

The professionalisation of auditing in less developed countries: the case of Sri Lanka

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Abstract

Purpose – This paper aims to examine the tensions amongst the audit firms operating in Sri Lanka with the introduction of open economic policies in early 1980s and its impact to the auditing profession.

Design/methodology/approach – Using a qualitative approach, this study consists of in-depth interviews, documentary review and critical interpretation supported by the perspectives of globalisation, digitalisation and neo-liberalism.

Findings – The findings indicate that the main reasons for the tension between audit firms (local and international) have been the conflict of interests on the market share. While global pressures on International Standards of Auditing created more opportunities for international audit firms to capture a wider market with the support of the state, the local audit firms apparently lost their market and experienced tension created by staff. Evidence shows the negative impact of globalisation on the open economic policies and the local audit market.

Research limitations/implications – The findings of this research will be useful for policymakers in revising auditing practices to ensure healthy corporate governance. Only 25 interviews were conducted; hence, the results may not be a holistic representation of the audit environment in Sri Lanka.

Originality/value – This study is significant, as the business capital has surged into Sri Lankan market as a result of the ongoing international agencies-led economic reforms. Such reforms have emphasised the transparency and accountability.

Keywords Sri Lanka, ISA, Auditing profession, Big Four, Corporate sector, Globalisation

Paper type Case study

Abbreviations

AATSL	= Association of Accounting Technicians;
ACCA	= Association of Chartered Certified Accountants;
ADB	= Asian Development Bank;
ASC	= Accounting Standards Committee;
AuSC	= Auditing Standards Committee;
CASL	= Institute of Chartered Accountants of Sri Lanka;
CIMA	= Chartered Institute of Management Accountants;
COPA	= Committee on Public Accounts;
COPE	= Committee on Public Enterprises;
CPD	= Continuous Professional Development;
EU	= European Union;
GPN	= Global Professional Network;
IAASB	= International Auditing and Assurance Standards Board;
ICMA	= Institute of Chartered Management Accountants;
IFAC	= International Federation of Accountants;



IMF	= International Monetary Fund;
ISA	= International Standards of Auditing;
LDCs	= less developed countries;
MOFP	= Ministry of Finance and Planning;
MPB	= Managed Professional Businesses;
OECD	= Organisation of Economic Cooperation Development;
SBEs	= Specific Business Enterprises;
SLAASMB	= Sri Lanka Accounting and Auditing Standards Monitoring Board;
SLAuSs	= Sri Lankan Auditing Standards;
UNP	= United National Party;
WB	= World Bank; and
WTO	= World Trade Organisation.

Introduction

It is ostensible that development of the legal framework in auditing profession has prompted an increasing interest in research in many parts of the world (De Beelde, 2002; Caramanis, 1997, 1999, 2002; Dedoulis, 2015; Audoussset-Coulier, 2015; Sikka, 2011; Baskerville and Hay, 2010). Even though there are some studies on accounting profession (Annisette, 1999, 2004; Yapa, 2006, 2010; Yapa *et al.*, 2016; Chua and Poullaos, 1993, 1998, 2002; Carnegie and Parker, 1999), research on auditing profession and practices in emerging economies is still in infant stage.

The aim of this paper is to investigate the tensions amongst the local audit firms with the introduction of open economic policies and the international audit firms operating in Sri Lanka since early 1980s. This period is important to Sri Lanka, as it introduced open economic policies. Little research has devoted to unfold hidden tensions and conflicts involved in the auditing profession in less developed countries (LDCs). This paper attempts to address the accepted necessity to study professionalisation of auditing in the context of wider transformations of modern societies (Willmott, 1986; Burrage *et al.*, 1990; Walker and Shackleton, 1995) and more specifically, how globalisation and neoliberalism impacted to economic and political changes in LDCs, particularly in Sri Lanka. The paucity of research in this area on Sri Lanka is the motivation for this study.

To achieve the objectives, this paper investigates and analyses the reasons why Sri Lanka adopted International Standards of Auditing (ISA) and the aftermath tensions developed among the local and international audit firms. Thus, our research question is “what are the tensions among local audit firms with the introduction of open economic policies and the adoption of ISA in Sri Lanka?” Using a qualitative approach, the method of this paper consists of a literature review, in-depth interviews and a documentary review while presenting a critical interpretation supported by the perspective of globalisation (Held, 1991, 1997; Held *et al.*, 1999; Held and McGrew, 2005).

The researchers selected Sri Lanka because of the country’s unique political, economic, sociological characteristics compared with other countries in South Asia (Plummer, 2007; Krueger, 2010; Athukorala and Menon, 1999). With a population of 20.3 million (in 2014) and annual per capita income of US\$3,000, Sri Lanka is a lower-middle income country, which aspires to reach upper middle-income status by 2016. The open economic policies in early 1980s, the effect of tsunami in 2004 and the ending of nearly 30 years of civil war in 2009 have created an environment to reform the corporate governance and transparency in Sri Lanka. These reforms/changes have created a momentum in the country’s political and economic environment impacted on day-to-day operations of auditing firms. An auditing system secured by strong governance, high-quality standards and rigorous regulatory frameworks

are key to economic development. Indeed, high-quality standards of financial reporting, auditing and ethics underpin the confidence that investors place in financial and non-financial information and, thus, play an integral role in contributing to a country's economic growth and financial stability (ADB, 2002).

This paper, therefore, has three main contributions. Firstly, it expounds new empirical evidence on the auditing profession in Sri Lanka, taking into account of the reforms in the corporate sector using interviews and documentary review. As per researchers' knowledge, this is the first study that has investigated the auditing profession in the corporate sector in Sri Lanka. Secondly, the study explores how the local professional accounting body, the Institute of Chartered Accountants of Sri Lanka (CASL) has actively involved in the auditing sector and the adoption of ISA. Thirdly, the study investigates any external or internal influences that caused the reform of the auditing profession of the nation. Accordingly, the paper seeks to stimulate debates about the auditing profession by examining the audit regulations and the tensions between the local and international firms in Sri Lanka.

The remainder of this paper is organised as follows. The next section briefly explains the place of auditing profession in LDCs. The third section reviews briefly the reforms in the Sri Lankan auditing profession. The fourth section outlines the perspective of globalisation and *digitalisation* with a focus on neoliberalism. The fifth section describes the research methods used in this study. The sixth section presents the findings of the interviews with major stakeholders and senior professionals of the auditing profession in Sri Lanka while analysing the reasons for adopting ISA and the tensions developed afterwards. The summary and conclusions of the study are presented in the seventh section.

The auditing profession and less developed countries

As per the literature, auditing profession has served an accountability function over many decades. Under the framework of agency relationship (principal/agent), the auditing function was developed as a strategy of minimising risk of the "owner or principal" who assigned assets into the trusteeship for an "agent". The main responsibility of the agent is to ensure proper utilisation of the assets and make appropriate accounting records to the principal in a given period of time.

Owing to inherent risks coupled with lack of expertise in the relevant activity or because of physical distance, the principle hired an independent party – an auditor – to verify and certify the accuracy of the accounting records. Stewart (1984) points out the bases of accounts that an agent is required to provide to principal: probity and legality, the adequacy of the internal control systems, performance in relation to established standards, outcomes according to set objectives and the acceptability of the outcomes. As stated by the Committee on Financial Aspects of Corporate Governance:

Audits are a reassurance to all who have a financial interest in companies (Committee on the Financial Aspects of Corporate Governance, 1992, p. 36).

