

## PROFESSIONAL CHALLENGES PERCEIVED BY EXTERNAL AUDITORS IN OMAN: ANALYSIS OF SURVEY DATA FROM AUDIT FIRMS IN MUSCAT

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### Abstract

The study aimed to investigate the challenges perceived by the external auditors with particular reference to the audit firms in the Sultanate of Oman. The study was conducted in Muscat, the capital city, where a sample of 30 auditors was selected from five different audit firms through random sample technique. The primary data was collected by administering questionnaires and collected both quantitative and qualitative data which was further processed using weighted average, simple average and standard deviation.

The results of the study revealed that the external auditors encounter many challenges like clients' rejection of auditors' conclusions, frustration with long hours of work, lack of evidential information etc. The challenges perceived by the external auditors were different on the basis of their gender, nationality, age and years of work experience.

**Keywords:** External Auditors and Challenges.

### Introduction

Auditing is considered as an analytical process. It demands the power to analyse the details of the business transactions properly and to synthesize correctly the operations of the business.<sup>1</sup> An ideal audit cannot be made without an expert auditor. But the modern day auditor is considered to be more than an analyst. An auditor not only checks the arithmetical accuracy of the accounts but if the accounts do not give a true and fair picture of the company then, it is the legal obligation of the auditor to disclose the true state of affairs.<sup>2</sup> To perform all their responsibilities auditors may face a lot of challenges especially in today's world of economic crisis. The present study is aimed to study the challenges faced by the auditors in Omani audit environment as well as the ways to mitigate these challenges.

The report of a round table conference hosted by Grant Thornton and Association of Chartered Certified Accountants in seven countries including China, the EU, Singapore, South Africa, the UAE, the UK and Ukraine cited that the rapidly changing world has forced auditors to keep their skills up-to-date to address the varied challenges created by high expectations of the profession. The business is becoming more complex and the auditors are expected to be trained to deal with it. The digital age creates opportunities and threats. As a result of these changes there is more emphasis on how well the audit is done, with a challenge of risk, professional scepticism and maintaining quality audit.<sup>3</sup>

An article by James R. Doty (2013), Chairman of the United States Public Company Accounting Oversight Board throws light on some of the significant challenges facing the audit profession. He observed that the auditors are required to incorporate and act accordingly towards changing needs of the public and demand to maintain its importance to capital markets<sup>4</sup>.

The expectations from the auditors are increasing day by day due to new statutory requirements, regulations and the need to implement International Standards of Auditing and International Financial Reporting Standards. As expectations rise, auditors may perceive greater challenges in their work too. This study will help the researcher to suggest various ways of overcoming these challenges of auditors so as to reduce their work pressure of long hours, coping with the needs of the client company, collecting the required data etc. It will be beneficial to the client company because it will improve the quality of audit work.

The study was conducted at five different auditing firms in the Muscat region of Sultanate of Oman. The firms randomly chosen for the study were Professional Auditing Bureau, Muscat Auditing Bureau, Abu Timam Auditing and Accounting Services, Zaghlood Auditing and Accounting Services. The challenges on the external auditors, at various stages of audit process, starting from the planning up to reporting were analysed. The study also recommended suggested solutions.

This study helps to create awareness about the challenges of auditors among the client companies as well as the public. It also enables the auditors to understand their professional accountability and the need to improve the quality of work. Moreover; it can be used as a reference for the further study as no research is an end in itself.

### Review of Literature

To provide a starting point for this research, a review of the existing literature was made, related to audit and the challenges faced by the external auditors. Ever since the concept of audit was evolved, external auditors are facing different types of challenges while performing the audit. Such challenges and the ways of overcoming those challenges were studied by various researchers. Among them some of the studies are reviewed here to establish the gap and the need for the present study.

