An Empirical Investigation of Audit Perceptions Gap in Saudi Arabia

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Abstract

This paper reports the results of an investigation on audit perceptions gap that exist in the Saudi environment. The methodology used in the study is a combination of mail questionnaires and semi-structured interviews. While Kruskal-Wallis one-way analysis of variance shows the directions of respondents’ views on the issues, analysis of the semi-structured interviews provided further depth and coverage into the causes that shaped the respondents’ perceptions. The principal findings of the study were that two macro factors viz. ideology and legal structure in the Saudi environment significantly affect audit perceptions gap. This indicates the need for policy makers to take appropriate measures to narrow the gaps signalled by the research by taking into account the two macro factors in the environment identified as shaping the perceptions of both auditors and users, if the auditing profession is to fulfil the desired role and objectives in Saudi Arabia.

Key words: audit expectations gap; Saudi Arabia; audit perceptions gap.

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1. Introduction

The need for external auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability and stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation (Chandler, Edwards and Anderson, 1993). Over the years, the role of auditors become increasingly important especially in a capitalist economy as the process of wealth creation and political stability depends heavily upon confidence in processes of accountability and how well the expected roles are being fulfilled (Sikka, Puxty, Willmott and Cooper, 1998). This gives rise to research interest on ‘expectations gap’[1], the differences between what the public expects from an audit and what the auditing profession prefers the audit objectives to be (Chandler and Edwards, 1996).

The literature relevant to audit expectations gap is extensive. It can be broadly classified into four main expectations issues: ‘audit assurance’ or the role or functions that auditing is intended to fulfil (see, for example, Beck, 1973; Arrington, Hillson and Wilson, 1983; CICA, 1988; Porter, 1992), the level of quality in the performance of audits (see Gwilliam, 1991), structural and regulatory issues related to auditor independence (AICPA, 1978, 1987; CICA, 1988; Cadbury, 1992) and ‘audit reporting’ or the variation in the interpretation of the meaning of different audit reports (Holt and Moizer, 1990; Hatherly, Innes and Brown, 1991). Despite the extensive scope, most studies on audit expectations gap failed to appreciate the historical and political context within which expectations are formed, frustrated and transformed (Sikka et al., 1998; Wilmott, 1991). Similarly, most of the studies were conducted in developed capitalist countries (e.g. US, UK, New Zealand, Canada, etc.) and the common response to the problem is to further publish Accounting and Auditing Standards and Guidelines (Humphrey, Moizer and Turley, 1993). However, such prescriptions may be unsuitable to developing countries with different ideological and legal makeup. In addition, by addressing the issue from a positive or normative point of view, most studies failed to capture the essence of factors in the environment that may have shaped perceptions of the role and nature of auditing. Hence, selection of an appropriate research method is crucial in understanding the phenomenon.
In short, it is important to recognise that the meaning of audit and the role of auditors may be negotiated and transformed via various factors existing in a particular environment such as the institutional structures, the state of the distribution of power, influence and wealth as well as societal worldview. As such, explanations and responses to audit perceptions gap that persist in developed capitalist countries may not be suitable to countries undergoing economic transitions from communism to capitalism (see for example Sucher and Zelenka, 1998; Sucher, Moizer and Zarova, 1999) and(or) in societies that have different cultural values (see for example Hines, 1992) or societal worldview such as in Muslim societies [2]. Since little is known about the nature of auditing and the role of auditors in a society straddling free-market capitalism and religious ideology such as in Saudi Arabia, a research in this context may narrow the literature gap and contribute to knowledge in the area.

The paper is organised as follows. The next section presents an overview of previous studies on audit perceptions gap. Section 3 describes the research methodology adopted in this study. The combination of questionnaire evidence and interview data enabled identification of a greater richness and heterogeneity in the responses beyond that which could have been achieved by questionnaire alone and this in turn has added significantly to the insights obtained. Section 4 presents the empirical results of this study within the context of Saudi environment. Section 5 provides the summary and some reflections on the significance of the analysis and its implications in bridging audit perceptions gap.

2. Review of Literature
Previous studies on expectations gap have tried to identify gaps from an expectation-performance point of view and concluded that there are two components to the gap: feasibility/reasonableness gap and performance gap (CICA, 1988; Porter, 1991). The former gap is said to arise when society’s expectations of auditors exceed the duties reasonably expected of auditors. On the other hand, the performance gap is said to arise when society’s reasonable expectations of auditors’ accomplishments fall short of their perception of auditors’ achievement which may be due to either ‘deficient standards’ (gap between duties reasonably expected of auditors and auditors’ existing duties as defined by the law and professional promulgations) or ‘deficient performance’ (gap between the expected standard of performance of auditors’ existing duties and auditors’ perceived performance).
The identification and analysis of the expectation and performance gap in previous studies highlighted the need to educate users because the gaps are attributed to users’ confusion (Lange, 1987), widespread misunderstanding (Ellis and Selley, 1988; Auditing Practices Board, 1991) and ignorance (Singleton-Green, 1990). Similarly, it sheds light on the deficiencies in auditing performance and standards (e.g. Porter, 1991; Humphrey et al., 1993), hence the need for changes in the profession to sustain and perpetuate the expectations gap (Porter, 1991; Humphrey et al., 1993).

However, auditing function is not a unitary phenomenon as it means different things to different people (Humphrey, 1997) and the remedies prescribed in addressing liability and credibility crisis in one country may not work in another. Similarly, external auditors are exposed to more than one body of expectations which may vary enormously (Salaman, 1979). As such, it is important to consider how auditors and users of audit reports perceive the meaning of audit and the role of auditors in the context of the environment under study. In other words, as argued by Flint (1988), seeking explanation as to why auditors do what they do, what they believe they achieve and what the society believes they achieve may help address the philosophical basis of auditing (Humphrey, 1997). Since role expectations and behaviours are not static, they have to be adjusted via the process of negotiation and mutual influence, thus reflecting the preferences of both parties in the course of their interactions. The interplay of various factors in the business environment such as the type and stage of economic development, the political and legal status, the regulatory framework in place as well as societal values may also affect the nature, purpose, possibilities and limitations of auditing in a particular environment and in turn, perceptions of parties interested in the audit function. Hence, this study attempts to identify the extent of audit perceptions gap that prevails in Saudi Arabia and to highlight the possible causes. The next section outlines the research design.

3. Research Design and Methodology

The collection of data was in three stages: pilot interviews [3] with a number of auditors, credit managers, financial analyst, shareholders, financial directors and governmental body representatives; mail questionnaires to 350 subjects comprising eight separate groups; and in-depth face-to-face interviews with 48 selected respondents representing the eight groups. Both
the mail questionnaire and interview would help to provide further depth and coverage of evidence on audit perceptions gap that exist in the Saudi environment and their possible causes.

*Development of the mail questionnaire*

The mail questionnaire was designed to ascertain the groups’ opinions about the role and nature of auditing similar to those used in other studies (Porter, 1993; Humphrey et al., 1993). It consisted of two sections. The first section of the questionnaire is related to demographic questions (work position, education background and age) while the second section consisted of a list of propositions related to auditors’ roles and duties and the audit environment. Respondents were asked to indicate their agreement or disagreement on a five-point scale. The mail questionnaire [4] was constructed in the Arabic language and later translated into the English language which was validated (the translation of questionnaire) by an English-speaking Arab colleague.

