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Communication Barriers between External Auditors and Client/Management: A Maltese Perspective**

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Abstract:

Purpose: *This study aims to determine which barriers significantly hinder communication between the external auditor and management of Maltese equity listed entities, both from the auditors' and management's perspectives. It also explores what both parties believe could be carried out to eliminate or mitigate these barriers, and it compares and contrasts the perceptions of both parties in relation to the communication barriers and mitigation techniques.*

Design/Methodology/Approach: *To attain these objectives, a qualitative research design was adopted. A total of twenty-three semi-structured interviews were carried out. The respondents consisted of eleven auditors and twelve finance representatives of Maltese equity listed entities.*

Findings: *This research concluded that in Malta, the most frequent communication barriers encountered in the auditor-management relationship are the lack of understanding of accounting/auditing terminology, differences in perceptions, the failure to adhere to deadlines/timelines and language barriers. Consequently, to eliminate/reduce these barriers, the most effective mitigation techniques in the Maltese scenario were found to be the preliminary auditor-client meeting and the possession of an enhanced level of listening and communication skills.*

Originality/Value: *This study raises awareness regarding the communication barriers between external auditors and management in the Maltese scenario and how these barriers can be mitigated. It therefore bridges a small state research gap about the communication*

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barriers arising during the audit process between the external auditors and client/management.

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Paper type: *Research article.*

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1. Introduction

The development of communication is a vital ingredient that separates the modern human from its predecessors (Schepartz, 1993). This simple but powerful behaviour can be described as:

> "*the process of transmitting information and common understanding from one person to another*".

(Lunenburg 2010, p. 10)

Like any other process, communication can be dissected into various steps; the sender transmits a message using a medium of their choice, the recipient acknowledges the meaning of this message and then provides feedback based on the context of said message (Bamber *et al.,* 1985). One can think of this process as a circuit or a feedback loop, where the sender and recipient interchange roles while communicating (Bamber *et al.,* 1985).

Even though the communication process seems trivial, barriers may arise even in the simplest forms of communication (Ribeiro, 2007), let alone in the ever-increasing complexity of how we communicate (Kaput, 2009). A *communication barrier* can be described as something that prohibits the recipient from receiving a message or disrupts the digestion of the transmitted information (Rani, 2016). Considering this definition, a barrier can be seen as anything that breaks or distorts the flow of information (Kapur, 2018).

These communication barriers can also be found in accounting (Mohammad and Khalaf 2016), more predominantly in the role of an External Auditor[6] (EA) (Baldacchino, 1992). As an auditor's job evolved from focusing on the accounting system and records to a more interactive environment with management (Higson, 2003), communication interference became more prevalent.

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[6] *Hereinafter referred to as ''auditor''.*

An external audit engagement requires the auditor to communicate with the entity's management[7] (financial controller or Chief Financial Officer (CFO)) for any audit queries that may arise as a means of sufficiently gathering evidence (Baldacchino, 1992). The end product of this procedure is to formulate an informed and independent opinion on the entity's Financial Statements (FS) (IAASB, 2015, Ramachandran and Subramaniam, 2012).

Prior research shows that the fundamental component of doing so lies within effective communication during the collation of audit evidence (Rahim *et al.,* 2020) and should be done extensively throughout the audit process (Bennett and Hatfield 2013). Accounting is frequently implied to be a "*communication process*" (Tabone, 2018, p. 56), and so it is worth noting that communication should be carried out in all audit stages (Deng *et al.,* 2020), planning, execution, and completion.

However, to communicate successfully, auditors and management should recognise the communicational environment and identify any barriers that prohibit their messages from being sent, received, and understood correctly (Rani, 2016). Various communication barriers may emerge in auditing (Baldacchino, 1992), some can develop from the auditors themselves, the profession, or management. From the auditor's perspective, a barrier may arise from management's lack of understanding of accounting/auditing terminology (Baldacchino, 1992).

In contrast, management may perceive auditors to have a "know-it-all" frame of mind (Golen *et al.,* 1997). Alternatively, some barriers may be prevalent across both parties, such as the failure to adhere to deadlines/timelines (Bobek *et al.,* 2012). Nevertheless, repercussions may arise if neither party seeks to unravel these communication barriers (Ahlkvist and Lagerlöf, 2017).

Determining communication barriers is only part of achieving success in the conduct of an audit (Bobek *et al.,* 2012). If not appropriately addressed, these barriers may hinder a successful audit process (Handoko and Widuri, 2016) and may negatively impact the audit's quality (Deng *et al.,* 2020).

Therefore, mitigating these barriers is pivotal to improving the audit's efficiency and effectiveness (Ahlkvist and Lagerlöf, 2017; Golen *et al.,* 1997). Moreover, given that auditing lies in the communications business (Tabone, 2018), it is crucial to identify any communication barriers that exist, with a view to eliminating/mitigating them.

However, no literature pertaining to Malta has exclusively studied the communication barriers that exist between EAs and management, and how best to mitigate them. Existing Maltese studies focus on different communication relationships (Arpa, 2014; Caligari, 2013; Casha, 2015; Fenech, 2009; Martin, 2010;

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[7]*Hereinafter referred to as ''management''.*

Zammit 2011), or else are confined to particular standards such as ISA 260, *The Auditor's Communication with Those Charged with Governance* (Aquilina, 2007).

Baldacchino (1992) and Baldacchino *et al.* (2017) touched upon the subject of communication barriers between EAs and the client. However, both studies delved into the various factors that affect the auditor-client relationship, and communication barriers were only portrayed as one of the elements that affects this relationship.

A study carried out by Teck-Heang and Ali (2008) indicates that auditing has evolved throughout the years, with both the objective and the role of auditors continuously changing and developing as time goes by. These changes are highly influenced by technological advancements, critical historical events and verdicts from the court (Teck-Heang and Ali 2008). These advances may imply that the auditing profession is not static, and therefore it can be assumed that neither is the auditor-management relationship, nor the elements that affect it, such as communication barriers.

Consequently, previous Maltese findings regarding communication barriers (Baldacchino, 1992; Baldacchino *et al.*, 2017) need to be re-evaluated to determine their validity in today’s everchanging and dynamic world. Thus, this study aims to bridge the gap in existing research in a small island-state such as Malta by explicitly investigating the communication barriers between auditors and management, providing insight into these barriers, identifying any differences and ways of eliminating them to ease the pressures they cause. This study will focus on auditors and management as these are the two leading parties in the audit process.

