

The reality of external auditing of the Arab Maghreb countries under the International Standards on Auditing (ISAs)

- Case study of Algeria, Tunisia and Morocco -

واقع التدقيق الخارجي لدول المغرب العربي في ظل المعايير الدولية للتدقيق (ISAs)

- دراسة حالة الجزائر، تونس والمغرب -

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Abstract:

This research aims to shed light on the various reforms undertaken by some Maghreb countries on the external audit system through identifying the reflections of International Standards on Auditing (ISAs) on the local audit environment of Algeria, Tunisia and Morocco.

The descriptive analytical approach was used to study the situation of these countries in the Maghreb. Therefore, the main result of this research is that each of these countries seeks to make their local environment for external auditing compatible with the international audit environment.

Keywords: The external audit system; International Standards on Auditing; the local audit environment; the international audit environment.

Résumé:

Cette recherche a pour but de faire la lumière sur les diverses réformes entreprises par certains pays du Maghreb sur le système d'audit externe en identifiant les réflexions des Normes Internationales d'Audit (ISAs) sur l'environnement d'audit local en Algérie, en Tunisie et au Maroc.

L'approche analytique descriptive a été utilisée pour étudier la situation de ces pays au Maghreb. Par conséquent, le principal résultat de cette recherche est que chacun de ces pays cherche à rendre son environnement local d'audit externe compatible avec l'environnement d'audit international.

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Mots-clés : le système d'audit externe; Normes Internationales d'Audit ; environnement local d'audit ; l'environnement d'audit international.

ملخص:

تسلط هذه الورقة البحثية الضوء على مختلف الإصلاحات التي قامت بها بعض الدول المغاربية على منظومة التدقيق الخارجي، وذلك من خلال التعرف على انعكاسات المعايير الدولية للتدقيق (ISAs) على بيئة التدقيق المحلية للجزائر، تونس والمغرب.

حيث أنه تم استخدام المنهج الوصفي التحليلي لدراسة حالة هذه الدول المغاربية، ومن أهم النتائج المستخلصة من هذا البحث هو أنه كل من هذه الدول تسعى لجعل بيئتها المحلية للتدقيق الخارجي متوافقة مع البيئة الدولية للتدقيق.

الكلمات المفتاحية : منظومة التدقيق الخارجي؛ المعايير الدولية للتدقيق (ISA)؛ بيئة التدقيق المحلية؛ البيئة الدولية للتدقيق.

I- Introduction :

The Arab Maghreb countries have influenced by the changes that taken place in the global audit environment, the most important of these changes is the issuance of International Standards on Auditing (ISAs). These latter are developed by the International Federation of Accountants (IFAC). Besides, the efforts of the International Federation of Accountants, founded in 1977, are directed towards developing the professional services for external auditors at the national and international levels. Moreover, the standard-setting activities of the IFAC are performed by the International Auditing and Assurance Standards Board (IAASB). Nowadays, many developing countries (including Arab Maghreb countries) follow the global trend of audit reforms after the changing that happened in the audit methodology as well as the international technical, ethical and educational guidelines for auditors. Based on foregoing, the study problem can be represented by the following question:

What is the effect of international auditing standards on the local audit environment in Algeria, Tunisia and Morocco?

I.1.Research importance:

The external audit system in the Arab Maghreb countries face many challenges posed by the conditions of globalization, economic openness and the tremendous progress in field of accounting and auditing. Therefore, the importance of this research emerges from the significance of audit reforms and their impacts on the external audit profession in The Arab Maghreb countries.

I.2.Research objectives:

This study aims to provide an in-depth understanding the current auditing regulatory framework of the Arab Maghreb countries. Furthermore, it aims to

examine the factors that contributed to the adoption of the International Standards on Auditing.

I.3. Research Methodology:

The descriptive analytical approach has been used in this research as the research was divided into three parts:

First part: the professional organization of the external audit practices in Algeria, Tunisia and Morocco.

Second part: International Standards on Auditing.