In the past two decades, there have been a number of high-profile corporate scandals in the developed countries including the USA. A number of these scandals, including Enron, WorldCom, Tyco and Arthur Andersen, resulted from the corrupt practices of professional accountants and auditors (Duska *et al.*, 2011; Low *et al.*, 2008; Smith, 2003).

This process started in the Western business world and later passed on to LDCs. Over the past decades, the auditing profession has confronted with many challenges:

The auditing profession may face some very severe challenges. The continued success of the profession depends in part on its response to these challenges. Research has a role in clarifying the nature of these challenges and in exploring the possible responses. To do this successfully, this

research has to explore fundamental questions about why and where the auditor's authority and power in society reside and how this location changes over time (Bromwich and Hopwood, 1982, p. 21).

While the adoption of ISAs to the business sector formed an important part of the auditing sector reforms to ensure accountability, it became a global trend in the recent past. The reforms to auditing were mainly induced to LDCs by external international agencies such as the International Federation of Accountants (IFAC), International Auditing and Assurance Standards Board (IAASB), International Monetary Fund (IMF) and the World Bank (WB) mainly in facilitating business reforms including good corporate governance (Annisette, 2004; Neu and Ocampo, 2007; Mir and Rahaman, 2005; Rahaman *et al.*, 2007; Murphy, 2008). Many studies have been conducted on auditing and globalisation in LDCs (Caramanis, 1999, 2002; Dedoulis and Caramanis, 2007; Dedoulis, 2015). These agencies have facilitated reforms in the system of auditing during the recent past. It is essential for ambitious occupational groups to diversify political resources from the local to the international sphere if they want to be successful in the globalisation era (Caramanis, 2002). Even though the precise formation of global auditing differs when reflecting the relative power of the local and the international, reforming the professional politics at the level of the nation-state is needed in the context of international governance. Thus, in weaker nation-states such as in Greece, the inward-looking occupational groups have faced difficulties to compete with those that have been appropriately affiliated with international system (Caramanis, 2002).

Sri Lankan auditing reforms from the global perspective

Sri Lanka inherited its economic, political and administrative structures from the British who ruled the country for nearly 150 years until gaining independence in 1948. Before 1970, financial reporting and auditing requirements of Sri Lanka were based upon the requirements of the Companies' Ordinance of Ceylon, contemporary UK legislation (Perera, 1975). The Joint Stock Companies Ordinance No. 4 of 1861 was the beginning of British company legislation in Sri Lanka. The enactment of the Companies Ordinance of 1938, which required auditors of companies to be registered, drew attention to the need for establishing a controlling body as well as for opening up an avenue for formal admission into the accounting profession in Sri Lanka. This was the origin of auditing profession in Sri Lanka.

The establishment of Accountancy Board in 1941 and the CASL in 1959 can be considered as catalyst to the auditing profession in Sri Lanka. The Companies Act No. 7 of 2007 was introduced replacing the Companies Act No. 17 of 1982 and the Companies Ordinance of 1938. The Sri Lanka Accounting and Auditing Standards Act (No. 15) of 1995 was developed by the Ministry of Finance and Planning (MOFP) with the assistance from the accountancy profession and representatives from the commercial and financial sectors. This Act specifies certain enterprises as specific business enterprises (SBEs) and governs the audit of financial statements of SBEs for periods commencing from January 1999 (ADB, 2002). CASL formulates accounting and auditing standards in Sri Lanka under Sri Lanka Accounting and Auditing Standards Act of 1995. These standards are based on the ISA published by the IAASB of the IFAC and they are slightly modified to meet local conditions of business. Accounting and auditing in corporate sector in Sri Lanka is directly subject to international influences such as the IFAC, International Accounting Standards Board (IASB), IMF, the WB and the Asian Development Bank (ADB).

According to the report of the WB (Wickramasinghe, 2015), Sri Lankan accountancy profession has been described as "vibrant" with three local and two international bodies operating in the country. Of which the CASL is the largest which oversees the auditing profession in Sri Lanka. Other two are the Institute of Chartered Management Accountants

and Association of Accounting Technicians of Sri Lanka. While former is a member of IFAC, latter two are associate members. The two UK-based professional accounting bodies, Association of Chartered Certified Accountants (ACCA) and Chartered Institute of Management Accountants (CIMA), have full IFAC membership and have branch offices in Sri Lanka.

Political and economic policy changes with globalisation in Sri Lanka

In 1977, a political party called, United National Party came into power with a land-slide victory in the general election with a vision to make the economy more market oriented. During this period, a dramatic change in constitutional and economic policies took place in favour of a liberal, laissez-faire approach. It witnessed decontrolling of the economy and increasing reliance on market forces to determine prices and allocate resources. Thus, a more outward-looking approach was highlighted in economic reforms of the country including a privatisation programme (Abeysekara, 1984). The subsequent governments also maintained the ideology of liberal economic policies with outward approach and have placed greater emphasis on privatisation of state ventures. The call of international financial agencies such as WB, IMF and ADB for good governance and their concern with accountability, transparency aspects are intertwined with the country's strategies for economic and social development. In their study, Perera *et al.* (2003) argued that the deregulation of economic systems around the world allowed corporate clients to expand by which, larger audit firms particularly the Big Four, were then needed to service those multinational enterprises. In addition, this deregulation created opportunities for accounting firms in new countries and regions. This is how the globalisation impacted on the governance of private and public sectors in Sri Lanka.

Operations of local and Big Four audit firms

In the recent decade, with the end of nearly 30 years of civil war, there has been a significant capital market surge in the country. The total market capitalisation in January 2016 was about US\$19.5 billion. A financial reporting regime, compatible with international standards and best practices, is of paramount importance for enhancing investors' confidence (Wickramasinghe, 2015). Table I shows the number of audit firms operating in Sri Lanka as of 2014.

As reported by WB (Wickramasinghe, 2015), CASL is the only body issuing "practicing certificates" to its members and they are the only eligible members to carry out audits of SBEs. CASL members have to pay annual subscription fees and a self-declaration of

Single/Type of audit firm	No. of firms
Sole audit practitioner	441
2 Audit partners	45
3 Audit partners	14
4-5 Audit partners	12
6-9 Audit partners	7
10-14 Audit partners	6
15-19 Audit partners	1
Overseas	6
Total	532

Table I.
Audit firms in Sri Lanka-2014

Source: Wickramasinghe (World Bank) (2015)

Continuous Professional Development (CPD) to renew the practicing certificate annually. There is no separate registration process for audit firms, although “Approved Employer Certificates” are issued to firms and not in the name of individual partners. This creates ambiguity and may limit CASL’s ability to hold firms accountable for compliance with auditing standards. The registered auditors who operate in Sri Lanka includes officers of the Department of Inland Revenue; holders of the higher National Diploma in Accountancy; members of the Ceylon Audit Service who are not below the rank of Superintendent of Audit; members of the Ceylon Government Accountancy Service who are not below Class III; and a member of any other institute or society of accountants or secretaries approved by the Board of Registrar of Companies as per the Ceylon Government Gazette, 4 September 1964 (Wickramasinghe, 2015).