*Survey samples and response rates from mail questionnaires*

The population chosen for this study comprised of eight groups viz. auditors (big and small), financial directors, credit managers, investment analysts and funds managers, shareholders (substantial and non-substantial) and governmental bodies (representatives of Saudi Arabian Monetary Agency [SAMA], Department of Income Tax and Zakah [DITZ] and General Auditing Bureau [GAB]). These groups have been chosen because they have been identified as primary users of audit reports in Saudi Accounting Standards (1985) and have been shown to rely on such statements to reach appropriate decisions (El-Saqa, 1997). Auditors were randomly selected from a list of names and addresses obtained from Saudi Organisation of Certified Public Accountants [SOCPA]. Financial directors of listed companies were randomly selected from the Directory of Saudi Share Registration Companies 2000. The nine banking institutions operating in the kingdom were contacted and they furnished a list of names of their credit managers working in major cities from which a random sample was then selected. The population of investment analysts and funds managers were disperse and there was no official record of them. As such, various banking and financial institutions as well as two recognised investment companies operating in the kingdom were contacted and their co-operation obtained in getting a list of names of their investment analysts and funds managers from which a random sample was then selected. Shareholders were randomly selected from the list of names provided...
by companies whom their shareholders agreed to participate in the study. Various Heads of governmental bodies namely SAMA, DITZ and GAB were contacted and through their co-operation, a random sample was selected from the list of names provided. Questionnaires were then distributed to the respondents in March 2001. Details of the distribution of the questionnaire and the responses obtained are presented in Table 1.

<table>
<thead>
<tr>
<th>Table 1 Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Large Auditors</td>
</tr>
<tr>
<td>Small Auditors</td>
</tr>
<tr>
<td>Financial directors</td>
</tr>
<tr>
<td>Credit managers</td>
</tr>
<tr>
<td>Investment analysts and funds managers</td>
</tr>
<tr>
<td>Substantial shareholders</td>
</tr>
<tr>
<td>Other shareholders</td>
</tr>
<tr>
<td>Governmental bodies</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Results of test for non-response bias (comparison of early and late respondents) [5] carried out indicated no problem of bias between the two groups.

The interviews

Although the mail questionnaire provided a wealth of quantitative data, semi-structured interviews were undertaken to complement and enhance the information obtained from the questionnaire. Triangulation of methodologies has the advantage of increasing confidence (Fielding and Fielding, 1986), enrich and validate each other (Faulkner, 1982) and as mentioned by Patton (1990, p: 132), “qualitative data can put flesh on the bones of quantitative results, bringing the results to life through in-depth case elaboration.” The sample of respondents interviewed was restricted to a subsample of those to whom the questionnaire was sent (Williamson, Karp, Dalphin and Gray, 1982). The respondents for the interview were randomly selected and contacts were made to seek their willingness to be interviewed and to set appointment dates. The interviewees in the subsample and their codes (for analysis purposes) are provided in Table 2.
Table 2 Codes of Groups of Interviewees

<table>
<thead>
<tr>
<th>Code:</th>
<th>Interviewees</th>
<th>No. of interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>BA1-BA7:</td>
<td>Big audit firms</td>
<td>7</td>
</tr>
<tr>
<td>SA1-SA7:</td>
<td>Small audit firms</td>
<td>7</td>
</tr>
<tr>
<td>FD1-FD7:</td>
<td>Financial directors</td>
<td>7</td>
</tr>
<tr>
<td>CM1-CM7:</td>
<td>Credit managers</td>
<td>7</td>
</tr>
<tr>
<td>IA1-IA5:</td>
<td>Investment analysts</td>
<td>5</td>
</tr>
<tr>
<td>SS1-SS5:</td>
<td>Substantial shareholders</td>
<td>5</td>
</tr>
<tr>
<td>OS1-OS5:</td>
<td>Other shareholders</td>
<td>5</td>
</tr>
<tr>
<td>GB1-GB5:</td>
<td>Members of SAMA, DITZ, GAB</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>48</strong></td>
</tr>
</tbody>
</table>

A semi-structured interview approach with the use of an interview schedule [6] was adopted and the interview length ranged between one to two hours. Except for three interviewees (6%), all other interviewees allowed their interviews to be recorded by tape. Thirteen interviews (27%) were conducted in the English language while the rest were in Arabic.

The interviews conducted were analysed in two steps. The first step was to fully transcribe (on average 5 pages and 4,000 words) all the tapes of the interviews. The fully transcribed tapes were then sent to the interviewees for their comments and approval. No adjustments were made to the transcripts. The Arabic transcripts were then translated to the English language and verified by an English-speaking Arab colleague to ensure the translations were accurate. The second step involved identifying, coding and categorising the data to get a general pattern of the respondents’ views on the role and nature of auditing and the audit environment.

4. Empirical Results

The results from the mail questionnaire were analysed using SPSS. Demographic analysis indicates the majority of respondents had between 3-10 years experience in their current role and had some accounting and finance (including economics) knowledge. Non-parametric tests were performed in order to determine whether responses to the questionnaire were in any way associated with these demographic and related details but no significant differences were found.

As mentioned earlier, the purpose of this paper is to provide evidence about the important features of any perceptions gap that exist between various interest groups regarding the role and nature of auditing in Saudi Arabia. The Kruskal-Wallis one-way analysis of variance by ranks was used as the primary statistical test of significance as it is regarded as particularly powerful
for analysing non-parametric data involving a number of independent samples (eight in this case) to decide whether they are from different populations (Siegel and Castellan, 1988).

Views about Auditors’ Role

Respondents were asked to indicate on a five-point scale of their agreement or disagreement with each of the twenty-three statements related to role and duties of auditors. Results are shown in Table 3.

<table>
<thead>
<tr>
<th>Table 3 Views of Interest Group about Auditors’ Role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duties specified by law:</strong></td>
</tr>
<tr>
<td>Overall mean</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>1. Add credibility to financial statements</td>
</tr>
<tr>
<td>2. Act as an expert</td>
</tr>
<tr>
<td>3. Report extent to which accounts are in conformity with reality (True &amp; Fair View)</td>
</tr>
<tr>
<td>4. Ensure adequate disclosure</td>
</tr>
<tr>
<td>5. Act as a judge</td>
</tr>
<tr>
<td>6. Report any problems in getting access to information and clarification</td>
</tr>
<tr>
<td>7. Adhere to current code of ethics and auditing standards</td>
</tr>
<tr>
<td>8. Report all violations of rules and regulations</td>
</tr>
<tr>
<td><strong>Duties reasonably expected (by themes):</strong></td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td><strong>a) Fraud detection:</strong></td>
</tr>
<tr>
<td>9. Detect any material fraud and thefts</td>
</tr>
<tr>
<td>10. Disclose any detection of distortion on financial information in audit report</td>
</tr>
<tr>
<td>11. Report all detected frauds and thefts to the relevant authority</td>
</tr>
<tr>
<td><strong>b) Value for money audit:</strong></td>
</tr>
<tr>
<td>12. Detect any deliberate distortion of financial information</td>
</tr>
<tr>
<td>13. Report any suspicion of frauds to the regulatory authority</td>
</tr>
<tr>
<td><strong>14. Detect and report any overpriced assets bought by management</strong></td>
</tr>
<tr>
<td><strong>15. Disclose in the audit report any mismanagement of company’s assets by directors/management</strong></td>
</tr>
</tbody>
</table>
### Table 1: Audit Duties and Their Perceptions

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>16. Audit all past non-financial decisions</td>
<td>-0.64</td>
<td>-1.50</td>
<td>-1.70</td>
<td>-1.58</td>
<td>-0.58</td>
<td>1.00</td>
<td>1.67</td>
<td>1.60</td>
</tr>
<tr>
<td>17. Audit board of director’s report</td>
<td>-0.28</td>
<td>-1.00</td>
<td>-0.65</td>
<td>-0.77</td>
<td>-0.88</td>
<td>0.88</td>
<td>1.67</td>
<td>1.80</td>
</tr>
<tr>
<td>18. Examine and report on efficiency and effectiveness of company management</td>
<td>0.11</td>
<td>-0.74</td>
<td>-0.85</td>
<td>-0.81</td>
<td>0.64</td>
<td>0.69</td>
<td>1.50</td>
<td>1.53</td>
</tr>
<tr>
<td>19. Guarantee auditee is solvent</td>
<td>0.21</td>
<td>-0.92</td>
<td>-0.90</td>
<td>0.65</td>
<td>0.45</td>
<td>1.44</td>
<td>1.58</td>
<td>1.20</td>
</tr>
<tr>
<td>20. Add reliability to financial statements</td>
<td>-0.60</td>
<td>-1.29</td>
<td>0.70</td>
<td>-1.68</td>
<td>-1.61</td>
<td>0.69</td>
<td>0.67</td>
<td>0.73</td>
</tr>
<tr>
<td>21. Disclose the effect of company’s operation on employees welfare</td>
<td>-0.25</td>
<td>-0.34</td>
<td>-0.70</td>
<td>-1.32</td>
<td>-0.61</td>
<td>0.69</td>
<td>0.92</td>
<td>0.80</td>
</tr>
<tr>
<td>22. Disclose the effect of company’s operations on the environment</td>
<td>-0.26</td>
<td>-0.61</td>
<td>-0.40</td>
<td>-0.77</td>
<td>-1.03</td>
<td>0.94</td>
<td>0.83</td>
<td>0.67</td>
</tr>
<tr>
<td>23. Protect societal interest</td>
<td>-0.61</td>
<td>-1.30</td>
<td>-1.68</td>
<td>-1.61</td>
<td>-0.61</td>
<td>0.69</td>
<td>0.92</td>
<td>0.80</td>
</tr>
</tbody>
</table>