Third part: the reflections of the International Standards on Auditing on the Local Environment of Algeria, Tunisia, and Morocco.

I.4. Previous studies:

- Study of (TAMAR, 2017) entitled “The external auditing profession in Algeria and comparing with the Maghreb countries (Algeria, Tunisia and Morocco)”. This study aimed to determine the external audit regulatory framework in Algeria and its compared with the neighboring countries (Tunisia and Morocco) .Moreover, it showed different aspects of the audit professional environment in this Maghreb countries. The Results of the study have shown that the Maghreb countries have some common features like historical ones, as practiced in accordance with French law, which was inspired by its laws still applied .Besides, the audit profession continues to suffer substantial deficit in terms of the specialized knowledge that must be acquired by practicing the profession compared to the developed countries.

-Study of (Zakari, 2013) entitled “Accounting and auditing in developing countries- Arab countries-”. This paper aimed to examine the role and significance of accounting and auditing in developing countries and it attempted to show how effective accounting and auditing help in promoting and supporting national competitiveness in today’s globalized and complex world for the national economy. The Results of the study have found that accounting systems and auditing procedures in most Arab countries were designed to cater for the needs of centrally planned economy and they are currently struggling to keep pace with the developed world.

II– The professional organization of the external audit practices in Algeria, Tunisia and Morocco:

The general framework of the external audit profession which govern these countries as following:

Table (1): Summary of the most important elements of General framework of professional practice in Algeria, Tunisia and Morocco

Items	Algeria	Tunisia	Morocco
	General framework of professional practice		
The General Conditions	<ul style="list-style-type: none"> -Only Algerians -The practice as independently only -Accreditation from the Ministry of Finance -Registered in the table 	<ul style="list-style-type: none"> -Tunisians and foreigners -The practice as independently only - Registered in the table 	<ul style="list-style-type: none"> - Moroccans and foreigners --The practice as independently or as employee. - Registered in the table
The specific knowledge	<p>Certified Accountant Expert:</p> <ul style="list-style-type: none"> - Bachelor of Financial Sciences and other degrees - Training for two years <p>The auditor's accreditation:</p> <ul style="list-style-type: none"> -Many certificates without any specialized field -After the promulgation of Law No: 10/01, the training became available for each category. 	<p>-Certified Accountant Expert:</p> <ul style="list-style-type: none"> - Enter the training by the exam - Theoretical training(one year) - Practical training(three years) - Final exam -Dissertation (memorandum) - One certificate - Equivalent certificates with supplementary training. 	<p>-Certified Accountant Expert:</p> <ul style="list-style-type: none"> - Enter the training by the exam - Theoretical training and Practical training(three years) - Final exam - memorandum - Three certificates accepted to enter specialized training
Remuneration	The pay scale includes a minimum and a maximum	The pay scale includes a minimum only	Negotiation
Tasks(mission)	Permanent and special tasks	<ul style="list-style-type: none"> - Permanent and special tasks - Central Bank Reports and Capital Market Authority 	Permanent and special tasks

The appointment and termination of the tasks	-General Assembly -President of the court	- General Assembly - Emergency judge - Capital Market Authority	- General Assembly -President of the court
The involved companies	Some commercial companies	All commercial companies	All Some commercial companies
The Auditors	External auditor(contractual and legal) - Statutory audits(legal).	External auditor	External auditor
The auditor's mandate	Three-years term renewable once	Nine years and more	- Three years without limits - when the creation one year
The obligation to appoint more than one auditor	Financial institutions and banks	-Insurance companies -Loan -Consolidated Financial Statements -Issuance of bonds -in the case of commitment and Pledges.	- banks - Loan, insurance, capitalization and investment companies. - Public use of savings
	The professional organizations		
The organized body	Three bodies of the Ministry of Finance	- Accountants Expert Body (Ordre des Experts Comptables de Tunisie)	- Accountants Expert Body (Ordre des Experts Comptables du Royaume du Maroc)
The Committees	Permanent committees of the National Accounting Board	Permanent and temporary committees which under authority of Accountants Expert Body	Permanent committees which under authority of Accountants Expert Body

