

CHANGES OF AUDIT METHODOLOGIES IN LESS DEVELOPED COUNTRIES: A FIRMATION OF INTERNATIONALISATION, REALITY OF AUDIT PRACTICE AND SOCIETY'S NEGOTIATION

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Abstract

This paper reports on an interpretive study carried out to explore the change of audit methodologies toward the Business Risk Audit (henceforth, the BRA) approach in Less Developed Countries (henceforth, LDCs). It argues that changes of audit methodologies in LDCs proceeds through assurance of the international affiliation by the Internationally Affiliated Audit firms (henceforth, IAA), confrontation of reality of local audit practice and social discourse about the international affiliation rather than the actual change of the core of the audit methodology itself in order to claim quality, superiority, and knowledge. The study found that the approach has been promptly introduced artificially in manuals and other materials but without sufficient efforts to relax the existed and approved challenging environmental factors that prevent the practical application of the approach. This consistent with the argument which says that audit manuals might resemble the worldwide audit manual of the global audit approach of the large international firm, but in the local environments auditors could shelve significant parts of such a manual because of facts on the ground and work according to the reality of their audit society. Nevertheless, IAA firms in their negotiation with their community endeavor to argue the international logo of their audit approaches as a clue of their advancement, modernization, and superiority of knowledge over the locally less developed audit practice. This behavior is likely to reflect the social perceptions of the society in LDCs about the definition of the international logo, the ambiguous of the term of audit quality, dependency of LDCs on more developed countries for development, and aspiration toward evolution. Given such reference of quality and superiority of knowledge, the study argues that innovations in audit technologies are not imported to LDCs only because of their technical benefits but more important to serve social functions, mainly affirmation of international affiliation as clue of advancement and superiority.

Keywords: change of audit methodology; less developed countries; business risk audit; audit practice; audit environment; Saudi Arabia

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Introduction

Audit practice has gone through a constant process of change to respond to changes in the economy, the business community, and the developments on other fields and the utilisation of the technology advancement. These changes of audit methodologies of audit firms were followed by sufficient attention of audit research especially in developed countries because most such changes were originated or emerged in developed countries. The main concern of research investigating audit technology changes, further, was on technical change due to the curiosity on the change itself rather than on its other possible aspects. Another flaw of research investigating audit technology change is the down play of the importance

of the process of disseminating changes of audit methodologies to less developed countries.

This is evident in the research investigation of the current change of audit methodologies of large audit firms. For example, most research investigating the BRA approach has relied on the formal content of audit manuals of large audit firms to allege the technical advantages of the new approach (i.e. Bell et al. 1997; Brands 1998; Perrin 1998; Stewart 1998, 1999; Green 2000; Lemon et al. 2000; Winograd et al. 2000; Jones 2001; Knechel 2001; Williams 2001; Bell and Solomon 2002; Messier 2003), or utilised artificial research settings to detect changes in audit procedures because of the use of the BRA approach (i.e. Eilifsen et al. 2001; Wu et al. 2002; O'Donnell and Schultz 2003). The general conclusion of these

research studies is that the BRA approach is a promising innovation in audit practice which would lead to an efficient and cost-effective and more valuable audit, a similar worldwide quality, and a change in auditors' views of risks. In this vein, Humphrey et al. (2003) reported that the BRA approach is receiving research that has been linked to attempts to promote the development from a technical point of view without sufficient consideration of the surrounding environment.

Further, a contemporary line of thought argues that audit technology are not a series of purely technical procedures isolated from their environment but strongly interact with it (Humphrey and Moizer 1990; Kirkham 1991; Power 1992; Carpenter and Dirsmith 1993; Pentland 1993; Power 1995). The realization and testimony of the benefits of a new audit technique require sufficient consideration of the actual context of the newly audit practice and technology (Fischer 1996). Especially for a radical change such the BRA approach (Lemon et al. 2000) and particularly when it is sought to be introduced to LDCs (Hove 1986) that are significantly different than the origin of this approach.

Given that the recent change in audit methodologies of large audit firms towards the BRA approach was supported by the International Auditing and Assurance Standards Board (IAASB) when it significantly amended four international auditing standards in recognition of this approach, considering environmental context of audit is significantly important for a new audit technology such the BRA approach.

Environmental barrier for importing audit technologies are reported by substantial research which has revealed significant international differences in the accounting and auditing environments (Choi and Mueller 1992; Radebaugh and Gray 1993; Nobes 1998; Klaassen and Buisman 2000). Such differences could present obstacles for realising the benefits of the new audit technology, and moreover create burden on IAA firms working in LDCs if they want strictly and technically utilised the imported audit technologies (Hove 1986).

Several reasons relating to the nature of the BRA approach also support considering the environment where the approach will applied such as its obvious reliance on the network of the business society (Bell et al. 1997), possibility of significant changes in audit procedures (Mackay 2000), the essential of its implementation (Lemon et al. 2000), and its subsequent fundamental changes in identity of audit firms and auditors (Humphrey et al. 2003) and independence of auditors (Jeppesen 1998). Fischer (1996) reports that features of the BRA approach will not be realised unless individual auditors take actions that are consistent with the new audit technology. This is fundamental taking into consideration the fact that the current change in audit methodologies is initiated in developed countries.

The objective of this research is to investigate the process of changes of audit approaches in the audit markets of the LDCs by investigating the changes toward the BRA approach as an example in Saudi audit market¹. A collection of forty-nine semi-structured interviews with representatives from different types of audit firms and documentary analysis were conducted.

The study revealed that the changes toward the BRA approach in LDCs can be seen from three distinctive stages; assurance of international affiliation, struggle with audit reality and redefinition of audit quality in their discourse with the society. It should be noted that these stages do not necessarily prerequisite the success of each other.

In their assurance of international affiliation, the study found that some IAA firms have introduced the BRA approach into LDCs' audit market by means of their international affiliation with the international big-five firms². Then, significant environmental factors were found limiting the success of the real implementation and raising significant doubt about the actual application of the approach in the LDCs. These obstacles, however, do not prevent IAA firms from claiming the international brand of their audit approaches regardless of its actual application. The study found that regardless of whether the approach is exactly applied, modified or ignored, IAA firms still define their actually applied audit approaches as international modern ones in order to claim superiority, knowledge, and advancement over less developed local professional practices. This reflects the utilisation of the society's social perceptions in LDCs about the definition of the international logo, the ambiguous of the term of audit quality, dependency of LDCs on more developed countries for development, and aspiration toward evolution. Such social perceptions provide reference to redefine audit quality by IAA firms in their discourse with the audit society in LDCs.

The paper is organised as follows. Section II provides an over review of the change toward the BRA approach. Section III goes on to review research studies investigating audit practices. Research objectives and methodology are thereafter discussed in Section IV. Section V provides a description of audit markets in LDCs by referring to the Saudi audit market as an example. The process of change toward the BRA approach in LDCs is then discussed in Section VI. Finally, Section VII provides the research conclusions.

The evolution of the BRA approach

Throughout its history, audit practice has gone through a constant process of change to respond to changes in the economy, the business community, and the developments on other fields and the utilisation of the technology advancement.

Even there is an overlap between audit approaches (Turley and Cooper 1991; Higson 1997),

researchers frequently view them in terms of four “generations”: the detailed testing audit, the system-based audit, the risk-based audit, and the BRA (see, for example, Turley and Cooper 1991; Davis 1996; Bell et al. 1997; Higson 1997; Jeppesen 1998; Gay and Simnett 2000).