**Note:** Means are based on a five-point scale: +2 = Strongly agree, 0 = Neutral, and -2 = Strongly disagree. NS: not significant

The first eight statements in the table were duties as identified by the Companies Act, regulations and professional promulgations in Saudi Arabia. It can be seen that two duties (statements 1 and 2) viz. adding credibility to financial statements and acting as an expert have been correctly identified by both auditors and other interest groups (no significant difference in the results). Both auditors and users related credibility to being confident with the financial statements to aid decision making and this require strict adherence to rules and maintenance of integrity as indicated by the following comments:

**BA3:** “The role of auditors is to add credibility; meaning, outside parties are confident about the organisation's financial statements as they expect us to detect and report material errors in our report.”

**CM1:** “The role of auditor is to add credibility to the financial statements by adhering to all accounting and auditing standards to aid decision making.”

**SS4:** “Well, the role of the profession is to add value and credibility to financial statements. But, in performing these roles, auditors need to be seen as being able to maintain high integrity.”

With regards to the role as experts, all auditors perceived themselves as experts in the profession because they are qualified, experienced and possessed special skills not available to everyone.
They indicated that other parties also acknowledge their expertise in performing their role as indicated by the following comment:

**BA5:** “I have no doubt that we are perceived as experts because we have to undergo rigorous training to be qualified. We have skills not possessed by others and other parties especially commercial lawyers, court judges and bankers besides our clients rely on our skills to help them in their work.”

Users also acknowledge the expertise of auditors and their reliance on them when making decisions. When asked what they mean by ‘expert’, most users relate it to professional skills possessed by auditors in assessing information and forming an opinion. However, credit managers and representatives of governmental bodies (especially SAMA) clearly indicated that they regard audit firms with international partners such as the Big 5 as expert auditors capable of rendering high audit quality:

**CM4:** “We acknowledge the expertise of auditors and their significance in our line of work. In our bank, we classify auditors into class A, B and C based on our perception of their expertise. Class A includes the Big 5 as well as two other Saudi local audit firms. So, any audited information by auditors included in the A list is considered as sound opinions.”

**GB3:** “As a rule of thumb, we consider audit firms with international partners to have higher expertise than those without. So, the latter firms are not allowed to audit banks in Saudi Arabia.”

The largest difference (chi-squared=141) in the views held by various groups was related to the duty of reporting all violations of rules and regulations (statement 8). Whilst all auditors and other user groups (except 70% of credit managers) totally agreed with the statement, one user group viz. finance directors (97%) disagreed. Similar results (but with slightly lower chi-square=107) were related to the duty of reporting any problems in getting access to information and clarification (statement 6). The main reason given by some finance directors for their disagreement on this role was because they do not believe auditors can carry out these duties properly especially at this point in time where many changes in the rules and regulations are taking place. They indicated that auditors were often accommodating in protecting the reputation of the company especially if they were not deliberate violations as explained by the following finance director:
FD1: “Reporting violations of rules and regulations is not seriously considered by auditors here because they understand that we have to cope with rapid changes in the rules and regulations and most often, these are not deliberate violations. They would just advice us unless the violation is a major one and affects many parties significantly.”

Another large difference (chi-squared=111) was related to the duty of adhering to the current code of ethics and auditing standards (statement 7). All groups disagreed with the statement except for credit managers and representatives from governmental bodies. The reason expressed by auditors and other user groups for not identifying this role was due to the nature of the current code of ethics and auditing regulations which they perceived as being unsuitable and not applicable in the Kingdom as expressed in the following comments:

BA2: “There is no doubt that we must adhere to some sort of code of ethics, but the one that exists here are largely influenced by the American code and regulations which tend to go into minute details and quantify everything and leave nothing for expression of your religious and ethical views. We cannot adhere to codes that does not reflect our Islamic ethical values or regulations that do not fit local practice. So, I don’t strictly adhere to them all the time.”

IA3: “I know one thing, the standards here are similar to the American Institute of Certified Public Accountants’ Professional Code of Conduct and in many cases they are 100% translation without taking into account Saudi specific environment such as religion, customs and traditions. This creates a lot of problem and I am in general not happy with the developments so far. So, I don’t expect auditors to always adhere to such codes and regulations.”

On the other hand, both credit managers and representatives of governmental bodies stressed on the importance of adhering to the current code of ethics and auditing regulations in order to be at par with other developed countries. They did not foresee any problem with them as they are internationally recognised and serve the purpose of participating in the global market:

GB2: “I don’t see why auditors should be reluctant to adhere to the current code of ethics and auditing regulations as they are one of the best in the world. The government set up a special committee to study different codes and regulations before selecting and implementing the current one. I think this code and regulations will help us to participate in business globalisation.”

The views on the role of auditor as a judge (statement 5) differed between auditors (52% disagreeing) and most other user groups except investment analysts (81% disagreeing). Auditors acknowledged this to be their duty as stated in the Auditing Standards (1985) but they stressed
that they were generally unhappy with the role due to the misconception held by some users who expect them to act like a court judge in forming their opinion based strictly on rules and regulations at all time. They expressed that their role as a judge is of a limited scope and within a limited timeframe and that judgements were made based on evidence provided:

SA5: “Of course, the auditor is expected to act like a judge and this is mentioned in the auditing standards. But, he is a mujtahid (someone striving for perfection) who is entrusted to give his opinion without prejudice, whose conscience would stop him from being dishonest and this role ends at the publication of the report.”

On the other hand, investment analysts expressed their reservation on auditors’ capability of acting as a fair judge due to the dominance of Saudi negative societal values such as networking, cronyism and nepotism:

IA2: “Well, I wish auditors would stick to their role as a judge. But in our society, waszta (networking) is common practice and I am a little doubtful of the capability of auditors to perform the role as an objective judge.”

Other user groups expect auditors to act as a judge at all time and this means adhering strictly to the law as they will be accountable for any judgements made. Some users even stressed on auditors’ accountability not only in this world but also in the hereafter:

SS3: “Auditors should act like a judge at all time and strictly adhere to the Law because they will be accountable not only in this world but also in the hereafter for any judgements they made.”

Respondents’ views on the extent to which annual reports conveyed a true and fair view (statement 3) did not differ much between auditors and other user groups who were generally satisfied except for investment analysts. They indicated their dissatisfaction as being due to the inability of the current published accounts to convey a thorough picture of the position of the company. Hence, they call for the concept of a true and fair view to be appropriately addressed by the relevant authorities as commented by the following investment analyst:

IA4: “Shareholders, bank managers and even various governmental bodies have some reasonable access to extra information needed in evaluating the company’s financial position from the company’s management but we do not have this privilege. So, the regulator should pay more attention on this issue.”
Statements 9-23 were reasonable roles expected of auditors as suggested in the literature but not clearly specified in Saudi official documents. To aid in explaining the results, the roles were grouped into four main themes: fraud detection (statements 9-13); value for money audit (statements 14-18); assurance (guarantee) on the state of financial statements (statements 19-20) and protection of societal interest (statements 21-23).