1. William B Castenholz,(1918), "Auditing procedure' by, University of Illinois-Page no-1.
2. Robert H Montgomery,(1912), "Auditing theory and practice", Page no-1&7
3. Round tables jointly hosted by Grant Thornton and ACCA "The future of Audit"
4. James R. Doty, (2013), "Challenges Facing the Audit Profession and PCAOB Initiatives" posted in Harvard Law School forum on Corporate Governance and Financial Regulations.

Desautels (2001) in the article "Future challenges: Reflections after 10years as Auditor General of Canada" identifies varied challenges for the external auditors of his office as rapidly changing information technology, requiring new skills and new tools for the auditors to conduct audit, recruitment, retention and development of human resources in audit offices, changing demands on the profession of auditing due to globalization etc.<sup>5</sup>

Beyashe(2008), in his article titled "Challenges faced by Ethiopian Federal Government Auditors: the case of the office of the Federal Auditor General" aimed at identifying the challenges faced by the external auditors in relation to the collection of data, independence, experience, job satisfaction, staff capacity and reporting the audit results. The study revealed that the auditors face different types of challenges during the audit and they are not satisfied.<sup>6</sup>

Joshi, Al Ajmi and Bremser (2009)in their study titled "A study of auditor–client relationships and problems in the Bahraini audit environment" aimed at understanding the problems faced by the auditors as well as the client company. The challenges faced by the auditors as per the study are client company's culture, lack of access to information which make them difficult to collect the required information, lack of accounting knowledge of client's accountants and poor accounting systems followed by the client company.<sup>7</sup>

Alabede (2012) in his article "The Role, Compromise and Problems of the External Auditor in Corporate Governance" studied the role, compromise and challenges faced by the external auditors with special reference to UK.The study identified that the external auditors had problems within the framework of corporate governance like independence, morality, public expectations and audit market cartel.<sup>8</sup>

Tobedzaand Swami, (2015) in the article "Challenges Faced by External Auditors in Botswana" examined the challenges faced by the external auditors in Botswana by taking a sample of twenty audit firms. They identified that the external auditors had varied challenges like understanding the client company's needs, coping with their expectations and maintaining a harmonious relationship. The study also identified the role of International Financial Reporting Standards in overcoming the challenges of the auditors.<sup>9</sup>

Sheikh Bandar bin Mohammad al Thani, (2017) Chairman of Audit Bureau, in his speech of opening session of 14<sup>th</sup> Meeting of GCC chief Auditors and Accountants mentioned the low oil prices pose a challenge to the auditors of GCC. He said auditing should be up to the level to face the challenges and to ensure a proper control of financial resources and avoid misappropriation of financial resources. This calls for more alertness and hard work from the external auditors and cope with all those changes occurring in the economy due to reduction in oil prices.<sup>10</sup>

### Objectives of the Study

Based on the above literature review, the following objectives were identified for the paper:

- To understand whether the auditors perceive challenges while performing the audit work.
- To analyse the influence of gender, nationality, age and experience on the challenges perceived by the auditors
- To suggest the ways to mitigate the challenges faced by the auditors.

### Method

The study uses an inductive approach where the hypotheses are not being set to prove the existence of challenges for the auditors while auditing. For the descriptive type of analysis both quantitative and qualitative type of data were used. Primary data was collected through a questionnaire on a five point Likert scale. The questionnaire was distributed to thirty auditors from five different auditing firms operating in Muscat, Oman. The thirty auditors were selected through simple random sampling. The sample included auditors of various age groups, different years of experience, males and females as well as Omani auditors and expatriate auditors.

Respondents were requested to evaluate their agreement with 10 statements about challenges they face in their profession. A weighted average was calculated for each challenge to enable a comparison of the challenges in terms of how seriously they were perceived. In addition, a composite score, as the sum of the Likert scale ratings for all 10 challenges was calculated for each respondent. The sub-group mean and standard deviations for this composite score were also used to compare challenges on the basis of gender, nationality, age and years of experience. Weighted average was used also to find out the highest challenge faced by each different group of auditors falling under different categories of gender, nationality, age and years of experience.

