

# Economic Feasibility Assessment of Audit Firms in Bhutan

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## **Abstract**

*All audit services of corporations and private sector businesses in Bhutan are presently outsourced to foreign audit firms. Small scale and basic services of auditing, accounting and taxation of small and medium sized business enterprises (SMEs) are currently provided by freelance and informal individuals whose services are unreliable, sporadic and lack legitimacy. To import these services from outside is paradoxical even as unemployment in the country, particularly of youth, is on the rise. Establishment of national auditing firms has immense potential for job creation. The present paper attempts to examine the reason/(s) for lack of Bhutanese audit firms, to study the economic feasibility and sustainability of Bhutanese audit firms, and also to assess the effect of auditors' work culture on clients' business among others.*

**Keywords:** RAA, BAS, feasibility, General Auditing Rules and Regulations.

## 1. Introduction

Bhutan is a small and developing country. The Royal Audit Authority (RAA), established in the year 1985, looks after the audit works in Bhutan. As of now, there is only one national audit firm, i.e., Drami and Associates Pvt. Ltd., established on December 2011. But due to absence of professional chartered accountant, the firm is not empanelled by RAA. RAA outsources all the audit works to foreign audit firms and the selection of such firms are also done by RAA. The companies have to bear the cost which is difficult for companies with meagre capital.

There are 280 companies registered under RAA which are required to perform external audit mandatorily. Bhutan does not have enough Chartered Accountants (CAs) to carry out audit works. There are only 27 chartered accountants, engaged by corporations and government agencies. The establishment of national audit firms will reduce the workload of RAA and reduce audit cost.

Present research investigates audit service of foreign audit firms and feasibility of Bhutanese audit firms. It explores the

demand - supply situation of auditing services in Bhutan and identifies the reasons thereof and also to examine the economic feasibility of national audit firms.

### 1.1 Existing scenario

There are over 1000 companies under the purview of RAA, but it can cover only half of them. Auditing of corporate, financial and private companies are outsourced to audit firms abroad at the cost of companies. "Every agency wants to be audited annually, while our coverage at the moment is only about 50 percent," maintains RAA.

**2. Objectives of the study:** The objectives of the study are as follows: a) To identify the reason/(s) for lack of Bhutanese audit firms. b) To study the feasibility and sustainability of Bhutanese audit firms. c) To study effect of auditors' culture on clients' business.

**2.1 Significance of the study:** RAA is authorized to audit in Bhutan, carries out audit and most of the audit is outsourced

to abroad. There is only one private audit firm in Bhutan but that too is not empanelled by RAA , so it cannot do external audit. If more audit firms are established, they can offer relatively cheaper services and improved accessibility. It can generate employment opportunities which will help tackle rising unemployment among Bhutanese youth.

**2.2 Scope of the study:** The research covered Thimphu and Phuentsholing cities where a number of organizations are located. It also covers the national private audit firm, RAA and some Bhutanese CAs.

**2.3 Limitations of the study:** There are around 280 registered companies in Bhutan but information was gathered only from those companies which are located at Phuentsholing and Thimphu. Other companies were not surveyed due to limited time. Meeting concerned persons was very difficult because some were out of the station, some were in the meetings, and those who could be seen had limited time to spare. Researchers could not interview the foreign auditors even though they play a very vital role in the field of audit in Bhutan.

### 3. Literature Review

Feasibility of an audit firm is an analysis and evaluation of a proposal to determine if it (1) is technically feasible in the sense that whether audit firms can be established within the rules and norms of the country. (2) is feasible within the estimated cost (establishment cost of current audit firm), (3) will be profitable, and (4) is socially feasible.

**Montgomery (1912)** defines auditing as a systematic examination of the books and records of a business to ascertain or verify and to report upon the facts regarding the financial operation and the result thereof.

#### 3.1 Impact of audit on company's performance

**Ramanathan and Sim (2010)** stated that a good audit will normally discover issues and improves risk management and strengthens corporate governance in a company.

#### 3.2 Audit fees

According to **Chant et al. (1993)** one of the determinants of audit fees is audit risk. In recent times, this is emphasized after the collapse of Enron and WorldCom and

the increase in lawsuit audit firms. Naser et al. (2007) provides various determinants of audit fees which includes corporate size, status of the audit firm, industry type, degree of corporate complexity and risk.

Sustainability of audit firms could be maintained if the audit firms provide detailed reports on their financial condition which would reassure financial report preparers and users that the firm's costs and sustainability are reasonable. Such information could also be useful to audit committees in assessing competitive proposals.

**Khan (2011)** noted that though external audit can be expensive, it can examine the assertions of the company if its internal auditors are unfaithful. **Jensen and Payne (2003)** found that more number of audit firms in the market gives benefit to the clients.

### 3.3 Feasibility

**Bhutan National Human Development (2005)** in its report raised concern for the need of more private firms in Bhutan.

**World Bank (2005)** in its report declared that private sector's contribution to the rapid economic growth of Bhutan in the recent years has been minimal. **Chhetri**

**(2010)** stated that the Royal Audit Authority (RAA) has set up an accounting and auditing standards board to look into possibilities of privatizing audit services in the country.

**Financial Management Unit of RAA (2009)** reported that the accounting and auditing practices in Bhutan suffer from weaknesses in regulation, compliance and enforcement of standards and rules. By default, the regulation of the audit profession is left to the RAA, which is clearly not equipped nor mandated task.

