



STATUTORY AUDITOR IN MOROCCO BETWEEN THEORY AND PRACTICAL REALITY – EMPIRICAL STUDY

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ABSTRACT

The Auditor has a set of obligations and professional rules to comply with for the proper conduct of his control mission. This is led us to wonder if these rules and standards are respected by the auditors in Morocco. Therefore, our research deals with the following issue: "Does the auditor in Morocco manage to apply the law's requirement and to respect the audit standards during his mission?"

To address this issue, we carried out a field study with auditors (21 audit firms) and audited firms (112 companies) in four regions in Morocco (Casablanca/Settat, Rabat/Salé, Fez/Meknes & Tangier/Tetouan).

INTRODUCTION

The Statutory Auditor is a mission of certification of companies' accounts. They must certify of their reliability and verify their regularity and sincerity by the expression of an objective opinion with a complete independence.

Furthermore, we can't ignore that all companies must be able to apply all the financial rules about their statement's production. However, the Statutory Auditor has also a set of profession's rules and obligations which he must respect during his control mission. This is what makes it one of the most regulated professions.

This standardization was reinforced since 2001 after a very notorious financial scandal; the bankruptcy of **ENRON CORPORATION** (American energy company based in Houston, Texas) as well as the dissolution of **ARTHUR ANDERSON** (One of the giants of audit firms, "Big Five" become today "Big Four"). This is was the origin of the making of the law Sarbane-Oxley in 2002 which came to remind and to insist on the application of the independence rule for the Statutory auditor as well as compliance with all other standards of this profession.

Therefore, as a result of this strengthening regulation, auditors have more and more responsibilities to be objective

and independent toward the audited companies. That what really have aroused our curiosity to know if the auditors who work at the Moroccan audit firms do respect what is in the country legislation as well as in the standard's manual of legal and contractual audit.

In order to be able to achieve that one final objective, we have chosen to follow intermediate objectives which will be verified with an empirical study. So, we would like to:

- Know if:
 - The auditor's competence can be impacted by his independence and his experience;
 - The auditor does really respect his independence;
 - The fees that auditor receive can impact his independence;
 - The fees that auditor receive can impact his relationship with the company;
- Make sure if:
 - The auditor's knowledge can allow him to have competence;
 - The auditor's communication with the company can lead to a quality final report;
 - The auditor's ethic may impact his behavior in general.

We would like to point out that this article presents the synthesis of a PhD research which was based and centered

on the following question: “**Does the auditor in Morocco manage to apply the law's requirement and to respect the audit standards during his mission?**”

In this perspective, and to address this issue, there are the main points that we will address in this document:

- Literature review;
- Research questions and hypotheses and conceptual framework;
- Methodological conduct of the empirical study;
- Main results of the empirical study.

1. Literature review:

To make good decisions, companies must rely on high quality financial information. Looking for an audit, which is characterized by a set of rules issued by law, becomes essential because it will allow them to express an opinion about the reality and the sincerity of their financial accounts. In order to show the legal and normative aspect of the statutory audit, we think it's important to present a brief review of the literature before moving to our study results. In this perspective, we will address in this paragraph the following points:

- Statutory audit's definition and objectives;
- Statutory audit's methodology;
- Statutory audit's laws;
- Statutory audit's standards.

1.1. Statutory audit's definition and objectives:

The statutory audit is a control mission that leads to certification and specific verifications (MIKOL,2000) which is done by an auditor who must be independent to the audited company. Therefore, the auditor's opinion should be as a guarantee that a professional has acquired the assurance about the regularity and sincerity about the audited company's financial documents (LOUKILI, 2001).

The statutory auditor has others partial objectives which are presented as it follows:

- **Exhaustivity:** He must verify the registration of all the transactions;
- **Reality:** He must verify the real existence of the registered transactions;
- **Specialization:** He must be sure that the transactions are attached to the right accounting year;
- **Balances confirmation:** He must receive confirmation from the audited company about balances;
- **Good evaluation:** He must verify that all the transactions were evaluated in conformity to the accounting's methodological evaluation.

- **Good presentation:** He must verify that the financial documents are presented in conformity of the accounts chart's requirement;
- **Significative importance:** He must verify that all the financial information is clear and meaningful.