The findings of this paper will offer valuable information to various parties, including auditors, regulatory bodies, educators and even clients. It will provide evidence from the Maltese scenario and contribute to audit literature, aiding regulators and professional bodies in establishing standards, practices, and policies regarding auditor-management communication.

Furthermore, management will benefit from this research as they will know what barriers auditors face when trying to communicate with them and why. Hence, if they focus on eliminating/reducing these barriers, communication would be significantly enhanced. This would aid them in maintaining long-term relationships with their auditors and possibly improve the overall audit process. Lastly, the results of this study will offer valuable information which educators can utilise to develop and refine their teaching on communication skills.

As a result, this paper will aim to:

1. Determine which barriers significantly hinder communication between the external auditor and management of Maltese equity listed entities, both from the auditors’ and management’s perspectives;

2. Explore what both parties believe could be carried out to eliminate or mitigate these barriers; and
3. Compare and contrast the perceptions of both parties in relation to the communication barriers and mitigation techniques.

This section presented a background and rationale for the study, whereas Section 2 offers a review of literature pertaining to communication barriers and mitigation techniques in auditing. Subsequently, Section 3 provides and justifies the research methodology used to attain this study's research objectives. Sections 4 and 5 delve into the research findings collated and the discussion on such findings, respectively. Lastly, Section 6 concludes this research paper.

2. Literature Review

2.1 Communication

There are multiple definitions of communication. However, they mainly refer to the "*transmission of verbal and non-verbal messages*" (Munodawafa, 2008, p. 369). Communication is not only about transmitting ideas to someone, but also about sharing meaning. Business communication can take on a similar definition and is said to be the process by which information is transmitted in a business environment (Gopal, 2009). Communication lies at the heart of a business and is considered to be one of the most vital entrepreneurial skills (Mallett-Hamer, 2005).

The communication process includes the sender, receiver, the communication channel/medium, and feedback (Baldacchino, 1992, Guffey and Loewy, 2021). For a message to be complete, the recipient should indicate that the message was received in its intended form (Guffey and Loewy, 2021). Lunenburg (2010) also views the communication process as consisting of two elements – the sender and the receiver – and argues that there would be no communication without a common understanding.

Nonetheless, some errors may occur during this process which may be referred to as 'noise' and are unavoidable (Wiley, 2015). Noise is anything that distorts a message from being received or understood, such as emotions and different perceptions (Lunenburg, 2010). Luhmann (1992) suggests that a factor that leads to noise is consciousness. Therefore, it is critical for senders to make a conscious effort in selecting the most suitable medium for transmitting their message, as otherwise, the message may be misunderstood or not received at all (Lunenburg, 2010).

2.2 Communication During the Audit Process

Following pressure from the industry, communication skill development has become increasingly important in accountancy courses (Golen *et al.,* 1997). Accounting is said to be a "*communication process*" (Tabone, 2018, p. 56), with auditing involving a significant amount of communication (Baldacchino *et al.,* 2018). Given that auditors must extensively rely on communication with management to collect audit evidence (Ellis and Mayer 1994; Rennie *et al.*, 2010), it is crucial that this communication is effective and efficient (Golen *et al.*, 1997). In fact, the International Accounting Standards Board (2017) decided to make "Better Communication" one of the central themes of its work for the following years, aiming to improve the way financial information is communicated (IFRS n.d.).

People unfamiliar with the auditing process sometimes presume that communication occurs mainly through the audit report, that is, with shareholders (Pound, 1981). Communication, however, starts early in the review stage and continues throughout the whole engagement (Chartered Professional Accountants of Canada, 2016; Deng *et al.*, 2020). Auditor-client communication occurs on several levels (Hellman, 2006), but most of the communication stems from the auditor-management relationship (Durkin *et al.*, 2021; Golen *et al.*, 1997).

In fact, staff-level auditors communicate widely with management during the audit process (Bennett and Hatfield, 2013). It is worth noting that communicating with management can also take place to enquire about specific accounting estimates as outlined in International Standard on Auditing (ISA) 540 (revised) (IAASB 2018). Consequently, ISA 260 specifies that it is the auditors' responsibility to determine the right people with whom to communicate within an entity's governance structure (IAASB, 2009).

Sometimes auditors and management do not communicate effectively (Leeuw, 1996), and they hold back in challenging one another (Bobek *et al.*, 2012). In fact, Bobek *et al.* (2012) argue that the main factor that separates successful and unsuccessful resolved challenges in auditing is communication. Thus, communicating with management is vital so that any matters that may arise during the audit process are addressed, and a good working relationship is entrenched (Chartered Professional Accountants of Canada, 2016).

2.3 Communication Barriers Between Auditors and Management

A communication barrier is anything that prohibits the meaning and quality of a message from being conveyed (Baldacchino 1992; Munodawafa, 2008) or understood (Yusof and Rahmat, 2020). It may arise at any phase in the communication process (Lunenburg, 2010) and may lead to confusion and misinterpretation (Mallett-Hamer, 2005). Communication barriers in an auditing process can develop either from auditors, management, or from weaknesses inherent in the profession itself.

2.3.1 From the Auditors' and Management's Perspectives

Most of the communication barriers in the auditor-management relationship tend to be cited by both parties. These can arise amongst Certified Public Accountants (CPAs) and their audit clients. In fact, Golen *et al.* (1988 cited in Golen *et al.*, 1997) posited that the main barriers between these two were a hostile attitude and a lack of listening and trust. Similarly, Golen *et al.* (1996) evaluated the communication barriers that may arise between tax specialists and clients, deducing that:

> *"Lack of trust, hostile attitude, personality conflicts, tendency not to listen, and fear of providing incorrect information were perceived as the most serious individual barriers in the tax practitioner-client relationship".*

(Golen *et al.,* 1996, p. 158).

Lack of understanding of accounting terminology/technical jargon can be seen as a prevalent barrier in auditor-management communication. Auditors' use of technical terminology may be unavoidable in their profession. Baldacchino (1992, p. 112) deduced that "*a lack of understanding of meaning of accounting terminology*" is a common barrier from an auditor's perspective. Similarly, Sachry and Kleen (1995) identify this barrier as being prominent, especially when auditors communicate with non-accountants.