**Wangdi (2011)** has reported that with the globalization of the economy, the necessity to strengthen the accounting and auditing practices in Bhutan is strongly felt. At present, there is a lot desired to consolidate the accounting system in the private and the corporate sector in the absence of a uniform standard. In the opinion of **Gyeltshen (2012)**, "As of today, there are only 27 professional accountants in Bhutan and this has become a challenge for the accounting and auditing standards board of Bhutan, which recently formulated the new standard, called the Bhutanese accounting standards, which will have to be followed by listed

companies, financial institutions and state-owned enterprises. Since the new standard is comparable to internationally accepted standard, it will also provide scope for participation of more foreign companies.”

### **3.4 Evolution of the audit system in Bhutan**

Bhutan adopted an efficient and effective Financial Management System (FMS) to support. The FMS focused on the accountability of resources, effective evaluation and reporting for appropriate decision-making. The audit organization was rested with the responsibility of evaluating and reporting on the economic and efficient management of scarce resources of the Royal Government of Bhutan (RGOB). In 1969, 31st National Assembly discussed the appointment of Royal Auditors to conduct the audit of accounts and records of the RGOB. Consequently, four Royal Auditors were appointed on 16 April 1970 under a *Kasho* (Royal Ordinance). This ordinance defined primary responsibility of the then Royal Audit Department about audit of accounts of the Ministry of Finance (MOF), all

other Ministries, Royal Bhutan Army (RBA), Royal Bhutan Police (RBP) and His Majesty’s Secretariat.

In 1974, the FMS was restructured as an autonomous entity and as the Royal Audit Authority in 1985. In 1989, the General Auditing Rules and Regulations (GARR) were issued properly, defining the roles and responsibilities of RAA.

### **3.5 Bhutanese Accounting Standards**

Bhutanese Accounting Standards (BAS) was launched on April 6, 2012. The main reason behind launching BAS was to improve the accounting and auditing processes comparable to the international best practices. Due to the growing number of companies and opening of Bhutanese economy to the outside world for trade and investment, Bhutan felt the need of its own standards. BAS was launched with the expectation of facilitating high quality accounting with transparency. Before launch of BAS, business units and entities, including corporations had been preparing their financial statements based on Generally Accepted Accounting Principles (GAAP).

### 3.6 Control and regulation of audit service

- i. Procedures of empanelment: RAA has the mandate to empanel auditors, and they follow certain criteria for empanelment. In Bhutan there is no institute of auditing like Institute of Chartered Accountants of India. Presently, RAA is authorized to issue practicing certificate like a professional body to the CAs.
- ii. Control of auditors: At the front line, RAA has auditors deputed by different departments. Corporation and financial institute division have three teams. For a particular year, RAA draws a schedule which is used for sending the auditors in the field and is managed by a team leader who controls the team. Division chief monitors the progress of sent audit team about adherence of code of ethics and above the division chief is the head of department and then comes the quality assurance review and lastly the

auditor general. Finally, a clearance of auditor general for issuance of report is needed. For statutory auditors, RAA control their quality through participation during the exit meeting<sup>1</sup>. After completion of audit the findings are discussed with the management but sometimes before the auditors do so, they discuss with RAA or discuss jointly with the management. RAA also ensures whether they comply with the code of ethics and the standing instructions<sup>2</sup> issued by the auditor general.

- iii. Base for audit fees: RAA takes into consideration the turnover, cash flow position, size of the firm and the volume of work to be carried out. They also look at a particular year's expenses and the volume of sales that is

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<sup>1</sup> A meeting of the audit team and auditee to discuss the results of the audit

<sup>2</sup> An instruction which may be revoked at any time, for specific procedure to be undertaken in the event of a specific occurrence

the main point to be taken into consideration.

### 3.7 Scope for Bhutanese audit firm

- i. Practical difficulties faced by RAA: One of the difficulties is limited man power and RAA cannot demand or increase more man power because it is still under the purview of Royal Civil Servant Commission (RCSC) which makes it dependent on RCSC. Second difficulty is that - in some agencies accounting records are not maintained properly and the quality of the accounts is poor. In small Bhutanese society, it is difficult to exercise one's objective of audit effectively. Nevertheless, while auditing, RAA's mission is to audit without fear, favor, and prejudice.
  - ii. Rules regarding the books of accounts to be audited: RAA has auditing standards and a number of manuals for guiding auditors during conduct of audit. The audit work should comply with the standards and the requirement specified in the audit manual.
  - iii. Auditing standards followed by RAA: RAA follows its own

Auditing Standard and International standard of Supreme Audit Institution (SAI). For the audit carried out by the foreign auditors, they have to follow Indian Auditing and Assurance Standard (IAAS).

- iv. Reasons for delay in BAS: One of the mandates of Accounting Standard Board was to come up with auditing standards. If RAA comes up with their own auditing standards it will just be similar to what is there in the international standards. The adoption of International Financial Reporting Standards (IFRS) makes it an exercise in futility for setting up of BAS because International Standards for auditing is drafted, designed and formulated in order to audit the accounts prepared on IFRS basis.