1.2. Statutory audit's methodology:

The statutory auditor must go through four important phases which are presented as it follows:

- **General knowing the company:** Most crucial phase in which the auditor has to do his first visits to the audited company. He should do general examination about the juridic, financial, fiscal and technic character of information he receives from the company (GRAND, VERDALLE, 1999).
- **Internal control assessment:** It has two steps; the first is an understanding of internal procedures; and the second consists of a verification of procedures (VIDAL, 2000).
- **Accounts review:** It requires a global approach and an analytical review that makes it possible to identify significant financial flows and abnormal variations (FALLOUL, 2012).
- **Certification report:** At the end, the auditor must give his certification opinion (*accepted, accepted with reservations, refuted*).

1.3. Statutory audit's laws:

The statutory audit is regulated in Morocco by the following most important laws in which we will present examples of the elements they show about this profession:

- **Law no. 17-96 relating to S.A:** Which shows that any S.A is required to appoint at least two auditors in companies appealing to the public, banking, credit, investment, insurance, capitalization and savings companies and to appoint at least one auditor accounts in the rest of S.A (Art. 159).
- **Law no. 5-96 relating to S.N.C, S.N.C.S, S.C.A, S.E.P and S.A.R.L:** Which shows that at least one auditor must be appointed when the company's turnover exceeds 50 MDH excluding tax at the close of the financial year (Art. 12 and 80).
- **Law no. 15-89 regulating the statutory audit profession:** Which shows that only persons registered on the list of the order of chartered accountants can exercise the functions of auditor and the profession can be practiced either independently, as an individual, or within a company of chartered accountants (Art. 1 and 4).

1.4. Statutory audit's standards:

The statutory audit is standardized in Morocco by the Manual of legal and contractual auditing standards. Some examples of the audit standards are presented as it follows:

- **Competence:** The auditor must have skills related to his knowledge (*diplomas*), know-how (*experience*) and life skills (*attitude and personality*). He must regularly complete and update his knowledge (**Standard n°110**).
- **Independence:** The auditor must be independent of the audited company and must be objective and neutral about his certification opinion (**Standard n°111**).
- **Respect of confidential information:** The auditor must respect the confidential information about the audited company and also to make sure that all who collaborate on his control mission do the same (**Standard n°113**).
- **General knowing of the company:** which can allow him to understand the significant areas and systems (**Standard n°2101**).

2. Research questions and hypotheses and conceptual framework:

In order to answer to our central research problem, which is about knowing whether Moroccan's auditors effectively comply with all the profession's rules and standards, we have chosen to deal with **5 questions** and **7 hypotheses** (with a total of 19 sub-hypotheses).

2.1. Research's questions:

Our research deals with the **5** following **questions**:

- **Q1:** Does the Moroccan auditor have enough knowledge which could allow him to be competent?
- **Q2:** Does the Moroccan auditor's experience can impact his competence?
- **Q3:** Does the Moroccan auditor do respect his independence in front of the audited companies?
- **Q4:** Do the auditor's fees impact his relationship with the audited companies?
- **Q5:** Does the communication between auditors and audited companies impact the quality of the final report?

We will try to give answers to those questions through a qualitative study with audit firms in Morocco using semi-structured interviews.

2.2. Research's hypotheses:

Our research deals with the **7** following **hypotheses**:

- **H1:** The auditor's competence depends of his professional behavior.
 - o **H.1.1:** The auditor's ethic impacts his professionalism.
 - o **H.1.2:** The auditor's ethic impacts his ability to respect the professional confidentiality.
 - o **H.1.3:** The auditor's ethic impacts his independence.
- **H2:** The auditor profile's development depends on his professional abilities.
 - o **H.2.1:** The auditor's competence impacts his work quality.
 - o **H.2.2:** The auditor's competence is impacted by his ability to organize and supervise his control missions.
- **H3:** The auditor's experience impacts his competence.
 - o **H.3.1:** The auditor's experience impacts his competence.
 - o **H.3.2:** The auditor's experience is impacted by the fees he receives.
- **H4:** The auditor's experience impacts his professional skills.
 - o **H.4.1:** The auditor's experience impacts his ability to updates his work techniques regularly.
 - o **H.4.2:** The auditor's experience impacts his ability to deal with his work tools.
 - o **H.4.3:** The auditor's experience impacts his work quality.
- **H5:** The auditor does respect his independence with the audited companies.
 - o **H.5.1:** An independent auditor allows him to avoid any interference in the audited companies' management.
 - o **H.5.2:** An independent auditor doesn't make modification of an initial expressed opinion.
 - o **H.5.3:** An independent auditor doesn't give unjustified opinions.
 - o **H.5.4:** An independent auditor allows him to make purely objective decisions.
- **H6:** The auditor's fees impact his relationship with the audited companies.
 - o **H.6.1:** The auditor's fees are able to create conflicts with the audited company.
 - o **H.6.2:** The auditor's fees are not responsible of the mandate renewals.
- **H7:** The close relationship with the audited companies impacts the auditor's control mission.
 - o **H.7.1:** The auditor's communication with the audited companies impacts his work quality.