Early auditing was for the purpose of checking for unauthorised expenditures, dishonesty of subordinates, or errors and involved inspection and verification in detail of every item in the client’s books of accounts (Montgomery 1922). During the mid-1960s and, notably, through the 1970s, the system-based audit approach guided the audit process, particularly for large engagements (Cushing and Loebbecke 1986; Turley and Cooper 1991; Higson 1997). Under this approach, auditors used to evaluate the internal control of the client, with particular attention to the usefulness of the client’s accounting system and the flow of information (existence and operation) for planning the substantive testing. In the 1980s, risk concepts formulated in the audit risk model were incorporated into audit approaches and professional standards, which resulted in what is called ‘the risk-based audit approach’. According to this approach, the audit risk model provides a framework to link audit procedures to audit objectives and guide the substantive tests (Turley and Cooper 1991; Higson 1997; Al-Angrī 2001).

By the mid-1990s, a new movement in audit approaches of large international audit firms, exemplified in the ‘Business Measurement Process’ of KPMG (KPMG 1999), the ‘Business Audit’ of Arthur Andersen (Andersen 2002; Wu et al. 2002), ‘Audit Innovation’ of Ernst & Young (Perrin 1998; Eilifsen et al. 2001; Ernst & Young 2003), and PriceWaterhouseCoopers’ audit approach (Winograd et al. 2000) has emerged as a new innovation in audit practice. The key assumption of this approach is that the financial statements reflect the entity’s position within its network of business society. Therefore, it is critical to consider the entity within its broader business network and global system for the purpose of giving an opinion on its financial statements. The main novel steps of the approach, which are interrelated and carried out more or less simultaneously, are strategic analysis of the client, business process analysis of the client’s operations, risk assessment, business performance measurement, and continuous improvement (see for details Bell et al. 1997; Lemon et al. 2000; Knechel 2001).

In accordance with this approach, auditors explicitly consider the strategic business objectives of the client, core processes designed or carried out by the client to achieve these objectives, risks facing these objectives and processes, and controls designed by the client to manage these risks and measure the client’s performance. Throughout these stages, auditors analyse risks facing the client, whether strategic risks, business process risks, or risks related to the audit of the financial statements, and then evaluate controls designed by the client to manage

these risks. Thereafter, auditors identify the residual risks, which represent sources of problems for the client and risks to the audit and are used as direct evidence for the auditor’s conclusion about the audit objectives and inputs for planning subsequent audit efforts (Knechel 2001). At the end of these processes, auditors issue an opinion on the true and fair view of the client’s financial statements and provide him with a management letter, a customised description of the client’s business, and an enhanced communication of observed risks and opportunities for improvement (KPMG 1999).

The main differences between the BRA approach and its preceding audit approaches are consideration of the entity within its broader business network, explicit consideration of its broader risks, business objectives and controls designed to manage these risks and achieve the business objectives. Such activities are assumed to affect audit procedures and auditors who are carrying out such activities under the BRA approach (for more details about the BRA approach see Bell et al. 1997; Lemon et al. 2000; Knechel 2001)³.

Audit and environment

Audit technologies and practices are more frequently considered as purely technical procedures carried out by independent professionals having the necessary experience and status for serving and working according to the public interest. This view has dominated research investigating audit approaches and technologies (Humphrey and Moizer 1990; Hogarth 1991; Power 1995).

The obvious example of this line of research is Judgement and Decision Making (JDM) audit research which relies heavily on cognitive psychology and utilises the human information processing paradigm (Beattie 2002). This line of research has frequently assumed concepts about audit and auditors such as professionalism, expertise, and independence and largely utilised research designs which assist researchers in controlling research settings such as experimental designs (Meyer and Rigsby 2001). The control exercised by the researcher involves isolation of the experimental subjects from their environment, resulting in an artificial setting, which does not sufficiently portray audit practices and techniques in real situations (Kirkham 1991).

These presumptions are contested by a contemporary perspective of audit technologies and practices. The later argues that audit technologies and practices are not isolated from their environment; moreover they have social as well as technical dimensions (Humphrey and Moizer 1990; Kirkham 1991; Power 1995, 2003) and presumptions about auditors such as expertise, professionalism, independence, and working according to the public interest should be exposed to significant scrutiny (Zeff 1987).

In contrast to the technical perspective, the sociological perspective of audit practices and technologies emphasises the actual societal constituents of audit practices and technologies. It argues that auditors work in a complex environment capable of impacting on audit practices and technologies therefore auditing and practices should not be seen as a series of technical procedures applied to different types of clients to provide an efficient audit in serving the public interest; rather auditors' decisions, actions as application of procedures, are affected by numerous environmental factors and audit and audit practices have contextual as well as technical dimensions.

Down-playing the importance of the environmental dimensions results in findings that are not reflective of actual practice (Power 2003) and assumption that auditors are professional, and serve the public interest should not be taken for granted (Zeff 1987), or assumption that auditors' decisions can be understood without sufficient consideration of the different pressures facing auditors, whether from the audit firm or the clients, constrains the interpretation of research results (Humphrey and Moizer 1990).

The later perspective of audit technologies has liberated perceptions of audit practices and technologies and approved that audit practices and technologies serve different social and technical functions. For instance, Humphrey and Moizer (1990) studied the audit planning processes and found that, in addition to the technical functions emphasised in most research, the audit risk model serves ideological and marketing functions and Power (1995) asserted that the audit risk model functions in a variety of related ways: a scientifically rational image of the audit process, a rational reorganisation of audit work, a reduction of detailed testing, and a justification for operational decisions to internal and external parties. Also, Power (1992) showed that sampling serves functions other than the technical ones, such as providing legitimate ground for less audit work. Turley & Curtie (2007) illustrated that the literature investigating audit methodology in its social and institutional context revealed four roles for audit methodology: the production of legitimacy for the profession, for set of work papers on individual audit, a system for controlling and directing the work of the practitioners and encoding knowledge into the organizational structure to assist in the achievement of the organizational profitability. Power (2003) provided a review of research studies adopting a sociological view of audit practices and asserted that the reviewed studies have contributed significantly to our understanding of the production of legitimacy in auditing and concluded that further research is needed in this area.

The current movement towards the BRA approach has also been subject for research studies adopting such line of perspective, however, they are limited and carried solely in the developed countries.

For example, Humphrey et al. (2003) reported that the change towards the BRA approach has its own social dimension within large audit firms which are negotiating the terms of their professional status, promoting the notion of expertise and further leading the large audit firms more towards the area of business consultant. Similarly, Jeppesen (1998) criticised the implications of this approach on auditors' independence, arguing that the business orientation of the approach could affect auditors' independent status. This might have led Hatherly (1999) to argue that the BRA approach is driven by large audit firms (supply-side) rather than by the demands of audit clients (see, also, Humphrey et al. 2002). With respect to the impact of the BRA approach on audit practice, Turley & Curtie (2007) found that the approach could result in additional risks being identified but without change in related audit evidence procedures because auditors are more concern about what constitute a legitimate audit. Their study also highlighted some difficulties in implementing the underlying techniques of the BRA approach within the existing organisational structures.

The contextual dimensions of audit practices are significantly important when the subject matter involves different audit environment, like researching the dissemination of the BRA approach in LDCs. The impact of the environmental factors on international audit practices can be easily observed from the findings of research investigating internationalisation of audit practices. A critical review of this literature would produce three conclusions on the achievement of a consistent worldwide audit approach: globalisation, national-bound and midway conclusions. The globalisation conclusion is the most optimistic and argues that internationalisation of audit approaches is achievable because of the existence and influence of certain conditions (Hanson 1989; Mahmoud 1989; Wallage 1993; Al-Shamri 1994; KPMG 1999; Winograd et al. 2000; Andersen 2002; Ernst & Young 2003). The national-bound conclusion argues that the international environmental differences among countries impede the internationalisation of audit approaches (Choi and Mueller 1992; Radebaugh and Gray 1993; Douppnik and Salter 1995; Nobes 1998). The midway conclusion of these two edges considers both the supporting conditions and obstacles for internationalisation. It argues that procedures and forms might be internationalised, but that does not guarantee internationalisation of values, concepts and judgements (see, for example, Agacer and Douppnik 1991).