A large difference (chi-square=155) was related to the first theme (detecting all material fraud and thefts). Auditors and finance directors disagreed with the suggested roles related to fraud detection while user groups expected auditors to perform these roles [7]. Auditors explained their reason for not being comfortable with the expected roles because of the general perception held by users of their reports to the meaning of such roles:

SA3: “Saudi businessmen think the auditor’s role is to audit all transactions 100% and you are their ‘eyes’. They expect you to investigate and report to them of any fraud or mismanagement in the business even for minor mistakes. I am only investigating the internal control through specific auditing procedures in ensuring that the accounts are correct based on evidence in my investigation but I am not responsible if the management hides things from me.”

The following remark from a substantial shareholder reflects the comment by auditors on the misconception of this role held by some Saudi investors:

SS5: “Well, why not? I expect auditors at this time to carefully check everything to ensure that all frauds and mismanagement are detected, properly handled and disclosed at the AGM so that we can be confident of their report.”

The second largest difference was related to the theme under value for money audit (statements 14-18). Auditors, finance directors, credit managers and governmental bodies shared the same views i.e. disagreeing on the role of detecting and reporting of overpriced assets bought by management (statement 14) while investment analysts and shareholders held opposite views. As for disclosure in the audit report of mismanagement of company’s assets (statement 15) and reporting on efficiency and effectiveness of management (statement 18), auditors and finance directors again disagreed while other user groups perceived these to be reasonable roles expected of auditors. Auditors explained that these are beyond their legal roles and they are unwilling to play such roles:
BA7: “Legally, we are not responsible for auditing and reporting on how efficient or effective the management has been with the capital entrusted to them. This is beyond our role because we examine through specific audit procedures and sample based on the financial data provided by the management. To play this role, we must be heavily involved in the client’s business.”

Similar explanations were provided by finance directors, credit managers and governmental bodies:

CM2: “Obviously auditors are not responsible for carrying any extra task such as evaluating management efficiency. If we need any specific information we usually ask our client to ask his auditor to provide us with specific reports such as valuation of certain assets.”

On the other hand, investment analysts and shareholders considered these roles as being necessary and reasonable because company’s effectiveness in managing its activities will have important implications on investors and society:

IA4: “Nowadays, any activities of publicly held companies have profound effects on society in terms of employment, income and social status. So, auditors should perform ‘value for money audits’ especially in the case of utility companies.”

There were divergence in views between auditors (86% disagreeing) and three user groups viz. investment analysts, substantial shareholders and other shareholders, who expect auditors to audit past non-financial decisions (statement 16) as well as board of director’s report (statement 17). Investment analysts and shareholders identified these as reasonable roles because auditors have access to information which may help them make judgements to reflect the truth but auditors and other user groups expressed that such roles were unreasonable because they increased the involvement of auditors in the affairs of the companies:

SS2: “I can’t see why auditors are reluctant to include a brief discussion on the past performance of management and the board and instead allowed management the freedom to write what it likes without being verified. I am not happy by most of the contents in the boards and management letters as I believe they do not reflect reality.”

SA4: “Well our role is defined by rules and regulations and we do not negotiate these roles but simply follow them. To ask us to perform those roles are absurd because we are crossing the border of involvement in the affairs of our clients!”
In terms of providing assurance (guarantee) on the state of financial statements (statements 19-20), auditors expressed their apprehension in performing such roles because adding reliability and ensuring that the auditee is solvent is limited to what has been dictated in accounting and auditing regulations and that the provision of assurance is mainly to shareholders and not all parties:

BA4: “Providing assurance on auditee’s financial statements is limited to the scope covered in the accounting and auditing regulations and is meant only for the benefit of shareholders and not all parties. If we are expected to add reliability, then we need to audit not only past data but also present and future forecasted information and we are not willing to do this because it will expose us to a lot of problems.”

On the other hand, all users expect auditors to perform such roles because many parties rely on auditor’s report in making decisions, not just shareholders and as such, they should be responsible for any negligence to all parties relying on their reports:

SS1: “Auditors have to understand that providing assurance on company’s solvency as described in the accounting regulations is not enough because they must also ensure reliability of the financial statements. They also have to be responsible for any negligence not only to current investors but also those parties who make investment decisions based on their audit report.”

However, among users, there exist differing views on the meaning of reliability. For instance, ‘reliability’ to shareholders and investment analysts meant providing them with the latest information while for credit managers, it refers to the degree of trustworthiness of auditor in presenting the true state of the financial standing of their clients:

IA5: “Investors are concerned with two things, profit and the level of risk. So, audited financial statements in its current form can be improved to make it more reliable by providing information on the degree of success and the consequences of management’s decisions to help investors in their investment decisions.”

CM7: “The name of the auditor is very important when we have a new client as it indicates how much reliability we can place on the financial statements presented to us by clients when making decisions.”

With regard to roles associated with protecting societal interest (statements 21-23), auditors, credit managers and finance directors were not in favour of such roles while shareholders, investment analysts and some governmental bodies (e.g. GAB) expected auditors to perform
such roles. The first group considers disclosure on the effects of company’s operations on the environment and employees as well as protecting societal interest as being beyond their duties (auditors) or of no interest to them (finance directors and credit managers). However, auditors believed that their role in protecting societal interest as being fulfilled if they simply adhered to current auditing standards in the course of performing their audit as expressed in the following comment:

BA6: “By adhering to auditing standards, the auditor is actually acting in the best interest of society because he provides credible information to investors to help them make decisions.”

As for other users, they currently perceived incumbent auditors as putting their self-interest above societal interest and as such, indicated that they would like to see greater emphasis by auditors in protecting societal wider interest as commented by the following respondents:

SS3: “Well, auditors should take care of societal interest instead of their own interest. But, this is not happening. They should think of the effect of business on the ummah (society) by disclosing all relevant information that are against Islamic principles, for instance, activities involving *riba* (interest) and also the impact on the environment.”

GB1: “In this millennium, the role of the auditor should be extended because at present, issues related to the environment and society, management integrity, justice towards employees and fair competition which are all important issues have not received much attention.”

*Views about the Audit Environment*

Respondents were also asked to indicate their agreement or disagreement on a five point scale on each of the twenty-one statements related to Saudi audit environment and results are shown in Table 4. To aid in explaining the results in this section, the propositions on audit environment were grouped into three main themes: provision of ancillary services (statements 1-3); audit quality (statements 4-9) and mechanisms to cope with independence (statements 10-21).
Table 4 Views of Interest Group about the Audit Environment