- o **H.7.2:** The lack of professionalism leads to frequent conflicts between the auditor and the audited companies.

We will try to verify those hypotheses through a quantitative study with audited companies in Morocco using a survey questionnaire.

2.3. Conceptual framework:

The research questions and hypotheses led us to elaborate the following conceptual framework of our study:

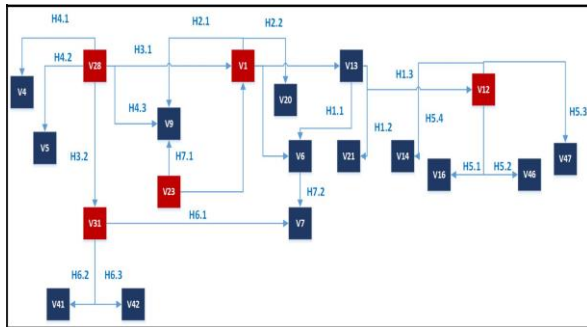


Fig.1 Research conceptual framework

As we can see, we assigned a set of codes for the research variables. For example, "V1" means **auditor's competence** and "V12" means his **independence**.

In addition, the arrows going towards the research variable mean that this variable is dependent and can be impacted if the one to which it's linked is manipulated.

This conceptual framework is made by a theory inspiration (*laws and standards of the auditor profession*) and also by our modest reflection of the logical relations which can exist between all the research variables. It's can be modified and transformed from a framework to a conceptual model depending on the study's results.

3. Methodological conduct of the empirical study:

To present the main methodological choices and the approach we adopted for our study is a crucial step we have to do before moving to the main results (*The research's type, the studied population, the study's nature, the reasoning mode, and the epistemological positioning*).

3.1. Envisaged methodology and epistemological positioning:

Our study is part of mixed research; a comprehensive qualitative one field with audit firms and a confirmatory quantitative one with the audited companies in Morocco.

Regarding to the study's nature, it's a triangular one since that both qualitative and quantitative studies are done in the same time, both contribute to the validity of the research and

the two approaches a single reality that is the statutory audit practice in Morocco.

In addition, for the reasoning mode, it's an abductive one which is a combination between the induction (*adopted in an exclusively qualitative studies*) and the deduction (*adopted in an exclusively quantitative studies*).

Finally, concerning the epistemological positioning, we opted for the pragmatic paradigm which is considered as the most adopted in mixed researches. The pragmatic paradigm is situated between the post-positivism and the constructivism ones. We have chosen the pragmatism for the main following reasons:

- The post-positivism is adopted in mixed researches predominated by the qualitative studies;
- The constructivism is adopted in mixed researches which are predominated by the quantitative studies;
- Both studies, as mentioned above, are done in the same time in a data triangulation approach.

3.2. Study approach:

In our research, we were able to take the **10** following steps:

- **A literature review:** In which we have carried out a review of the Moroccan legislation and the audit standards in order to build the next steps on strong bases.
- **A selection of research variables:** Which was made of, as we have already mentioned, legislation and professional standards. We were able to find qualitative and quantitative variables (*with a total of 47 variables*) which we classified on two main groups; one was for the key variables and another one for the associated variables.
- **A proposition of logical relations between the research variables:** After selecting our variables, we proceeded to propose intersections between them by classifying them, this time, into dependent and independent ones.
- **An elaboration of research questions and hypotheses:** Which was based on all the proposal crossings between the research variables. The answers of the question will be done through a qualitative study and the hypotheses will be verified by a quantitative one.
- **An elaboration of the conceptual framework:** The two previous steps led us to design our conceptual research framework which could be modified according to our study results.
- **An elaboration of data collection tools:** Our data collection tools was the interview guide and the survey

