

# **CHAPTER I**

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### 1.1 Background

Audit quality is a fundamental element of financial integrity, transparency, and public confidence in both the private and public sectors, as it demonstrates an auditor's capacity to identify significant misstatements in the financial statements of the audited entity (Kurniawan, 2023). International Auditing and Assurance Standards Board (IAASB, 2020) defines the concept of 'audit quality' as comprising the fundamental components that establish an environment, which enhances the probability that high-calibre audits are conducted accurately and uniformly. High audit quality means auditors conduct audits with integrity, as it provides a rational representation of a company's financial statements, operations, or compliance status. Surya et al. (2021) revealed that a good audit is accurate, objective, impartial, and fosters stakeholders' confidence, while Darmawan (2023) asserts that a decline in audit quality jeopardizes stakeholder trust, distorts economic decision-making, and can trigger severe economic and societal repercussions. Auditors, as vigilant watchdogs, are mandated to possess specialized skills and personal attributes, which include independence, professional competence, ethical professionalism, and a skeptical mindset; these, coupled with other characteristics, provide the auditor with an advantage in identifying significant misstatements in the financial statements.

Internationally, the standard of auditing has come under intense scrutiny following high-profile corporate collapses such as Enron, WorldCom, and Wirecard, in which poor audit work has undermined confidence in the profession. Fallout from these scandals has resulted in significant changes, such as the U.S. Sarbanes–Oxley Act (U.S.

Congress, 2002) and the U.K. Brydon Review (Brydon, 2019), which were introduced to restore confidence and to increase auditor responsibility. Despite these and other reforms, public confidence in the audit profession remains unstable, as both regulators and society are at significant question whether auditors serve the public interest or just Client Management. These events emphasized the importance of strong auditor independence, professional expertise, ethical standards, critical skepticism, and auditor patriotism to support the credibility of the assurance exercise. Sarpong et al. (2024) argue that the root cause(s) of audit failure extend beyond the specific technical faults and include moral issues, ethical failings, business pressure, fee dependency, and a lack of skepticism.

Although studies on this topic are still underexplored in Africa compared to the rest of the world, few studies carried out in Sub-Saharan Africa have reported similar weaknesses to those reported globally. Studies conducted in Nigeria, Ghana, Kenya, and South Africa linked audit failures to several factors, including compromised independence, limited technical proficiency, and weak regulatory enforcement mechanisms (Ozili, 2021; Apreku-djan et al., 2022; 2020; Ullah et al., 2021). In South Africa, particularly, the Steinhoff International Accounting debacle and the KPMG–Gupta scandal in 2017 have significantly undermined public confidence in the accountancy profession. Research emanating from the region has shown that insufficient professional skepticism and deficient ethical conduct are among the factors responsible for audit failures (Kamau et al., 2023). Professional organizations and institutions, such as the Pan-African Federation of Accountants (PAFA) and national associations, have consequently strengthened their advocacy for enhanced education, integrity, and supervision to improve audit quality.

However, audit quality is not homogeneous worldwide; it is shaped by national institutional systems, regulatory enforcement intensity, professional culture, and socio-economic circumstances. Countries have different regulatory, professional, and cultural dynamics that affect the implementation of auditing standards in practice. In this regard, one should not rely solely on global evidence, as the demand for auditors is also influenced by context.

While many extensive studies have been conducted globally to explore audit quality, The Gambia has unique institutional and cultural characteristics that may influence audit practices, potentially different from those in other countries. The Gambia's accounting profession operates in a relatively small environment, in which close interpersonal and professional relationships may pose a threat to auditor independence. Long-tenured auditors who form strong bonds with client management over time may experience independence issues due to familiarity, potentially lowering the quality of their audits (Sarpong et al., 2024). Moreover, the National Audit Office and Public Accounts Committee reports on the dominance of the public sector and the recurring financial irregularities have highlighted the ongoing obstacles to financial accountability, transparency, and enforcement in The Gambia. These socio-cultural contexts suggest that the nature of audit quality in The Gambia cannot be fully understood until the impact of locally based professional competency and the effectiveness of the regulatory environment on auditor behavior or judgment is investigated.