### 3.8 Drami and Associates Private Ltd:

Basis of accepting clients: The clients are accepted on first-come-first basis. Following factors are considered by while charging fees: a) Operating expenses like

office rent, salary, fax, etc. b) Number of transactions per month or number of files c) Number of working days

Table: 3.1- SWOT Analysis

<b>Strengths</b>	<b>Weaknesses</b>
- Qualified Auditor	- Not empanelled under RAA
- Efficient Staff	- Not empanelled under RAA
<b>Opportunities</b>	<b>Threats</b>
- Unsatisfied Demand	- Fighting against foreign firms
- Developing Nation	- No National Institute/Association



#### 4. Methodology

**4.1 Research design:** This is an exploratory research design combined with a descriptive approach.

**4.2 Sampling design:** The auditees were selected by applying non-probability sampling technique- convenient sampling. The number of audit firms selected for survey was 75 in Thimphu and Phuentsholing. We distributed the questionnaires to 57 firms. However, 32 firms were finally considered based on full disclosure and interaction regarding questionnaire and objectives of the research achieving 56% response rate.

**4.3 Sources and collection of data:** The paper is based on both primary as well as secondary data. The primary data have been collected from Controller and Regulator, RAA, Bhutanese audit firm Drami and Associates Private Ltd., and prospective Bhutanese audit firms. Further, interviews with Assistant Auditor General, Mr. Karma Tenzin of RAA, Jigme Rinzin, of National Council, Kinley Dem, the Manager, Bhutan Power Corporation, and Auditees - 32 registered companies of Thimphu and Phuentsholing.

The sources of secondary data are books, journals, newspapers and internet

**4.4 Collection of data:** The questions were designed based on objectives and divided into four parts, i.e., clients, RAA, Bhutanese audit firms and Bhutanese CAs.

**4.5 Study area:** Phuentsholing and Thimphu

Table 4.4.1 Number of companies surveyed

<i>Location</i>	<i>No. of auditees</i>
Phuentsholing	11
Thimphu	21
<i>Total</i>	32

Source:

*Survey*

**4.6 Tools and techniques of analysis:** The main purpose of the research was to find out the socio-economic feasibility of audit firms in Bhutan. The data were analyzed by using SPSS version 16.0 tool and graphical representations were used for better presentation.

**5. Results and Discussions:** It will provide RAA's views about the benefits of

audit to the society, control and regulation of audit services, scope for Bhutanese audit firms and RAA's role in the society. It also covers the perception of national audit firms and the auditees on Bhutanese audit environment

### **5.1 Reasons for lack of Bhutanese audit firms**

**5.1.1 RAA's view on Bhutanese audit environment:** Lack of professional accountant (CAs): With the globalization of the economy, the necessity to strengthen the accounting and auditing practices in Bhutan is strongly felt. For becoming a CA, one has to undergo the CA course. At present there are only 27 professional experts in Bhutan and they are engaged in government agencies and corporations.

**5.1.2 Views of national audit firm on Bhutanese audit environment:** Difficulties faced by the firm at the time of setting up and recruitment: The only national audit firm faced difficulties during the time of setting up as there were no incentives provided by the

government. It was also challenging for the firm in recruiting trained and experienced workers.

### **5.1.3 Views of Prospective Bhutanese auditors:**

As per the Civil Service Rules, the existing CAs have to serve double the period of their Association of Chartered Certified Accountants (ACCA) course. Even if it was not a requirement as per the services rules, they consider it as a moral obligation to serve the organization that they have been working for many years.

### **5.2 Feasibility and sustainability of Bhutanese audit firms**

#### **5.2.1 RAA's view on Bhutanese audit environment**

- i. Scope for national audit firms: Since there is lack of national audit firm, RAA hires audit firms from foreign countries based on their application, turnover, and competency. RAA shortlists those audit firms which have applied based on the physical verification regarding the competency of the partner and professional fees. Therefore, there is huge gap

- between supply of audit services by the professional accountants and demand for the services by business firms.
- ii. Need for audit service: Bhutanese economy is growing and Foreign Direct Investments (FDI) is coming in and more private companies are coming. They would need their accounts to be audited. For example, the existing national audit firm is getting lots of work since inception.

### **5.2.2 Views of national audit firm on Bhutanese audit environment.**

- i. Reason for the establishment of Drami and Associates Private Ltd.: The main reason behind the its establishment. is the demand for services of auditing, accounting, and taxation of different business units.
- ii. Demand for the audit services: There is very high demand since its establishment and it is providing services in internal auditing.

- iii. Recovery of all the expenses and operational cost: It is able to meet all the expenses and operational cost. This indicates sustainability and feasibility of the firm.
- iv. Competent employees: It. Is engaging 13 competent employees who facilitate to perform efficiently and smoothly.
- v. Future Prospect (Sustainability of audit firms in the market): It is confident enough to sustain business in the market. In the opinion of its management sustainability is all about rate it is charging for services.
- vi. Expansion of the business: In order to expand business its planning to employ Bhutanese professional expertise.

### **5.2.3 Views of Prospective Bhutanese audit firms**

- i. Perception of prospective auditors on feasibility of Bhutanese audit firm : CAs feel that it is viable and feasible to open national audit firm due to the

growing number of companies registered under the Companies Act of the Kingdom of Bhutan and also due to growing number of private sector companies in Bhutan. Last year, the Construction Development Board had made it mandatory for large construction companies to be registered under the Companies Act of the Kingdom of Bhutan. All the companies registered under the Companies Act are required to be audited by the external auditors. In the present context, the companies incorporated under the Companies Act are audited by the firms of CA based in Kolkata, Delhi and Siliguri. The expenses of the auditors will have to be borne by the concerned companies, and at times becomes quite expensive. From this perspective, the companies would prefer to engage national firms, and as such, there is a great potential

in establishing the auditing firm.