Management also find auditing jargon problematic (Golen *et al.,* 1997) and sometimes confess that auditors are more knowledgeable about accounting/auditing terms than they are (Bennett and Hatfield, 2013). Similarly to Baldacchino (1992) and Sachry and Kleen (1995), Arpa (2014) identified technical jargon as a frequent communication barrier. Baldacchino (1992) also found that time pressures on both parties can instigate other barriers in the auditor-management relationship, such as personality conflicts, resistance to change, and a hostile attitude.

Resistance to change was also found to impede on auditor-management communication by other researchers (Golen *et al.,* 1988; Golen *et al.,* 1997). Cade and Hodge (2014) deduce that management are less eager to discuss their accounting adoptions with auditors, despite the latter being compelled to reveal new information in the audit report. Management tend to resist these disclosures initially. This resistance could negatively affect audit readiness procedures (Cronkhite, 2020), leading to a possible lack of credibility on either side, which could become a serious communication barrier (Golen *et al.,* 1988; Golen *et al.,* 1997).

Management may also perceive auditors as possessing a "know-it-all" frame of mind. When communicating with auditors, this perception may act as a barrier (Golen, 1980; Golen *et al.,* 1997). Similarly, Rennie *et al.* (2014) conclude that auditors are more likely to stick to their original opinion when a topic is more critical. Personality conflicts may hinder communication between both parties, and these are highlighted as a common communication barrier between auditors and management (Golen, 1980; Golen *et al.,* 1997). Auditors and management may encounter circumstances when their objectives and perspectives are significantly different, which may result in dispute (Bame-Aldred, 2004).

However, Rennie *et al.* (2014) find that auditors can persuade management to concur with their perspective in most circumstances. Tight statutory deadlines (Glover *et al.*, 2015) are imposed on the audit of Equity Listed Entities (ELC), whereby auditors and management need to set stringent timelines during initial audit meetings (Bennett *et al.*, 2015). Bobek *et al.* (2012) deduce that not sticking to agreed-upon deadlines can be one of the biggest challenges during the audit process.

Micallef (2018) also identifies how deadlines and delays in acquiring requested documentation are a struggle in the auditing industry and can affect auditor-management communication. Similarly, Bennett *et al.* (2015) contend that auditors and management tend to alter their behaviour when deadline tensions grow.

Trust is also critical in an auditor-management relationship (Baier, 2013; Maresch *et al.*, 2020). Thus, the lack of it (Ramanna, 2019) could be a significant barrier that affects communication between the two parties (Rennie *et al.*, 2010). In fact, Golen *et al.* (1997) cite lack of trust as being one of the most serious but less frequent barriers encountered by management, as opposed to Golen *et al.* (1988), which ranked this barrier within the top four most frequently encountered.

Even though auditors should still exercise a certain degree of professional scepticism (Durkin *et al.*, 2021; Rennie *et al.*, 2010), a high degree of distrust would lead to inefficiency, ineffectiveness, and lack of quality in an audit process. Beattie *et al.* (2004) argue that good relationships and communication are developed when there is reciprocal trust and respect. Additionally, Baldacchino *et al.* (2017) acknowledge that to develop strong working relationships, there must be mutual trust, objectivity and competency from auditors and management.

Lack of feedback by either party could also result in a communication barrier. From the client's perspective, research conducted by Ahlkvist and Lagerlöf (2017) indicated how failure to provide feedback could affect communication between auditors and management. In fact, auditors ranked this as one of the top ten barriers encountered (Golen *et al.*, 1997). Lunenburg (2010) highlighted the significance of feedback for effective communication. However, both parties have a tendency not to listen, which could also pose a communication barrier (Golen, 1980; Golen *et al.*, 1997).

Beattie *et al.* (2004) discovered that age could influence auditor-management communication. Bennett and Hatfield (2013) argue that management are usually older and more experienced regarding their financial reporting than first-year audit members. The difference in age and experience could lead to intimidation and may limit audit evidence gathering by staff-level auditors who may avoid contact with older, more seasoned managers (Bennett and Hatfield, 2013). Conversely, managers may trust a more experienced audit partner with their financial information and feel more compelled to comply with any requests for audit evidence, leading to a more enhanced relationship and audit quality (McCracken *et al.*, 2008).

Unfortunately, the accounting/auditing profession faces a shortage of employees (Micallef, 2018; Persellin *et al.*, 2019, Sweeney and Pierce, 2004), and firms are thus employing several expatriates (Galea, 2019), which could result in language (Grzeszczyk, 2015; Queenan, 1964) and cultural barriers (Downey and Bedard 2019). Camilleri (2015) explores the recruitment of expatriates by Maltese audit firms and emphasises how cultural aspects and language can usually pose barriers, particularly when management and other audit team members switch to Maltese.

Similarly, Borg (2001) considers the perceptions of Maltese listed entities on non-Maltese accountants and highlights that language is a significant barrier for these individuals. Constant changes in audit team members could also negatively impact management's trust, and they may find it difficult to effectively communicate with persons from distinct cultures (Jenifer and Raman 2015).

2.3.2 From the Profession

Ahlkvist and Lagerlöf (2017) conclude that the feedback given by auditors and auditor tenure significantly impacted the communication between both parties. Therefore, the longer auditors provide their service to a particular client, the better their communication would be. This may, however, be restricted by the mandatory audit firm rotation (Whelpdale, 2005; Quick and Schmidt, 2018). Bobek *et al.* (2012) also reinforce the impact that tenure can have on communication, stating that auditor tenure would positively affect auditor-management communication as this most likely instils trust.

2.4 Mitigation Techniques

Determining communication barriers is only part of achieving successful communication. Once auditors and management establish these barriers, they must then attempt to address and reduce the most prevalent of such barriers.