The regional boards	Four boards	Three boards	Seven boards
The professional standards			
The issuing authority	Executive bodies	Accountants Expert Body's Board	Accountants Expert Body's Board
The standards guide	The executive and legal texts and the instructions	International Standards on Auditing	A national standards guide that harmonizes with International Standards on Auditing
The professional ethics			
The constitution's type	Executive Decree, law of Professional Ethics	decision of the Ministry of Finance, Code of Ethics	Code of Ethics
The constitution's source	Ministry of Finance	Accountants Expert Body's National Board	Accountants Expert Body's National Board
The axes of constitution	duties and rights	Duties, rights and relations	Ethical principles, relations, the cases of contradictions and the rules of independence and monitor the professional activity

Source: (CHERIGUI, 2013, pp. 354-355)

The accounting profession was first regulated in Tunisia, by Law No. 59-129 of October 5, 1959 promulgating of the commercial code. Since then, several events have marked the profession of which we observe the law n ° 82-62 of June 30th, 1982 which established a incompatibility between the profession of accountant expert and that of Statutory Auditor, Law No. 2000-93 of 03 November 2000 having introduced several novelties giving rise to deep changes in the aspects governing the status of the auditor (Kais, 2017, pp. 786-787). However, This distinction between auditor and accountant does not exist in Anglo-Saxon countries such as the United States (in these countries the contractual audit is more widespread than the legal audit) (Omri, Ghorbel , & Triki Baklouti, 2009, p. 3). Besides, we can consider that the year 1990 as a year of change and organization of the accounting profession and expertise in Morocco: The national Diploma of accounting expert is created by decree n ° 2-89-519 of 16 July 1990, this diploma is the the result of collaboration between

professionals and public authorities. In the absence of a representative body for the profession, the Minister of Finance has set up a committee composed of 10 certified accountants who are involved in setting up and implementing this training. The course, containing three years of theoretical courses (taught by the Higher Institute of Commerce and Business Administration under the supervision of the Ministry of Industry and Handicrafts), sanctioned by annual examinations and the defense of A dissertation at the end of the probation period (3 years) (Eddine, 2017, p. 1334). In addition to these countries, the audit profession in Algeria was not well organized until 2010; the Algerian government has imposed a series of reforms in this year through Law No. 10/10 on the profession of external auditing in Algeria (AMOURA, 2011, p. 2).

III :International Standards on Auditing:

This item will address the Definition of auditing standards, the new clarity forma and the publication of International Standards on Auditing.

III.1.Definition of the auditing standards:

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. They include consideration of professional qualities such as competence and independence, reporting requirements and evidence (A.Arens, J. Elder, & S. Beasley, 2014, p. 32). Audit standards issued by professional Organizations such as the International Auditing and Assurance Standards Board (IAASB) which can be contributed to increasing public confidence or public trust in the audit profession (American Institute of Certified Public Accountants, 2019, p. 6) .

III.2.The new structure adopted in the issuance of International Standards on Auditing:

The new format reorganizes all standards into a uniform format, with these sections:

Table (2): The new clarity format

items	The standard elements
Introduction	This section explains the purpose and scope of the standard
Objective	This section defines the context in which the requirements are set
Definitions	This section explains the meaning of specific terms used in the standard, where applicable
Requirements	This section sets forth what the auditor is required to do to