- ii. Plan of establishing audit firm:  
100% of our respondents (CAs) are intending to open up national audit firms in the future. They said they are qualified and want to make use of their expertise and help the country and the youth. Some of the reasons to be considered for their plan are:
  - a. Absence of national audit firms in the country which made the companies and business houses to outsource audit services from foreign at huge cost;
  - b. Enough market in the country to sustain at least 3 or 4 audit firms at present;
  - c. To create employment opportunities for youth; and
  - d. It will help Bhutanese economy from paying foreign currency outside and pay to Bhutanese auditors in Ngultrum

**5.2.4 Views of auditees on Bhutanese audit environment**

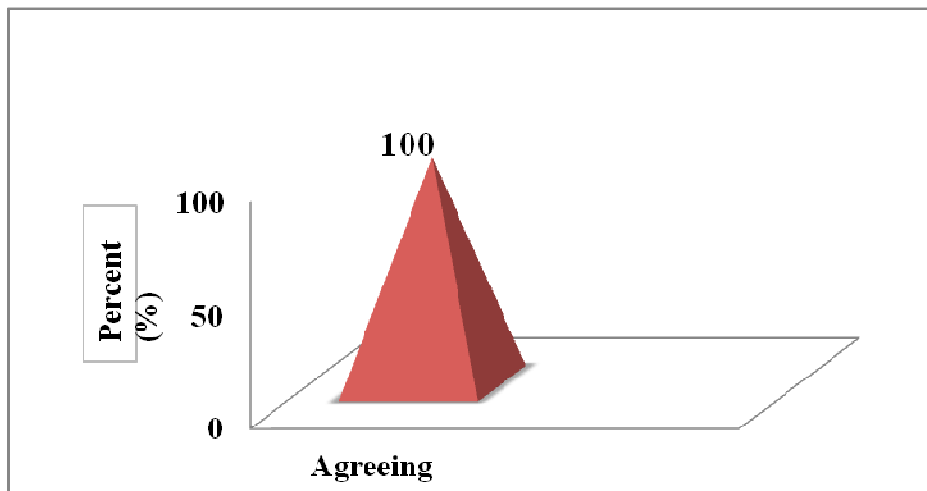
	Frequency	Percent (%)
Agreeing	32	100

Source

Table 5.2.4.1: Scope for Bhutanese audit firms

(Survey)

Figure 5.2.4.1: Scope for Bhutanese audit firms



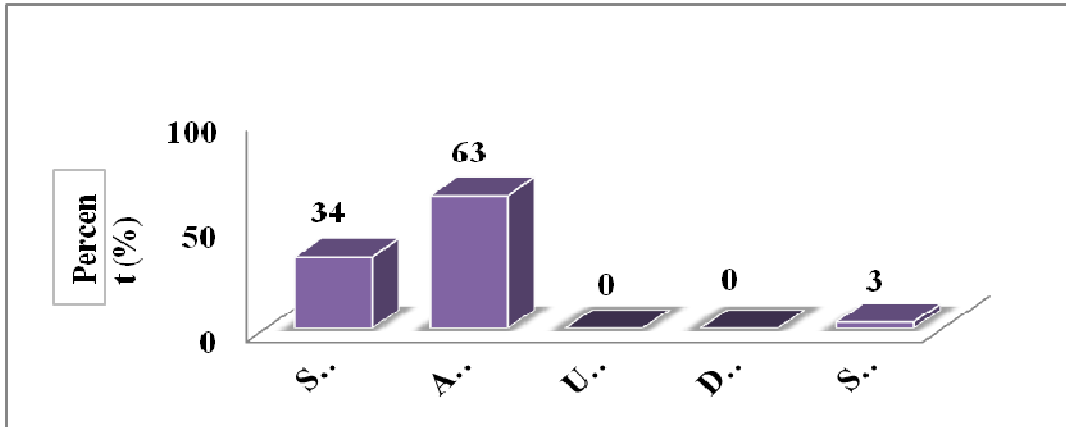
It is apparent from the above figure that Bhutan is in need of national audit firms as all the 32 respondents agreed with the statement. This shows feasibility of establishing national audit firms.

Table 5.2.4.2: Audit Fees

	Frequency	Percent (%)
Strongly Agree	11	34
Agree	20	63
Undecided	0	0
Disagree	0	0
Strongly Disagree	1	3
Total	32	100

Source (Survey)

Figure 5.2.4.2: Audit fees



More than half of the respondents, i.e., 97% of them agreed that the audit fees charged by foreign audit firms are affordable. Only 3% of the respondents strongly disagree, meaning the audit fees charged by the foreign auditors are not affordable.

Most of the firms surveyed have high turnover which makes them feel that the audit fee is reasonable. Further, they state that if national audit firms are established then they will be able to save some cost associated with auditing. This is good

indication for the existing national audit firm as well as for those auditors who are planning to set up their own audit firm.