The four largest international accounting firms that operate in the country are KPMG, Ernst & Young, PWC and BDO partners and they audit 84 per cent of the listed companies. These listed companies account for 98 per cent of the market capitalisation as of December 2013. Mostly, mid-tier firms carry out the remaining audits. There are 20 mid-tier audit firms with 4 or more audit partners operating in Sri Lanka. There is an increasing trend for the mid-tier audit firms to affiliate themselves with international mid-tier accounting firms, which has enhanced their capacity to comply with auditing standards and, hence, enable them to improve quality of their audits.

The institutional framework of auditing and audit requirements for companies in Sri Lanka

There is strong regulatory set up in Sri Lanka that has been recognised by the WB, IMF and other international donor agencies. This will obviously encourage foreign investment climate which is significant for LCDs (Wickramasinghe, 2015). Figure 1 shows the main Acts and institutions of auditing and accounting in Sri Lanka as of 2014. Sri Lankan government has taken a number of initiatives to promote auditing profession. First, the Public Enterprise Reform Commission was set up in 1995. It has made significant progress on privatisations. The Sri Lanka Accounting and Auditing Standards Act (No. 15) 1995 was developed in response to the Commission’s recommendations. The Act also established the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB). This Board monitors the audits of SBEs in compliance with the Sri Lanka Accounting and Auditing Standards. There are 64,423 companies registered under the Companies Act No. 7 of 2007, of which 3,938 are public companies, 1,591 are associations, 348 are limited by guarantee, 232 are registered as foreign entities, 9 are offshore entities and 2 are unlimited companies. The Sri Lanka Accounting and Auditing Standards Act (1995) provided for the establishment of the Statutory Accounting Standards Committee and the Auditing Standards Committee (AuSC) which are operated under the auspices of CASL. The AuSC promulgates Sri Lankan Auditing Standards (SLAuSs), which are based upon the pronouncements of the IAASB (Wickramasinghe, 2015).

Table II summarizes the audit requirements for entities in Sri Lanka. As shown in Table II, all listed companies are audited by qualified statutory auditors from CASL.

While audit firms should have three or more partners, the engagement partner should be a fellow of CASL or an associate with more than 10 years of experience. While the Monetary Board of the Central Bank appoints auditors for Banking and Finance institutions, the audit license from CASL is not mandatory for such audits. However, the auditors who engage in insurance companies, non-listed companies and government institutions are required to obtain the audit license from the CASL. We explore the regulatory and institutional

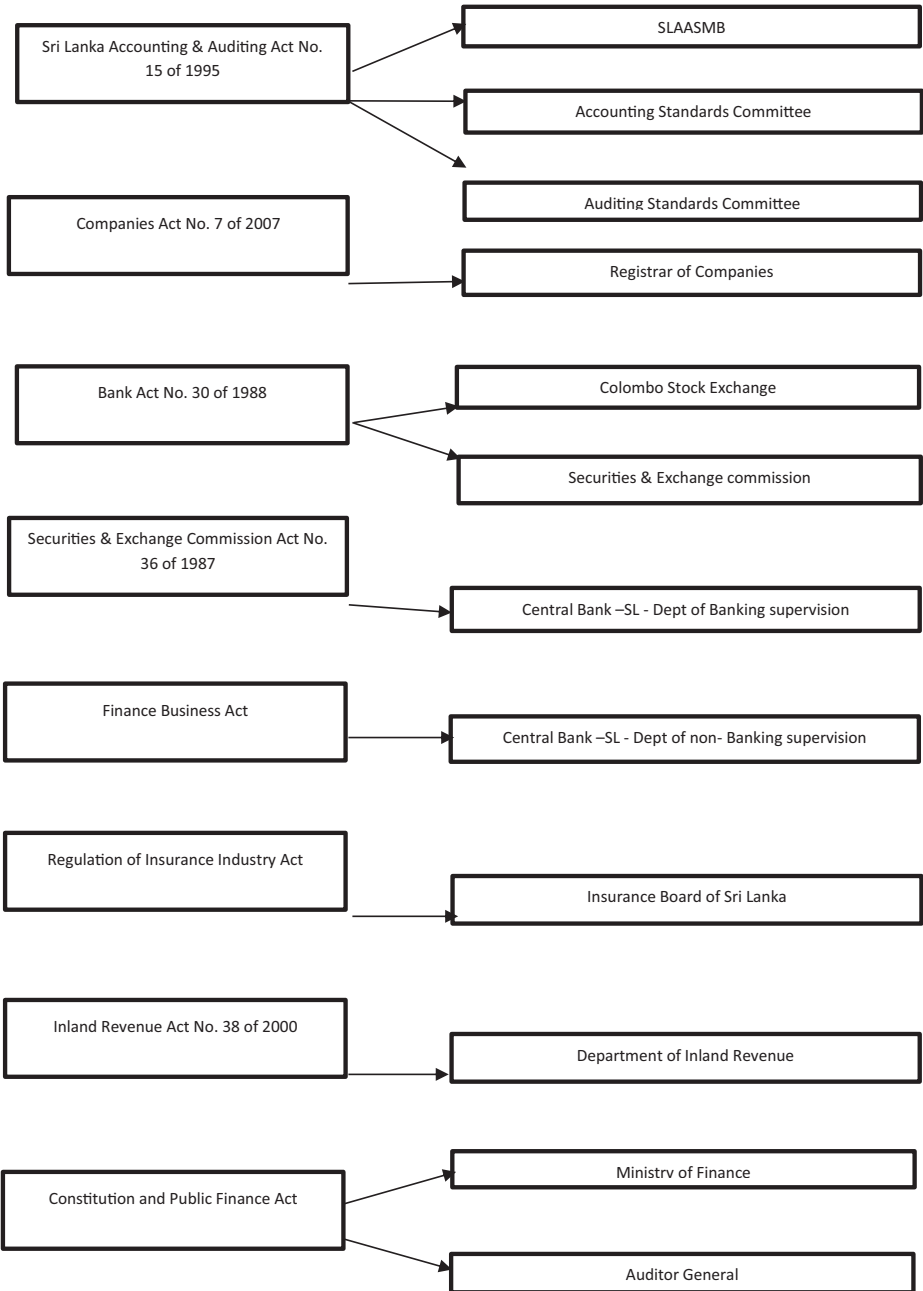


Figure 1.
Main acts and
institutions of
accounting and
auditing in Sri Lanka

Entity	Accounting framework/regulators	Audit requirement
Listed companies	Full SLFRS, SEC and CSE regulates	Qualified statutory auditors with an audit license from CASL. As per voluntary guideline of SEC, audit firms to have three or more partners, for the engagement partner to be a fellow member of CASL or an associate member with more than 10 years' experience
Banking institutions	Full SLFRS-SLAASMB and banking supervision department of the Central Bank	An auditor from the list of auditors approved by Central Bank Monetary Board. Audit license from CASL is not a mandatory requirement
Finance companies	Full SLFRS-SLAASMB and non-banking supervision department of the Central Bank	An auditor from the list of auditors approved by Central Bank Monetary Board. Audit license from CASL is not a mandatory requirement
Insurance Companies Non-listed group companies and other companies including government. ^a	Full SLFRS-SLAASMB and insurance board of Sri Lanka	Qualified auditors with an audit license from CASL
Remaining companies	Full SLFRS if the entity has public accountability or the option of using simplified SLFRS for SMEs if there is no public accountability-SLAASMB	Qualified auditors with an audit license from CASL
Public corporations engaged in sale of goods and services	No requirement to follow SLFRS ^b No Regulator	Qualified auditors with an audit license from CASL or Registered auditors who are not professional auditors
Remaining state-owned enterprises	Full IFRS Government financial regulations/SLAAMB, COPE and MOFP	Auditor General
Small and medium size enterprises	SLPSAS Government financial regulations, COPE and MOF No requirement to follow SLFRSs ^c	Auditor General Qualified auditors with an audit license from CASL or registered auditors who are not professional auditors