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5. Denis Desautels, (2001) "Future challenges: Reflections after 10years as Auditor General of Canada", *International Journal of Government Auditing* Vol. 28, No. 1
  6. Lukas Beyashe Advisor: Assefa Desta (2008), "Challenges faced by Ethiopian Federal Government Auditors: the case of the office of the Federal Auditor General" A research project paper submitted for the partial fulfilment of M.Sc. Degree in Accounting and Finance, Addis Ababa, Ethiopia.
  7. Prem Lal Joshi, Jasim Al Ajmi, Wayne G. Bremser, (2009), "A study of auditor–client relationships and problems in the Bahraini audit environment" *Advances in Accounting* 25(2):266-277.
  8. James O. Alabede (2012), "The Role, Compromise and Problems of the External Auditor in Corporate Governance" *Research Journal of Accounting and Finance*, Vol 3, No 9.
  9. Lydia Moloko Norman Tobedza, G and Prof. B.N. Swami, (2015), "Challenges Faced by External Auditors In Botswana", *International Journal of Social Sciences & Humanities (IJSSH)*, Volume 1 Issue
  10. Sheikh Bandar bin Mohammad al Thani (2017) Chairman of Audit Bureau, opening session of 14th Meeting of GCC chief Auditors and Accountants, reported by *Qatar Tribune*

### Data Analysis and Interpretation

First, the challenges perceived by auditors are rank-ordered based on the weighted average scores they received on the Likert scale. The results are presented in Table 1 below. As the reader can observe, greatest challenge perceived by auditors is that the client may not accept their conclusions, and secondly, frustration with long hours of work. At the other extreme, auditors were neutral (average =3.1) about setting planning strategy and developing overall audit strategy, and about gaining proper understanding of client, business and industry (average = 3.3)

**Table 1: Challenges perceived by Auditors, Weighted Averages, and Ranking**

Description of challenges	Weighted average Value	Rank
Client might not accept the auditor conclusion.	4.5	1
Frustration with the hours of work.	4.4	2
Lack of obtaining sufficient competent evidential matters.	4.3	3
The client not addressing the new accounting standards timely.	3.7	4
Un ethical competition among auditors.	3.7	5
Difficulty in identifying significant account and transactions.	3.5	6
Client not totally ready for audit.	3.5	7
No enough time schedule for field work.	3.4	8
Difficulty in gaining proper understanding of client, business and industry.	3.3	9
Difficulty in setting planning strategy and develop over all audit strategy.	3.07	10

Next, the challenges perceived by the auditors were analysed on the basis of their gender, nationality, age and years of experience in auditing. A composite challenge score, as the sum of the Likert scale rating for all 10 challenges was calculated for each respondent. This could technically vary between 10 (strongly disagree that there are challenges) and 50 (strongly agree). The average composite score was then calculated for different sub-groups, on the basis of gender, nationality, age and experience. Table 2 presents the results

**Table 2: Average Composite Challenge Scores by Gender, Nationality, Age and Experience**

Variable	Category	N	Mean	S.D
<b>Gender</b>	Male	27	36.6	6.4
	Female	3	37.7	3.5
	Total	30		
<b>Nationality</b>	Domestic	11	36.8	7.3
	Expatriate	19	36.7	5.6
	Total	30		
<b>Age</b>	< 25	2	41.5	12
	26-30	10	36.4	8.2
	31-35	12	36.8	3.8
	> 36	6	35.5	5.2
	Total	30		
<b>Experience</b>	0-5	8	41.3	7
	6-10	11	34.7	6.2
	11-15	5	35.4	1.7
	> 16	6	35.5	5.2
	Total	30		

### Discussion

The mean and standard deviation calculated revealed that the female auditors are more prone to challenges during the audit work rather than the male auditors. Both the female and male external auditors were frustrated by the long hours of work. Whereas the female auditors complain about difficulty in obtaining competent evidential matters for the audit. On the other hand, the male external auditors also say that they do not get required time for the field work.