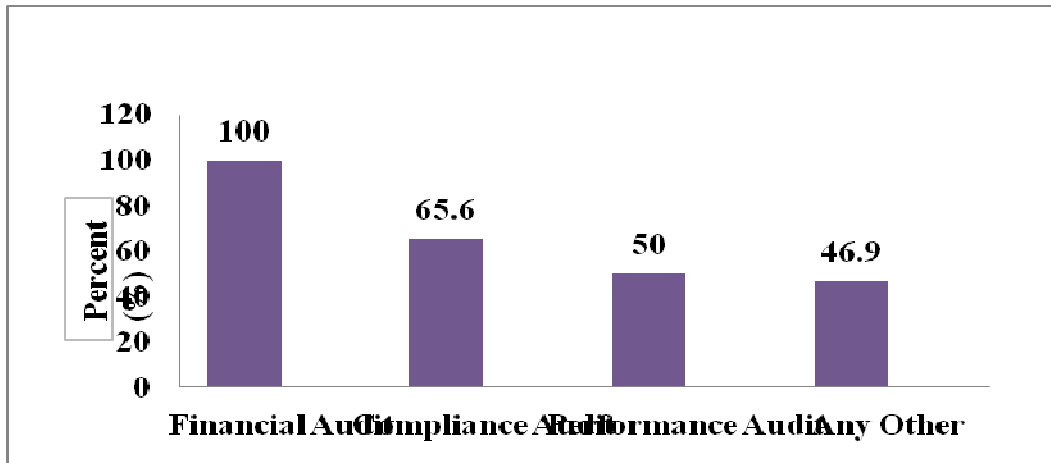
Table 5.2.4.3: Audit Performed by the company

Types of Audit	Audit conducted
	Percent (%)
Financial Audit	100
Compliance Audit	65.6
Performance Audit	50
Any Other	46.9

Source

(Survey)

Figure 5.2.4.3: Audit performed by the company



All the 32 respondents undertake financial audit which makes 100%, while 65.6% respondents perform compliance audit and 50% of them conduct performance audit. 46.9% of the company conduct other audit such as statutory audit and prior audit. Since financial audit is mandatory for the companies, coming up with national audit firm empanelled under RAA would be viable and sustainable. Further the research shows that most of the companies are performing different types of audit; both external and internal indicating prosperity in the long-run.

### 5.3 Effect of auditors' culture on clients business

#### 5.3.1 RAA's view on Bhutanese audit environment

- i. Impact of auditor's performance on the working culture within Bhutanese clients:

Auditor's performance influences the work culture within Bhutanese clients because they look beyond the figures and evaluate the areas where they can add value to the operational style of operating procedures. RAA adds value through review of the system. It corrects the system by providing professional views and recommendations for improving the system which reduces errors. This will have positive impact on the environment

which in turn influences the working culture. They also create awareness on the consequences of committing fraud and corruption to the companies. So this compels them to be more cautious and abide by the rules and regulations. Organizations consider foreign auditors as guiding factor for improving the system of the company.

### 5.3.2 Views of auditees on Bhutanese audit environment

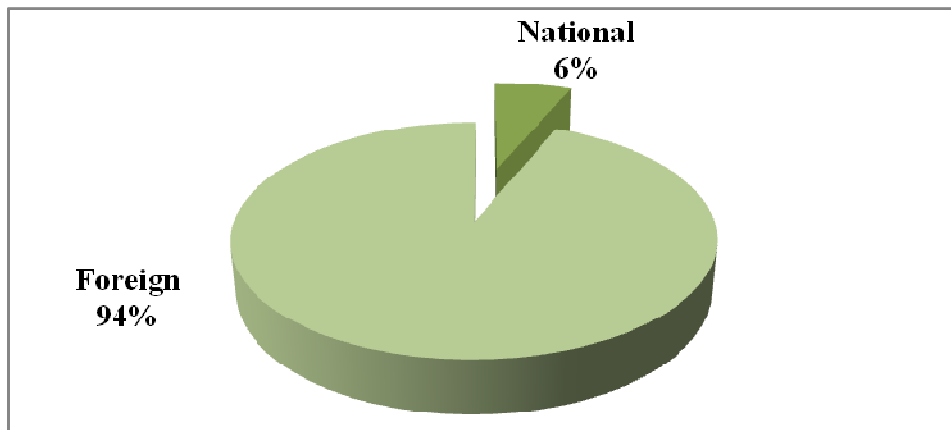
Table 5.3.2.1: Nationality of the auditor

	Frequency	Percent (%)
<b>National</b>	2	6.3
<b>Foreign</b>	30	93.8
<b>Total</b>	32	100

Source

(Survey)

Figure 5.3.2.1: Nationality of the auditors



Out of 32 respondents, 94% of the clients avail audit service from foreign auditors while only 6% of them are audited by national auditors. This 6% comprises of organization and business units that are small companies with limited fund. These companies are carrying out only internal auditing to save costs and it is not compulsory to carry out external audit.

RAA is having limited professional CAs to carry out audit services to all the organizations in Bhutan. In addition, there is only one national audit firm resulting to almost 94% of the companies hiring foreign auditors.

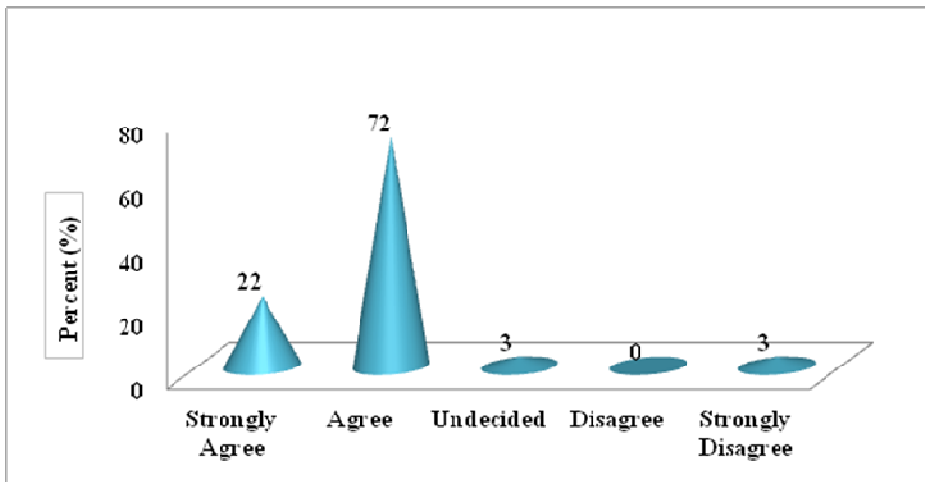
Table 5.3.2.2 Adaptability of foreign auditors