Notes: ^a Yearly turnover exceeding LKR 500 million; shareholders equity exceeding LKR 100 million; Gross assets exceeding LKR 300 million; Liabilities to banks and other financial institutions exceeding LKR 100 million; and Number of employees exceeding 1000; ^b However, there is a requirement to prepare financial statements that give a true and fair view of state of affairs of the company as at the balance sheet date; and the profit or loss or income and expenditure; ^c There is no legal requirement to prepare and submit financial statements to local authorities. However, all enterprises are required to file annual returns with the Inland Revenue Department, Sri Lanka – hence the need to prepare audited financial statements.

Source: Wickramasinghe (World Bank) (2015)

Table II.
Overview of current
accounting, auditing
requirements for
major entities in Sri
Lanka

frameworks, the market imperfections, along with a lack of social, political and proper legal infrastructure, that affect professionalisation of auditing practices in Sri Lanka.

Perspective of globalisation with a focus on neoliberalism and digitalisation

The global audit regulatory arena is complex, intricate and shifting domain and one that is often absent or poorly depicted in research on auditing profession. In this regard, we concur strongly with the call by [Cooper and Robson \(2006\)](#) and others ([Kerwer, 2005](#); [Richardson, 2009](#)) for more studies of global auditing networks. This paper draws the theoretical framework from the perspective of neoliberalism and globalisation. The authors argue that globalisation is a major influential factor to embrace the ISA for corporate sector in many LDCs. Thus, the authors provide their justification on the impact of globalisation and resultant *digitalisation* in to Sri Lankan auditing profession because there are major structural issues yet to be resolved.

Globalisation refers to knowledge of international markets and values of different cultural environments ([Hill, 2003](#); [Robinson, 2001](#); [Held and McGrew, 2005](#). [Giddens \(1990\)](#) claims, “globalisation, as intensification of worldwide social relations which link distant localities in a way that local happenings are shaped by events occurring many miles away and vice versa” (p. 64). Consequently, technology and science which have brought many parts of the globe closer together through information, communication and travel. The following definition is provided by [Held et al. \(1999\)](#):

The concept of globalisation implies, first and foremost, a stretching of social, political and economic activities across frontiers such that events, decisions and activities in one region of the world can come to have significance for individuals and communities in distant regions of the globe.

In mapping the shape and political consequences of globalisation, [Held and McGrew \(2005\)](#) assessed contemporary globalisation and implications in details for the sovereignty and autonomy of six advanced capitalist societies, namely, the USA, UK, Sweden, France, Germany and Japan. It also confronts directly the political fatalism that surrounds much discussion of globalisation with a normative agenda that elaborates the possibilities for democratising and civilising the unfolding global transformation ([Held and McGrew, 2005](#)).

With the globalisation and neoliberalism, technology growth and evolution during the past two decades has brought about number of important shifts of emphasis in terms of designing new work-flows using digitalised information systems ([Merchant, 2007](#)). Many multinational accounting firms have already implemented a paperless firm strategy and started deploying the necessary technology solutions to achieve their business objectives. To achieve digital or paperless perspective, organisations have to address three primary technology needs the following: document management systems, client collaboration gateways and internal collaboration. Adopting digital strategy yields many benefits for global business firms. Digitised systems permit corporations to take benefits of other emerging technology trends such as mobile devices and the cloud technology. These technologies have the potential to improve global client service and help improve the productivity through anywhere, anytime access to work. This creates value addition to the professions including the auditing profession ([Aviram and Eshet-Alkalai, 2006](#)).

Generally, adoption of ISA is interpreted as a global trend, as it expands rapidly from the countries where it is said to have originated to other parts of the globe, influencing government policies both in developed and LDCs. The employment of ISA in the corporate system is conferred in theories such as neoliberalism and agency theory ([Tolofari, 2005](#)). The neoliberalism is significantly linked to globalisation at economic and social levels, especially as it relates to the “free trade” or to the “freedom of commerce”. Neoliberalism has become alongside or, sometimes, replacing globalisation one of the catchphrases in public and

academic discourses on the “form of the world-as-a-whole” (Robertson, 1990). Neoliberalism emerges as an object of conceptual and empirical reflection in the process of restoring to view a sense of political agency to processes previously dubbed globalisation (Hay, 2002). In this conception, neoliberalism is a particular element of globalisation in that it represents the form through which domestic and global economic and social dealings are shaped. Yet, neoliberalism is only one dimension of globalisation, which is to say, it is not to be seen as identical to the phenomenon of globalisation as such (Robertson, 1990). The philosophy and resolution, of the neo-liberal theorists was that only market mechanisms, privatisation and choice for both consumers and producers could bring about the discipline, efficiency and accountability that could ameliorate the situation (Ferlie *et al.*, 1996; Larbi, 1999).

Accordingly, neoliberalism broadly means the mission of economic and social transformation under the sign of the free market that connects with the whole spectrums of an economy. Thus, it “is not just an economic policy agenda” a deep transformation of culture and organisational change is also major part of neoliberalism. Mennicken (2010) claims that:

[...] auditing depicted it largely as a mechanism to reduce information asymmetry and enhance market accountability. In place of such ideals, auditing came to be viewed as a platform for corporate development and entrepreneurial self-realisation. Auditors sought to reinvent themselves as business consultants and construed themselves as “business doctors who heal” (Mennicken, 2010, p. 355).

The above-mentioned quotation suggests that auditors’ independence and quality of their reports success are indicators of the success of the nation state; thus, professionalism has a strong connection with neoliberalism. In the case of Sri Lanka, we analyse the market imperfections and existing political and legal infrastructure to understand the auditing profession after 1980s.

Influence of international auditing and financial agencies

In most LDCs, the pressure to adopt ISA initiates mainly from international agencies such as IASB, the IFAC, the WB, the ADB, the IMF and other donor advocacy including lending conditions with the adoption of a more pro-market and pro-private sector stance in structural adjustment programmes (James and Manning, 1996).

In their study, Baskerville and Hay (2010) examined how in New Zealand, the auditors survived with the turbulence of global mergers among accounting firms in the 1980s. One of the major impacts was the trend for firms to move from the professional partnership model (P2) to the Managed Professional Businesses (MPB)/Global Professional Network (GPN) model. When the previous partnership model was replaced with a globally based MPB, it led to a loss of autonomy of small firms. However, this loss was unavoidable given the promised advantages of the international referrals and status. They state that the benefits of globalisation came at a significant cost to some partners in large partnerships. Especially those who were in their middle or mature stages of the careers had little or no control over their careers and employment choices.