Studies claiming the achievability of worldwide audit practice and quality, in fact, are best described as documenting possible opportunities and conditions for internationalising audit approaches, rather than actual similar audit quality and practice. Much of these research studies have relied on manuals and artificial research settings (i.e. Mahmoud 1989; Wallage 1993; Al-Shamri 1994), or have simply reported the aspirations of audit firms for similar

worldwide audit approaches (i.e. Hanson 1989; KPMG 1999; Winograd et al. 2000; Andersen 2002; Ernst & Young 2003). Barrett and Cooper (2000) revealed that formats, forms, standards, or manuals are much easier to standardise than values and judgements.

To conclude, the real potential for achieving one consistent worldwide audit approach is highly debatable, and exposing audit change, which is frequently initiated in developed countries, as transferable technical procedures to different environment constrain our understanding of the change of audit methodologies itself and its dissemination process.

Research objective and methodology

This research aims to investigate the process of change toward the BRA approach in Less Developed Countries (LDCs). In this vein, it will try to answer the following research questions:

1. Have changes towards the BRA approach been introduced to the audit market of LDCs?
2. What are the main concerns in the process of implementing the change towards the BRA approach in the audit market of LDCs?

An interpretative research methodology has been adopted to address the research questions. Such a research methodology is deemed appropriate for considering the environmental dimensions of the BRA approach in its actual context and is necessary for enriching the data needed for a new issue in an unexplored research environment (Chua 1986; Ryan et al. 2002).

An extensive series of forty-nine semi-structured interviews were carried out throughout a two-phase fieldwork, and numerous types of documents were analysed. In the first phase (August - early September 2001) fourteen interviews were conducted with representatives from different types of audit firms to explore the research issues, research setting and to get some primary clue about the research concerns. The second phase of the fieldwork (May - August 2003) thirty-five interviews were conducted also with representatives from different types of audit firms based on semi-structured interviews. This has resulted in twenty-three audit firms participated in the study (all the big-five, six international non-big-five, and twelve local audit firms). Table 1 describes interviewees' backgrounds.

[Insert Table 1 here]

The broad research concerns were used to prepare the interview schedule. Under each research concern, several points were incorporated in order to ensure sufficient coverage of the research points and elicit more information, descriptions and explanations. The interviews were conducted individually in the audit

firms' premises and lasted on average 55 minutes, ranging from 40 to 75 minutes.

Several types of documents were also collected from different sources i.e. audit firms, regulators, and other sources in the Saudi audit environment. The collected documents ranged from manuals, checklists, control questionnaires, reports, prospectuses, leaflets, and other types of documents. Some of the firms provided full copies of their official documents, and others gave some examples of their official documents. Few remaining firms refused to provide such documents. The main reasons for not doing so were either that they do not have formal written documents (small firms, mostly) or because of confidentiality. Given that the collected documents came from different types of sources, the coverage of the Saudi audit market is considered sufficient for the purpose of the study.

The environment of audit practice in LDCs: Saudi example

The context of auditing in Saudi Arabia is driven by the central role of the Saudi government which is dominated by a small group of people within a conservative society, dependency of the country's economy on one natural resource (oil), a private sector that is very much linked to the public sector, and relatively new regulative systems for audit market which are more influenced by the historical trade link with the US and Europe⁴.

Early link established with western countries, especially the US, and cultural heritage represent the main dimensions of the Saudi environment. On one side, the KSA covets the modernisation of the western economy and lifestyle. On the other side, Saudi society is influenced by the traditional style of systems and life of its region. This has resulted in an environment where the central government, dominated by small groups of people, plays an important role in affecting the welfare of the country in most aspects of the economy, educational and professional services. The compulsory external audit was enacted in a similar fashion to that in the UK. However, the structures of users and strength of compliance with regulations are different.

Saudi society is characterised by the impact of the personality and power of particular individuals, the role of family and friend relationships over regulations, privilege given to personal relationships over tasks, and the existence of a high level of secrecy (Al-Rumaihi 1997). The political system of the KSA is a monarchy, headed by the King. The legal system of the KSA is derived from the Islamic law (Shariah; Alqur'an Alkareem and Sunna Alsharifah), and other special laws for a number of specific fields, such as commerce or business, tax and labour law. Al-Amari (1989) reported that Islamic law, however, prevails in legal disputes. These features of Saudi society are likely to have implications for auditing. For example, professional regulations are not as strictly followed as

it is in an environment where regulation prevails over personal or family relationships.

Similar to the governments in other LDCs, the KSA's government is strongly involved in the major activities of the country's economy that depends mostly on a single natural resource. Global oil prices and production volumes are strongly associated with the country's economy outcomes (Economist Intelligence Unit 2003); the strongest economic results come when the oil price and production volume are at high levels.

Saudi private sector possesses similar characteristics to most of those in the LDCs: the existence of a deep involvement of the government, the domination of family businesses, and the existence of a number of foreign-owned and controlled companies based on joint venture agreements with domestic companies (see for example Al-Damer 1995; Ballou and Knechel 1998). In this type of environment, the role of the financial statements as a tool to efficiently allocate resources is not as clear as it is in other contexts such as developed economies with sophisticated capital markets, and the users of financial statements are mainly family members, banks or governmental agencies.

Moreover, several public services are provided by state-owned or semi-state-owned enterprises. In the past, these public services were provided by the government, either because of the limited resources of the private sector to undertake such services or because the government was concerned about the possibility that the private sector might encroach inappropriately upon social needs (Soufi and Mayer 1986).

Rich families dominate private businesses. These families own several important and successful businesses in most sectors such as banking, manufacturing, services etc, which are not opened to the public for sharing or accountability (Al-Rehaily 1992). SAMA (2001) reported that, at the end of 2000, the number of individual proprietorship firms registered with the Ministry of Commerce was 10,165 and 492,961, respectively and accounts to more than 53.8% of the total capital of registered businesses.

The domination of family businesses does not prevent the existence of a number of foreign-owned and controlled companies, which work based on joint venture agreements with domestic businesses, mostly family-type of businesses (Presley 1984; Aba-Alkhail 2001). The existence of joint venture agreements is likely due to the Saudi regulations that do not permit foreign investor to own business in most sectors unless as a partner with a Saudi citizen. This has resulted in about only 1.5% of Non-Saudi businesses are purely Non-Saudi business (SAMA 2001). The origins of these foreign businesses are North America and Western Europe (Aba-Alkhail 2001).

The regulation of the profession in the country is influenced by the country's political and economical relationships with the western countries, especially the US and the UK (Aba-Alkhail 2001). The 1965

Company Law, which sets conditions for establishing businesses, describes the legal framework for business, and requires the publication of annual financial statements audited by an independent party, is considered to be the first attempt to regulate the accounting and audit profession in the KSA (Al-Amari 1989; Al-Rehaily 1992; Al-Angari 1999; Aba-Alkhail 2001). It requires all joint-stock companies, limited liability companies and partnerships limited by shares⁵ to issue annual financial statements audited by an independent auditor licensed to practice by the Saudi Ministry of Commerce and Industry. The Law further set the rules for the relationships between the independent auditor and the audited company, such as appointment procedures and the rights, duties, and responsibilities of both parties. Shinawi and Crum (1971) and Kahlid (1983) reported that the origin of the 1965 Saudi Company Law goes back to the British Companies Act of 1948.