In The Gambia, the issue of audit quality is particularly critical, which is driven by various factors including weak institutional enforcement, limited auditor independence, political interference, inconsistency in adhering to international standard,

lack of local standard to support audit procedures and limited auditor capacity. All of these issues collectively weakens credibility, reliability, relevance and timeliness of the audit outcomes, as well as reduces consistency, which in one way or the other affects investor confidence, public trust, accountability and transparency. The Gambia, like many other developing countries, depends on credible and reliable financial reporting to ensure public confidence and attract investment, even though its economy is largely driven by the growth of private-sector actors, donor-funded development projects, and the ongoing reform of publicly owned enterprises. Reliable auditing remains a vital tool for maintaining financial discipline, transparency, and accountability across these sectors.

However, recent national reports have revealed persistent weaknesses in the country's audit environment. According to the National Audit Office (NAO), The Gambia has repeatedly experienced shortcomings in financial management, delays in the submission of audited statements, and low adherence to international auditing standards (National Assembly of The Gambia, 2022). Similarly, the Public Accounts Committee (PAC) of the National Assembly has raised concerns over the ineffectiveness of audits of parastatals organizations (government-controlled enterprises) and public institutions, citing recurring irregularities and poor implementation of audit recommendations.

Audit quality in The Gambia is not only about compliance with statutory requirements but about ensuring integrity, objectivity, patriotism and public accountability. As a growing economy that depends significantly on external aid and foreign direct investment, the country must demonstrate transparency and sound financial governance to maintain the confidence of its development partners, yet,

systemic audit-quality challenges continue to constrain this effort. The 2021 Report of the Auditor General on the Financial Statements of State-Owned Enterprises identified recurring issues such as the lack of auditor rotation, insufficient audit evidence and documentation, and inconsistent application of international auditing standards (NAO, 2021). These findings highlight a broader set of audit-quality problems, including weak auditor independence, limited professional competence and training, inadequate ethical enforcement, and low professional skepticism in audit execution. Collectively, these factors suggest that audit quality issues in The Gambia are systemic and multidimensional, warranting rigorous scholarly examination to identify the determinants that most significantly influence audit performance and reliability.

In addition, there are a limited number of licensed auditors in Gambia, even fewer who specialize in auditing, and there are also issues with private and public audit institutions operating with constrained resources. The Gambia Institute of Chartered Accountants, (2021) has recognized that many practitioners struggle with staying up to date with changing international standards largely due to challenges relating to access to on-going professional education and technological resources. As a result, the demand for competent auditors increases workload pressures and potentially endangering the independence and quality of assurance engagements. Over the years, civil society and the media have occasionally expressed critical views on the credibility of audit reports, which is underpinned by the cumulative effect of such restrictions.

Therefore, examining the factors that determine audit quality in The Gambia is a professional and policy necessity. In this study, audit quality serves as the primary outcome, encompassing determinants associated with auditor independence, professional proficiency, ethical conduct, professional skepticism and patriotism.

Various determinants will focus on specific dimensions of auditor performance, and their integration to providing the reliability of audits as perceived by stakeholders. Although these are acknowledged as significant factors, evidence regarding how they are moderated within the context of The Gambia remains scarce. Such insights are important for policy-makers to formulate strategies that support and enhance the audit profession, which, in turn, serves the public interest; however, lack of insights creates a knowledge gap that restrains policy-makers' capacity to accomplish this issue.

The phenomenon that motivates this research stems from stakeholders' growing concern about the reliability and credibility of audit reports in The Gambia. Cases of audit failures and financial misstatements continue to emerge in the Gambia, which suggests that multiple organizational and auditor-related factors influence audit quality. To explain the phenomenon related to this research, determinants such as independence, competence, ethics, skepticism, and patriotism will be the focus points of this study.

Auditor independence is the foundation of audit integrity, as it ensures auditors deliver assessments free of bias or client influence; nonetheless, empirical evidence from the Gambia suggests that this paradigm is frequently undermined. Findings from the Public Accounts Committee and Public Enterprises Committee (PAC/PEC) spanning 2020 – 2022 disclosed that numerous state-owned enterprises, particularly the National Water and Electricity Company (NAWEC) and the Gambia Telecommunications Company (GAMTEL), have engaged the same external audit firms for prolonged periods, in some cases exceeding five to seven consecutive years. This situation contradicts the rotation principle embedded in international standards, such as ISA 220 and the IFAC Code of Ethics (IFAC, 2023), which recommend auditor rotation to preserve objectivity and prevent familiarity threats. In certain instances, the identical

firms rendered both statutory audit and consultancy services, thereby engendering self-review risks that directly erode independence. The National Audit Office (NAO, 2021) additionally warned that the lack of explicit auditor-rotation regulations in the private sector strengthens familiarity risk.