	Frequency	Percent (%)
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Strongly Agree	7	22	Strongly Disagree	1	3
Agree	23	72	Total	32	100
Undecided	1	3	Source		
Disagree	0	0	(Survey)		

Figure 5.3.2.2: Adaptability of foreign auditors



22% of the respondents strongly agree that the foreign auditors are able to adapt to Bhutanese culture and environment and 72% respondents agree to this point. The reason for such agreement is free communication that exists between the auditor and the company's staff, which makes it easier for the foreign auditors to adapt and perform the audit works effectively. In addition, more than 50% of the organizations are following IAAS. Therefore, it is making it easier for the foreign auditors to perform their audit work and blend into the Bhutanese environment and culture with ease. 3% of

the respondents are undecided on this point and 3% strongly disagree and feels that the foreign auditors are not able to adapt to the Bhutanese culture and environment.

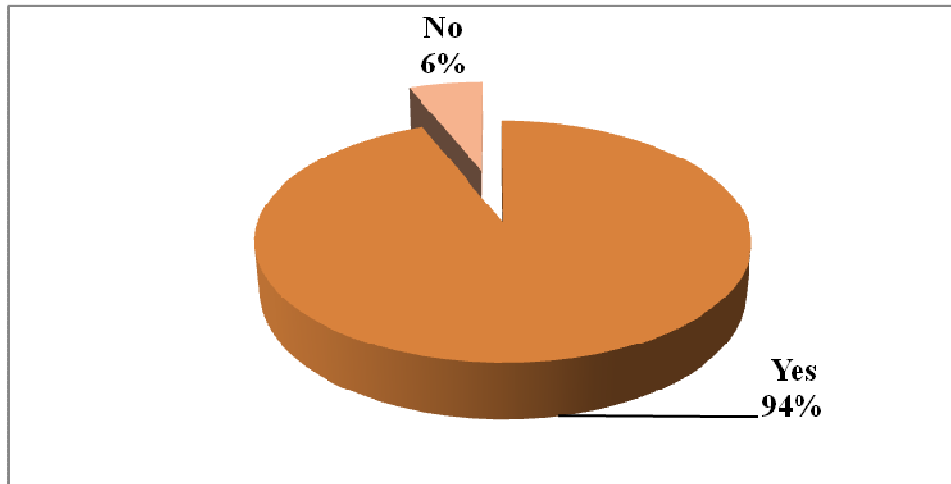
Table 5.3.2.3: Impact of auditors' performance on working culture

	Frequency	Percent (%)
Yes	30	94
No	2	6
Total	32	100

Source

(Survey)

Figure 5.3.2.3: Impact of auditors’ performance on working culture



Out of 32 respondents, 94% of them said that foreign auditor performance influence the working culture within Bhutanese firm and 6% was not influenced by the auditors’ culture. The impact was positive as employees within the organization were motivated by the foreign auditors’ sincerity, punctuality, hardworking and provides quality audit report.

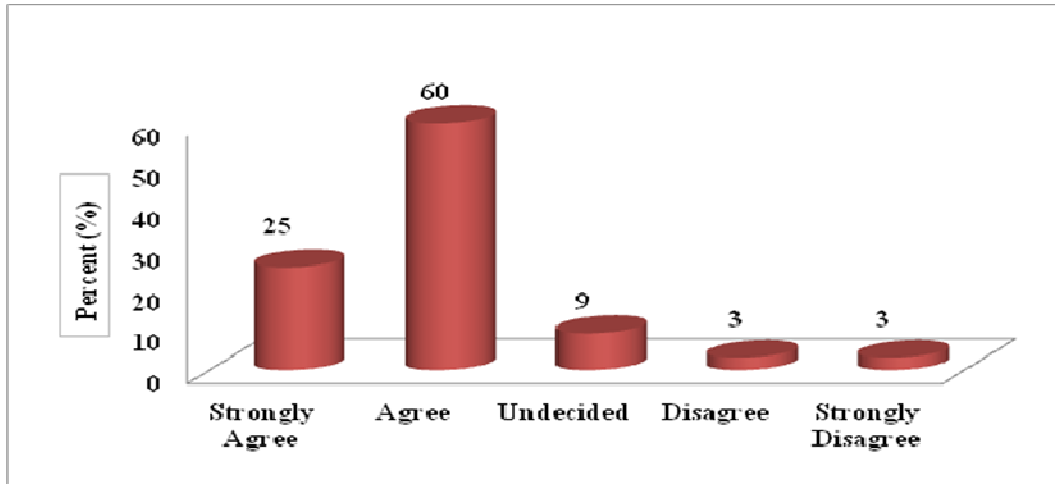
Table 5.3.2.4: Fulfillment of company’s expectation

	Frequency	Percent (%)
Strongly Agree	8	25
Agree	19	60
Undecided	3	9
Disagree	1	3
Strongly Disagree	1	3
Total	32	100

Source

(Survey)

Figure 5.3.2.4: Fulfillment of company's expectation



25% of the organizations strongly agree that the external audit is able to meet their company's expectation and 60% agree to the same. These opinions of the organizations are reflections of the quality that is provided by the external auditors. All the external auditors are selected by RAA based on their records, status and performance.