Currently, the Regulation of the Certified Public Accountants' Law (CPA Law) that was endorsed by the Royal Decree No. M/12 on 19/11/1991, represents the current framework of Saudi accounting and auditing profession. The most important outcome of this law was the establishment of a quasi-independent regulatory body called the Saudi Organisation for Certified Public Accountants (SOCPA), working under the supervision of the Ministry of Commerce (SOCPA 2001a and 2004). SOCPA's Board of Directors is composed of 13 part-time members, chaired by the Minister of Commerce and represents different interested parties such as governmental agencies, practitioners, users and academics. Its Board of Directors is responsible for taking decisions and establishing objectives, and enacting professional standards.

As an Islamic country, the practice of accounting and auditing might be affected by Islamic perspectives of some financial transactions such as Zakat, or paying or receiving interests (Ribah) (see for example Abdelsalam 1990; Igbal 1990). Nevertheless, SOCPA explicitly advocates American model of professional regulations and requires adherence to American accounting and auditing standards when there is no issued Saudi standards (Aba-Alkhail 2001; SOCPA 2001a).

There are some restrictions for non-Saudi audit firms to enter Saudi audit market services⁶; however, the presence and the concentration in the Saudi audit market of large and international audit firms have been obvious. Currently, there are 108 audit firms permitted to practise (SOCPA 2000c). All the big-five (at the time of the study) and most of the second mid-tier international audit firms have, in different degrees, branches, offices or an affiliated member working in the Saudi audit market⁷.

The big-five audit firms (at the time of the study) are identified in the Saudi audit market as those internationally known big-five audit firms (Ernst & Young, PriceWaterhouseCoopers, Arthur Andersen, KPMG and Deloitte & Touche Tohmatsu). In the

Saudi audit market, these big-five audit firms were commonly grouped together. However, some differences among them with respect to their historical presence, structure and international link exist. For example, Ernst & Young and Arthur Andersen had a relatively longer history of presence in the Saudi audit market. Their international link is also relatively different. Arthur Andersen worked in almost centralized form with its international members and Arthur Andersen and Ernst & Young use only their established international name. The remaining three big-five audit firms use and refer to both their local affiliated member's name and their established international name. For example, Deloitte & Touche Tohmatsu works through a regional umbrella rather than a direct relationship with its international affiliated members and uses its three names (local, regional and international names). Differences in the presence of the big-five audit firms across countries have been suggested by the literature (see, for example, Moizer 1997).

Alongside the existence of the international audit firms in the Saudi audit market, there are significant non-Saudi national auditors. Among the total number of 1359 auditors in Saudi Arabia, Saudi national auditors represent about 11% (146 auditors). The main reasons behind this are the newness of the profession and its education in the country and the regulations of the profession in the country which prevent non-Saudi nationals from practicing as sole practitioners (CPA Law 1991).

Similar to most international audit market, the Saudi audit market is also experiencing concentration (SOCPA News Letter January 2000c), pressure on audit fees, high competition and differences in expectations (Al-Munife and Al-Humaid 1982; Badran 1983; Mohammed 2000).

Unlike other audit markets (especially those in the UK and USA), the Saudi audit market has never witnessed significant audit failures or even corporate collapses. This might be due to three reasons; the weakness of the enforcement law, the less advanced of the professional education of the society and the role of the government in supporting corporations facing difficulties against such outcomes (Badran 1983).

This might result on less questioning of the quality of audit in term of audit failure rather on benefits and aspects. In a survey study carried out by Al-Humaid (1995) who collected views from the users of audit services about what they consider important characteristics of a quality audit. His study focused on the technical aspects of an audit, such as the qualification of the audit team, conduct of an audit, experience and meetings with the client's management. He reported that the name and reputation of the audit firms is considered as an important factor in identifying the quality of an audit.

To conclude, the role and function of audits in Saudi Arabia can be seen from the context of the Saudi government continuously efforts to enhance its

private sectors in order to reduce its economy's over reliance on oil which drives its significant revenue. Such objective requires significant economic and social planning which is confronting significant obstacles relating to the environment of Saudi business. These environmental dimensions of audit practice have to be taken into consideration in researching dissemination of audit methodologies. The next section will discuss the dissemination of audit technologies in Saudi Arabia.

Process of change toward the BRA approach in LDCs

The dissemination of the BRA approach in the Saudi audit market can be seen through three main critical and distinctive stages or processes: de facto to track the change, local implementation and utilisation of the claim of the change. In the first stage, the international link of some of the international big-five audit firms has pushed audit firms working in Saudi Arabia toward the change to the BRA approach. The contextual reality of the audit practice, however, produces significant obstacles for the success of the implementation processes of the approach. Nevertheless, their international link and allegation of change can serve marketing function by claiming internationalisation of their used audit approaches that are new and modern similar to that of audit approaches in developed countries. Agreed reference of superiority and advancement of developed countries in business and audit profession work as clue in order to attract clients and justify their claim of superiority over local audit practices. The following sections will discuss these three activities in turn; de facto to track the change, implementation and utilisation.

First; De facto to track the change: affirmation of international link

Transmission of audit methodologies can be at the best seen as an official introduction which is not enough to assume similarity of worldwide audit quality (see, also, Agacer and Dounnik 1991; Barrett and Cooper 2000). Such movement represents the function of the international link, instead.

Literature reported that the presence of multinational audit service suppliers, the international regulation of audit practices, and the dominance of western audit practices facilitate the internationalization of audit methodologies (Hanson 1989; Wallage 1993; Post 1996; KPMG 1999; Klaassen and Buisman 2000; Winograd et al. 2000; Andersen 2002; Ernst & Young 2003).

The repaid international dissemination of audit standards, manuals and instructions as a result of the existence of multinational audit service suppliers in the Saudi audit market can be tracked back to the historical presence of non-Saudi audit firms. This presence is justified by the discovery of oil in the

country during the thirties, and the boom of the oil prices combined by the significant increase of the country's volume of production during seventies. This has resulted in unprecedented and unpredicted increase in the country's income creating severe need for skilled manpower and qualified professionals for the increase governmental and private investments.

Since the country's educational system was not able, at the time, to reply to the unpredicted boom of the country's economy, the country relied on its neighbour and ally countries. Jadallah (1972) reported that the first auditing firm permitted to practice in Saudi Arabia named Saba was non-Saudi firm and argued that in 1970 the number of audit firms permitted to practise was 51, of which only 13 were local audit firms. The remaining were international, mostly Egyptian, Lebanese, Sudanese, British and American (Jadallah 1972; Al-Angari 2001). The large international audit firms have also been present in throughout the history of the Saudi audit profession, such as Ernst & Young (previously known in Saudi Arabia as Whinney Murray), Arthur Andersen, Arthur Young, Deloitte and Haskins and Sells, PriceWaterhouse, and so on (Al-Angari 1999).

The operation of these firms in the country and their link with their home country has helped in importing audit approaches. Aba-Alkhalil (2001) argued that the Saudi accounting and auditing profession was, at that time, dominated by non-Saudi practitioners who disseminated the practices of their home countries because there was no local professional regulation.

This is replicated in the rapid dissemination of the BRA approach in the Saudi audit market. One of these audit firms describes its process toward the implementation of the BRA approach in 1998, as follows:

The (name of the big five audit firm) took the lead, developed and introduced a new audit approach that assists in providing our clients services that ultimately exceed their expectations. This new approach is called (the name of the new audit approach). It provides one common, global framework to ensure consistent delivery of the highest quality assurance services. Our plan is to have this approach being fully implemented on all of our clients by the end of next year (dated 1998).