Nationality of the auditors as a base, both the Omani and the expatriate external auditors are having same degree of challenges. The mean score shows that there is no much difference in their perceiving of challenges. Whereas the weighted average score calculated reveals that the Omani auditors face difficulty in identifying various accounts and transactions to be considered for audit. The expatriate auditors are more frustrated with long hours of work.

The auditors in the various age groups perceive challenges in a different way. The mean score says that the external auditors who fall below the age of twenty-five perceive more challenges. They are highly disturbed by the difficulty in obtaining necessary evidential matters for audit, the client not addressing the new accounting standards timely and difficulty in identifying significant accounts and transactions

necessary for conducting the audit. Same challenges are the problem for the external auditors who fall in the age group of 26-30 and those who are above thirty-six. Whereas, the auditors who are in the age group of 31-35 complain about lack of enough time to conduct field work.

Similarly, when the years of experience is considered those auditors who has an experience in auditing less than five years are seen to perceive more challenges than the other auditors who have experience of more than five years. Less experienced auditors are finding difficulty in obtaining sufficient evidence for conducting audit. The auditor who has an experience between 6-10 years says that there is always a difficulty in gaining a better understanding of the client business and industry. The biggest challenge for the auditors who has an experience of 11-15 years is difficulty in setting planning strategy and developing overall audit strategy. Whereas the auditors with more than sixteen years of experience, are says that they are not getting enough time for doing the field work at the same time they are frustrated with long hours of work.

The study reveals that the external auditors undergo varied challenges. The major challenge among them is a situation where the client company not accepting their conclusion about the audit. Instead of providing the client company a final audit report they can be intimidated the progress of the audit on a regular basis. This will help the client company to foresee the final result of the audit. The auditor may discuss the progress of the audit with the client company on a regular basis which can help to overcome the situation up to a certain extent. The female external auditors and the young as well the less experienced external auditors can be given intensive training from the part of government as well as the employer company. A better understanding of their role and duties will help them to understand the client needs better. It is advisable to train the auditors under senior auditors and they are not given big projects in the initial stages. Regular visits to the client company can help to bring more experience. Flexibility in the contracts with the client company may help the auditors to manage the frustration of long hours of work up to a certain extent. Pre-engagement planning and training sessions can be carried out for the auditors. A healthy work environment can be created where by the auditors constantly engage with the client company which also helps the auditors to understand even the non-verbal clues from the employees of the client company (ex. body language, facial expression) that makes the data collection easier for conducting the audit. Over and above a thorough knowledge about the IFRS and a proper updating of the changes in the same can help the external auditors to overcome their professional challenges to a great extent.

### Conclusion

The study was focused on identifying the challenges perceived by the auditors in the Omani audit environment. The study was conducted on a small sample of thirty external auditors randomly selected from five auditing firms located in Muscat. The analysis found that auditors face different types of challenges which were asked to them through the questionnaire. The perception of challenges was different for male auditors when compared with to female auditors. Similarly, it was different to auditors falling in different age groups and having different years of experience.

Amidst of the crisis in Oman, the auditors face few major challenges such as lack of obtaining sufficient competent evidential matters; Frustration with the hours of work and the non-acceptance of auditor conclusion about the audit done by the client. The auditors should overcome these challenges by strictly following the rules and regulations stated in IFRS and ISA. Due to lack of time, the study could not cover many major aspects of challenges. Therefore, this study paves a way for further research in the field.

### Limitations of the Study

1. The study was conducted on a small sample of only thirty auditors.
2. Since the sample under the study was small, hypothesis was not set and the statistical analysis tools could not be used for testing.
3. Collecting the responses from the auditors during their busy schedule was difficult.
4. The study can be conducted more elaborately on a large sample and other different challenges can also be studied even pertaining to internal auditors.

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