9% of the respondents have not decided while 3% of them disagree to this point and other 3% have strongly disagreed.

Those organizations that are disagreeing to

this point are because there is irregular verification of assets in some companies by the foreign auditors.

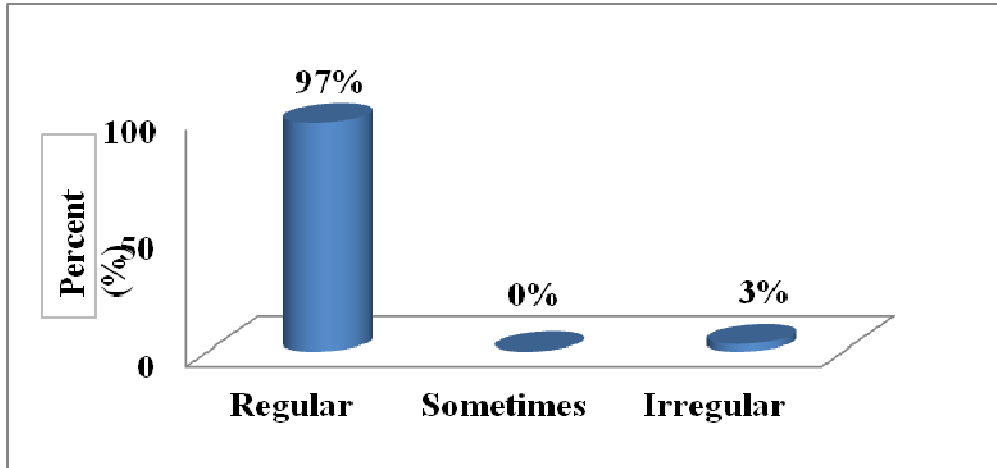
Table 5.3.2.5: Frequency of Auditors' visit

	Frequency	Percent (%)
Regular	23	95.8
Sometimes/Irregular	1	4.2
Never	0	0
Total	24	100

Source

(Survey)

Figure 5.3.2.5: Frequency of auditors' visit



97% responded that the auditors visit to their organization is regular (annually) whereas only 3% of them said that their foreign auditor's visit is irregular. This shows that foreign auditors' provide prompt and quality service to the organization.

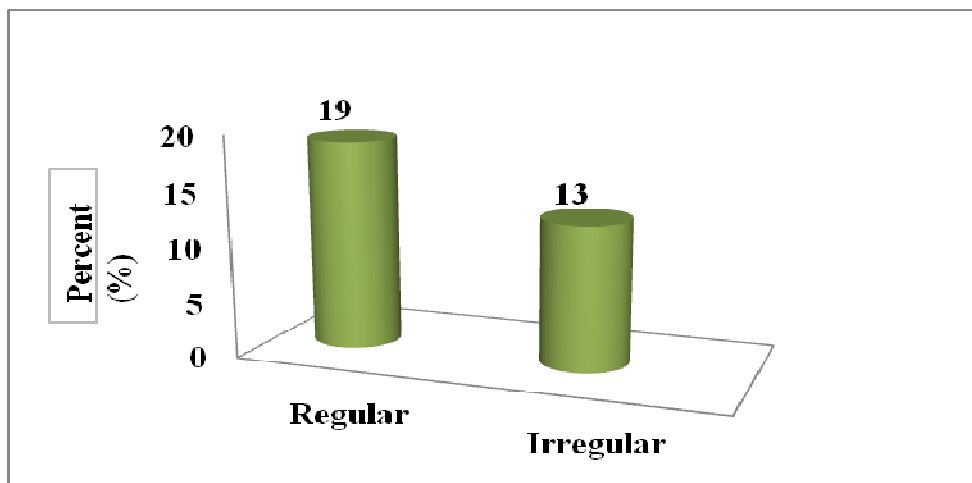
Table 5.3.2.6: Physical verification of assets

	Regular	Irregular	Total
Yes	19	13	32

Source

(Survey)

Figure 5.3.2.6: Physical verification of assets



19 of the companies agreed that there is regular physical verification of assets by their foreign auditors which indicates efficient and effective performance of auditing. 13 respondents responded that their foreign auditors do not verify the assets of the company regularly.

Very Free	23	71
Free	4	13
Neutral	1	3
Restricted	4	13
Highly Restricted	0	0
Total	32	100

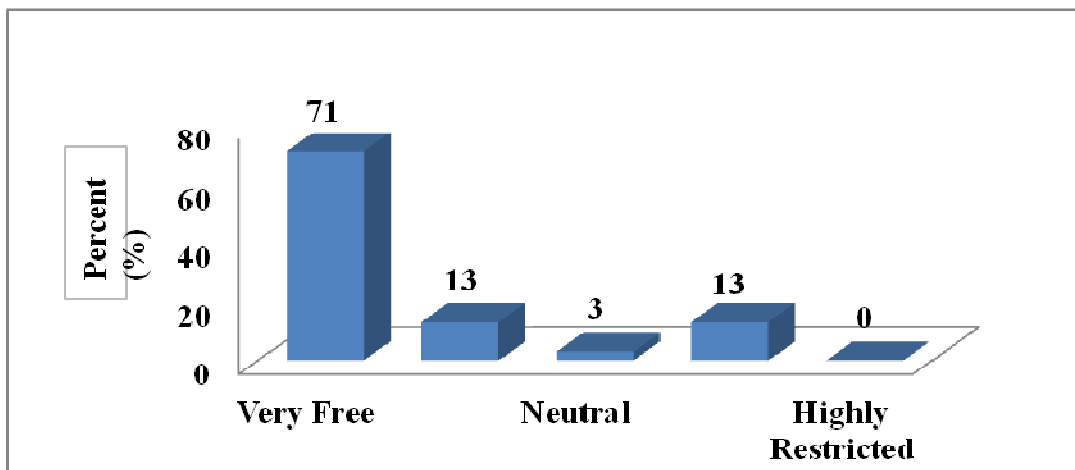
Source

Table 5.3.2.7: Level of Interaction

	Frequency	Percent (%)
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(Survey)