The assertion of the introduction of the BRA approach to the Saudi audit market was also evident from the interviews conducted with representatives from these audit firms. The interviewees affirmed the introduction of the BRA approach by their affiliated member and deeply and knowledgeably described the technical contents of the approach such as analysing client's strategic objectives, understanding client's business, considering client's business risks, and considering business processes and so on. For example, a partner from one of these firms emphasised the business focus of their new audit

approach and described some of its features as follows:

This is the new methodology that we are using nowadays. Part of it, we have what we call the business risk model and business risk management process, understanding the client's business.

An artificial attempts and arguments of change of audit approaches in the local audit practice can not be taken for granted. The issue of whether the imported audit approaches and technologies will be implemented and used properly in the LDCs, however, depends mostly on the social context of the audit techniques (Kirkham 1992). The next section will discuss the implementation process of the BRA approach within the Saudi audit context.

Second; Implementation process: struggle with the reality of audit context

Although, the BRA approach has been promptly introduced to the Saudi audit market in manuals and forms, the implementation processes of the approach has confronted significant obstacles capable to prevent proper use of the BRA in the LDCs. Resulting in what could be seen as a rhetoric adoption and use of the BRA approach by IAA firms in LDCs⁸.

Audit approaches are commonly designed in the developed countries in response to particular context which significantly differ from that in LDCs. Literature asserted that the less advanced nature of the business practices and the cultural characteristics of the audit society have the potential to prevent the achievement of a similar audit quality (Agacer and Doupnik 1991; Doupnik and Salter 1995; Nobes 1998).

The less advanced nature of the business practices and economy can be seen from different realms. One of the resistant crises of audit profession in LDCs is the qualification of audit offices, in terms of the number of senior staff and their qualifications (Enthoven 1991; Morse 1993). This is extremely essential for proper use and utilisation of the BRA approach because it requires a greater number of senior levels, such as senior auditors, managers, and partners with a diversity of backgrounds (Bell et al. 1997; Lemon et al. 2000; Eilifsen et al. 2001; Knechel 2001).

Similar to other audit markets in LDCs, the Saudi market suffers from a shortage of skilled manpower (Al-Rehaily 1992). The number of qualified people willing to work for audit firms is small because of the hard nature and relatively low pay of jobs provided by firms, resulting in under-representation of Saudi professionals in audit firms. The list of professional employees of Saudi firms showed that 146 (11%) out of 1359 professionals are Saudi nationals (SOCPA 1999). Currently, non-Saudi nationals by definition make up the rest. This results in a total of 1359 practicing auditors carrying out 10,187 audits every year. This means that each auditor carries out on

average 7.5 audits every year (10,187 / 1359) (see table 2 & 3). No doubt, these figures raise question about the possibility of doing the BRA approach because under the BRA approach, audit team, which is supposed to present different backgrounds, play a vital role in conducting an audit (Brands 1998; Winograd et al. 2000; Williams 2001).

[Insert Table 2 here]

[Insert Table 3 here]

The Saudi regulations also heighten the problem by constraining the number of senior staff (especially non-Saudi), resulting in a small number of seniors in audit firms. The CPA Law 1991 prevents non-Saudi nationals from practicing as sole practitioners (but they can join a licensed Saudi as a partner or an employee-an auditor). Therefore, it is logical to assume that there is one Saudi national auditor in each of the 108 audit firms and most likely as an owner in small and medium audit firms or as a partner in the big-five audit firms.

Not only there are few seniors in Saudi audit firms but also most of them are Saudi national and choose to practice as sole practitioner. This may relate to the origin of the non-Saudi auditors. The majority of them are from nearby poor countries and most of them work as auditors who accept low salary. Given that there is rare occurrence of lawsuits in the country, Saudi auditors are less likely to choose to practice jointly with others. One non-Saudi auditor from a local firm emphasised this nature of Saudi local audit firms by saying

We are all auditors and there is one manager and the owner.

Such shortage of senior staff levels was vocally asserted by three subjects who argued that because the role of senior professionals under the BRA approach is not only to review, supervise and check the work of subordinates, but to be more involved in the process of doing the audit, a greater number of them are required which results in problems for doing the BRA approach. For example, one interviewee said:

Let's talk about this place. I believe, in our opinion in the office, we are facing a problem in this situation because we need to accelerate our efforts to restructure the office, and this is what are we doing. I mean to make available more qualified persons. I mean to rebuild the basis of the office.

Another challenge to audit firms in doing the BRA approach is the need to increase staff knowledge in different areas of business, particularly in LDCs where professional education is weak. Saudi Arabia, as an example, started its university professional education in 1959, training and teaching materials and curriculum are also weak and not up to date (Al-Rehaily 1992). In this type of environment, audit firms are likely to carry out significant steps in educating and training their staff, which are likely to be costly particularly when there is a high turnover of

employees. This is essential because the work of auditors under the BRA approach is not only to examine and test accounting matters, but to understand client's business, advice management, and alert clients about business risks. In order to carry out these roles properly, auditors require a broad knowledge in most areas of business (Bell et al. 1997; Lemon et al. 2000) which is less likely to be obtained from educational regimes in LDCs.

The nature of audit users and their power in LDCs create also problems for doing the BRA approach. In contrast to the audit profession in developed countries, audit profession in LDCs is less appreciated, accompanied by significant misperceptions of its activities, has a minor role in the society as whole, and audit fee is much lower than those in the developed countries.

Most of the interviewees who reported the implementation of the BRA approach reported a negative reaction in the majority of their clients. They explained that clients' resistance to the increase in audit fees, limited appreciation of the benefits of the new approach, and cooperation with and trust in auditors represent challenges for the successful application of the BRA approach.

Most of these behaviours of audit users can be understood or linked to the nature of the business practices and economy in LDCs i.e. the nature and size of businesses, the social role and status of financial statements and external audits, and the relationship between auditors and management/owners (Nobes 1998). In LDCs, joint-stock companies are most likely few, family businesses are the mainstream form of businesses, the stock market is inefficient and very weak, financing system relies mostly on family members and most audits are more likely to be carried out voluntarily. SAMA (2000) reported that companies operating amounted to 116 (1.14% to the total businesses in the market) of which 75 Joint-Stock companies are listing its stock in the Saudi stock market in 2000.

The remaining businesses are family-business types where the financing system, the structure of ownership, and the purpose of the financial statement audit are different. At the end of 2000, the number of family businesses and individual proprietorships registered with the Ministry of Commerce was 10,049 and 492,961, respectively (SAMA 2001). Table 4 compares partnerships with companies. Unlike companies, most partnerships rely on personnel who established, bought or inherited the business. Partners may represent close family members or may include broader groups such as relatives or friends. The domination of the private sector by family businesses has resulted in a small and weak stock market, similar to those in other LDCs. Thus, the creditors (financial institutions, such as banks) and the wealth of the family are the main source of finance. Family members are the holders of the company's shares; there is no separation between management and owners, the stock market is weak and most audits are

likely to be carried out voluntarily to satisfy family members who own the business.

[Insert Table 4 here]

These features have implications for the role of the audit of financial statements in Saudi Arabia. For example, the users of financial statements are mainly family members, banks or governmental agencies (Al-Rehaily 1992) which means that most audits in Saudi Arabia are in many ways similar to internal audit than to the form of external audit that is found in more developed economies. Therefore, most audits are more likely to be carried out voluntarily to satisfy the family members who own the business, to avoid an arbitrary *zakat*⁹ or *tax* levy, or to satisfy the banks' conditions for financing (see also Aba-Alkhail 2001). As we have mentioned in Section V, the 1965 Company Law, which sets conditions for establishing businesses, describes the legal framework for business, and requires the publication of annual financial statements audited by an independent party, requires only joint-stock companies, limited liability companies and partnerships limited by shares to issue annual financial statements audited by an independent auditor licensed to practice by the Saudi Ministry of Commerce and Industry. As shown in table 4 above the total number of these companies is 116 (1.14% of the total businesses in the market).