Simple communication and listening skills can be utilised to eliminate/mitigate communication barriers in the auditor-management relationship (Golen *et al.*, 1996; Siriwardane, and Durden, 2014). Aquilina (2007) argues that effective communication skills can improve communication within the audit profession, with Baldacchino *et al.* (2017) reinforcing the cruciality of these skills in the client-auditor relationship. Similarly, Farrugia (2016) explicitly studied the importance of accountants possessing good communication skills, deducing that these skills could lead to competitive advantages and career advancements; however, the lack of them may prohibit accountants from fulfilling all their professional responsibilities efficiently.

To communicate successfully, one must also hear and listen effectively. Thus, having the capacity to listen effectively to what the other party is saying will substantially improve communication (Lunenburg, 2010). In fact, tax practitioners could curtail the adverse outcomes of a hostile attitude simply by listening to their client's concerns and supplying them with the necessary comprehensive feedback (Golen *et al.,* 1996). Bellia (2021) also investigates the significance of listening skills of Maltese accountants, emphasising that auditors should possess good listening skills as they lead to higher efficiency and greater customer satisfaction.

Golen *et al.* (1997) emphasised the importance of how Universities are preparing their students for their entrance into the accounting world, stressing that instructors should offer further training on communication skills. Boyle *et al.* (2017) supported this notion, accentuating the need for training students in their ability to communicate. Bobek *et al.* (2012) declared that the way auditors deal with issues raised by management would impact their future communications.

Thus, it is crucial that any barriers are tackled as otherwise, they may affect present and future communications. Baldacchino (1992) also finds that managers should not operate without at least a basic understanding of the critical language of business, stipulating that there should be an augmented emphasis on these skills.

Another mitigation practice evaluated by Golen *et al.* (1997) included tailoring the communication styles for each management style to allow auditors to better deal with different client personalities. Perreault and Kida (2011) found that an audit client tends to provide more concessions and feels more pleased with the outcome when auditors communicate their opinions by exercising a cooperative communication style. Paino *et al.* (2015) outline how effective communication will lead to good cooperation. This could positively affect the client's responses (Handoko and Widuri, 2016).

One possible way to circumvent confusion and disagreements during the audit was highlighted by Haferkorn (2018), who argued that a meeting held at the beginning of the engagement proves to be beneficial since the form and timing of communication are deliberated (Chartered Professional Accountants of Canada, 2016). Zammit (2011) concluded that frequent and honest communication about things of common interest would strengthen the auditor-management relationship. Similarly, Caligari (2013) emphasises how an effective relationship is upheld through frequent meetings between the two, with Seychell (2015) highlighting that this frequency could help lessen the barriers caused by a change in management in an organisation. Mifsud (2008) also highlights the importance of auditor-management meetings and how the initial and closing meetings are the most crucial interactions to improve the communication between both parties.

Beattie *et al.* (2004) suggest that auditors should be more understanding given the pressure that is put on management to reach a certain level of earnings. Therefore, empathy could also lead to better communication when the two parties follow different business cultures (Lunenburg, 2010; Rani, 2016). Adu-Oppong and Agyin-Birikorang (2014) also emphasise that the most effective approach to encouraging successful communication is to share empathy with persons to whom communications are addressed.

Compulsory Continuing Professional Education (CPE) is an integral part of CPAs' continual education (Murphy and Quinn, 2018). Attending the right training courses is vital to improving auditor-management communication. In fact, Maresch *et al.* (2020) conclude that implementing continuous training requirements for auditors and management will guarantee that each party's skills always remain current. Jenifer and Raman (2015) advocate the importance of adequate training to eliminate cross-cultural communication barriers. Additionally, Nehme *et al.* (2021) also emphasise the cruciality of training, and they state that it could reduce dysfunctional behaviour.

In auditing, a prominent issue experienced by auditors is a lack of understanding from non-accounting personnel regarding their roles and responsibilities, also known as the audit expectation gap (Olojede *et al.,* 2020). Audit education is a critical component of closing this gap (Enes *et al.,* 2016; Fulop *et al.,* 2019). Therefore, management should educate and emphasise the importance of the audit process to all its employees to ensure their compliance and curtail any communication barriers that may arise.

3. Research Methodology

3.1 Research Method

A researcher can choose from three main research methods to collect primary data: quantitative, qualitative or mixed (Saunders *et al.,* 2019). A methodological choice should be based on multiple factors, including the objectives of the research, available resources and time, and the level of existing knowledge on the subject matter (Opoku *et al.,* 2016).

This research shifts more onto the interpretive/constructivist paradigm since it allows the researcher to connect with the interviewees and see the world from their perspective (Corbin and Strauss, 2014). This qualitative method enables the researcher to obtain more comprehensive knowledge from interviewees. Thus, an exploratory approach has been adopted to attain the research objectives of this study.

Qualitative research tends to study the participants' interpretation and familiarity of processes, phenomena and conditions, producing descriptive data and analysis (Yilmaz, 2013). Therefore, the qualitative paradigm employs more anthropological research methods to examine relevant social phenomena (Steckler *et al.,* 1992). The crux of qualitative research is a quest for a more profound understanding of factors (Chisnall, 2001; cited in Tabone, 2018), and so this design will allow the researcher to obtain more detail and understanding from the participants through various qualitative techniques.

Thus, given the lack of Maltese literature on the subject matter, it was concluded that a qualitative approach would be the most suitable methodology.

To gather primary data for this research, semi-structured interviews were conducted with the client's management and their auditors. Given the semi-structured approach adopted and the open-ended questions, it was possible to obtain thorough knowledge of the participants' perceptions. Moreover, it offered a heightened degree of flexibility in contrast to the quantitative approach (Horton *et al.,* 2004; Nykiel, 2007), giving the interviewees some leeway when responding (McIntosh and Morse, 2015).

One of the strengths of this method is that the researcher would be able to probe when needed (Choy, 2014; Kate Lin, 2016) to acquire a better understanding of the respondents' views. Given the nature of this research and its objectives, the benefits of qualitative research outweigh its limitations, and so it was considered the most suitable approach to attain this study's objectives.

3.2 Qualitative Research

3.2.1 The Sample

To be able to identify ELC on the Malta Stock Exchange (MSE), the Official List was derived from the website of the MSE. This list was extracted on 1st November 2021. Contact was made with each company's personnel responsible for communicating with the EAs and with the respective external auditor of the ELC.