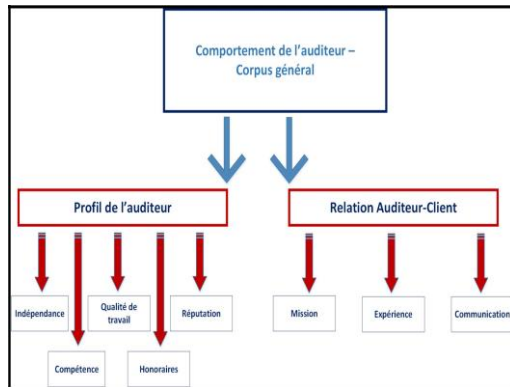


Fig.4 The Descending Hierarchical Classification

We can notice, according to this diagram, that we were able to constitute a general theme which is “The auditor behavior” divided into two major elements:

- Auditor's profile;
- Auditor-Client relationship.

4.1.2. Answers to the research question and discussion of the main results:

The qualitative study results allowed us to answer and discuss our research questions as it follows:

- **Q1:** The auditor in Morocco is aware that he must have the three types of knowledge which define his competence;
- **Q2:** The auditor in Morocco is aware that he must have the sufficient experience which allows him to acquire more reflexes during his control mission.
- **Q3:** The auditor in Morocco doesn't really respect his independence with the audited company and can be influenced by a set of variables such as the fees he receives, the number of renewals mandate and the close familiar relationship he can have with the company.
- **Q4:** Yes, the auditor's fees do really lead him, if they are low, to reduce the working assigned hours. And, if the fees are high, it can lead him to have frequent renewals mandate and also the adjustment of the final opinion. All those consequences are able to affect the auditor's independence.
- **Q5:** The communication between auditors and audited companies do have a significant impact on the quality of the final audit reports.

4.1.3. The conceptual model of the qualitative study:

The conceptual model of the qualitative study is presented as it follows:

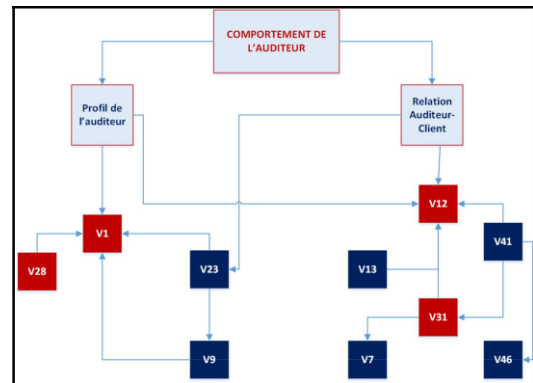


Fig.5 Conceptual model of the qualitative study

This model shows us that:

- The auditor's competence (V1) depends on his experience (V28), his work quality (V9) and his communication with the audited company (V23);
- The auditor's independence (V12) depends on his ethic (V13), the fees he receives (V31) and the renewals mandate (V41);
- The auditor's fees (V31) depend on the renewals mandate (V41);
- The auditor's conflicts with the audited company (V7) depend on the fees he receives (V31);
- The auditor's work quality (V9) depends on his communication with the audited company (V23).

4.2. Main results of the quantitative study:

The main results of the quantitative study will be presented on the following points:

- Data analysis;
- Verification of research hypotheses and discussion of the main results.
- The conceptual model of the quantitative study.

4.2.1. Data analysis:

The data was collected from **112 survey questionnaires** and was analyzed by the software **Sphinx IQ2 and SPSS**. The first one allowed us to do a univariate analysis by analyzing each question in a separate and individual way. Concerning the second software, it allowed us to proceed with the verification of our research hypotheses by doing a bivariate analysis by using “*Khi-deux*” and “*V Cramer*” tests.

