

PUBLIC AUDIT IN EMERGING MARKETS: THE ROLE OF EXTERNAL AUDIT IN FINANCIAL TRANSPARENCY – LONGITUDINAL EVIDENCE FROM KOSOVO 2018-2022*

GELİŞMEKTE OLAN ÜLKELERDE KAMU DENETİMİ: FİNANSAL ŞEFFAFLIĞIN
SAĞLANMASINDA DIŞ DENETİMİN ROLÜ – KOSOVA ÖRNEĞİ ÜZERİNE
BOYLAMSAL BİR İNCELEME (2018–2022)

Riza SPANCA** 
Nermin ÇITAK*** 

Abstract

External audits play a critical role in promoting financial transparency, accountability, and good governance, particularly in the public sector where independent oversight can prevent corruption and ensure the responsible use of public funds. In emerging economies, however, the effectiveness of audits is often constrained by weak enforcement mechanisms, limited institutional autonomy, and capacity deficiencies. This study examines the role of external audits in enhancing transparency within Kosovo's public sector, utilizing secondary data from audit reports and regulatory assessments between 2018 and 2022.

The analysis is grounded in the Audit Quality Model (AQM), which provides a framework for understanding how auditor competence, independence, and the strength of regulatory enforcement influence audit outcomes.

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** University of Marmara, Department of Bussines Administration, Email: rizaspanca@live.com, ORCID: 0009-0008-4593-5279

*** University of Marmara, Department of Bussines Administration, Email: ncitak@marmara.edu.tr, ORCID: 0000-0002-5293-6797

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The findings reveal that while higher audit quality is generally associated with improved transparency, several persistent challenges remain. These include the low rate of implementation of audit recommendations, recurrent cases of financial mismanagement, and inadequate municipal oversight. By offering a longitudinal perspective on audit trends and institutional responses, the study contributes to the literature on public sector auditing in transitional contexts. It underscores the need for stronger enforcement practices, enhanced institutional capabilities, and increased accountability to ensure that external audits contribute meaningfully to financial transparency and effective governance in Kosovo.

Keywords: Audit Quality, External Audit, Financial Transparency, Audit Recommendations, Public Sector, Kosovo, Emerging Markets, Audit Governance

Öz

Dış denetimler, özellikle kamu sektöründe, finansal şeffaflık, hesap verebilirlik ve iyi yönetişimin sağlanmasında kritik bir rol oynamaktadır. Bağımsız denetim mekanizmaları, yolsuzluğu önleme ve kamu kaynaklarının etkin kullanımı açısından büyük önem taşır. Ancak gelişmekte olan ekonomilerde denetimlerin etkinliği genellikle zayıf yaptırım mekanizmaları, kurumsal özerklik eksikliği ve kapasite yetersizlikleri nedeniyle sınırlı kalmaktadır. Bu çalışma, 2018–2022 dönemine ait denetim raporları ve düzenleyici değerlendirmelere dayalı olarak, dış denetimlerin Kosova kamu sektöründeki şeffaflığı artırmadaki rolünü incelemektedir.

Çalışma, Denetim Kalitesi Modeli (AQM) çerçevesinde; denetçi yetkinliği, bağımsızlığı ve düzenleyici yaptırımların gücünün denetim sonuçlarını nasıl etkilediğini analiz etmektedir. Bulgular, yüksek denetim kalitesinin şeffaflıkla olumlu ilişkili olduğunu ortaya koymakla birlikte, denetim tavsiyelerinin düşük uygulama oranı, tekrar eden mali usulsüzlükler ve belediyelerdeki sınırlı denetim kapasitesi gibi sorunların devam ettiğini göstermektedir. Çalışma, denetim eğilimlerine ve kurumsal tepkilere dair uzunlamasına bir analiz sunarak, geçiş sürecindeki ekonomilerde kamu denetimi literatürüne katkıda bulunmaktadır. Denetim süreçlerinin finansal şeffaflık ve yönetim reformuna gerçek anlamda katkı sağlayabilmesi için daha güçlü yaptırım mekanizmalarına, kurumsal kapasite artışına ve hesap verebilirliğe ihtiyaç olduğu vurgulanmaktadır..