Data saturation is that moment at which no additional data-driven themes emerge from conducting further interviews (Braun and Clarke, 2021). Thus, the number of interviews was not pre-set due to this saturation phenomenon. It was established that the study's objectives were attained after a total of twenty-three interviews: eleven auditors and twelve finance representatives in ELC. At this point, it was felt that additional interviews were not resulting in new themes. As a result, a total of twelve ELC participated in this research, together with all the Big-Four audit firms and one Non-Big Four audit firm.

3.2.2 Interview Design: Semi-Structured Interviews

For the semi-structured interviews, two separate interview schedules with several predetermined questions were drafted, one for interviewing EAs, and another for interviewing management of Maltese ELC. A similar format was adopted for both schedules, and parallel themes were used to easily identify and report similarities and differences between the two perspectives. Both schedules included a mixture of open-ended and Likert Scale questions.

Prior research was thoroughly examined to compile questions based on previous findings. The schedules were purposefully subdivided into sections to ensure that all sections would directly address the study's objectives.

3.2.3 Data Collection
Given the global pandemic at the data collection stage, all the interviews, except for one, were conducted virtually through a platform of the participant's choice. The other interview was conducted at the interviewee's office. All participants agreed to be voice recorded, which was pivotal since it facilitated the data analysis.

3.3 Data Analysis

Interviews were accurately transcribed, and the resulting transcripts were all individually imported into NVivo (Release 1.6.1), where the data was manually analysed in detail and classified into several codes. After doing so, these codes were classified into themes (for example, "the most frequent communication barriers" and "the most effective mitigation techniques"), using NVivo, to aid in identifying critical linkages between them. Additionally, the answers given to the Likert Scale ratings were analysed using IBM SPSS Statistics Version 28.

Thematic analysis was employed in this research to analyse the mass of qualitative data collected. This analysis is defined as the process of "*identifying, analyzing, and reporting patterns (themes) within data*" (Braun and Clarke, 2006, p. 79).

4. Findings

4.1 Frequent Communication Barriers between Auditors and Management

Participants were asked to rate, according to frequency, how often they encountered a set of communication barriers (derived from literature) when communicating with the other party. Moreover, respondents were also asked whether certain communication barriers arose from their end.

4.1.1 Technical Jargon
Technical jargon was defined as a set of technical phrases/terminology used in accounting/auditing that differs from normal usage. This was identified as a frequent barrier by both parties. In fact, it was ranked as the most frequent by auditors, whilst management ranked it in third place. Auditors seem to encounter this barrier more frequently, as four respondents ranked this as either 'Often' or 'Always'. Y

Conversely, five management respondents stated that they have 'Never' or 'Rarely' encountered auditors who lacked accounting/auditing terminology. Management 'Sometimes'$_{(7/12M)}$ experienced newly graduated auditors lacking knowledge regarding the industry/operations of the entity and occasionally, even accounting/auditing in general.

On the other hand, auditors argued that they encountered this barrier frequently, especially when communicating with personnel outside the finance department.

4.1.2 Resistance to Change

Both auditors and management were asked whether the other party had ever resisted any proposed changes. All$_{(11/11A)}$ auditors reported that they had encountered management resisting change, such as those emanating from updated standards. Conversely, most$_{(9/12M)}$ management have 'Never' encountered this barrier when communicating with auditors.

4.1.3 Differences in Perceptions and Auditors' Approach

Participants were asked if they believed that *differences in perceptions* had ever posed a barrier to their communication. This was one of the few barriers where both groups replied with relatively similar answers. Both parties ranked it as the most frequent barrier. The main argument put forward by both groups of respondents is that one group viewed things from an audit perspective, whilst the other took a business perspective, so differences were bound to emerge.

Backing up the argument, AUD7 contended that "*there might be some pushback, you know, from disclosing certain areas*". In fact, MGT4 argued that sometimes "*I respond… this is really sensitive information*". Additionally, MGT5 declared that "*when they* [auditors] *deal with other departments, they find resistance and difference of opinions*".

Management were also asked whether they believed that their auditors possessed a *"know-it-all" frame of mind*. Five respondents stated that they 'Sometimes' encountered this behaviour. However, the majority have either 'Rarely'$_{(5/12M)}$ or 'Never'$_{(2/12M)}$ experienced this behaviour from their auditors.

4.1.4 Deadlines

When it comes to not adhering to deadlines/timelines, most$_{(9/11A)}$ auditors stated that this 'Sometimes' happens, with only one auditor stating 'Always'. Similarly, management respondents claimed that auditors 'Sometimes'$_{(6/12M)}$ or 'Often'$_{(3/12M)}$ do not stick to deadlines/timelines. This barrier ranked relatively high in terms of frequency by both parties. AUD11 argued how "*project management"* was key in these circumstances, and MGT4 stated that in these situations, it was the audit partners who held them back, given their busy schedules.

4.1.5 Emanating from the Profession

All participants were then asked whether, in their opinion, *auditor tenure* affected auditor-management communication. Both groups were unanimous in their replies, with all respondents$_{(11/11A,\ 12/12M)}$ agreeing that the longer the tenure, the better the communication, as one would get used to each other's culture and way of work.

However, AUD10 argued that:

> "*be careful about the pitfalls with communications because sometimes communication might improve, but sometimes communication might deteriorate in certain cases*".

AUD3 and AUD9 felt that auditor tenure could be a double-edged sword as communication could improve over the years or else could potentially lead to conflict. Analogously, MGT3 believed that tenure does improve communication, "*but then you make sure that you do not become too familiar*". MGT5 argued that sometimes the mandatory firm and audit partner rotation might hinder the benefits of auditor tenure.

Auditors were also asked if a *change in the management of the client* would affect auditor-management communication. All$_{(11/11A)}$ auditors were undivided in their opinion as they believed that initially, a change in the client's management would negatively impact the communication. Various valid reasons were put forward, including the fact that usually, new management would have different *"perceptions", "personalities", "approaches",* and *"assessments of what is important".*

Therefore, they claimed that they would have to build rapport with the newer personnel, with two auditors stating that one of the main issues was having to rebuild trust.