As per Baskerville and Hay (2010), another major impact of Big Eight affiliation was technology. The technology plays a crucial role in these perspectives. For example, large international accounting firms promote that they conquer the market through mastering superior technical expertise, unrivalled quality of services and unique understanding of market needs (Daly and Schuler, 1998). Hence, advantages of international-standard auditing techniques and training were an attractive proposition. A major reason for the local firms to obtain these affiliations was to get access to new technology, including both audit procedures and staff training. To obtain referred work was another reason for major local audit firms to have affiliations with Big Eight and local firms that lost or did not obtain an

affiliation had to suffer. [Baskerville and Hay \(2010\)](#) believe that this tendency may have impacted on the survival of partners in auditing firms, as they respond to global business activities in the future.

Impact on intra-professional conflicts in auditing profession with globalisation

Many studies have devoted to debate on the impact on intra-professional conflicts on the auditing profession in the neoliberal era of globalisation. First, with globalisation drive of the world economy, multinational enterprises play an increasingly significant role. Hence, international firms may significantly influence the regulation of the auditing profession at the local level. Secondly, the increased role of various inter-governmental organisations such as the European Union, the Organisation Of Economic Cooperation Development, the World Trade Organisation, the IFAC set up to oversee and regulate the conduct of transnational economic activities. Thirdly, international law which potentially transcends national borders may have specific requirements for the organisation of economic activity and of accounting practice in particular. Finally, hegemonic countries and power blocks may question the national sovereignty of individual nation-states in regulating accounting and other fields of human activity. For example, [Caramanis \(1999, 2002\)](#) examined how various international agents influenced the accounting policy decision-making at the level of the nation-state in Greek's auditing profession. He claims that in Anglo American free market model, the repositioning of governance structure plausibly favours the Big Five accounting firms. Further, it says that the

Big Five international accounting firms – well positioned within the international economic system – are capable of mobilising almost every powerful international politico-economic actor to overcome the resistance of local players and (weaker) nation-states (p. 380).

The liberalisation encouraged the entry of big auditing firms and it led to a creation of a rival groups. Thus, to achieve their strategic objectives, Big Five secure their access to the market for statutory audits. In Greece, the indigenous auditors were attempting to reverse the liberalisation measure in the market for statutory audits that had been introduced in 1992, which abolished the monopoly of indigenous auditors. Thus, for two reasons, the lessons learnt from Greece would be beneficial for LDCs. First, big firms can take the opportunity to enter into LDCs to expand their market and secondly, LDCs are less capable to repel the significant international pressure because of their low economic and political environments ([Caramanis, 2002](#)).

There have been positive contributions from having Big Four in LDCs, particularly in delivering international standards of accounting and auditing. In general, [Cobham and McNair \(2012\)](#) argue that the Big Four involvement in LDCs is to transfer technical and knowledge expertise. On the other hand, the need for international qualified auditors is increasing, particularly in countries which accept multinational enterprises ([Cobham and McNair, 2012](#)). Studies of the image of the Big Four have been conducted for 20 years and the spirit of bringing the neo-capitalism doctrine is evident. In Europe, the Big Four penetrated the local market as a result of international demands and economic expansion. In the case of Sweden, [Wallerstedt \(2001\)](#) illustrated that this demand was due to the increasing number of Swedish clients which had internationalised their businesses and local partners required an international affiliation ([Wallerstedt, 2001](#)). [Poullaos and Uche \(2012\)](#) investigated the development of professional accounting bodies in developing countries and conclude that LDCs are heavily influenced by their former British connections, including the process and modes of professional associations. These LDCs are believed to have deviated from those of the Anglo-Saxon countries.

Yapa (2006, 2010) and Ukwatte and Yapa (2013) examined the accounting and auditing profession in Sri Lanka, a former British colony where he found that the involvement of British influence is relatively high. Their studies indicate that there were two competing groups of accountants: the “elite” who possessed British accounting qualifications and the “non-elite” - local universities-graduated accountants. The competition between the two groups in terms of bringing power to the accounting society, which also related to the international accounting body: the CIMA/ACCA and the local bodies in relation to overall governance of the profession.

The research method

The choice of methods needs to consider the objectives of a research undertaking and the type of the research field (Jankowicz, 1991). Qualitative research techniques are most appropriate for studies where the purpose is to comprehend “how” and “why” real-life practices and organisations occur (Patton, 2002). Qualitative research is appropriate for providing in-depth awareness of the perspectives of the study population. A unique feature of a qualitative research is that it allows the researcher to identify and understand structures, processes and practices from the perspectives of the study population (Hennink *et al.*, 2011). Thus, qualitative research involves thinking abstractly, stepping back and critically analysing situations, obtaining authentic and credible information, having theoretical and social sensitivity and employing an insightful approach to observation (Strauss and Corbin, 1990).

The empirical data for this study were gathered from semi-structured interviews and documentary reviews. Most interview questions derived from prior research on auditing profession. Interviewees were obtained through a combination of liaison with major accounting body (CASL), personal connections of one of the researchers and through “snowballing”. This approach assisted the researchers to gain the trust of respondents because referral occurred in advance and was made with the assistance and support of key people within the local audit profession. Detail breakdown of interviewees and duration of the data collection is provided in Table III. Table IV provides the background information of the respondents. As shown in Table IV, most of the respondents are well qualified in the accounting and auditing areas and have a significant years of experience in the field.

The researchers made five visits to Sri Lanka between 2008 and 2014 for data collection. Firstly, semi-structured interviews were conducted with senior Auditing professionals to gain insights into auditing practices of the corporate sector. The interviewees consisted of some senior officers of SLAASMB, Committee on Public Accounts and Committee on Public Enterprises (COPE) committee membership, senior officers from the of Finance and Planning (MOFP), mid-tier audit firms and Big Four in Sri Lanka. During the visits, researchers spent

No. of visits	No. of respondents and interviewees	COPE/COPA members	Types of respondents			
			MOFP Senior officers SLAASMB officers	Mid-tier Audit Practitioners (CASL)	Big Four practitioners (CASL)	Repeated Interviews
2008-2014 (5 Visits)	20 respondents and 25 interviews	03	07	05	05	05

Table III.
Details of the
interviewees

12 days with mid-tier audit firms, 14 days in the MOFP and another 10 days with Big Four auditing firms.

In total, 20 informants were interviewed and four meetings were attended to collect primary data. Some interviewees were interviewed more than one occasion, as their participation was important to this study. This approach enabled to build up a rapport and gain more insights into the corporate sector in Sri Lanka. Consequently, 25 interviews (20 interviewees and 5 repeated interviews) were conducted during the visits. Fifteen interviews were taped and transcribed. Although other five participants were keen to discuss, they were uncomfortable with the electronic recording of the interviews. Therefore, extensive field notes were taken during these interviews. These notes were confirmed with participants for validity. Each interview lasted about 50 minutes of the participant's time.

It is interesting to note here that during the data collection period (2008-2014), we interviewed the same respondents in same organisations. Also important to note here is that no significant auditing reforms that took place between the times of interviews. Key themes and patterns were identified across the whole period of the study through the processes of transcribing; field noting; reflective noting; memo writing; and subsequent analysis, coding and inferences (Hammersley and Atkinson, 1995).

Findings and discussion

The research question of the study is "what are the tensions among local auditing firms with the introduction of open economic policies and the adoption of ISA in Sri Lanka?" Unlike most previous research, this study examined the tensions in the audit practice. Analysis of the data revealed five emerging themes linked to the research question and these themes were grouped by the researchers. The analysis and the discussion were developed by assessing them with research questions. The main themes emerged in the interviews were as follows: the reasons for adoption of ISA; influence of international agencies; poaching of professionals by the Big Four; unethical practices among the auditors; and turnover intention. Figure 2 shows the relationship of the research questions and five themes identified from the interview process.