Audit clients who choose to have their financial statements audited to satisfy bankers or to avoid or prevent having to pay arbitrary *zakat* or *tax* are less likely to be concerned about the quality of the audit but to have their financial statements stamped (approved) at the end of the day. Badran (1983) described this behaviour as follows:

It is common to be asked by a client to stamp or approve his financial statements without inspection, change, or modificationsuch type of clients will find auditors who are willing to do so.

In this case, the cost of having this stamp of approval will be evaluated against the cost of not having this stamp of approval (for example, submitting the financial statements to the *zakat* or tax agency without audit).

Taking the work hours as proxy for the load of the audit work which is justifiable because other competing theories such as insurance theory may not be that important due to the very low number of audit litigations as mentioned above, the cost of doing an audit under the BRA approach is higher than the cost of following the traditional audit approach, especially in the first years of the audit. Auditors are required to spend more time and collect more information that may not be used. This result in an increase in costs for the firms adopting the BRA approach, but in a context with high competition and pressure on audit fees, these firms might be at a disadvantage competitively. Moreover, audit firms in LDCs that are going to implement the BRA approach will incur transitional

costs (putting the new approach in operation) that need to be justified. Making a simple calculation based on the data provided in Table 3, the average audit fee in Saudi Arabia is about 24,247 SR (\$ 6,465)¹⁰, which is low for a professional service, especially involving an audit approach such as the BRA approach which can require significant amount of senior personal time¹¹.

Working on the data provided in Table 4 and the number of audit firms and auditors, the average chargeable working hours spent by Saudi audit firms on audits are about three days and a half¹². These figures strongly question the quality of the Saudi audit. This would tend to support the conclusion of Badran (1983) who argued that in the Saudi audit environment there are a lot of audits done by merely stamping what the client provides without carrying out any further inspection or questioning of the data (see also Al-Humaid 1995).

An audit manger described the restriction that the new approach has put on them because of the associated costs and how did they respond as follows:

You know because (the name of the audit approach) should be applied for clients that have more than 300 audit work hours (large client), we made changes to it. The development actually was made by the branch in South Africa. Two other packages: small and medium (the name of the audit approach) are a kind of summary of the large (the name of the audit approach) audit. For this reason, the package I told you about was developed for these countries. We need to increase our revenue by taking small and medium clients, and not saying, ' we are sorry; we cannot give you an audit'.

This cost will be higher when the regulations require change of the independent auditor after a specific period of time. The regulations in the Saudi audit market require joint-stock companies to change their independent auditor after a maximum period of five years. Applying this approach in this type of environment could be costly, because after auditors may have incurred significant costs in the early years, in understanding the business, they are then dismissed in order to meet the regulation.

Audit clients' views and perceptions about audit and auditors in LDCs have also implications for the profession in general and the application of the BRA approach in particular. The clients' understanding of the role of the audit and, in turn, their appreciation of the audit service was mentioned as a problem facing auditing in the Saudi audit market (Al-Munife and Al-Humaid 1982; Mohammed 2000). Most of the interviewees criticised their clients' expectations and perceptions about auditing. They reported that their clients believe that auditors should do everything relating to the financial statements, even the work of accountants, and clients are not confident about the benefits of the audit and view auditors with suspicion

(as those who come to search for errors and mistakes). The position for audit firms that have introduced the BRA approach is worse, because if there is no understanding, appreciation, and cooperation with the auditors, the conduct of the BRA approach will be extremely difficult. This is articulated by an audit manager as follows:

The most damaging problems in applying the new approach are the management and its perception about auditors.

Getting access to the necessary information from public sources represents another technical problem for applying the BRA approach. Unlike developed countries, it is an inherent problem in LDCs that industrial and/or economic information is often unavailability and/or inaccessible. In the Saudi audit market, the situation is not exceptional. Almost all representatives from those firms employing the BRA approach referred to the difficulty of getting the necessary information from public sources, either because this information is not available at all, or inaccessible to some types of auditors.

The lack of public information is a bigger problem when the audit clients are medium or small, because the 'best practice' guidance provided and updated by their affiliated firm is not appropriate. An auditor argued that the guidance that was given to auditors in understanding and judging business risks and controlling these risks is not appropriate for local medium and small clients, because this guidance assumes a worldwide data base that is not suitable for the local environment. He said:

So if the client is not a big size, the guidance may be worthless or of less value to you because you cannot measure the client based on this information that you get based on the worldwide level, and it is difficult to measure transactions in this case. (Saudi auditor).

The second aspect of the difficulties facing the application of the BRA approach relates to the cultural characteristics of the audit society such as secrecy and willing to trust auditors. Non-trust on Saudi national auditors or restricting their access to information about the business might be related to the secrecy aspect of the society.

Al-Rumaihi (1997) described Saudi society as characterised by the impact of the personality and power of particular individuals, the role of family and friend relationships over regulations, privilege given to personal relationships over tasks, and the existence of a high level of secrecy. Also, Al-Rehaily (1992) reported that most Saudi family businesses are not willing to disclose information about their businesses because they consider them to be family affairs.

The nationality and position of the auditor affect such trust. Saudi-national auditors are less trusted by audit clients in comparison to non-Saudi-nationals (Badran 1983), on the grounds that Saudi national auditors are more able to use such information for their personal benefits. Saudi-national auditors,

however, may be in a better position to access public information (information on the client held externally) and interpret risks surrounding the client's business due to their knowledge in the environment.

This problem, to some extent, relates to the structure of the Saudi society. The Saudi society is composed mainly from several conservative and well-know big tribes who may worry more about the reputation of his tribe rather than the affair of the business. This may lead businessmen to struggle in avoiding the reveal of the business affair to those who know the silent of the country's culture and who can use the obtained information for themselves. This fear is justified because the law in the country especially relating to the profession is not enforceable (Al-Amari 1989).

This problem was noted by most interviewees, whether they had adopted the new approach or not. It would be potentially more significant under the BRA approach because of the sensitive information needed about the business and its management. The reluctance of Saudi clients to allow, especially Saudi national auditors, to access client's internal information was stressed by almost all Saudi interviewees. For example, two interviewees argued that the refusal to give auditors information is worse when a Saudi auditor is involved, on the grounds that clients might be concerned about the possibility that Saudi auditors might use this information to compete with the business or to reveal business secrets to relatives. A Saudi senior auditor stressed this point:

I mean the client tends to give more information to a non-Saudi than to a Saudi and this depends from place to place. With medium and small businesses they usually say Saudis may do the business by themselves, but with big companies they may be afraid the information will be sold.

While audit clients do not fully trust Saudi national auditors, non-Saudi national auditors are less trusted and mostly denied access to information on the client held externally. The application of the BRA approach requires some information from public sources such as information about the industry, the economy and so on. In some countries, these types of information are easily accessible for most people, but in a closed and conservative society such the Saudi society these types of information are accessible, if they are available, from specific agencies within the country's governmental control. In most cases, the access to such information is restricted and non-Saudi nationals are less likely to get easy access. A non-Saudi senior auditor articulated:

The unavailability of agencies that you refer to... to get the necessary information to evaluate the industry, its risks, the profit indicators of the industry in comparison to what exists in Western countries. You know, even if this information exists, it may not be available to the public; it may only be available to some people.

This paradox creates significant difficulty for a proper use of the BRA approach. The BRA approach requires significant involvement of senior professionals (e.g. partners and audit managers) who are knowledgeable in the business environment, able to interpret business risks and more able to help clients in managing their businesses. But because those professionals are more likely to be Saudi nationals, they are less likely to get easy access to the client held internally information. In contrast, non-Saudi nationals are more likely to be given access to client's internal information but they are less knowledgeable in the business environment, less likely to be in a position to help clients (e.g. interpret the surrounding business risks), and less able to get access to public information. Thus, Saudi and non-Saudi national auditors may be in different positions with respect to getting access to information and such differences could have implications for the application of the BRA approach.