Figure 5.3.2.7: Level of interaction



71% of the respondents have responded that there is very free level of interaction between the foreign auditors and the company's staff. This can be a result of regular visits of the foreign auditor while conducting audit.

13% of the respondents have stated that there is free level of interaction, 3% have stated that there is neutral level of

interaction and 13% have stated there is restricted level of interaction.

## 6. Findings

**6.1 Principal reasons for lack of national audit firms :** There are limited professional accountants in the country and all of them are occupied in government agencies and corporations. Audit firms face

difficulties during the time of setting up and recruitment of workers. Audit firms require experienced and skilled employees but it is difficult because there is lack of skilled and experienced employees in the country.

### 6.2 Economic Feasibility of national

**audit firms:** Corporations and private sectors pointed out that there is a need for national audit firms in the country. Corporations and private sectors are able to afford the audit fees and other related costs payable to the foreign auditors. This shows good scope for the existing national audit firm as well as to those willing to start audit firms in future. There is huge demand for audit services in the country because all the corporations and private sectors have the mandate to perform financial audit. It was also found out that most of the organizations are carrying out internal audit. The audit fee and all other costs to the foreign auditor are borne by the auditee. RAA takes into consideration the turnover, cash flow position, size of the firm and the volume of work to be carried out. They also take into account the annual expenditures and the volume of sales.

### 6.3 Sustainability of national audit

**firms:** The lone national audit firm, Drami and Associates Private Ltd. has been able to meet its operational expenses and has earned profit from the very beginning. This is the result of huge demand for audit services existing in the country. The national audit firm is not affected by economic crisis since its services are confined in Bhutan. Hence, there is surety of continuity for such types of firms unlike other companies which are in partnership with foreign organizations. The Bhutanese economy is steadily growing and more Foreign Direct Investments (FDI) and private sectors are coming up. This shows strong possibility for more demands in the future.

### 6.4 Effect of auditors' culture on clients'

**business:** Auditors look beyond the figures and evaluate the areas where they can add value to the operational style of the company. They assist in correcting the system by providing professional views and recommendations for improvement which eliminates errors and frauds. They also create awareness on the consequences of committing fraud and corruption to the organization. Organizations consider auditors as guiding factor for improving the system of the company. The auditees have admitted that foreign auditors' performance have a positive influence on the working culture within the company.

## 7. Conclusion

RAA has control and authority over all auditing works in Bhutan and it carries out the empanelment of audit firms for carrying out statutory audits in Bhutan. The companies registered under the companies Act of the Kingdom of Bhutan are required to appoint their auditors from this panel.

It is found out that there is immense scope for auditing firms in Bhutan because currently almost all the auditing services of corporations and private sector businesses are outsourced to foreign audit firms. Corporations and private sectors feel that there should be more national audit firms in the country, which is an indication of huge demand existing for audit services. There are prospects for sustainability of audit firms because the Bhutanese economy is growing and more Foreign Direct Investments (FDI) and private companies are coming up, which can further increase the demand for audit services in the country. Moreover, the lone national audit firm, Drami and Associates Private Ltd. was not affected by economic crisis.

There is lack of Bhutanese auditing firms because there are limited professional

accountants in the country. All the professional accountants are absorbed in government agencies and corporations where they have to serve for the period of time mentioned in their contract. National audit firm face the difficulty in finding experienced workers with comprehensive skills. Through the research, it is established beyond doubt, there is economic feasibility of audit firms in Bhutan.

## **8. Recommendations**

### **8.1 For the Royal Government of Bhutan**

1. Dearth of Bhutanese audit firms, so government should create more Bhutanese professionals. There should be a separate institution for auditors, like Institute of Chartered Accountants of India
2. Presently there are some professional Chartered Accountants but they are working in corporations and government services. If possible some incentives and working capital finance can be provided to them for coming up with new firms.

3. Tax holidays should be provided to attract more Bhutanese Audit firms.
4. The government should provide professional training to the audit firm's employees to enhance their knowledge and skills. This will help in eliminating erroneous activities in their performance.

## 8.2 For Bhutanese Audit Firms

5. Should employ professional Chartered Accountants so to start conducting external audits.
6. The employees should undertake courses on accounting, auditing and taxation and participate in seminars and workshops to further enhance the competency of their employees and to make their existence known to the society.

## 9. Scope for future research

The accuracy of the study can be improved by prolonging the duration of the research. The prospective researchers can cover the entire nation and increase the sample size to get diversified knowledge. The study did not cover the foreign audit firms which

plays a vital role in providing more information. The future researchers can attempt to find out certain global trends especially in SAARC nations and conduct a comparative analysis of Bhutanese audit firms and audit firms in other SAARC nations.

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