	<p>meet the objectives of the standard. Requirements are expressed using two words: “must” and “should.” The word “must” indicates an unconditional requirement that the auditor is required to satisfy in all circumstances in which it is applicable. The word “should” indicates a presumptively mandatory requirement. The auditor is required to satisfy presumptively mandatory requirements except in rare circumstances when the auditor documents a justification for the departure, such as that it is not effective or economical to apply the requirement, and can demonstrate that other procedures satisfy its intent.</p>
Application and Other Explanatory Material	<p>This section contains paragraphs which are cross-referenced to the related requirements. They provide additional guidance and explanation for carrying out the requirements of the standard. The “Application and Other Explanatory Material” section is an integral part of each standard. Even though this section contains no requirements, auditors should read and understand the entire text of this section, and should be prepared to justify departures From it in their work.</p>
Exhibits	<p>Exhibits are interpretive publications, not auditing standards. They are recommendations on the application of auditing standards in particular circumstances or for specialized industries. Auditors are required to consider applicable interpretive publications in planning and performing an audit.</p>
Special considerations.	<p>Where appropriate, the clarified standards contain special considerations that apply to smaller, less complex entities and to Governmental entities.</p>

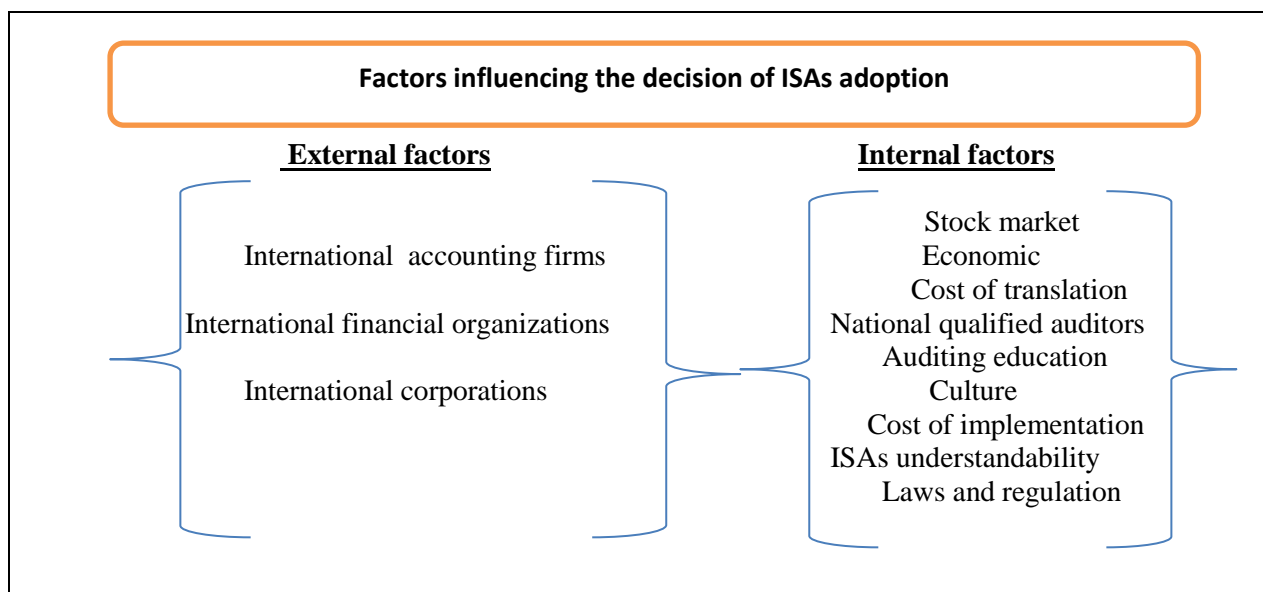
Source: (Henderson, 2012, pp. 130-131).

III.3.The publication of International Standards on Auditing:

International Federation of Accountants (IFAC) has long recognized that a fundamental way to protect the public interest is to develop, promote, and enforce internationally recognized standards as a means of ensuring the credibility of information upon which investors and other stakeholders depend (International Federation of Accountants (IFAC), 2010, p. 3).However; International Standards on Auditing (ISAs) are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

There are a number of factors that affect the adoption of ISAs and we could identify these elements in the following figure:

Figure (1): Identified Factors that have Influence on the ISAs Adoption



Source: (Eltweri, 2015, p. 91)