Finally, such difficulties leave a question of whether the IAA firms act on overcoming such difficulties or let the ground speak for itself and audit procedures being tailored on their professional judgment. If fact, though of these practical and environmental difficulties confronting the application of the ABR approach in the LDCs, the reactions or responses of the IAA firms were trivial. Most of the procedures which were taken by audit firms to put the new audit approach in operation were normal and very common with most international audit firms. No specific serious programme was tailored to really implement the new approach or to overcome difficulties. Programmes for the dissemination started with a series of courses and seminars, which are common among international firms. An audit manager described this process as follows:

We used training: locally and internationally. First, there was a group sent abroad ... they attended training courses about the new approach. When they came back, they conducted training courses for us about the new approach.

Third; what is good for the west is good for the rest: audit society' negotiation

As we have seen in the last two subsections, some of the IAA firms have officially introduced the BRA approach to the audit market of Saudi Arabia. However, significant realities of audit practice confronted its implementation and application in the grounds. The reported struggle in the technical application of the BRA approach, however, does not prevent IAA firms in utilising their international affiliation to claim the internationalisation and modernisation of their used audit approaches in order to negotiate its superior international status within its less developed audit society. The claim of internationalisation and modernisation of audit approaches might be seen as a definition or

redefinition of a claim of knowledge through which international affiliated audit firms negotiate its status and jurisdiction (Abbott 1988).

Modernisation theorists argue that the western (developed countries) model should be followed by LDCs as guidance for developments (Stephens et al. 1998). In this vein, a well known modernisation theorist, Walt Whitman Rostow (1965) says "what is good for the west is good for the rest". This general view of the superiority of the western model has a significant impact on societies of LDCs who are embraced by the advancement, experience, richness, and vast sources of rich in developed western countries.

Latour (1987) argues that the historical domination of developed countries over the affairs of developing countries and the admiration of societies in developing countries on the civilisation of developed nations might be used by the international affiliated audit firms to legitimise and enrol allies in the institutional environment about its claims.

The claim of internationalisation is always brought on by IAA firms working in the Saudi audit market regardless of the actually locally used audit approaches. As an example, one of these firms described itself as "*Leading the way in the Middle East*" and further described:

We, as a worldwide firm, work with our clients to manage business transformations and "win the battle", in all four corners of the world. The Middle East is no exception. We have the specialist knowledge and experience to know that our solutions will work and that what we advise, we can implement. Together, we can all play our part in the next chapter of success in the Middle East.

The definition of the international affiliation might be observed through the dedication of a partner in one of the IAA firms who articulated:

We are originally an American company. We have our own standards. In America, the profession has been for long time. It is very well developed.

The claim of the internationalisation is more likely to convey to audit society meanings such as quality, advancement and superiority to serve some important non-technical functions such as marketing, separation from other local non-international audit firms and establishment of superiority over local regulations.

Marketing is an important function of claiming the use of an international audit approach whether it is actually and strictly followed or most of its parts are left for professional judgments, within the surrounding environment. Western professional practices are seen by Saudi society as superior and optimal model for guidance. This could be easily understood from the historical domination and impact of developed countries (especially, U.S) over the affairs of Saudi Arabia and the general admiration of

the Saudi society on the advancement of the western business and professional practices, as it has been asserted in section V above (see also, Shinawi and Crum 1971; Kahlid 1983; Aba-Alkhail 2001).

In this vein, Al-Humaid (1995) argued that the international name and reputation of audit firms are important factors in identifying the quality of an audit in the Saudi audit market. Similarly, Al-Mudhaf (1990) reported that audit service users in Kuwait perceive financial statements audited by international affiliated audit firms are more credible than those audited by firms not having such affiliation (local firm).

The attractiveness of the international logo to Saudi clients was prompted by almost all the interviewees from both types of audit firms (without and with international affiliation) as follow:

No we do not have an international link....this is the reason why we lose so much clients. (An audit manager from local audit firms)

Clients repeatedly ask us whether we have an affiliation with an international firm or not. (An audit manger from local audit firms)

We have proposed in several engagements but we were rejected because they wanted international audit firm, or the financing party wanted an international audit firm. (An audit manager from local audit firms).

Let me say to you some clients can not be audited by local firms because they do not have support for businesses, employees... (An auditor from international affiliated firm)

Satisfying clients; we have many clients who say we deal with you because banks imposed us to deal with you. (A Senior auditor from international affiliated firm).

You know, banks have specific classification of audit firms in Saudi, they have specific ranking of offices, and they do not recommend local offices (An audit manager from international affiliated firm).

Previous literature has frequently report such behaviour within big-five vs. non-big five (Humphrey et al. 2003; Jeppesen 1998), but in LDCs such distinguishing behaviour can also be assumed among those with an international link vs. that without out such affiliation.

To conclude, believes of the superiority and quality of business practice given to the western business practice within Saudi audit society work as a proxy or a greed reference of the advantages of audit firms with an international link. This is supported by the lack of reliable and alternative measurement of audit quality, the serious need for moving forward with the developed world, the undue rely on the developed countries in developments and the manifest and positive perceptions or admiration on the business practice of western countries. IAA firms' claim of

internationalisation and modernisation of audit approaches might be seen as a definition or redefinition of a claim of knowledge through which international affiliated audit firms negotiate its status and jurisdiction (Abbott 1988).

Conclusions

The study found that the BRA approach has been introduced to the Saudi audit market by some of the IAA firms. It, however, revealed significant factors that prevent successful implementation and beneficial use of the BRA approach. The problems preventing a successful implementation of the approach result from numerous environmental factors relating to the general nature of audit markets in LDCs. The struggle of the implementation, however, does not prevent those IAA firms to claim their superiority by asserting their link to well-developed nations. Such claim is utilised as a definition of knowledge and advancement. Attracting clients in the LDCs, who are well-convinced that the western practice is the best model to follow, is found to be the most important function of the claim of the international link. These findings lead to the following concluding comments.

The potential for global audit quality¹³

International audit firms frequently assert that their audit approaches provide similar audit quality worldwide (Hanson 1989; KPMG 1999; Winograd et al. 2000; Andersen 2002; Ernst & Young 2003). Similarly, international standards on auditing are promoted with the desired intention of enhancing consistent worldwide audit practice. Within this line of argument, the BRA approach has been endorsed as an approach designed to enhance consistency in worldwide audit approach and quality (i.e. Bell et al. 1997; KPMG 1999; Lemon et al. 2000). However, the dissemination of the BRA approach in the Saudi audit market provides evidence of the difficulties that might result from environmental factors. These findings leave substantial doubt about the achievement of consistent worldwide audit practice whether by means of international audit firms' efforts or by the IAASB's standards.

The formal introduction of audit approaches (in the form of audit manuals or instructions) designed in developed countries to LDCs is achievable within international affiliated audit firms' efforts. However, in LDCs the economy, the business practices, the nature of the stock market, the financing system, the nature of audit clients, client management, professional education and the culture of countries were highlighted as important factors in identifying or affecting the application of imported audit approaches.

These findings have important implications on the continuing debate about standardisation of worldwide audit practice vs. standards emphasising judgments and consideration of audit circumstances. The standards issued by the IAASB in October 2003

to respond to the developments in international audit firms' methodologies towards the BRA approach (effective for audits of financial statements for periods on or after December 2004) allow practitioners to apply either the BRA approach or the traditional audit risk model, although the standards do require more explicit consideration and understanding of the business and its risks than previously. Practitioners may choose to follow their traditional procedures if they believe that the traditional procedures are more efficient for them. The findings of this study suggest that it is likely that practitioners in developing countries would not strictly follow the requirements of these standards because of their environment.