This observation underscores the importance of auditor independence in producing credible and reliable audit reports. Studies conducted in various regions have indicated the significance of auditor independence for audit quality; for instance, a study in Indonesia by Tjan et al. (2024) found that auditor independence plays a vital role in improving audit quality and that it positively and significantly affects audit quality. While such associations have been extensively examined in other regions, there is a lack of country-specific evidence from The Gambia, constituting a literature gap. Investigating the dynamics of independence within small audit markets such as The Gambia is therefore urgent for contextualizing international best practices.

Despite auditor independence playing a crucial role in safeguarding the objectivity of audit reporting and providing unbiased judgments, independence alone is not enough to ensure high-quality audits if auditors lack the professional competence to detect and report material misstatements. An auditor may be free from bias but still may not be able to spot certain financial irregularities if their expertise is limited. It is therefore beyond structural safeguards such as auditor rotation, conflict-of-interest rules, and restrictions on non-audit services; the effectiveness of audit quality also depends on auditors' professional competence. The shift from structural objectivity to a more technical focus highlights another of the most influential determinants of audit quality in The Gambia.

Another urgent disparity in the phenomenon is the component of professional competence, which encompasses technical understanding, analytical skills, and lifelong learning that enable auditors to implement auditing standards effectively. In The Gambia, both professional organizations and regulatory authorities have expressed concern about the shortage of highly qualified auditors. The Gambia Institute of Chartered Accountants (GICA, 2021) reported that the nation had fewer than 40 licensed professionals, many of whom lacked access to specialized training on IFRS and ISA updates. The lack of expertise is more pronounced among small- and medium-sized enterprises, which dominate the audit environment in The Gambia. Consequently, audit methodologies often rely on outdated procedures or inadequate sampling techniques, thereby heightening the risk of unobserved misstatements.

This constitutes a distinct phenomenon disparity between the anticipated standard of competence and actual implementation. Competence directly impacts auditors' understanding and capacity to assess complex transactions (Colette & Lukman, 2024). Investigations from Nigeria demonstrate that auditors with higher educational qualifications and professional accreditations produce more reliable audit reports (Odediran & Kasum, 2024). Nonetheless, empirical evaluations of competence in The Gambia remain practically absent, creating a significant research gap. Given the modest scale of the profession and its developmental phase, identifying the skill disciplines most pivotal for enhancing audit quality is essential for both regulators and educational institutions.

Although professional competence enhances auditors' technical ability to engage in effective auditing, which improves the auditing process, technical expertise alone does not guarantee responsible professional conduct. An auditor may have a wealth of

knowledge and experience, yet the quality of the audit may be compromised in the absence of the enforcement of ethical principles. Therefore, it is paramount that technical professional competence operates in conjunction with a solid foundation of moral principles to ensure the quality of audit judgment. The clarification of moral principles will enhance the quality of the audit process and support the auditor's ethical conduct as a crucial component.

Ethical behavior is the foundation of the auditing profession, guiding auditors to perform their work with integrity, objectivity, and professional competence, and this factor supports professional integrity and differentiates the auditing profession from being seen as a commercial commodity to a public-interest enterprise. Despite this importance, the Gambian audit environment has observed instances of ethical transgressions; for instance, the Janneh Commission Report (Government of The Gambia, 2019) investigated the financial dealings of the Jammeh administration. The report noted that some auditors, despite clear evidence, failed to notify irregularities or even publish a report detailing the misuse of public funds for personal gain. These shortcomings implied complicity or apparent negligence, both of which are unethical when scrutinized. Auditor independence is imperative in the private sector, where media disclosures have highlighted purported auditor collusion with a client to issue a favorable opinion (Freedom Newspaper, 2021). These actions contradict the principles of integrity, objectivity, and professional conduct outlined in the IFAC Code of Ethics.

These observations create another phenomenon gap for this study, namely the difference between normative expectations of ethical behavior and actual auditor behavior. Various studies have provided evidence that ethical behavior significantly influences audit quality. For example, Kurniawan (2023) found that ethical awareness

is a fundamental principle that guides an auditor's attitude and behavior, ultimately affecting audit quality. In contrast, Mvunabandi & Maama (2023) stated that weak ethical behavior among auditors may lead them to issue opinions that are not in accordance with the facts, thereby reducing audit quality. Nevertheless, the existing gap in the literature does not appear to include empirical testing of ethical behavior influencing audit culture in the Gambia. Understanding the role played by patterns like integrity, objectivity, confidentiality, and professional competence and due care in influencing ethical behavior in auditors would be an important first step to enabling the design of appropriate professional ethics programs to improve auditors' ethical behavior.