Anahtar Kelimeler: Denetim Kalitesi, Dış Denetim, Mali Şeffaflık, Denetim Önerileri, Kamu Sektörü, Kosova, Gelişmekte Olan Ekonomiler, Denetim Yönetişimi

1. Introduction

Financial transparency is a fundamental pillar of accountability and good governance, particularly in the public sector, where the responsible management of public funds directly affects economic stability and public trust (Heald & Hodges, 2015). Ensuring the accuracy and reliability of financial reporting is crucial for compliance with regulations and for fostering confidence among taxpayers, investors, and international institutions (Rodríguez, Alcaide, & López, 2013). One of the primary mechanisms for ensuring financial transparency is the external audit process, which provides an independent assessment of financial statements, helping detect misstatements, fraud, and inefficiencies that may compromise financial integrity (DeAngelo, 1981, p.113-127).

In the public sector, external audits serve as a critical tool for oversight, ensuring that government entities manage public resources effectively and in accordance with financial regulations. By promoting

transparency, preventing corruption, and reinforcing institutional credibility, audits contribute to better governance and improved resource allocation (Bracci, et al., 2015; Schelker & Eichenberger, 2010). However, the effectiveness of audits in strengthening transparency and accountability depends on audit quality, which varies significantly across different regulatory environments.

While developed economies benefit from strong regulatory oversight, standardized enforcement mechanisms, and mature financial institutions, many emerging markets face persistent challenges in audit implementation. Issues such as weak regulatory frameworks, inconsistent enforcement of audit findings, auditor independence concerns, and lack of institutional autonomy can undermine the reliability of external audits and limit their impact on financial governance (Knechel et al., 2012; Kimbro, 2002, p.325-350).

Kosovo presents a compelling case for analyzing these challenges. As a post-conflict, emerging market, Kosovo has undertaken extensive institutional and regulatory reforms since gaining independence in 2008, including efforts to align its audit and financial reporting standards with International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) (Hay, Knechel, & Willekens, 2014). Despite these efforts, concerns remain regarding the effectiveness of external audits in the public sector, particularly in ensuring financial transparency, audit credibility, and governance accountability (Power, 1997).

This study explores the role of external audits in enhancing financial transparency in Kosovo's public sector. By analyzing audit reports, regulatory frameworks, and financial oversight mechanisms, the research aims to assess whether audit quality aligns with transparency improvements. To explore these questions, this research draws upon the Audit Quality Model (AQM) as a theoretical lens. The AQM facilitates an examination of how internal audit factors—such as independence and competence—and external conditions—such as oversight and regulatory enforcement—interact to shape both the implementation of audit recommendations and broader transparency outcomes. Relying on qualitative analysis of official audit reports from 2018 to 2022, the study engages with existing literature while generating context-specific insights into audit quality and governance in post-transition environments.

By adopting this approach, the study contributes both theoretically and practically to the field. It not only extends the application of the AQM to emerging market contexts but also provides actionable recommendations aimed at improving public sector audit systems. These insights are particularly valuable for policymakers, audit institutions, and international development partners committed to strengthening transparency and accountability in fragile institutional settings.

To guide the reader through the analysis, the remainder of this paper is organized as follows. Chapter 2 reviews the relevant literature on audit quality, transparency, and governance, and introduces the theoretical framework. Chapter 3 outlines the research methodology, including data sources and analytical approach. Chapter 4 presents the analysis and results, providing an in-depth discussion of audit effectiveness in Kosovo based on longitudinal data. Finally, Chapter 5 concludes

with recommendations for policy and future research directions. Given the unique institutional and regulatory challenges of Kosovo as an emerging economy, the findings provide valuable insights into the strengths, weaknesses, and opportunities for improving audit effectiveness, regulatory enforcement, and financial governance.