Social functions of audit approaches

The findings of the study provide evidence about the social function of audit approaches in LDCs. The paper argues that the found difficulties in applying the BRA approach did not prevent the IAA firms from claiming the use of an international modern audit approaches similar to those used in the developed countries. In LDCs the use of such definition of knowledge provides IAA firms an important tool to attract clients and negotiate with their audit society the advancement of their practices in comparison to the local less developed practices. Such claims imply the view which says "what is good for the west is good for the rest". This articulated by believes of the superiority and quality of business practice given to the western business practice within Saudi audit society as proxy or an greed reference of the advantages of audit firms with an international link. The lack of reliable and alternative measurement of audit quality, the serious need for moving forward with the developed world, the undue rely on the developed countries in developments and the manifest and positive perceptions or admiration on the business practice of western countries make such argument unchangeable. This is evident by the strong affirmation of the IAA firms, in their negotiation with their society, their international affiliation.

These findings contest the mainstream theory or view of audit approaches and techniques which assume that profession and its practices are technical procedures carried out by profession with the necessary experience to serve the public interest. In the other side, these findings are consistent with a competing theory or view of audit approaches and technologies. The competing theory of audit approaches and technologies asserts the need to take into consideration the environment where the audit profession being discharged and argued that audit and its practices have social functions as well as technical functions. It describes that audit procedures are not merely natural techniques capable of transfer and dissemination (in the form of manuals and instructions) to different environments. Audit manuals might resemble the worldwide audit manual of the global audit approach of the large international firm, but in the local environments auditors could shelve

significant parts of such a manual because of facts on the ground and work according to his or her professional judgments. More over audit procedures have technical as well as social functions which should be brought into consideration.

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Table 1
Interviewees' backgrounds

	Big-five audit firms	International non-big-five audit firms	Local audit firms	Total
Number of interviewees (Total):	26	11	12	49
Age of interviewee (Details):				
Less than 27 years	4			4
27-34 years	6	1	4	11
35- 42 years	8	3	2	13
43-50 years	5	3	3	11
51-58 years	2	2	3	7
Older than 58 years	1	2		3
Experience of interviewee(Details):				
0-4 years	4		2	6
5-8 years	7		1	8
9-12 years	5	2	2	9
13-16 years	4	3	1	8
17-20 years	1	5	2	8
More than 20 years	5	1	4	10
Position of interviewee(Details):				
Assistant	3			3
Auditor	1		4	5
Senior auditor	6	1	2	9
Audit manager	11	8	4	23
Partner/ owner	5	2	2	9
Nationality of interviewees(Details):				
Non-Saudi	17	10	10	37
Saudi	9	1	2	12

Table 2
Number of audit firms, professional fees and number of employees

Audit firms (Annual income)	Number of audit firms	Professional fees, Million SR (\$1= 3.75 SR)		Employees	
		Amount	%	Number	%
30 million SR or more	4	217	62%	393	28.9%
10 to 29.9 million SR	2	23	6%	114	8.4%
5 to 9.9 million SR	5	35	10%	174	12.8%
Less than 5 million SR	97	77	22%	678	49.9%
Total	108	352	100%	1359	100%

Source: SOCPA (Saudi Organization for Certified Public Accountants) News Letter (2000c).

Table 3
Customers and fees of Saudi firms' professional services

Professional services	Clients		Fees, Million SR (\$1= 3.75 SR)	
	Number	%	Amount	%
Audit	10,187	61%	247	70%
Consultancy	236	1%	23	7%
Zakat ¹ and Tax	2,209	14%	51	14%
Other	3,918	24%	31	9%
Total	16,550	100%	352	100%

Source: SOCPA (Saudi Organization for Certified Public Accountants) News Letter (2000c).

Table 4
Businesses registered with the Ministry of Commerce (end 2000)

Businesses	Number	%	Capital Million Saudi Riyals (\$1= 3.75 SR)	%
Companies	116	1.14	72,982.7	46.2
Partnership businesses	10,049	98.85	84,997.3	53.8
Total	10,165	100	157,980.00	100

Source: SAMA (Saudi Arabian Monetary Agency) annual report (2001), assembled by the author.

¹ This shall make clear that arguments about the actual application of the approach itself is beyond this research but the change of audit methodologies in general as innovation brought to LDCs.

² At the time of collecting the data there were five big audit firms.

³ Nevertheless there are some arguments about the substantial of these differences between audit approaches (Jeppesen, K. 1998).

⁴ Previous studies have argued that factors such as political, social and economical systems surrounding professional practices have the ability to shape such practice (Hove, M. 1986).

⁵ A joint-stock company is the regular form of corporation, with capital divided into equal shares without naming shareholders, who are liable only to the extent of the value of their shares. A limited liability company is composed of at least two but no more than fifty partners liable for the company's debt, each to the extent of his or her contribution to the company's capital stock. A partnership limited by shares is an association of two different parties: one party consisting of no less than one active partner liable for the partnership's debts to the full extent of his or her assets, and a second party consisting of no less than four shareholders liable for the partnership's debts only to the extent of their contribution to the corporate capital stock. The Law differs between a partnership limited by shares and the other forms of partnership in that it restricts the minimum number of partners who can form a partnership limited by shares. It stipulates that no less than four partners or shareholders can perform a partnership limited by shares, while it states that two or more partners can operate through other types of partnership. The main difference between a partnership limited by shares and a limited liability company is that a partnership limited by shares must have at least one active partner liable for the partnership's debts to the full extent of his or her assets, while a limited liability company is formed without such an active partner. In a limited liability company all partners are liable for the company's debt only to the extent of their shares in the company's assets. A limited liability company also differs from a joint-stock company in the number of shareholders. The Law restricts the number of shareholders in a limited liability company to no more than fifty shareholders, while it gives no restrictions for the number of shareholders in a joint-stock company.

⁶ For example, the Regulation of the Certified Public Accountants' Law 1991 requires citizenship for licensing. The Ministerial Order No. 993 issued in 1994 provides several forms where non-Saudis can join licensed Saudis in providing audit services, such as professional partnership, federation membership, an association of international organisation, etc. (SOCPA, 2000d).

⁷ For example, all big-five audit firms and international non-big five, such as Grant Thornton International, Moores Rowland, Horwath International, Baker Tilly International, are represented in the Saudi audit market.

⁸ There some studies which question the actual use of the BRA approach in developed countries. For example, Robson et al. () reported that the new approach is far from being fully adopted. Curtis and Turley (2007) reported that although the claim being made about the adoption of the BRA approach, the risk based audit is still used in the practice.

⁹ In accordance with the Shariah (Islamic Law), it is a religious duty and about 2.5% of the net worth of individuals who own at least a specific amount of wealth. Currently, the government collects Zakat from Saudis and Gulf Council Countries nationals, both companies (wholly Saudi or GCC-owned) and individuals, and their shares of the companies owned jointly with foreigners. Taxes are collected from other individuals' shares of profits in either wholly or partially-owned foreign companies.

¹⁰ Total audit fees/ number of audits = 247,000,000/10,187= SR 24,247

¹¹ For example, such an average audit fee is much lower than the cost of a new small economic car (e.g. Hyundai), which costs no less than \$10,000 in Saudi Arabia.

¹² 108 audit firms X 52 weeks /10,187 audits= .55 (a 1/2 week).

¹³ Big-five audit firms are frequently linked to higher audit quality. However, it is difficult to define and/or to measure audit quality (see, for example, Moizer, 1992). This study does not provide judgement on audit quality but focuses on the possibility of achieving consistent worldwide audit by IAA firms.