| Themes: | Overall mean | BA | SA | FD | CM | IA | SS | OS | GB | Chi² |
|---------|-------------|----|----|----|----|----|----|----|----|-----|------|
| a) Provision of ancillary services: | | | | | | | | | | | |
| 1. Auditors should provide MAS | .37 | 1.97 | 1.30 | 1.10 | -1.39 | -1.00 | -1.08 | .93 | -1.00 | 147.1 |
| 2. Incumbent auditors should not provide tax and zakah services | -.11 | -.82 | .85 | 1.06 | -1.09 | -.50 | -.92 | -.60 | 1.11 | 120.5 |
| 3. Auditors should provide accounting and bookkeeping services | 0 | .76 | .95 | .55 | -.91 | -.88 | -.67 | .73 | -.89 | 95.9 |
| b) Audit quality: | | | | | | | | | | |
| 4. Quality of audit work is adequately regulated by the audit profession (SOCPA) | -.39 | -1.79 | -1.25 | 1.00 | .85 | -1.69 | -.83 | -.73 | 1.56 | 145.3 |
| 5. Auditors prefer to settle disputes out of court | .51 | 1.39 | 1.20 | .94 | -.88 | 1.19 | 1.00 | -.80 | -.89 | 127.0 |
| 6. Auditors have high tendency to please management | -.34 | -.82 | -1.20 | -.55 | -1.06 | 1.38 | .92 | .47 | .89 | 78.0 |
| 7. Auditing process is weakened by imprecise accounting and auditing standards | .29 | 1.68 | 1.15 | -.71 | -.73 | 1.38 | .75 | -.67 | -1.33 | 126.6 |
| 8. Big auditors provide high quality audit | .15 | 1.05 | -1.85 | -.65 | 1.70 | -1.25 | -1.08 | .60 | 1.22 | 131.4 |
| 9. Only Big auditors can audit big companies | .34 | 1.79 | -2.00 | -.94 | 1.45 | 1.06 | .83 | .87 | -.78 | 138.1 |
| c) Mechanisms to cope with independence: | | | | | | | | | | |
| 10. Current competition in the accounting profession has positive effects | -.22 | -1.42 | -1.65 | 1.23 | 1.39 | -.81 | -.67 | -1.60 | 1.11 | 120.1 |
| 11. Lowballing is common practice | .26 | 1.39 | 1.60 | -.97 | -.82 | .75 | .67 | -.60 | .78 | 105.7 |
| 12. Auditors must report their resignations or removals to relevant authority | .48 | 1.34 | 1.75 | -.97 | -.64 | 1.44 | 1.17 | .93 | -.22 | 117.6 |
| 13. Auditors should report detected problems to management | .83 | 1.32 | 1.10 | 1.90 | 1.82 | -1.00 | -.92 | -.67 | -1.00 | 122.3 |
| 14. Auditors should report detected problems to shareholders and creditors | .11 | -.63 | -.85 | -1.13 | 1.30 | 1.19 | 1.83 | 1.33 | -1.00 | 136.7 |
| 15. Appointment and dismissal of auditors are by shareholders | .63 | 1.21 | 1.05 | 1.06 | 1.03 | -.94 | 1.00 | -1.73 | .44 | 117.8 |
| 16. Audit committees of independent directors improve auditor’s role | .29 | .55 | -.90 | .77 | 1.03 | 1.19 | -1.25 | -1.40 | .78 | 107.7 |
| 17. Auditors should have a maximum period of office | -.70 | -1.82 | -1.75 | -1.10 | -1.03 | 1.62 | -.75 | 1.00 | 2.00 | 138.2 |
| 18 Auditors should not own shares in clients’ companies | 0 | -.63 | -1.85 | -.87 | .91 | 1.00 | 2.00 | 1.33 | .67 | 135.8 |
| 19 Auditors often have to deal with dominant and influential management | .27 | .87 | 1.00 | -1.58 | .82 | .94 | -.75 | 1.20 | -.89 | 104.6 |
| 20 Auditors should not audit business of family members | .11 | -.71 | -.70 | .90 | .91 | .81 | -.92 | -.87 | 1.44 | 115.6 |
| 21 Auditors should not have beneficial financial relationship e.g. trade and rent | .37 | .74 | .85 | -.61 | -.73 | 1.06 | 1.17 | 1.47 | 1.11 | 114.9 |

Note: Means are based on five point scale: +2 Strongly agree, 0= Neutral, and -2=Strongly disagree
Provision of ancillary services (statements 1-3), often discussed in the literature, refers to non-audit services that the auditors are capable of providing such as management consultancy services (MAS), tax and zakah [8] services, bookkeeping, preparation of financial statements etc. Results indicate that auditors and finance directors supported provision of MAS and bookkeeping services but other user groups did not agree on the provision of these services.

Auditors did not foresee any problems in the provision of MAS (statement 1) as long as they were not responsible for decision making and if both parties would benefit:

**BA1:** “Clients here want their auditors to provide them with consultancy services because they trust them. Similarly, the auditor knows his client’s business well and as such, could provide better advice. To me, what is important is not to be involved in client’s decision making in relation to consultancy services. So, provision of such services depends on the nature of consultancy services offered to clients.”

Similarly, auditors did not foresee any problem in the provision of bookkeeping services (statement 3) as they were mainly technical and did not involve their own client because it would be ridiculous for them to audit their own work as expressed by the following auditor:

**SA4:** “Well, I think we should be allowed to perform this service since bookkeeping these days have been computerised and would not be problematic as long as it is not for our own client because we cannot audit our own work!”

Some users indicated their reservation on the provision of MAS due to the apparent conflict of interest. However, they were quick to add that large corporations need consultancy services but the number of audit firms in the Kingdom that have the expertise in providing such services are limited, thus limiting the choice as expressed by the following respondent:

**CM5:** “We have a limited number of audit firms in the country that are capable in providing such services to large corporations and so it is not easy to appoint one to be your auditor and the other to provide you with consultancy services. So, the Kingdom’s special circumstance should be taken into account.”

Users also indicated their concern on potential problems that may arise when auditors provide bookkeeping services arguing that although the service seemed on the surface to be strictly technical, it does involve some level of decision making especially given the variety of accounting method choice available:
IA4: “In principle, as long as the service is kept exclusive to only the preparation of financial statements, it should be fine. But how can I be sure that the auditor does not either directly or indirectly decides on the accounting methods? So, I think it would be safer for the auditor to distance himself from providing such services.”

On the other hand, big auditors, credit managers and shareholders did not support the role of providing tax and zakah services while others were in favour of the provision of such services. The current rules on the provision of tax and zakah services issued by SOCPA permit auditors to not only prepare and submit the accounts but also to defend the client’s tax and zakah liabilities to the DITZ. As such, the auditor’s role and involvement in the company is extensive and higher financial interest is also at stake. The following is a comment from one of the auditors opposing the idea of such involvement with audit client:

BA2: “I am against the provision of this service because by helping client to file the tax and zakah forms, submitting written responses and defending him in front of the Tax and Zakah Appeal Committees, I am now acting as an advocate for the client. Such extensive involvement is damaging to the profession’s integrity.”

Shareholders also expressed their concern on this issue because of the significant role assumed by auditor:

OS4: “I do not support this kind of involvement because the auditor is not only representing his client but also defending him. This puts the auditor in the same position as an attorney who has to act in the best interest of his client.”

Representatives from governmental bodies were happy for auditors to provide this service as this will ensure that companies steadily pay tax and zakah to the state. As for investment analysts, they did not foresee any problems in the provision of this service:

IA1: “I think it should not be problematic as long as the auditor follows the specific rules related to tax and zakah calculations and not to manipulate the figures to reduce the liabilities by finding legitimate loopholes in the tax and zakah laws.”

With regards to the audit quality theme (statements 4-9), views related to audit regulations and standards in enhancing audit quality were mixed. While auditors, investment analysts and shareholders disagreed that the quality of audit work is adequately regulated by the profession (statement 4), other users have opposite views. In terms of suggestions that auditing process is
being weakened by imprecise accounting standards (statement 7), auditors, investment analysts and substantial shareholders responded positively. This indicated that auditors and the three user groups were deeply concern with the current status of regulations and the audit profession in enhancing audit quality. They expressed their resentment with some of the regulatory changes taking place which result in loss of freedom in determining firm policies and practices related to professional standards and also the increase in workload:

BA7: “I could not understand SOCPA’s endeavour in enhancing professional quality. First, the quality review programme introduced caused a major change in terms of workload as it requires filling large number of forms and asking so much details and statistics which of course increase our cost. … My second concern is regarding the licensing policy which restricted the granting of CPA licences only to Saudi nationals which meant that our current non-Saudi staff would not benefit from our promotion scheme and will not motivate them to stay on…. It will be difficult to sustain high work quality without them.”

Views differed between big and small auditors regarding audit quality and capability of auditing big corporations (statements 8 and 9). Small auditors disagreed that their audit quality is less than big firms because they also went through rigorous training and could not understand why some users should think otherwise:

SA4: “I am personally very confident about my work as I apply the same methods and procedures based on knowledge I acquired during my training with ZXU which is a big audit firm. So, our firm’s audit quality is not less than any of the larger audit firms in Saudi Arabia ….”

Similarly, small auditors disagreed that they should not be allowed to audit large companies because they cannot cope with pressure exerted by client or that they do not have the capability to do so as explained by the following respondent:

SA2: “Such situations are common in the Kingdom… most large agricultural companies are in small cities or rural areas... it is common for them to use the services of small audit firms closest to them. I don’t think this will in any way affect our load pressure or capability as long as we have enough staff. Similarly, our client can’t put pressure just because they are big as they respect our capability. I personally think that as long as the firm has enough staff and has been licensed by SOCPA, it should be allowed to do so.”