The quality of audit may be weakened even if auditors adhere to ethical principles, including integrity, objectivity, and confidentiality, without a critical mindset or questioning attitude. Ethical commitment provides the basis for professional behavior, which must be undertaken alongside cognitive vigilance in the assessment of audit evidence. This means that ethical behavior shapes what auditors must do, but professional skepticism articulates how thoroughly they should do it. This relationship makes professional skepticism yet another critical factor of audit quality in The Gambia.

Professional skepticism, which is the attitude of a questioning mind and the critical assessment of audit evidence, is of utmost importance in uncovering fraud and material misstatement (Musoke et al., 2023). However, this is not the case in the Gambia, as recent public-sector audit results show that the NAO in 2022 identified incomplete records in some ministries and departments. Yet, auditors accepted management explanations without sufficient supporting evidence. According to Foroyaa Newspaper (2022), the Auditor General noted that "some audit findings were mostly

drawn on information provided by management.” These practices have created a gap between expected skepticism and actual skepticism.

The concept of professional skepticism is a critical determinant of audit quality. Auditors with a skeptical mindset are more likely to spot irregularities than their counterparts and even to challenge clients’ claims. Recent empirical evidence shows that professional skepticism has a significant influence on audit quality, for instance, Raihan & Setiyawati (2025) asserts that economic and social pressures often threaten auditors in small economies, eroding their skepticism, especially in environments characterized by auditor-client relationships and hierarchical cultures. This illustrates another literature gap, since empirical evidence in the context of the Gambia is absent. Understanding the factors that promote or limit auditor skepticism among Gambian auditors would yield significant implications for both training and regulatory frameworks.

Professional skepticism in auditing involves the critical assessment of audit evidence; however, auditors in small and emerging economies may simultaneously face social and economic pressures. In scenarios where economic nationalism and institutional adherence to economic principles are prioritized, auditors may experience an implicit pressure between professional objectivity and national or economic solidarity. Such pressures introduce the concept of financial patriotism, which may influence audit decisions and reporting in subtle ways. Thus, exploring this dimension is necessary to understand whether loyalty to national interests affects audit quality in The Gambia.

The role of financial patriotism, which is loyalty to the local economy and national interests in auditing, has been less explored. Almost no empirical studies

examine how loyalty to national economic interests influences audit decisions in emerging economies. In countries like The Gambia, where national economic development is prioritized, there may be a conflict between auditors' professional duties and their financial loyalty to local businesses or government interests. Research on how auditors in smaller, developing economies balance national interests and professional responsibilities could highlight gaps in the study's understanding of this concept.

The phenomenon gaps, which include lack of auditor rotation in state-owned enterprises, shortage of highly qualified professionals, political influence in public sectors and overreliance on management representations without enough evidence, couple with the lack of empirical studies on financial patriotism in developing countries together explain the diverse nature of audit quality issues in The Gambia. At the institutional level, existing regulations governing auditor independence and professional ethical standards remain weak, thereby enabling entrenched client relationships and inherent conflicts of interest. At the professional level, limited competence and insufficient continuing education constrain auditors' ability to implement modern audit techniques. At the behavioral level, client demand and dominant cultural norms weaken moral courage and analytical skepticism. These apparent realities reflect a broader phenomenon: the gap between the standards set out by international regulatory frameworks and the practices on the ground in the Gambian auditing environment.

At the same time, academic literature has a geographical and contextual bias, as the determinants of audit quality have been extensively researched in developed economies, however, the understanding of smaller African regions remains limited. While many studies are conducted on Nigeria, Ghana, Kenya, and South Africa, The Gambia seems to be an exception, and this creates a gap in the literature regarding how

local socio-economic conditions, institutional maturity, and professional capacity limit audit outcomes. Bridging these two gaps is important for policy and practice, as empirical analysis from the perspective of The Gambia will contribute to theory by testing previously established relationships in a new context, and contribute to practice by identifying areas for capacity building. This type of research can serve as guidance for the Gambia Institute of Chartered Accountants (GICA), the National Audit Office (NAO) and private audit firms, as well as policymakers, especially those interested in developing national standards aligned with international developments. Increasing audit quality will, in turn, increase financial transparency, improve public-sector accountability, and ultimately help restore trust in the auditing profession across the public sector.