Similarly, management were asked if a *change in the audit team members* influences auditor-management communication. The majority$_{(11/12M)}$ agreed with their auditor counterparts that it would initially negatively impede their communication. Some of the arguments put forward included that they would have to start from scratch every time a new member was appointed to the team, "*re-explaining our operations", "disrupts efficiency", "not speaking our language", "not familiar with our structure", "different way of work",* and *"repetitive questions".*

MGT12 believed that it was a "*learning curve*" for both parties. Two respondents argued that this issue had become very common in the last few years because of the high staff turnover in audit firms, particularly in Big-Four entities. On the other hand, MGT2 entirely disagreed with the other participants and claimed that a change in audit team members would not affect their communication because they would still have a copy of all their files.

4.1.6 Other Communication Barriers

Respondents were asked whether they had ever encountered additional communication barriers not mentioned during the interview. AUD4 argued that sometimes certain managers do not understand the audit process, whereas AUD8 claimed that sometimes management might lack knowledge regarding regulatory developments in their industry. AUD9 highlighted that there were more distractions today during discussions, particularly smartphones. Lastly, an interesting remark was passed by AUD11 where it was highlighted that:

> *"there is the sort of gender gap… especially in the boardroom, where generally… it's mainly males… no one tells you anything, but you feel a*

> *certain sense of this young female person telling us what to do… I feel it has reduced a bit probably as I got older, there is a certain level of age and maturity… I think it's still there a bit... females have quite a hard time, it's not equal".*

The majority$_{(8/12M)}$ of management provided their view on other potential barriers. They stated that given the shortage of employees in the auditing industry, audit firms were employing several expatriates, leading to a frequent encounter of language barriers. Moreover, three respondents highlighted that they even faced cultural barriers when communicating with these expats. MGT11 also identified the lack of availability of auditors as a frequent communication barrier.

Similarly, a common argument put forward by some auditors$_{(3/11A)}$ was that audit firms faced a high level of staff turnover, such that there were frequent changes in audit team members. AUD5 and AUD8 confirmed that they also faced staff shortages, with the former highlighting that due to this, they must employ several expats, which may lead to language barriers.

4.2 Most Effective Mitigation Techniques

Interviewees were also asked to rate, according to effectiveness, a set of mitigation techniques that would help them eliminate/reduce the communication barriers discussed previously.

4.2.1 Listening and Communication Skills

All respondents were asked whether they believed that if the other party possessed enhanced listening and communication skills, these would improve their communication. Both auditors and management had quite a positive response as the majority$_{(11/11A,\ 11/12M)}$ were of the opinion that having these skills would either be 'Effective' or 'Very Effective'. AUD1 noted that management should also know how to read written messages apart from listening, as occasionally emails are misinterpreted. Additionally, AUD2 pointed out that management should not just hear, but listen to them.

However, AUD4 and MGT4 were quite sceptical regarding this technique, contending that it is not a matter of only management possessing good listening skills, but it must go both ways. MGT9 argued that *"I don't think it is a skill to listen to somebody. I think it's normal"*. AUD7 reasoned that:

> *"we are at their* [management] *mercy most of the time to explain to us well, so communication skills are vital"*.

Moreover, AUD9 argued that sometimes they came across people who were very knowledgeable, but then they did not know how to communicate. Interestingly, MGT4 remarked that:

> *"if the auditor talks to me in purely accounting speak, although I am an accountant, he will probably lose me".*

4.2.2 Education and Training

Subsequently, both parties were asked whether *better education on how to communicate* would improve auditor-management communication. Most(9/11A, 11/12M) respondents agreed with this statement. In fact, AUD2 and AUD11 believed that the education system was indeed lacking in this respect. It prepared students mainly for the subjects/exams, with no modules on effective communication. However, AUD3 disagreed with this statement and implied that:

> *"presentations in themselves are there for you to be able to improve your communication skills… saying that the education system does not prepare you is not entirely correct in my opinion… I think there are areas of improvement, but if I had to take university as an example, I think it gives opportunities for people to work on their communication and social skills".*

Interviewees were also asked if an *increase in training*, such as soft skills training and training on standards updates, would help in enhancing auditor-management communication. Management ranked this technique higher (fifth) than auditors (eighth). The majority of respondents believed it was 'Effective'(4/11A, 8/12M) or 'Very Effective'(3/11A, 3/12M).

Only four auditors were neutral. AUD3 believed that training was crucial, emphasising that CPAs were required by law to attend a minimum of hours of training per year. However, AUD8 argued that there was the risk that management sometimes considered this training solely for CPE compliance. Linked to this argument, MGT4 contended:

> *"the CPE courses that I go to are usually more about the soft skills, rather than the purely accounting, such as IFRS updates, I go to sleep in those, but the soft skills I am very keen on because I know they are very important".*

Additionally, MGT12 argued that training was critical because, given the high staff turnover of audit firms, it was important that they planned this regular training to keep everyone abreast with certain skills/developments.

Auditors were then asked whether the *client emphasising the importance of the audit process within the workplace* would help in eliminating/reducing certain barriers. All respondents believed that this was an 'Effective'(5/11A) or 'Very Effective'(6/11A) technique. The most common sentiment was that, since the finance department plays a key role in the audit process, they should set the tone for other departments, as sometimes auditors were seen as being invasive.

4.2.3 Meetings

When respondents were asked about the effectiveness of a meeting at the beginning of the audit with the other party, the majority agreed that it effectively eliminated/reduced communication barriers. In fact, auditors ranked it as the most effective technique, whilst management ranked it as the second most effective.

The main arguments put forward in favour of these meetings revolved around what happened during these meetings, including *"set priorities"*, *"plan the audit"*, *"discuss changes from the prior year"*, *"timelines and expectations"*, *"get familiar with the team*", and *"resource allocation"*.

However, three auditors believed that although this meeting was effective, continuous and regular communication during the audit would be much more effective. MGT1 was neutral, arguing that most auditor-management communication happened during the fieldwork rather than in this preliminary meeting.

4.2.4 Communication Styles

Participants were then asked if adopting a *cooperative communication style* would help reduce communication barriers. Despite its effectiveness, auditors still ranked this technique relatively low in terms of effectiveness; however, they still put forward reasons why such technique could be effective. In fact, a valid argument put forward by AUD3 was:

> *"they* [management] *want to see that we* [auditors] *want to help them rather than pinpointing mistakes, and this is a misconception in auditing, we do not pinpoint mistakes, what we do is that we see whether we can help them improve on what they have done".*

Other auditors believed that this would open the path for trust and communication. AUD8 stated that it was acceptable to cooperate, but this should be done within the limits of professional scepticism. Conversely, management ranked it as the second most effective technique.