However, other groups are concerned with small audit firm’s ability to withstand pressure that may be exerted by a powerful client (due either to large size or dominant personality of MD).
They argued that although the audit firm may have the technical capability to render the audit, its judgement might be impaired due to imbalance of size and power between auditor and client:

IA3: “Well, of course when the client is large and has complex operations, I would not accept that client to be audited by a small audit firm. So, the size of client and the capability in terms of level of technical skills, exposure and expertise of the audit firm must be fully matched.”

SS4: “If the size of the audit firm does not match the size of the client’s company, I personally feel that the auditor may not be independent even if this small firm has enough staff and technical expertise. This is because this large client may be the major contributor to the firm’s income fees.”

In terms of auditors’ practice in settling disputes outside the court (statement 5), most groups acknowledged that this was often the case due to the nature of the legal and judicial system that exists in the Kingdom:

BA5: “The current legal and judicial system is in fact a big problem. The dual legal system does not work ... the Shari’ah Courts here are not capable of solving auditing disputes not so much due to their lack of awareness of the auditing profession but more so because their ruling is based on their knowledge and interpretation of fiqh (Islamic jurisdictions), which is often contrary to western commercial laws.”

Similarly, due to lack of faith in the dual legal system and lack of consistency in solving disputes, many foreign companies specified in their covenants that any disputes should be solved according to the law of that foreign country. The ambiguous legal structure also caused a lot of confusion in the event of disputes causing settlement outside the court becoming a norm:

CM6: “Frankly, until now, I don’t know who should intervene in the event of a dispute between a client, a bank and the auditor. Is it the Saudi Arabian Monetary Agency, the Shari’ah court, Chamber of Commerce or the Ministry of Commerce? So it is still a big question mark. That is why settlement out of court becomes more attractive.”

Tendency to please management (statement 6) was dismissed by auditors and other user groups except shareholders, investment analysts and representatives of governmental bodies. The latter group expressed that due to societal values and competition that exist in the kingdom, there is a general tendency for auditors to please clients:
SS4: “It is natural for auditors to please management because they can’t afford to lose their clients because of high competition and also, part of our societal value is to try to please others as much as possible.”

As for the theme related to mechanisms in coping with auditor independence (statements 10-21), the results are mixed. In terms of competition and lowballing (statements 10 and 11), auditors, investment analysts and shareholders expressed their concern on the negative effects of the current status of competition while other groups felt otherwise. Auditors indicated that the auditing market is highly competitive due to large number of audit firms chasing after a few large clients or clients needing auditing services. This results in unhealthy tactics such as ‘client pinching’ (soliciting) and offers of services at a discount:

BA6: “Auditing market here is not only highly competitive but also unhealthy! We have lost clients three months through the audit work just because some other auditors go searching for potential clients by making more attractive offers which we could not justify with the quality of audit work we produce. The practice of client pinching is unfair and unethical and it should be banned.”

Similarly, auditors acknowledged that lowballing (statement 11) was a widespread practice in the Kingdom. Unlike the situation in the US where lowballing refers to a situation when the auditor takes the audit engagement below the actual cost with the hope that he would also undertake management consultancy services and other non-audit services, in Saudi, it was mainly practiced by auditors to ensure that they get the engagement and are able to retain their clients as long as possible:

SA1: “Well, it is a widespread practice in the kingdom but in a different way. Auditors here compete to get the auditing engagement at a low price with no intention to increase it in the future but instead to only get and keep the engagement.”

Auditors also indicated that lowballing is more commonly practiced in the provision of consultancy services rather than audit service because the former is more lucrative and the fees do not have to be disclosed. However, they were in general against such practice as they perceived it to be unethical and unprofessional:

BA1: “This practice happens more often in the provision of consultancy services where the auditor provides audit service below the actual cost with the hope that he can provide other services. This is commonly practiced by audit firms that have two separate divisions.”
In terms of reporting detected problems (statements 13 and 14), auditors, finance directors and credit managers indicated their support to the current role of reporting first to management rather than shareholders:

BA6: “An auditor’s inquiry, in essence, is based on the requirements prescribed by the auditing standards. Any irregularities found during the audit process should first be brought to the attention of management for clarification. Otherwise, the auditor has the opportunity to indicate such findings in his report to shareholders and other parties.”

On the other hand, other users felt that it was the responsibility of auditors to report any detected problems to shareholders and other relevant authorities instead of management:

GB4: “The current role is not totally acceptable to us because in the event of finding any irregularities, auditors would only bring the matter to the attention of management or highlight this in their submitted but often undisclosed report. They fail to make any follow up investigation or to report to relevant authority and obviously because this role ended with the submission of the report.”

As for issues related to appointment and dismissal of auditors (statements 12 and 15), results indicated that auditors and substantial shareholders agreed to both statements while other groups have opposite reactions to them. All auditors and substantial shareholders indicated that appointments and dismissals of auditors should be determined by shareholders as provided by the law and they also acknowledged that some shareholders will have more say than others given the nature of business ownership structure in the Kingdom as commented by the following auditor:

BA2: “It is the shareholders as owners of the company who appoint or dismiss the auditor during their Annual General Meeting but since the majority of the board of directors including the audit committees of joint-stock corporations here comprises of substantial shareholders, they have the final say in the selection of the auditor. So, it is the directors cum substantial shareholders who appoint the auditor.”

Small shareholders expressed their dissatisfaction with the marginalisation of their presence and the current secretive practice where information regarding the names of auditors who bid, the amount of the bids, any problems encountered by auditors with management and reason for dismissal, which are all considered vital in decision making, were not properly disclosed:
OS3: “The MD in the AGM would normally mention that they have received a number of
bids from different audit firms and had selected this particular audit firm because
of its experience or its lowest bid. Personally, I would like the MD to disclose the
names of all the audit firms that bid and the fees they requested. So, it is the MD
who has the final say and we are only supposed to endorse the board’s decision!”

Similarly, investment analysts expressed their concerns with the *de facto* power of directors to
appoint and fire auditors because they believed that the power should be in the hands of
shareholders who paid for the audit services to take care of their interest as commented by the
following investment analyst:

IA5: “It is natural for those asking for a service to pay for it and so the owners or
shareholders who paid for the service has the right to appoint an auditor whom they
trust in giving a credible opinion… if directors or an influential third party retained
the right to appoint and fire the auditor other than the shareholders themselves, I
will certainly be sceptical about the appointments and changes of auditors.”

In terms of formation of audit committees (statement 16), small auditors and shareholders
indicated their reservation on the effectiveness of the current status of audit committees while
other groups believed that they help to enhance auditor’s role:

SA6: “The audit committee’s role is still limited to only selection of auditors and checking
whether management has responded to the auditor’s comments… to improve the
role of audit committees, we have to make sure that the members focus on their
responsibilities and not be too busy with other activities… the meetings take not
more than an hour, once or twice a year…. We should reward them based on the
number of meetings held and how much effort they put into the job.”

With regards to the rule of having a limited period of office for auditors (statement 17), the
majority of the groups disagreed except for investment analysts, other shareholders and
governmental bodies. All auditors expressed their reservation on SOCPA’s ruling on rotating
auditors every three years because it may lead to higher cost of investment every time they take
a new client, a waste in their initiatives in understanding client’s business and encourage clients
to use it as an excuse for auditors’ dismissal:

BA6: “I am not keen on SOCPA’s rotation policy as it creates an unpleasant environment
… It is unwise to take a client and when I had just started to understand the client’s
business, he will have to say goodbye to me! Our policy now is not to take on any
client where we will be rotated after three years because this client would not add
value to us especially when we put a lot of investments in the first two years. Also,
clients may use rotation to determine our fate in terms of appointment and
dismissal.”
SA7: “The problem with rotation is that you will lose the audit team’s knowledge about the client which could help reduce the time and also the cost of the audit… most clients do not like to change their auditors who have audited their business for many years for fear that their business secrets will be exposed to their competitor.”