2. Literature Review

2.1 Understanding Audit Quality

Audit quality is a multidimensional and contested concept that has evolved considerably in academic literature. While there is no universally agreed-upon definition, it is generally understood as the degree to which an audit achieves its objective—namely, providing reasonable assurance that financial statements are free from material misstatement and reflect a true and fair view of an entity's financial position (DeAngelo, 1981, p.183-199; Knechel et al, 2012).

One of the most influential definitions was proposed by DeAngelo (1981), who conceptualized audit quality as “the probability that an auditor will both discover and report a breach in the client's accounting system.” This definition focuses on two key elements: auditor competence, or the ability to detect material misstatements, and auditor independence, or the willingness to report such misstatements once detected. DeAngelo's framework has remained a core element in studies that emphasize technical performance and regulatory compliance in particular.

However, subsequent scholars have argued that DeAngelo's model has limited scope, especially in public sector or emerging market contexts. Francis (2004) expands the view by linking audit quality to reputational incentives, and argues that audit firms are motivated by the need to maintain credibility in the market. Knechel et al., (2012) propose a more comprehensive framework that includes auditor inputs (e.g., expertise, methodology), audit processes, and outputs (e.g., financial report reliability, stakeholder trust). From a more behavioral and institutional perspective, Power (1997) and Humphrey & Moizer (1990) critique the technocratic view of audit quality, arguing that it is also socially constructed—shaped by public expectations, institutional trust, and the symbolic role audits play in governance. These perspectives are especially relevant in the public sector, where audits are not only about financial accuracy but also about promoting accountability, reducing corruption, and improving transparency (Schelker & Eichenberger, 2010; Bracci et al, 2015).

In emerging markets, where institutional frameworks are still maturing, audit quality is influenced not only by auditor capabilities but also by regulatory enforcement, lack of institutional autonomy, and implementation of audit recommendations (World Bank, 2022; González & García-Meca, 2014). Studies have shown a positive correlation between high-quality audits and better public sector governance, including higher rates of implementation of audit findings and improvements in financial transparency (García-Blandón & Argilés-Bosch, 2013; Hay & Cordery, 2010). Thus, audit

quality in these settings cannot be assessed solely through technical criteria—it must also reflect how effectively audits lead to corrective action and institutional improvement.

Given this, the present study adopts a broader conceptualization of audit quality—one that includes both traditional measures such as ISA compliance and auditor independence, and outcome-based indicators like the implementation rate of audit recommendations and the degree to which audits enhance public sector transparency.

While various scholars have contributed to expand and contextualize the concept of audit quality, much of the foundational thinking in this area can be traced back to the work of DeAngelo (1981). Her model remains one of the most widely cited in the literature due to its clarity and focus on the dual dimensions of detection and reporting. Given its influence and relevance—particularly in discussions of auditor independence and regulatory accountability—DeAngelo’s model provides a useful starting point for examining the mechanisms through which audit quality can influence financial transparency and governance outcomes. The following section presents a detailed overview of this model and its applicability to both developed and emerging market contexts.

2.1.1 The DeAngelo (1981) Model of Audit Quality

One of the most widely accepted definitions of audit quality is provided by **DeAngelo (1981a)**, who defines audit quality as “*the probability that an auditor will both discover and report a material misstatement in the financial statements.*” This definition highlights two fundamental dimensions:

- **Auditor Competence** – The technical ability and methodological rigor with which the auditor can detect financial irregularities. This is influenced by training, experience, industry-specific knowledge, and adherence to auditing standards (DeAngelo, 1981b; Knechel et al., 2012).
- **Auditor Independence** – The willingness and freedom of the auditor to disclose material misstatements without being influenced by client relationships, institutional pressures, or lack of institutional autonomy (Francis, 2004, p. 345-368; Simnett et al., 2016).

According to DeAngelo (1981b), audit quality is higher in competitive audit markets, where auditors must maintain a strong reputation and where regulatory enforcement ensures compliance with high professional standards. Conversely, in emerging economies, the effectiveness of external audits is often constrained by weak regulatory oversight, lack of institutional autonomy, and limited enforcement of audit findings (PCAOB, 2018; World Bank, 2022). These challenges create barriers to maintaining audit independence and professional skepticism, ultimately affecting the reliability of financial reporting (Hay & Cordery, 2010; Heald, 2018, p. 317-335).