4.2.5 Empathy

When it comes to *empathy*, auditors ranked it within the top four. Conversely, management ranked it in seventh place. AUD5 believed that this was an effective way to build trust with management, with AUD10 stating that if the client was approaching month-end, auditors needed to understand them because management's work must continue. However, MGT4 was quite sceptical and insisted that *"at work, deadlines remain deadlines whether you have a personal problem or not"*. AUD3 argued that empathy should not be to the extent to which the audit would suffer.

4.2.6 Other Mitigation Techniques

Respondents were asked whether other mitigation techniques would help reduce communication barriers. AUD9 argued that auditors should also informally meet with management to foster a stronger relationship based on trust. Similarly, MGT3 insisted that an effective technique is always to discuss issues immediately, as this would also help build trust. MGT4 believed that audit firms should focus more on team continuity especially given their high staff turnover, as this may lead to inefficiency.

MGT10 also stated that it was vital for auditors to communicate within their team as this avoided repetition. Additionally, MGT7 contended that recruitment was crucial given both sides' skills and resource gaps. However, the interviewee insisted on the importance of recruiting qualified and experienced personnel and having the necessary resources. Lastly, MGT8 argued that it would be better to initially place junior auditors in a smaller audit client than listed entities, as although they were very technical, they might lack applicability, leading to inefficiencies.

5. Discussion of Findings

5.1 Are there Communication Barriers in the Auditor-Management Relationship?

This study identifies the communication barriers that Maltese auditors and management believe are the most detrimental to auditor-management communication.

5.1.1 Most Frequent Barriers

The most frequent barriers encountered by Maltese auditors include the lack of accounting/auditing terminology, differences in perceptions, resistance to change, and the failure to adhere to deadlines/timelines. Similarly, management's most frequent barriers include differences in perceptions, not adhering to deadlines/timelines, lack of accounting/auditing terminology, and a "know-it-all" frame of mind. Therefore, this study's findings have revealed that there is an agreement between both parties as three out of the four most frequent barriers are identical. Additionally, language barriers also seem to be frequently encountered in auditor-management communication.

5.1.1.1 The Lack of Accounting/Auditing Terminology

In line with Sachry and Kleen (1995), this barrier is particularly common when auditors communicate with non-finance employees. Similarly, Baldacchino (1992) found this barrier to be more commonly encountered by auditors than management. Therefore, it can be concluded that a weak understanding of accounting/auditing terminology is still predominant in Malta. This implies that even though financial training and education have generally improved, the accounting/auditing information systems have continued to expand at a faster rate and hence have become increasingly more complex (Chan and Vasarhelyi, 2018).

Likewise, management respondents also believe this barrier to be commonly encountered; however, their reasoning differs. In line with Bennett and Hatfield's (2013) theory, Maltese management frequently encounter newly graduated auditors that lack knowledge regarding the industry/operations of the client and sometimes, even accounting/auditing in general.

This barrier is usually encountered when there are standards that are particular to the client's operations. Additionally, management believe that the phenomenon of newly graduated auditors lacking this knowledge is more common when working with Big-Four audit firms, given their high level of staff turnover.

5.1.1.2 Differences in Perceptions

Differences in perceptions are viewed as a frequent barrier by both parties in the Maltese scenario. This substantiates Bame-Aldred's (2004) findings which deduced that auditors and clients might encounter circumstances when their objectives and perspectives are significantly different, leading to differing opinions and disputes. Such an occurrence may be unavoidable as management argue that they are usually focused on their company's strategy and goals, while auditors may not always consider these.

In fact, management view it as the most frequent communication barrier encountered. This finding is comparable to the conclusions drawn by Golen *et al.* (1997) and Baldacchino *et al.* (2017). Comparably, auditors view this barrier as the second most frequent barrier they encounter. However, in line with Rennie et al. (2014), auditors claim that after some back and forth with management, they usually manage to coax management into shifting their perspective.

5.1.1.3 Failure to Adhere to Deadlines/Timelines

Auditors and management believe that not adhering to deadlines/timelines could hinder their communication with one another. Both parties frequently encounter this barrier as it is ranked in the top four by both groups. Consistent with Bobek *et al.* (2012) and Micallef's (2018) conclusions, auditors and management believe that not sticking to agreed-upon deadlines can be one of the biggest challenges during the audit engagement of ELC.

Baldacchino (1992) argues that both parties' time pressures can lead to other auditor-management communication barriers, such as hostility and conflicts. These findings suggest that this barrier has long been present in the auditor-management relationship. One valid reason for this could be the tight statutory deadlines that have always been imposed on ELC.

5.1.1.4 Resistance to Change

In line with Baldacchino's (1992) findings, this study concludes that auditors encounter resistance to change more frequently than management. Auditors believe that management resist proposed changes, particularly those emanating from updated standards. This resistance may arise from management's unwillingness to divulge sensitive data to the public. Cade and Hodge (2014) made a comparable conclusion. Despite this, auditors typically find a way to convince management that their proposed changes are necessary and, in many cases, compulsory. This is typically achieved through heated discussions.

5.1.1.5 "Know-it-all" Frame of Mind

The auditors' "know-it-all" frame of mind also seems to be a prevalent barrier in the Maltese scenario. Even though the majority have never or rarely encountered this behaviour, it still ranked as one of the most frequently encountered barriers compared to other barriers. This result validates Golen *et al.'s* (1997) findings. Some auditors might come across as possessing a "know-it-all" frame of mind because, in most instances, they are more knowledgeable about the audit process than management.

Thus, management might perceive this level of knowledge as coming across as a "know-it-all" attitude. In fact, they argue that this barrier is usually encountered when communicating with new audit team members because as they get to know one another, this attitude tends to disappear.

5.1.2 Other Barriers

An interesting barrier that is frequently encountered by management when communicating with their auditors revolves around language and cultural barriers. Given the staff shortage and high staff turnover in the auditing industry, audit firms are resorting to hiring several expatriates, leading to cultural and language barriers (Camilleri, 2015). This study's findings broadly support the literature (Downey and Bedard, 2019; Grzeszczyk, 2015; Queenan 1964).