In contrast, investment analysts, other shareholders and representatives of governmental bodies were not in favour of long tenure as it may result in cosy relationships between auditors and their clients. As such, they supported the policy for auditors’ rotation because new auditors may look at the company from a new perspective and may actually be good for the client. However, they felt that SOCPA’s three year ruling is too short and could harm the auditors in terms of cost and efforts invested in the audit engagement as expressed by the following respondent:

OS1: “Long tenure may result in close relationship between auditors and clients… rotation is sensible because it gives the opportunity for other auditors to look at the company from a different angle and help to correct any mistakes which the previous auditor failed to address… rotating auditors every five years is better than the current three-year rule as a slightly longer period will benefit both the client in terms of lower audit fees as less time is needed for auditing and the auditor in terms of the possible implications on his livelihood.”

As to the issue of auditors owning shares in their client’s company (statement 18), auditors and finance directors opposed the idea that they should not hold shares while other groups have opposite views. Most auditors could not see any problems in auditors holding shares as long as it is not substantial or would enable them to influence decisions in the company. They criticised SOCPA’s ruling on this issue as there is no clear definition of what it actually means by ‘substantial’ and consequently allowing some individuals to take advantage of the loophole:

BA7: “In principle, I think the auditor can hold shares as it would not affect his independence but up to a level where he cannot have an influential vote in the AGM. However, the term ‘substantial’ borrowed from the American regulation is problematic. What is the limit of substantial? … until we have a proper definition regarding this situation and for the sake of independence in appearance, I think auditors would be better off if they completely restrain themselves from holding any shares in their clients business.”

However, all shareholders, credit managers and investment analysts were against the idea of auditors holding shares even as trustees and regardless of the volume as there could be some financial interest at stake:
SS4: “I think the auditor should not hold any shares and also not to be made trustee of any shares because when he acts as the auditor, he will have access to company’s information which will affect his risk assessment and decision making, and in turn his profitability. Thus, any amount of shareholding held by the auditor may affect his independence and work quality.”

With regards to auditors having to deal with influential management in the course of their work (statement 19), auditors, investment analysts, credit managers and other shareholders acknowledged the fact. Auditors indicated that it was common in the course of their work to face powerful individuals not necessarily the management or MDs but also owners. The situation is worsened if such owners could even influence the legal system! The following comment summarised auditors’ views on this situation:

BA3: “Such individuals are common in Saudi Arabia and most middle eastern countries. I was once the partner in charge of auditing one of the corporations which was partly owned by a powerful person in the country. There was a dispute between him and one of the substantial shareholders and I was asked by the former to do something which is not in the best interest of the company. I refused and a court case was brought against me.”

In addition, large auditors also claimed that they were in a better capacity to withstand such pressure compared to their smaller counterparts. Their reason was that they could afford to lose a client especially those who would not affect their income significantly. In the case of clients who could affect their income significantly, they indicated that they would normally survey such clients before accepting engagements to avoid potential problems that may arise due to imbalance of power as expressed by the following auditor:

BA4: “Oh! ... if you are the auditor for a person who has multi companies and a powerful character, he could influence you. However, I think large audit firms have the capability to withstand clients’ pressure because one client would not have a significant impact on the auditor’s income but small audit firms might be influenced if they are relaxed about their ethical values. I always feel uncomfortable working with such powerful character. That is why I do some identity search and ethical evaluation on the prospective clients before accepting the engagements.”

Small auditors supported the claim by large auditors that they faced greater pressure because of their dependence on clients for income. They often faced dismissal threat and it is their ethical values and professionalism that deterred them from compromising their independence:
SA7: “Auditors should not succumb to pressures exerted by powerful managing directors or any other individuals, otherwise the profession will lose its status as a safety valve of society. I have faced situations where I was asked by a powerful individual in the company to do something contrary to the regulation and I was dismissed for refusing… such dismissals are unfair but there is no law to protect us from clients’ ill justice… such clients also know that they can easily find substitutes who are willing to do anything for them…”

Similarly, credit managers and investment analysts acknowledged the difficulty faced by auditors in carrying out their duties due to powerful individuals that exist in the business environment in the kingdom. The problem is aggravated if auditors have weak personality i.e. weak ethical and professional values to withstand pressures from such individuals. They also sympathised with auditors because no law exists to protect them from dismissal threats. As such, they felt that all auditors should unite to protect their fellow members as well as enhance their professional status:

CM3: “Well, there is no doubt that when the chairman or managing director is a powerful figure, the auditor’s position is weakened and this is more so in the case of small auditor. I strongly believe that we need to have some kind of rules to protect auditor’s position when dealing with businessmen who are risk takers and have the tendency to ask others to break rules to suit their demands.”

In a similar vein, auditors and most user groups were against the practice of auditors having trade and rent or any other financial relationships (statement 21) as they would impair independence in appearance:

BA5: “It is better for the image of the profession at this time to abstain from having any kind of financial relationships, material or immaterial because others will lose confidence on their objectivity and independence.”

With regards to the issue of auditing family business (statement 20), auditors and shareholders have opposite views to that of other groups who generally agreed that auditors should not be allowed to audit business of family members. The latter group supported SOCPA’s ruling justifying their reason as being due to the nature of societal make-up in the Kingdom where loyalty to family and tribes are still strong as expressed by the following respondent:

IA3: “I support this piece of regulation 100% not only up to the fourth degree of blood relationship but also relationships through marriage and close friendship because I believe it affects independence. Here in the kingdom, people’s decisions are still highly influenced by blood and social relationships.”
On the other hand, the ruling was thought to be too extreme by most auditors as it disregards auditors as professionals with strong ethical principles who are still able to maintain their independence regardless of the relationships. They recognised that societal relationships in the Saudi environment are complex but argued that they are capable in maintaining their independence because they are guided by their conscience and ethical values when making judgements. As such, they did not foresee the need for rules specifying the level of blood relationship in order to appear independent as expressed by the following auditor:

**BA4:** “The current standard treats auditors as not having any ethical values and professionalism in maintaining high level of independence regardless of the parties to whom he is dealing with. Ethics is significant in our Islamic religion especially in giving testimony as stated in the Holy Qu’ran, “O ye who believe! Stand out firmly For justice, as witnesses To Allah, even as against Yourselves, or your parents, Or your kin,…” [Qur’an 4:135], and this is one of the characteristics of the believers. So, I watch my conducts in obeying Allah’s laws…”

In addition, auditors also expressed that the level of blood relationship suggested by SOCPA is absurd given the structural nature of the society where individuals are often associated with their family or tribal names although they may be distantly related. Such ruling limits their clientele simply because of the family or tribal name they shared as expressed by the following auditor:

**BA2:** “The rule that the auditor cannot audit his relative’s business up to the fourth generation to safeguard independence is unbelievable. Suppose one of the members of a wealthy, very well known large family in the Kingdom sets up an audit practice. If he strictly adheres to the ruling, he would lose a significant number of potential clients to other auditors since he is not allowed to audit the business of his distant relatives since he shares the same family name!! … independence should not be judged by the guidelines but instead by the individual’s ethical character… I think SOCPA should revise its policy.”

5. Summary and Conclusions

From the empirical results presented in Tables 3 and 4 in the previous section, divergence in opinions on the official and expected roles of auditing and issues related to audit environment in the Kingdom between the various groups were apparent. Closer scrutiny indicated that the differing views were not merely due to lack of awareness or unavailability of certain standards as argued in previous research (see El-Saqa, 1997) but more significantly due to two main
macro factors viz. ideology and the legal system that prevail in the environment. Before discussing the participants’ views in the context of these environmental factors, a brief description of the ideology and legal system that exist in the Kingdom follows.

