the academic literature in adoption International Auditing Standards in devolving countries in in general, and more specific in Saudi Arabia.

Keywords: Auditing, adoption, audit quality, Saudi Arabia, Middle East, IFRS.

1. INTRODUCTION

Globalisation is today proceeding at breakneck pace. Many financial transactions today have migrated online and this has facilitated more and more trade across borders. More and more countries that have previously been in the wilderness of international trade are now coming on board. This includes countries in the Middle East such as Iran and Saudi Arabia. The internationalisation of trade, bringing in foreign direct investment in a country, has also intensified the need for international accounting and auditing standards amongst countries that wish to seek foreign investment and indeed international trade itself. Zeghal and Mhehdbi (2006) explain that when the users of the accounting information such as financial reports are from international backgrounds, the existing auditing system may no longer satisfy their needs. This intensifies the need for a country to adopt international audit standards. However the adoption of international audit standards is far from a straightforward task; as Zeghal and Mhehdbi (ibid) explain, various factors such as such as economic growth, educational level, degree of external economic openness, etc. are all factors that influence the adoption of international accounting standards.

The current research focuses on Saudi Arabia. This relatively large country in the Middle East is known for two main things, its oil and Islam. The country is home to the most religious site for Islam, the Kaa'ba and also one of the largest exporters of oil in the world. Whilst it remains a culturally very closed country, immune to influence from the outside, it has welcomed international trade. Many international businesses have sprung up within the country and many international investors have become attracted to the economy on account of the growth potential of the country. In this backdrop, it becomes pertinent to explore the state of audit practise in the country, and to evaluate the effectiveness of audit as a key method of ensuring corporate governance within the country.

2. LITERATURE REVIEW

The main attraction of international audit standards such as the IFRS is the fact that it was developed through an international consultation process. This "due process" can be considered to have resulted in audit standards that are "good" – fit for purpose (Zakari, 2014). International audit standards are also attractive to foreign investors on account of their wide adoption worldwide – the IFRS is adopted in more than 100 countries, making it the de facto standard in more than half the world. This means that international investors would already be familiar with these standards. The adoption of these standards locally would therefore reduce the burden on the investors, to familiarise themselves with the local lay of the land.

In addition to its attractiveness to investors, international audit standards also have an important role in fostering corporate governance. The standards help the auditors to ensure that they perform their role of monitoring management's activities effectively.

In developing countries that have not adopted international accounting standards therefore the auditing practise may differ from internationally accepted standards. Therefore the adoption of international audit standards may require the integration of the local and international audit practise in the adopting country. Only then would this adoption of international audit standards help to ensure that the investors' interests are protected and the investment performance accurately evaluation (Latifah, 2012).

Current literature (Hassan et al, 2009 and Gyasi, 2010) also suggest that the adoption of international audit standards is beneficial for the country itself because it improves the quality of accounting practise in the country. Many developing countries such as China, UAE, etc. have adopted international audit standards, with the hope of improving the quality and credibility of financial reporting, which would consequently have a positive impact on the flow of capital and investment, ushering in economic development. In general it appears that current opinion has a consensus that it is imperative for developing countries to adopt international audit standards in order to access the capital markets at the global level (Irvine and Lucas, 2006, Obaidat, 2007, Al-Hussaini et al, 2008 and Zakari, 2014). Indeed Quinn (2004) and Michas (2010) suggest that accounting and financial information produced in developing countries are not trustworthy.

Irvine and Lucas (2006) and Zhang et al (2007) suggest that there is a need for the local regulatory infrastructure and audit profession to change, to adapt to suit the international audit standards that are oriented towards audit practise in the Western world. These required changes in fact are not brought about very easily. Owolabi and Iyoha (2012) opine that the adoption of international audit standards will not only be useful to the investors but also other stakeholders. It may make the audit function more easily understandable. However they also recommend that countries wishing to adopt the international standard undertake a "rigorous IFRS capacity building programme should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation, monitoring and compliance".

Many authors have covered the issue of challenges in the adoption of international audit standards; these challenges can be broad and apply to many countries or can be specific to a particular country on account of the peculiarities of that particular country. For example, there is consensus (Gyasi, 2010 and Laga, 2012) that the newly adopted international audit standards may be unfamiliar to the audit professionals. This means that there may be a need for training to ensure that there is a development in skills amongst the professionals in the field. However with training comes costs, which pushes up the cost of the adoption. However, the international audit standards may not meet the needs of the local companies, which in turn increases their expenditure on compliance for no net positive to these companies. Local regulations can also be in place in order to ensure compliance with the international standards (Zakari, 2014).

In the case of Saudi Arabia in particular, Al-Twaijry (2003) find that internal audit is not well developed. They opine that the audit department that do exist are inadequately resourced, does not have the independence necessary to perform their roles, concentrate on compliance audit and not performance audit. Habbash and alghamdi (2016) opine that in Saudi Arabia, the auditors are powerless; it is the managers who engage in opportunistic activities and frustrate genuine audit attempts.

Ahmad and Gao (2004) suggest that some of the other problems include a shortage of qualified accounting academics, the unsuitability of the imported audit standard to the peculiarities of the economy, the unsuitable link between academic training and professional training in the country, in adequate research, etc.

3. RESEARCH AIMS AND OBJECTIVES

The aim of the research is to examine the impact of the adoption of international accounting standards in Saudi Arabia. The research objectives can be identified as:

1. To evaluate the current state of auditing practise in Saudi Arabia
2. To identify the need for the adoption of international auditing standards in Saudi Arabia
3. To identify the challenges in the adoption of international auditing standards in Saudi Arabia
4. To evaluate the impact of the adoption of international auditing standards in Saudi Arabia.

4. RESEARCH STRATEGY

The research will adopt a mixed methods strategy that will combine both qualitative and quantitative research. Firstly a literature review will be conducted which will help inform the research effort and guide the researcher in the development of the research methodology. It will help to establish the ontology and epistemology of the research, firmly situating in the current body of knowledge in the subject area. The literature review will examine topics such as the peculiarities of the particular business environment under examination, the impact of these peculiarities on the audit profession, the current standing of the audit profession and practise in the environment under examination, existing and emerging challenges to the adoption of international audit standard in this and similar environments, etc.

The research methods will include a questionnaire survey of the audit professionals in Saudi Arabia; this will help to establish the status quo, i.e. the state of the audit profession and practise in the country. This will be followed up by interviews which will help to explore particular issues that were identified in the questionnaire surveys, for example individual problems faced by the audit professionals, their opinion on the state of the audit practise, etc. The research will be conducted according to a project schedule presented in the next section to ensure that the work progresses as expected, and delays are identified and dealt with as their arise.

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