The respondents expressed their comments and opinions under these themes referring to their experiences on their auditing practise. In addition, a documentary review was undertaken based on the same themes accessing the records of MOFP, CASL, WB and ADB country financial accountability assessment reports.

Category	Back ground and experience	Total no.
COPE/COPA members	One parliamentarian and professional accountants qualified from the CASL, Sri Lankan Universities and UK – ACCA and CIMA qualified – more than 20 years of experience in auditing and accounting fields	3
MOFP Senior Officers SLAASMB officers	Sri Lanka Government accountants, Sri Lanka Administrative service members and University graduates with more than 10 years of administrative positions in the MOFP and SLAAASMB	7
Mid-tier Audit Practitioners (CASL)	Professional Accountants Qualified from the CASL and UK – ACCA – experience in the field more than 10 years	5
Big Four practitioners (CASL)	Professional Accountants (both local and UK – ACCA and CIMA qualified) practising in public practice – 10-12 years of experience in the auditing practice	5
	Total number of Respondents	20

Table IV.
Background information of respondents

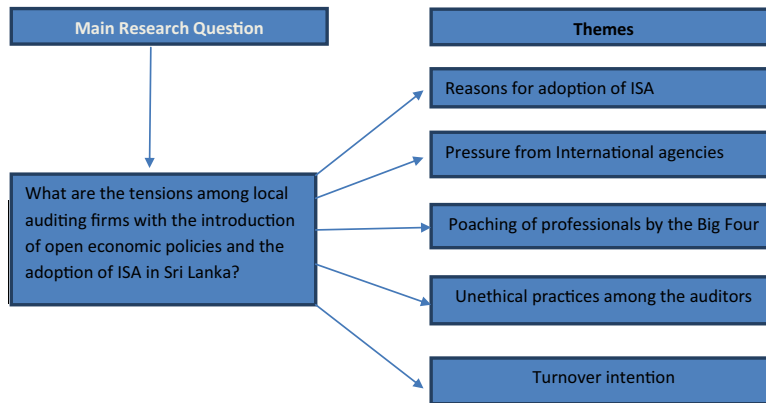


Figure 2.
Relationship of the research question and Themes

It argues that auditing practice reforms and the transition from central planning (up to 1977) to open market economic policies (from 1980s) in Sri Lanka has been strongly affected by the global pressures imposed by the international agencies such as IAASB, IASB, IFAC, ADB, IMF and the WB. These reforms in the economy led to investments in the business sector and international audit firms opened up their branches in the capital city of Sri Lanka – Colombo. This finding is similar to the literature found on accounting and auditing practises in other LDCs. For example, in many countries, the accounting auditing reforms were mainly induced by international agencies to mainly to ensure good corporate governance (Annisette, 2004; Neu and Ocampo, 2007; Mir and Rahaman, 2005; Murphy, 2008). In addition, studies by Caramanis (1999, 2002) showed how some international organisations control the accounting policy decision-making at the level of the auditing profession in Greece. He indicated that in Anglo-American free market model, the repositioning of governance system reasonably favours the Big Five accounting firms.

As revealed in this study, the small and mid-tier local audit firms have been disadvantaged and as a result, some tensions were built up pertaining to the practices of Big Four in Sri Lanka. This discussion provides justification on the dysfunctional impact of globalisation in to the audit practice of Sri Lanka and the tensions developed among the local audit firms.

The adoption of International Standards Of Auditing and the impact of technology/automation

The study examines reasons as to why and how tensions emerged in the auditing profession in the Sri Lankan corporate sector. To understand the auditing reforms, the empirics are explained using the framework of globalisation. New regulations on governance practices were brought in by the state in the early 1980s to ensure transparency. Many international financial agencies supported this initiative. The movement towards compliance of ISA in the corporate sector was initially introduced by Western countries, resulting from pressure from stakeholders and as an agenda to harmonise auditing standards around the world (Smith et al., 2008). While reforms taking place in developed countries, the pressure for LDCs to reform their corporate auditing standards was driven by the requirements of the conditions imposed by the international agencies such as the IAASB, IASB, IFAC and IMF; and particularly in Asia by the ADB and the Big Four. In supporting this point, an interviewee from a Big Four cited:

After 1980s, many multinational companies and Big Four firms started entering to Sri Lankan market mainly because of facilities conducive to their business operations and thus, pressure for systematic accounting and auditing regulations – including international standards - from various stakeholders including investors.

To comply with international agencies on accountancy and auditing, the CASL is obliged, particularly as a member of IFAC, to work towards implementation of ISA. The AuSC issued a new set of SLAuSs in May 1997. These replaced the auditing standards that had been issued in the mid-1970s and had only been subjected to minor modifications in the interim (CASL, 1997). At the end of 2009, the CASL made a decision to converge fully with on accounting and auditing standards and all pronouncements issued by the IAASB. Currently, SLAuSs that are effective from 2014 are based on the ISA 2009 volume issued by the IAASB. Although the 2009 volume has a few differences with the 2013 volume, compliance with the SLAuSs ensures conformity in all material respects with ISA. Appropriate awareness and training programmes had been conducted by CASL to ensure that their practicing members were appropriately competent in the application of the standards.

A senior auditor from a Big Four stated the appropriateness of standards to his audit tasks: “The advice provided by the international standards really helps and is important in the audit process.” A mid-tier audit firm partner made a similar observation on his experience with ISA as follows:

It is timely to adopt international accounting and auditing standards in an emerging economy like Sri Lanka. However, the big audit firms are in an advantageous position as they are very good in their information technology and communications facilities.

According to WB group (Wickramasinghe, 2015) report, 14 recommendations were made under the reforms of accounting and auditing practices of Sri Lanka. Seven of them have been successfully implemented, while five others are in the stage of completion. However, as the WB report (Wickramasinghe, 2015) indicates, after the end of the civil war in 2009, the country’s aspiration to become a state with upper-income levels by 2016 and eventually a regional business hub have spearheaded the development of the auditing profession. Further, WB report (Wickramasinghe, 2015) expressed that there is room for improvement, particularly in strengthening the regulation of auditors, quality of audit firms’ reviews, education of prospective accountants and CPD for those already qualified.

These findings indicate that the ISA have provided better opportunities for Big Four rather than small and mid-tier audit firms in Sri Lanka. This has created unique tensions among local audit firms with regard to their market share and survival in the profession. One of the retired Auditors General states that:

Some of the audits now are very complicated. Now IT is very much developed and IT has changed the scope of audit. So, IT knowledge is a concern [...]. there are hardly anyone suitable for these audits. Only big audit firms find it comfortable with IT, but even those firms may have difficulty when conducting audits in IT related businesses.

Further, the president of an international accounting body claims:

There are two types; first is big audit firms with international affiliation. They can use all types of standards by taking advantage of international technical assistance. Second is local firms with no affiliation, relatively very smaller firms with one or two partners. Thus, there is a huge gap in relation to training opportunities and quality of training between big firms and smaller firms. In this area authorities have to pay special attention and develop strategies to uplift the capacities of smaller firms by providing better training.