4.2.2. Verification of research hypotheses and discussion of the main results:

The verification of our research hypotheses and the discussion of our main results are presented as it follows:

Hypotheses	Verification of the sub-hypotheses	Result	Discussion
H.1	H.1.1: Accepted H.1.2: Accepted H.1.3: Accepted	Accepted	The auditor's ethic can impact his professionalism, his ability to respect confidential professional information and his independence
H.2	H.2.1: Accepted H.2.2: Accepted	Accepted	The auditor's competence depends on his work quality and his ability to organize and supervise his control missions
H.3	H.3.1: Accepted H.3.2: Accepted	Accepted	The auditor's experience depends on his competence and on fees he receives
H.4	H.4.1: Rejected H.4.2: Rejected H.4.3: Rejected	Rejected	The auditor's experience doesn't necessarily allow him to update his work techniques, to deal with the new work tools and to have work quality.
H.5	H.5.1: Accepted H.5.2: Rejected H.5.3: Rejected H.5.4: Accepted	Partially Accepted	The auditor's independence doesn't lead him to interface in the company management but can lead him to adjust the final opinion and to give unjustified ones
H.6	H.6.1: Rejected H.6.2: Accepted H.6.3: Rejected	Not totally rejected	The auditor's fees don't influence the occurrence of conflicts but do influence the renewals mandate and the final opinion
H.7	H.7.1: Accepted H.7.2: Accepted	Accepted	The communication between auditor and audited companies can impact the work quality and the lack of professionalism can lead to conflicts

Tab1. summary of quantitative study results

4.2.3. The conceptual model of the quantitative study:

The conceptual model of the qualitative study is presented as it follows:

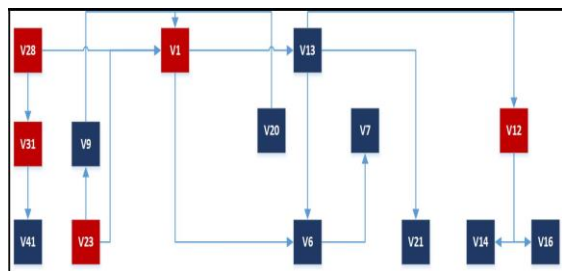


Fig.6 Conceptual model of the quantitative study

This model shows us that:

- The auditor's ethic (V13) impacts his professionalism (V6), his ability to respect confidential information about the company (V21) and his independence (V12);
- The auditor's competence (V1) impacts his professionalism (V6) and his ethic (V13);
- The auditor's experience (V2) impacts his competence (V1) and the fees he receives (V31);
- The auditor's independence (V12) avoids him to interface in company's management (V16) and allows him to make objective decisions (V14);
- The auditor's communication with the company (V23) impacts his work quality (V9) and his competence (V1);
- The lack of professionalism (V6) can be responsible of the frequent conflicts with the audited company (V7);
- The auditor's work quality (V9) impacts his competence (V7);

4.3. Main results of the mixed study:

The main results of the mixed study will be presented on the following points:

- The conceptual model of the mixed study;
- General discussion of the main results.

4.3.1. The conceptual model of the mixed study:

To design our conceptual model of the mixed study, we combined between the two conceptual models previously presented. It's presented as it follows:

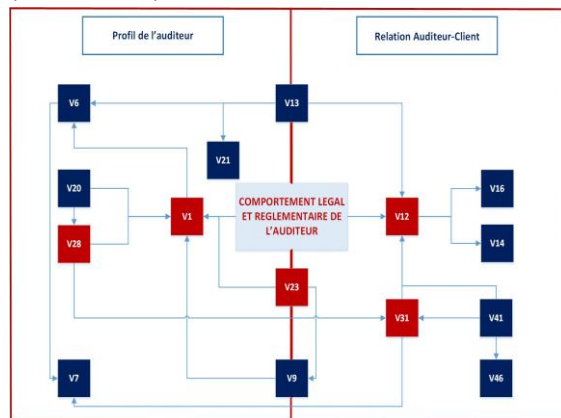


Fig.7 Conceptual model of the mixed study

This model shows us that the auditor's legal and regulatory behavior in Morocco can be divided into two parts:

- The first part is defined by the "Auditor's profile" which is linked by a set of personal and professional skills all compatible with the standard "Auditor's competence" (standard no. 110);

- The second part is defined by “**Auditor-Client relationship**” which is linked by a set of research variables all compatible with the standard “Auditor’s independence” (**standard no. 111**);

4.3.2. General discussion of the main results:

The mixed study results allowed us to come out with several conclusions which are presented and discussed as it follows:

Results	Discussion	Justification
The auditor's competence (V1) depends on his work experience (V28) and his work quality (V9)	There are several rules and standards provided by the Moroccan legislation. According to the results, they are respected by most auditors.	We justify this by the fact that (94,6%) of companies affirmed that their auditors have work experience, (51,8%) agreed with their work quality and (53,6%) judged high their auditor's competence.
The auditor's independence (V12) depends on the fees he receives (V31) and the renewals mandate (V41)	This means that the auditor's independence can be impacted; which is not supposed to happen according to the legislation.	We justify this by the fact that (75,9%) of companies judged high the auditor's fees, (32,1%) affirmed that they have the same auditor for more than 9 years and (51,8%) judged their auditor's independence quite high.
The modification of final opinion (V46) depends of renewals mandate (V41)	This means that our results showed that when there are renewals mandate, this can lead the auditor to modify his final opinions for fear of losing the company.	We justify this by the fact that (31,1%) affirmed that they have the same auditor for more than 9 years and (46,4%) between 3 and 6 years. Also, (32,1%) agreed and (25,9%) completely agreed that their auditor can modify the final opinion.
The fees the auditor receives (V31) depends on renewals mandate (V41) and his work experience (V28)	Which means that: - The significant fees the auditor receives is what can push him to renew his mandate with the audited company. - The fees the auditor receives are based on his work experience.	We justify this by the fact that (94,6%) affirmed that their auditors have work experience, (46,4%) affirmed that they have the same auditor between 3 and 6 years and (32,1%) for more than 9 years. Also, (75,9%) affirmed that their auditor's fees are quite high.

Tab2. summary of mixed study results

CONCLUSION

We have approached, throughout this study, the statutory audit profession in order to verify the respect of the legislation and the standards by their practitioners in Morocco and also to answer our central research question: “**Does the auditor in Morocco manage to apply the law's requirement and to respect the audit standards during his mission?**”

In this perspective, we opted for a mixed study containing:

- A comprehensive qualitative one made with **21** audit firms in Morocco (*with a total of 24 interviews*);
- A confirmatory quantitative one made with audited companies (*112 survey questionnaires were collected*).

Both studies were carried out in the same time and for three months starting from **17th March 2021** in four Moroccan regions (*Casablanca/Settat, Rabat/Sale, Fez/Meknes and Tangier/Tetouan*) through a research approach that combined descriptive, evaluative and correlational researches. So, we have carried out:

- A description of our two populations behavior from two collecting data tools (*Interviews and survey questionnaires*);
- An evaluation of those behaviors through the study's results;
- And finally searching different links that may exist between the research variables we found through the literature review.

The main results of our mixed study led us to come out with the following conclusions:

- Auditor's competence (V1) can be closely linked to his work experience (V28), his work quality (V9) and his ability of organizing and supervising his control mission (V20).
- Auditor's independence (V12) can be closely linked to his ethic (V13), to the fees he receives (V31), to renewals mandate (V41) and also to his work competence (V1).
- Auditor's communication with the audited company (V23) can influence his work quality (V9).
- The fees the auditor receives (V31) can be closely linked to renewals mandate with the audited company (V41).
- Auditor's ethic (V13) can be closely linked to his professionalism (V6), his ability to respect confidential information about the audited company (V21) and also his independence (V12).
- Auditor's professionalism (V6) can be closely linked to the conflicts he can have with the audited company (V7).

However, our research presents the following limits:

- Limited geographical perimeter (*only 4 regions in Morocco*);
- Health situation in Morocco (*COVID-19*) which was responsible of a people's fear about the physical meeting which leads them to refuse to collaborate with us. Moreover, despite this, our interviews took place in a very good conditions with respect for all the precautions related to the pandemic (*masks, gels, distancing...*).
- The study period (*from March 17th to June 30th*) which is considered as the most important and busiest period of the year for both populations; auditors and audited companies.
- The sensitivity of this research subject which was also responsible of the refusal of several auditors and audited companies to collaborate before even having a look on the nature of questions we were going to ask them.

Furthermore, despite the fact that those research limitations were responsible of losing a significant number of survey participants, we did have a good response rate whether from auditors and audited companies.

To conclude, the main study's results and limitations previously mentioned allowed us to constitute new research perspectives that we present as follows:

- Expanding our geographical perimeter to other regions in Morocco;
- Trying to make reflections about the future of the statutory audit profession;
- Studying the impact of digitalization on the statutory audit practice in Morocco;
- Studying the effective contribution of auditors in improving organizations governance.

Finally, we would like to point out that our study's results allowed us to come out with a set of proposals about improving the statutory audit practice in Morocco and for which we will reserve an independent article.

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