Another barrier that has emerged from this study is that of gender, which was unanticipated. Whilst only one auditor has cited this as a potential barrier, it is one that is unexpected, particularly since 'gender difference' has not been previously mentioned in the literature pertaining to communication barriers within the profession. Women tend to be underrepresented on Maltese boards (Gialanze and Naudi, 2016), and this gender disparity could be the reason for this barrier.

5.2 Can Communication Barriers be Eliminated/Mitigated?

This research explores mitigation techniques that auditors and management believe are crucial to eliminate/reduce any communication barriers in the auditor-management relationship.

5.2.1 Most Effective Mitigation Techniques

Both Maltese auditors and management believe that the most effective techniques include the meeting held at the beginning of the audit and enhanced listening and communication skills. Additionally, auditors argue that it is vital that the client emphasises the importance of the audit process within the workplace, whilst management deem a cooperative communication style as a very effective mitigation technique. .

5.2.1.1 Emphasising the Criticality of the Audit Process

Auditors believe that to eliminate/mitigate communication barriers in the auditor-management relationship, it is crucial that the client emphasises the importance of the audit process in the workplace. This is in line with previous research by Enes *et al.* (2016) and Fulop *et al.* (2019), who argue that audit education is critical in closing the audit expectation gap. The finance department must set the tone for the other departments, as this would aid in tackling the lack of understanding from non-accounting personnel regarding the auditors' roles and responsibilities.

5.2.1.2 Preliminary Meeting

The meeting held at the beginning of the audit between auditors and management is crucial. In fact, this technique is viewed as the most effective one by auditors and the second most effective by management. This is in agreement with Haferkorn's (2018) findings, which argue that this meeting is beneficial as the form and timing of communication are outlined.

This meeting is vital in setting the tone for the rest of the audit as issues such as priorities, timelines, and milestones are set. In line with previous research in Malta (Caligari, 2013; Mifsud 2008), auditors within this study argue that apart from the initial meeting, continuous and regular communication with management is crucial to eliminate barriers. This finding implies that frequent and honest communication would strengthen auditor-management communication.

5.2.1.3 Listening and Communication Skills

Enhanced listening and communication skills are also considered to be highly effective by both auditors and management in eliminating communication barriers. These findings corroborate the conclusions of Arpa (2014), Baldacchino (1992), Bellia (2021), Farrugia (2016), Golen *et al.* (1996), Lunenburg (2010), and Siriwardane and Durden (2014), who all highlight that simple communication and/or listening skills will substantially improve communication. These results may suggest that as the years go by, adequate listening and communication skills will always help in eliminating communication barriers.

5.2.1.4 Cooperative Communication Style

Management also believe that adopting a cooperative communication style is crucial in eliminating communication barriers. In line with the theory of Perreault and Kida (2011), management are more satisfied when auditors communicate their opinions by exercising a cooperative communication style. Management within this study argue that if both parties do not adopt a certain degree of cooperation, then both will suffer, impacting audit quality and effectiveness.

6. Conclusion

This research aimed to determine whether communication barriers exist in the auditor-management relationship and, if so, what these parties believe could be done to eliminate/reduce these barriers. This research idea was motivated by the gap in Maltese literature pertaining to this subject.

Therefore, following a thorough analysis of the literature, a set of communication barriers and mitigation techniques were formulated to analyse their applicability in Malta. A qualitative methodology was utilised to achieve all three objectives of this research. Semi-structured interviews were conducted with twenty-three interviewees. From the auditors' perspective, these consisted of one partner, two directors, two associate directors, three senior managers and three managers.

Conversely, from the client's perspective, these included six CFOs, three heads of finance, two financial controllers and one finance manager. Ultimately, the qualitative findings derived from both groups of participants were compared with one another and also with prior literature to highlight any similarities and differences.

The first objective of this research aimed to identify which barriers significantly hinder communication between EAs and the management of Maltese ELC. Both auditors and management believe that the most frequent barriers encountered when communicating with one another include differences in perceptions, lack of understanding of accounting/auditing terminology, and not adhering to deadlines/timelines.

Additionally, auditors also consider the resistance to change by management as hindering their communication, whilst management sometimes face auditors with a "know-it-all" frame of mind which might also impede auditor-management communication. Given the staff shortages and the high level of staff turnover in the auditing industry, firms are resorting to the employment of several expatriates, which, according to both auditors and management, is leading to a high degree of language and cultural barriers.

The second objective was to explore what both parties believe are the most effective mitigation techniques that could be implemented to eliminate/mitigate the barriers that exist within their communication. The effectiveness of a set of mitigation techniques was assessed by utilising a five-point Likert Scale.

Enhanced listening and communication skills and the preliminary meeting held at the beginning of the audit were considered the most effective techniques by auditors and management in improving the communication between them. The latter is crucial in setting the tone for the rest of the audit process.

Moreover, auditors argue that the client emphasising the importance of the audit process within the workplace is also crucial in eliminating certain barriers encountered during the collation of audit evidence, particularly when communicating with non-finance employees. Management believe that adopting a cooperative communication style is essential in improving auditor-management communication.

The third objective of this study sought to identify the differences in opinions of auditors and management with respect to communication barriers and mitigation techniques. As discussed earlier, auditors and management were quite unanimous in their responses given for the most frequent communication barriers and the most effective mitigation techniques.

This research has shed light on auditor-management communication in the Maltese scenario from both the EAs' and the management's perspectives. The collation of audit evidence on which auditors base their audit opinion would not be possible without communication and could hinder the overall audit engagement. Therefore, the communication between EAs and management is one of the most important interactions in the audit process.

Several communication barriers that might hinder auditor-management communication have been identified in this study, together with any mitigation techniques that would be effective in eliminating/reducing these barriers. Whilst both groups of respondents believe that there is a certain level of effective communication between them, certain barriers are still prevalent and need to be addressed. Even though no one single technique can tackle all the barriers, a combination of techniques over time may significantly reduce them.

Given all the above, it is therefore imperative that there should be effective communication amongst EAs and management for an audit engagement to be successful. After all, as stated by one of the auditors, *"without good communication, you can never have a good audit".*

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