## **1.2 Problem Formulation/Research Questions**

Drawing on gaps in the context, phenomenon, and literature, the present study focuses on audit quality in The Gambia. However, despite professional frameworks, it remains inconsistent and often falls short of expected international standards. Accordingly, the research seeks to answer the following questions:

1. What is the influence of auditor independence on audit quality in The Gambia?
2. What is the influence of professional competence on audit quality in The Gambia?
3. What is the influence of ethical behavior on audit quality in The Gambia?
4. What is the influence of professional skepticism on audit quality in The Gambia?
5. What is the influence of financial patriotism on audit quality in The Gambia?

## **1.3 Research Objectives**

Based on these research questions formulated above, the objectives of the current study shape the direction and focus of the research. Specifically, the main objective of the study is to test and analyze the determinants of audit quality in the context of the Gambia. Specific objectives include:

1. To test and analyze the influence of auditor independence on audit quality in the Gambia.
2. To test and analyze the influence of professional competence on audit quality in the Gambia.
3. To test and analyze the influence of ethical behavior on audit quality in the Gambia.
4. To test and analyze the influence of professional skepticism on audit quality in the Gambia.
5. To test and analyze the influence of financial patriotism on audit quality in the Gambia.

#### **1.4 Benefits of Research**

This section outlines the study's contributions to the theoretical framework surrounding audit quality determinants within a developing economy. It aims to provide practical insights for enhancing professional practices and aims to influence policies regarding improved audit regulation and governance in The Gambia. The significance of this research is articulated in academic, professional, and institutional contexts.

##### **1.4.1 Theoretical Benefits**

Theoretically, this paper enriches the literature by examining determinants of audit quality in a developing country. The majority of current theories of these determinants include agency theory, ethical theory, and professional skepticism theory, developed and tested in developed economies with sound control systems and strong institutions. However, whether these models are helpful for smaller economies like The Gambia's is not well studied. By exploring how these theories play out in a less

developed economy, this study contributes to the theoretical debate and informs the global discussion of auditor behavior and governance.

In addition, this study adds to the already existing literature, especially within the context of developing economies. This is a valuable contribution to comparative auditing in general and serves as an important touchstone for global standards adapted to African perspectives.

#### **1.4.2 Practical Benefits**

From a practical perspective, the study could also inform practice and ethical behavior in the audit profession in The Gambia. It will do so by articulating the main institutional and behavioral barriers that audit quality, and establishing policy-oriented directives for practitioners, audit firms and professional groups. Some of the ways these might be accomplished include continuous training, improving ethics education, strengthening internal reviewing processes and changing the structure of auditors' pay so that they no longer feel economically dependent on clients.

The study offers insight into how audit quality can be enhanced through peer scrutiny and greater transparency of the audit process. It also provides incentives to internal ethics committees for their creation and for the running of continuous professional education programs that cover the local challenges auditors face in maintaining independence while dealing with practical ground realities. The outcome of this research is hoped to provide a more reliable, easier-to-understand, and more trusted audit culture, thereby increasing the public's trust in financial reporting.

#### **1.4.3 Policy Impact**

Policy-wise, this study seeks to provide regulators (the government and professional bodies) with a better understanding of how The Gambia can further

enhance its audit and financial reporting systems. By identifying weaknesses or loopholes in institutions and enforcement, it provides evidence-based references for amending the existing law, establishing an independent supervisory authority, and enhancing regulatory coordination.

Additionally, the conclusions could help shape national policies to harmonize The Gambia's audit practices with international standards, particularly those set by IFAC and IAASB. Enhancing auditor independence not only improves audit quality but also serves broader governance objectives, such as anti-corruption, fiscally responsible, and sustainably developing economies.

In summary, chapter 1 establishes the significance of audit quality for financial integrity, transparency, and public trust in both sectors. It explores the definitions of audit quality and the factors affecting audit practices, identifying the study's contribution to existing literature. The chapter acknowledges a regulatory framework like the Accountants Act (1991) and the Financial Reporting Act of 2013, highlighting enforcement challenges that impede objectivity. It outlines the study's scope, including the research problem, questions, objectives, and benefits.