This evidence indicates that because of market imperfections, along with a lack of technical advancement, social, political and proper legal infrastructure, the auditing profession in Sri Lanka has been badly affected. This experience is similar to the findings of Caramanis (2002) that big firms take the opportunity to enter into LDCs to expand their market. The LDCs are less capable to repel the significant international pressure because of their low economic and political environments.

In sum, interviewees were critical about the continuous changing nature of ISA. They were also critical regarding the lead time of financial disclosure that produces untimely financial statements for potential investors. Investors, therefore, rely on other sources, such as financial analysts' reports. However, the Big Four conduct strong in-house professional training programmes for international auditing and financial reporting standards.

A question arises here as to whether the current CPD sessions conducted by CASL adequate and competent when compared with the training sessions that are provided by the Big Four to their own employees. In a situation where the CASL is unable to offer such training for the members of local firms because of their limited resources, the state has a responsibility to intervene and make arrangements to provide such expertise knowledge. However, this neoliberal quality is not ostensible in Sri Lanka.

Poaching of experienced professionals by the Big Four

As the paper argues, the local firms are concerned about the recent development of the auditing profession in Sri Lanka. A major tension is the "poaching" of experienced professional staff by the Big Four. These practices occur when a firm recruits professional staff of a competitor with the intention of damaging the competitor (Sikka, 2012). This has a significant impact on the competition in the auditing industry. These findings highlight a specific problem as epitomised by the following quote made by a partner of a mid-tier firm: "all my experienced staff have joined big firms in the last few years – it is hard to find good qualified people from the local market." Another partner of a mid-tier audit firm stated:

We operate in the local audit market since independence. However, with the open economic policies and the subsequent development of financial and market regulations, many international firms setup their business in Colombo. Gradually those international audit firms approached our senior professional staff and they were provided with attractive salary packages, consequently, we lost our good staff with good business contacts. This is still happening in the audit market in Sri Lanka.

It is ostensible that poaching is inevitable when international firms setup their businesses in most LDCs. International audit firms enter into markets in LDCs with paucity of professionals. Hence, their strategy is to poach qualified and experienced staff and clients from locally established firms. By doing so, they capture the engaging partners with pre-existing audit relationships. In developed countries, obviously there are regulations in place governing auditor conflict of interest that forbids poaching practices (Sikka, 2008). However, in the LDCs because of the dearth of qualified auditors, the recruitment of people with right expertise is the only option available for multinational audit firms despite the legal and ethical issues. On the other hand, by poaching personnel from the local market, international firms strategically curtail the competition.

Some of the respondents perceive that the Big Four occupy a dominant position in the Sri Lankan audit market, because of their advanced knowledge and globally established reputation. As noted by a Big Four interviewee:

I think the Big Four firms dominate the Sri Lankan market and accounting practice due to their comprehensive knowledge of International Accounting Standards that is readily available through their firms' international network.

Further, recruitment of professional staff from outside the country is challenging and costly for Big Four. The ability to build strong client relationships and proven growth prospects are vital performance indicators for Big Four in most LDCs. Accordingly, it is evidenced that the auditing profession in Sri Lanka is currently dominated by Big Four as claimed by interviewees. A senior partner of an audit firm stated:

Major auditing firms such as KPMG, E&Y and PWC are all the time in the CASL Council, Thus, they have large number of votes in the council. So, they can get support when they contest for council membership. Therefore, they represent always as members of the council. There are a few council members from smaller audit firms, the majority represents from Big Four. Actually what is happening is that powerful practitioners use their power to make decisions on professional matters including the market place?

Moreover, a key personnel of the security exchange commission indicates:

The reality is elite group of accounting profession is actually dominating the profession. This has been there right throughout, especially when it comes to the international audit firms and they are the people who dominate the profession using their power. There is no voice other than elite group in the council.

By adding his professional experience, one of the retired auditors general indicated:

[...] big audit firms, they are still dominating the profession and that network is still there'. Big audit firms utilise these networks to attract professionals from urban areas who are fluent in English language.

A senior executive of a commercial bank added his experience in the auditing profession:

[...] the profession is mostly limited to English speaking rich families in Colombo. The other problem was there are very few well established audit firms in Colombo, so it is not easy to get a placement in those audit firms, if you don't have very good connection with principal partners. My training placement was a best example for this scenario, because I would have never got a training placement of an international firm if my brother didn't know the partner of that firm.

These empirical evidence can be reinforced when comparing the profiles of the past presidents of the council of CASL. Since 1977, majority of the presidents who represented the council are the partners of Big Four. Even most of the council members in tenure are represented by the employees of Big Four. Clearly, this displays that the CASL, country's sole accounting and auditing standard setting body, is predominantly governed by the partners and managers of the Big Four. The practice of professional poaching by big firms is against the qualities of neoliberalism. This reflects a weaker implementation of neoliberal policies that identify promising firms and potential auditors nationally while protecting them from rivals. Thus, suggesting that global power has suppressed the national interest. This empirical evidence is somewhat similar to [Caramanis' \(2002\)](#) findings in Greece that the global institutional frameworks, the market imperfections, along with lack of proper legal infrastructure, affect professionalisation in LDCs.

Unethical practices

Another issue raised by the respondents is the unethical practices by some of the big firms indicating the nature of decisions taken by auditing authorities when they confronted with professional misconduct by international firms. As [Burnaz et al. \(2009, p. 373\)](#) claim:

[...] the ethical awareness and ethical standards of developed countries are usually believed to be higher than the low income, LDCs; and LDCs are generally the ones which are required to increase their ethical standards at higher levels.

This indicates that LDCs are highly vulnerable in terms of ethical awareness and ethical standards of the profession. This fact was of a great concern by a senior member of the COPE and this respondent explained the unethical practices by the authorities as follows:

In our profession, many colleagues change their employment between audit firms quite often. Some people do not stay with one employer more than 3 years. If they are recruited by an international firm, the international firm is, most of the time, better off – because many new recruits intentionally or otherwise disclose much confidential information of clients of the previous firm [...]. This practice is popular in the audit market place.

This provides important evidence with regard to ethical behaviour of some of the audit staff operating in small, mid-tier audit firms. This tension among auditing professionals is very serious and creates unprofessional attitudes. The Corruption Perceptions Index published by the [Transparency International \(2014\)](#) reports perceived levels of corruption on annual basis and Sri Lanka ranks in the 85th place among other countries. As [Burnaz et al. \(2009, p. 373\)](#) argue, for those “countries that are perceived to be more corrupted, the ethical climate and ethical standards of the business world are also lower.”

The behaviour of the CASL is an important factor to be considered as to why the local audit firms are placed under such professional tension. As revealed by a respondent:

Somewhere in 2005, the local accountancy body was informed of a professional misconduct by two Big Four firms in the privatisation process of a major State Corporation. A few years later ethics committee of the local accountancy body decided that both firms were responsible for the professional misconduct. Finally, only one firm was investigated but not the other. The failure to investigate the other firm was that one firm was representing a member of the council of the local accountancy body. I believe that this is a serious breach of professional conduct by the local body. The court ordered that both firms should be removed from the audit contract of the Corporation.