The International Standards on Auditing have also undergone several amendments since their issuance to date. Whatever, we will display the standards issued until up to the latest update in the following table:

Table (3): The list of the International Standards on Auditing

The number of the standard	The name of the standard
General Principals And Responsibilities	
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
210	Agreeing the Terms of Audit Engagements
220	Quality Control for an Audit of Financial Statements
230	Audit Documentation
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
260	Communication with Those Charged with Governance
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
Risk Assessment and Response to Assessed Risks	
300	Planning an Audit of Financial Statements

315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
320	Materiality in Planning and Performing an Audit
330	The Auditor's Responses to Assessed Risks
402	Audit Considerations Relating to an Entity Using a Service Organization
450	Evaluation of Misstatements Identified during the Audit
Audit Evidence	
500	Audit Evidence
501	Audit Evidence-Specific Considerations for Selected Items
505	External Confirmations
510	Initial Audit Engagements-Opening Balances
520	Analytical Procedures
530	Audit Sampling
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
550	Related Parties
560	Subsequent Events
570	Going Concern
580	Written Representations
Using The Work of Others	
600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)
610	Using the Work of Internal Auditors
620	Using the Work of an Auditor's Expert
Audit Conclusions and Reporting	
700	Forming an Opinion and Reporting on Financial Statements
701	Communicating Key Audit Matters in the Independent Auditor's Report
705	Modifications to the Opinion in the Independent Auditor's Report
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
710	Comparative Information-Corresponding Figures and Comparative Financial Statements
720	The Auditor's Responsibilities Relating to Other Information
Specialized Areas	
800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
810	Engagements to Report on Summary Financial Statements

Source: (International Auditing and Assurance Standards Board (IAASB), 2018, p. 3)

IV- the reflections of the International Standards on Auditing on the Local Environment of Algeria, Tunisia, and Morocco:

We could illustrate the reflections of the international environment of external auditing on the local environment of Algeria, Tunisia, and Morocco in the following table:

Table (4): The audit environment of Maghreb Countries and International Standards on Auditing (ISAs)

The countries	The audit environment
<p>Algeria</p>	<p>The National Accounting Council is responsible for issuing Algerian auditing standards. These latter acts under the authority of the Ministry of Finance. However, The Algerian Auditing Standards issued so far have come in the form of ministerial decisions as follows:</p> <ul style="list-style-type: none"> - Decision N0: 02 of February 2016 which contains Algerian Audit Standards (210, 505, 560, and 580). - Decision N0: 150 of October 2016 which contains Algerian Audit Standards (300, 500, 510, and 700). - Decision N0:23 of March 2017 which contains Algerian Audit Standards (520, 570, 610, and 620). - Decision N0:77of September 2018 which contains Algerian Audit Standards (230, 501, 530, and 540). <p>It should also be noted that Algerian Auditing Standards are inspired by International Auditing Standards. Moreover, The International Standards on Auditing (ISAs) are now being taught to both academics and professionals in the field of accounting and auditing.</p>
<p>Tunisia</p>	<p>The OECT (Ordre des Experts Comptables de Tunisie) is responsible for defining and drafting the applicable auditing standards subject to approval by the Ministry of Finance. In November 2016, OECT reports that it adopted the 2016 ISA as issued by the IAASB and translated into French by CPA Canada. The version becomes effective beginning December 15, 2017 although early application is recommended.</p> <p>OECT has detailed the process its Standards Committee has established to adopting ISA and other IAASB pronouncements on an ongoing basis. In general, OECT adopts ISA as issued by the IAASB and translated by CPA Canada or IBE-IRE; however, it will set up a task force whenever a significant change is introduced—for example, the new auditor report. The OECT indicates that its Standards Committee and technical team would</p>