**Ideology** [9]

Saudis mental attitudes are very much attuned by religion which has its say in practically every act and moment in life (Patai, 1952; Nyrop, 1977), concurring with Islam as a way of life. However, with the increase in wealth and limited but significant exposure and impact of western cultural elements, many of the traditional social practices and underlying social values have been challenged (Lipsky, 1959). A noticeable shift from Islamic values to secularism is apparent in Saudi society lately, propagated by Western educated elites holding key positions in both governmental and private sectors including SOCPA, SAMA, Ministries of Finance and Commerce. The competing ideologies viz. western economic rationality vs. Islamic rationality, with the majority of citizens adhering to the latter, was one of the fundamental sources that divides Saudis’ attitudes in perceiving things around them. This creates anxiety between the ‘religious’ and the ‘seculars’ in various institutions in society including the auditing profession. Another social institution affecting Saudis is the societal structure based on tribal system that not only creates a strong class structure but also determines power, prestige and political loyalty (Helms, 1981). This creates an uncomfortable relationship between the ‘powerfuls’ and the ‘professionals’.

**Legal system**

The ideological competition not only affects mental attitudes but also led to the creation of two competing legal systems; one based upon manmade law where its contents can be traced back to the French and British legal texts of early 1900s while the other is based on the principles of *Shari‘ah Islami‘iah* (Islamic teachings). Although the legal system in the Kingdom is claimed to be based primarily on *Shari‘ah Islami‘iah*, the increase in commercial activities and free-market capitalism have sidelined it and modern (man-made) commercial laws have been introduced into the system to assist the Kingdom in integrating into the global market. Two types of judges viz. *Shari‘ah* and commercial legal experts sit on the commercial tribunals in solving disputes but the former judges are frustrated with such arrangements because *Shari‘ah* seemed to be used as
a tool to fool the general public (Vogel, 1993). The ‘forced marriage’ between the two laws does not work because they are incompatible to each other.

Link between empirical results and the environmental factors
There are two roles viz. acting as a judge and adhering to the current code of ethics included in the official documents that have the greatest gap. Auditors regardless of their size were in general not happy with the misconceptions attached to those two roles of acting as a judge and adhering to the current code of ethical conducts. Similarly, various user groups also revealed their dissatisfaction on the current performance of these roles by auditors. Two environmental factors are the drivers for such responses. The role as a judge have not been well received because of possible implications on legal responsibility which currently is already in a very confusing state due to the non-independent, dual legal system. The objection to the role of adhering to the current code of ethics was mainly due to the clash in ideology based on religion between the wider public including veteran auditors and SOCPA, and also the forceful attitude by the latter in regulating the profession. Auditors have long developed a reasonable code of ethics acceptable to most parties including clients’ management and bankers but when SOCPA emerged, it rejected the long-standing code in favour of AICPA’s Code of Professional Conducts. The insensitivity of SOCPA in regulating the profession without taking into account the norms and applicability in the Saudi environment, damages the image of the profession and creates tension among various parties interested in auditing. For example, when it banned blood relationships up to the fourth degree (supposedly in accordance to Shari’ah Islami’iah but was actually taken out of context), it strongly signalled to others that auditors lacked objectivity and as such, extreme measures against them was necessary.

With regards to roles related to fraud detection and assurance on the financial statements, auditors were reluctant in accepting any suggestion of extra responsibilities related to these roles mainly due to lack of faith in the current legal system in protecting them. Court Judges under both systems (secular and Shari’ah) are still being perceived as lacking the capability in handling auditing cases. The dissatisfactions with judges’ rulings may set precedence for future cases and hinder the development of the profession. Users on the other hand, wanted auditors to be involved in such roles due to increasing number of companies in recent years experiencing huge losses resulting from corporate frauds and mismanagement. Saudi businesses are no longer
immune from such practices following the adoption of western capitalist ideology of wealth maximisation by some businessmen and auditors.

The auditors’ refusal to play roles related to value for money and protecting societal interest were mainly due to their worry over the real capability of their audit staff in performing such roles. This may increase the chance of audit failure and the possibility of litigation being handled by two competing legal interpretations. As for credit managers, although the role of assessing value for money and/or management integrity and efficiency is seen as vital, they would normally request specific audit report from their clients’ auditors. Other user groups such as shareholders and investment analysts indicated their concerns on the massive impact on people’s lives and the environment with the increase in the number of large corporations paying little attention to such matters. Such expected roles were seen by users as reasonable and ethically correct, concurring with the dominant Saudi ideological values based on religion which encourages care for society and the environment. These issues are of less concerns to parties such as credit managers, finance directors and other governmental bodies as they see it as being beyond reasonable expectations and as such, no rules and regulations need to be in place to tackle such issues.

With regards to the three themes related to the audit environment in the Kingdom, perceptions of users and auditors were found to be significantly affected by SOCPA’s attitudes and its unacceptable ideology in forming the basis in regulating the profession. In terms of provision of ancillary services, there were concerns on SOCPA’s tolerance on the involvement of incumbent auditors in their clients’ affairs. Respondents felt that SOCPA promotes western capitalism among auditors and given the lucrative market for ancillary services, the competition among auditors is currently at its peak. This policy will undoubtedly damage the interests of the audit profession in the long run as it widens the perceptions gap between auditors and users of their reports. In terms of audit quality, SOCPA’s vision of audit quality similar to that in the USA have been criticised by users and auditors as they believed that steps in enhancing audit quality should be addressed from Saudi’s cultural and economical viewpoints instead of increasing the unnecessary grip on auditors’ affairs.
As for the theme related to independence, respondents were disappointed by SOCPA’s unwillingness to consider their views and being out of touch of what is happening in reality. SOCPA’s attempts in supposedly enhancing independence via introduction of audit committees, three year rotation policy, compulsory Saudization of audit firms and severe rule on blood relationships have been criticised as they do not take into account Saudi special circumstances. Similarly, issues related to process of bidding and hiring and firing auditors, undefined level of shareholdings, unhealthy competition and the reluctance to allow Shari’ah court to solve all disputes independently, have been blamed for the increasing dissatisfactions among users and auditors.

To summarise, this paper managed to identify some issues to be of concern to those interested in the auditing function in Saudi Arabia based on the empirical results and the overall view expressed by users and auditors in the interviews. This indicates the need for the relevant authority to reassess and improve the current and expected roles of auditors as well as the audit environment. There need to be a proper debate about the current and expected roles of auditing amidst the rapid social and economic changes in the Kingdom. The paper also highlighted that the practice of ‘cherry-picking’ regulations from western developed countries and forcing the implementations of such rules without proper consultation with the practitioners create a gap in perceptions and also tension between SOCPA and other parties interested in the role of auditing. Similarly, the continued existence of the dual legal system in the Kingdom which results in outside court settlements, impairs the development of the profession as there exist a vacuum of cases for future references by the court judges. Hence, future studies on audit perceptions gap in countries with different societal worldview and/or social and legal structures should consider such factors in understanding this phenomenon.

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**Endnotes**

1. Humphrey (1991, p:7) refers to the gap as “a representation of the feeling that the auditors are performing in a manner at variance with the beliefs and desires of those for whose benefit the audit is being carried out.”

2. In Muslim societies, the whole spectrum of human life is under the jurisdiction of absolute moral judgement as revealed by God.

3. These interviews were used to identify any problems with the language used and the scope covered in the interview schedule and the mail questionnaire as well as to obtain a better understanding of the make-up of the population under investigation.

4. A sample of the mail questionnaire can be obtained from the authors.
5. Early responses referred to those received from the first mailing and late responses referred to those received from subsequent mailings and follow-up.
6. A copy of the interview schedule is available from the authors.
7. However, there is a consensus of opinion (all groups agreed) with regard to the role of detecting deliberate distortion of financial information (statement 12).
8. Zakah is a religious levy imposed on Muslim individuals on their wealth when it reaches a certain threshold and periodicity. The spending of the proceeds and the beneficiaries are specified in the Holy Qur’an (At-Tauba 9:60) and the rate is dependent on the type of economic activities. For companies, zakat is calculated based on net working capital including cash i.e. current assets less liabilities.
9. Ideology or ‘science of ideas’ in the context of this paper refers to values, norms, knowledge and religious beliefs, sentiments, ethical principles, world-views, ethos, and the like that are apparent in various institutions (school, family, business firm, workplace etc.) in society.

References


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