The CASL is the statutory body to which the government grants funds and appoints nominees from the state and corporate sector. Thus, it has a legal obligation to pursue complaints of professional misconduct and fraud by the practicing members. This empirical evidence is similar to the findings of [Mir and Rahaman, \(2005\)](#) and [Perera et al. \(2003\)](#) where with professional misconduct by international firms is common in many LDCs. The conduct and the behaviour of the international firms are sometimes not consistent with moral and ethical norms ([Sikka, 2004](#)). This may be due to a lack of regulations in place or ignorance by the local regulators with respect to these practices. In developed countries, there are rules governing auditor conflicts of interest. For example, in the USA, Sarbanes-Oxley regulations prevent companies from using the same accounting firm for auditing and consulting services.

As such, WB recommended to SLAASMB to introduce a system of independent oversight of audit focussing on monitoring the performance of practicing auditors which may include the following: on-site review of audit firms with regard to compliance with auditing standards and other applicable requirements, including code of ethics; preventive measures for ensuring that audit firms have adequate quality assurance arrangements; and adequate investigation and disciplinary proceedings along with imposition of appropriate sanctions ([Wickramasinghe, 2015, p. 8](#)). Still, as of March 2014, SLAASMB has not introduced a system of independent oversight of audit at firm level. However, CASL has introduced a professional self-regulation through the Audit Quality Assurance (AQA) initiative. AQA Board was established by CASL which is represented by all key regulators and is independent of the council of CASL. Further, WB has recommended CASL to include business ethics in the Audit and Assurance and Financial Reporting courses. Thus, CASL has introduced a comprehensive set of guideline for its members to maintain the auditors' independence

through the “Code of Ethics” for its members in addition to AQA. However, prejudice, institutional politics and professional power are not conforming to neoliberal values and its objectives. Hence, it is argued that weaker state intervention has doubted the independence of the audit profession in Sri Lanka.

Turnover intention

In answering the research question as to the tensions among local auditing firms with the introduction of open economic policies and the adoption of ISA in Sri Lanka, the findings suggest that the Big Four has been able to secure their market positively ever since they entered into the Sri Lankan audit market. Typically, the audit service is a steady business as listed companies renew audit contracts each year with some increase in annual audit fees. Many publicly listed companies maintain their auditors with Big Four for a long time to ensure stability in their businesses. As mentioned by a partner of a mid-tier auditing firm:

The government supports the Big Four due to various reasons. For example, Auditor General has contracted some audit assignments in the public sector institutions with Big Four. We were so surprised about this. Why can't the Auditor General Department's audit assignments be entrusted with small and mid-tier audit firms?

This indicates that the state is directly supporting the survival and maximisation of returns of the Big Four in Sri Lanka, which has caused some unrest among the small and mid-tier audit firms. The advisory service sector of the Big Four is also expanded during the past few decades. For example, revenue-generating businesses such as risk management, business consulting, non-audit and tax services have been offered by Big Four to private and public sector organisations in the country. As indicated by an interviewee from a mid-tier audit firm:

All the attractive audit and non-audit businesses (highly profitable) have been captured by the Big Four and their affiliates. I wonder why the state has allowed this practice [...]. Small and medium firms should survive in the audit market.

This may have triggered small and medium audit firms to have serious tensions on their businesses ever since the open economic policies embarked in Sri Lanka. Moreover, with the adoption of ISA and the inability of some local firms to carry out certain audit tasks may have also contributed for this sort of a tension. This is a unique characteristic of the auditing profession in Sri Lanka where mainly because of market imperfections and the existing political perspectives the state apparently has supported the Big Four audit firms to carry out their business leaving the small and mid-tier firms with an uncertain audit market after 1980s.

Summary and conclusions

This paper seeks to contribute to the limited literature on auditing practices in LDCs, in this case, Sri Lanka and perceived tensions among local audit firms coupled with the adoption of ISA in the wake of the open economic policies. While influences of imperialism have impacted the development of auditing in many LDCs in their post-independence, they are now under the influence of globalisation, digitalisation and neoliberalism. In this paper, we examine, using primary and secondary data, the influence of globalisation (Held, 1991) and digitalisation, which has provided a framework, to help understand the factors underpinning the development of the auditing practices and some tensions that have taken place in Sri Lanka. The responses of the participants were formulated in the context of their experiences and the perceptions regarding the auditing practice in Sri Lanka after 1980s.

With opening up of Sri Lanka's economy, emergence of external market for auditing services also occurred as evidenced in the some other LDCs. This suggests that the changes of institutional structures and practices that have been taken place have been influenced by the growing agency of globalisation and digitalisation in the form of professional firms. However, as empirical evidence suggest that owing to market imperfections, this challenge was not addressed by Sri Lankan authorities proactively to protect the local audit firms.

The case of technological advancement with globalisation and digitalisation is highly supported by the responses provided by the participants. This suggests a knowledge gap between the employees of local audit firms and Big Four with respect to information technology and international standards. The local audit firms believe that the government provides more support and opportunities for the Big Four. This, in turn, creates tension among the local audit firms with regard to their market share and survival in the profession. The situation has worsened up with Big Four, poaching experienced professional staff from local audit firms who also have got strong business network. Consequently, the Big Four curtails the competition in the market creating a monopolistic situation to enjoy a high economic and social status. As per [Caramanis \(2002\)](#), it is essential for ambitious occupational groups to diversify political resources from the local to the international sphere if they want to be successful in the globalisation era.

Moreover, CASL, which is the sole accounting and auditing standard setting body in Sri Lanka, is predominantly represented by the partners and managers with elite calibre of these Big Four. Thus, the Big Four utilises this concentrated authority in the Council to make decisions on professional matters evidencing the country's auditing profession is dominated by them. [Held \(1991\)](#) clearly depicts, with globalisation, multinational enterprises play an increasingly significant role and international accounting firms may significantly influence the regulation of the accounting profession at the local level.

Evidence reflects that government intervention into the auditing profession is low in Sri Lanka. As per neo-liberalism, this indicates that the government has provided autonomy to the profession. However, together with this autonomy, the government has a responsibility to shield the local firms providing them with all the facilities and opportunities provided to Big Four who have entered into the country following the open economic policies. Thus, if the government realises that the international firms are dominating the profession making the local firms as second-class citizens, the intervention of the government into the situation is essential.

This contributes to the literature in many ways. Firstly, the study shows new empirical evidence on the auditing profession in Sri Lanka, taking into account of the reforms in the corporate sector using interviews and documentary review. It shows the lack of state's concern on the auditing profession in the wake of the open economic policies to ensure public accountability. Secondly, the study shows the weak arrangements by the CASL in performing the audit practice in the auditing sector with the adoption of ISA. Thirdly, it reveals the external influences that caused the reform of the auditing profession of the nation. Accordingly, this study adds new evidence on the auditing profession, audit regulations and the tensions between the local and international firms in Sri Lanka. It stimulates debates about the auditing profession in LDCs.

The main implications are that currently in Sri Lanka, although the neo-liberalism exists in the auditing profession the values of neoliberalism are not really protected and sustained. Hence, it is ostensible that audit practice in the country is not something that represents a smooth, unproblematic and stable judgment. Moreover, it has not been linked to readily defined rationalities of neoliberalism or in other words does not reflect the best practices of audit professionalism. Perhaps, this is because of wrong linkages with institutions, politics

and misuse of power, which are open to conflict, contradiction and instability. Thus, what is presented in the discussion provides clear evidence that Big Four domination hinders the neoliberal values of the audit practice in Sri Lanka.

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