	<p>benefit from additional resources and financing to fully implement its planned actions. It reports it has prepared a financing request and submitted this to the World Bank and the African Development Bank.</p> <p>OECT notes that the World Bank is assisting the Ministry of Finance with a study related to the reform of audit and accounting profession, which covers a wide range of topics and may lead to major changes in the standard-setting process, among other areas. A draft report with recommendations was submitted to the Ministry in October 2015 and as of June 2017, OECT indicates that the draft is still under discussion due to government transitions.</p> <p>In addition to its work on adopting and updating the applicable auditing standards, OECT also supports the implementation of the standards by delivering trainings, seminars, and other workshops for its members, and raising awareness about existing and new IAASB pronouncements. After the adoption of the updated standards, OECT reports that it reviewed its continuing professional development program to incorporate the updated standards. OECT notes that from May 2016–January 2017, it has held three workshops on the new auditor reporting standards and has other trainings on this topic planned for the remainder of 2017. Additionally, its Standards Committee prepared a guidance piece on the new audit report in French and circulated it to all OECT members.</p> <p>Lastly, the OECT states that it reviews and disseminates exposure drafts issued by the IAASB to request comments from its members.</p> <p>In its next Action Plan submission, OECT is encouraged to provide an update on the reform of audit and accounting profession and any changes in the standard-setting process.</p>
Morocco	<p>OEC-Morocco (Ordre des Experts Comptables de Morocco) has direct responsibility for the adoption of auditing standards and has adopted Clarified ISA for application in all contractual audit engagements while it is working towards its stated objective of converging the Moroccan Standards on Auditing with ISA for statutory audits by December 2017. The institute monitors its members' application of the Moroccan Standards on Auditing through its quality assurance review system.</p> <p>As part of the convergence process, the institute has a formal agreement with Fédération Internationale des Experts Comptables et Commissaires aux Comptes Francophones (the International Federation of Francophone Accountants) to have regular access to</p>

translated IAASB pronouncements and other papers to update the Moroccan Standards on Auditing and established an International Standard-setting Committee to monitor and review developments to the translated standards.

Additionally, OEC-Morocco disseminates Exposure Drafts of the Moroccan Standards on Auditing to obtain comments from members in order to assess their impact on implementation. To further assist members with implementation, OEC-Morocco informs members about the activities of the International Standard-setting Committee and IAASB pronouncements on a monthly basis. The institute also hosts continuing professional development events and training programs on ISA and works to ensure that ISA is included in its initial professional development program.

In its Action Plan, OEC-Morocco is encouraged provide recent and planned examples of trainings and learning activities it undertakes to support its members with the implementation of the applicable auditing standards. Additionally, it is encouraged to include examples of dissemination mechanisms in its Action Plan such as emails, newsletters, and/or its website. In its next Action Plan submission, OEC-Morocco is encouraged to provide an update on the status of converging the Moroccan Standards on Auditing with ISA for application in all statutory audits.

Source: Prepared by the researcher based on (<https://www.ifac.org>, 2019)

V- Conclusion:

The conclusion that can be drawn from the above is that external auditing is conducted in diverse legal, political and cultural environments; while differences may affect the professional practices of external auditing in each environment. Therefore, the conformance with the international Standards on Auditing (ISAs) is very important essential to make the Convergence in the conceptual framework governing the audit profession and the external audit activity.

In spite of the important reforms which undertaken by the Maghreb countries' governments in the field of external auditing, the auditing profession's regulation in these countries is considered insufficient nationally and internationally, compared to the professional services of external auditing at the international level which is witnessing a remarkable development.

VI- Recommendations:

Based on this study, we recommend the following points:

- There are still some challenges militating against the success adoption and implementation of international Standards on Auditing in the Arab Maghreb countries as the lack of quality external auditors training. Therefore, it should open the door for the Arab competencies to enter the profession in the same way that adopted in developed countries such as the Certified Public Accountant (CPA) in the USA and Canada.
- It's very important to make the regulatory laws of the external audit profession in the Arab Maghreb countries more flexible in order to keep pace with the developments in International Standards on Auditing (ISAs).
- we should work to make the local audit environment in the Maghreb countries more open to international audit offices in order to make the local professional services of external audit more compatible with the global audit environment.

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