Importantly, the DeAngelo model provides conceptual grounding for examining the relationship between audit quality and the implementation of audit recommendations. If an auditor lacks independence, they may issue softened or incomplete findings. If they lack competence, systemic

issues may go undetected altogether. In both cases, the credibility and relevance of audit reports are diminished, which in turn undermines the likelihood of follow-through by auditees and the audit's contribution to financial transparency and governance reform.

This model serves as a theoretical lens through which the dynamics of audit quality can be connected to practical governance outcomes—particularly relevant for countries like Kosovo, where institutional reform is ongoing. The next section expands on this by integrating broader determinants that influence audit quality and by drawing explicit links between audit performance, transparency, and public sector accountability.

2.1.2 Key Determinants of Audit Quality

Beyond the DeAngelo model, subsequent literature has sought to operationalize audit quality by identifying its primary determinants. These can be grouped into internal (firm-level) and external (institutional-level) factors, both of which shape the extent to which audits contribute to transparent financial reporting and the implementation of audit recommendations—critical outcomes examined in Sections 2.2 and 2.2.1.

A. Internal (Firm-Level) Determinants

- **Auditor Independence** – A crucial factor in ensuring audit quality, as independence minimizes biases and prevents auditors from being influenced by client pressures. Factors such as audit tenure, provision of non-audit services, and auditor-client relationships significantly impact independence (Simnett et al., 2016; Knechel et al., 2012).
- **Audit Firm Size and Reputation** – Larger audit firms, such as the Big Four, are generally associated with higher audit quality due to their greater resources, well-developed methodologies, and lower risk of reputational damage (Francis, 2004, p1521-1552; DeFond & Zhang, 2014). Their recommendations are more likely to be taken seriously and implemented by auditees, thereby enhancing transparency and accountability.
- **Professional Competence** – Highly trained and experienced auditors are more capable of detecting and addressing financial misstatements. A lack of industry-specific knowledge can reduce audit effectiveness, namely poorly trained auditors may overlook systemic weaknesses, leading to weak or ineffective recommendations (Knechel et al., 2013; Teoh & Wong, 1993).
- **Application of Audit Standards** – Compliance with International Standards on Auditing (ISA) and national audit regulations plays a crucial role in maintaining audit quality. Firms that rigorously apply these standards demonstrate greater consistency and reliability in financial reporting (IAASB, 2014; PCAOB, 2018).

B. External (Market-Level) Determinants

- **Regulatory Oversight** – The effectiveness of regulatory enforcement is a major factor influencing audit quality. Countries with strong audit oversight bodies tend to have more reliable and transparent audits. In contrast, weak enforcement mechanisms lead to lower compliance and greater audit failures, namely lower implementation of audit recommendations and limited transparency (PCAOB, 2018; Heald & Hodges, 2015).
- **Market Competition** – In highly competitive audit markets, auditors have stronger incentives to uphold professional integrity. Reputational concerns, potential legal consequences, and market-driven discipline encourage firms to maintain high audit standards (Francis & Yu, 2009; Ball et al., 2012).
- **Litigation and Legal Consequences** – The presence of strong investor protection laws and legal consequences for audit failures incentivizes auditors to maintain high professional standards. Countries with robust legal frameworks tend to experience lower instances of audit failure and financial misstatements (Hope et al., 2009; García-Blandón & Argilés-Bosch, 2013).

The preceding discussion of audit quality, grounded in both DeAngelo's theoretical model and its practical determinants, underscores how competence, independence, and institutional frameworks collectively shape audit effectiveness. However, understanding audit quality alone is not sufficient. The real significance of high-quality audits lies in their outcomes—particularly their ability to promote transparency, support accountability, and lead to the successful implementation of audit recommendations. These governance outcomes are especially critical in public sector contexts and transitional economies like Kosovo, where audits are intended not only as oversight tools but as catalysts for reform. The following section explores the direct relationship between audit quality and financial transparency, including how external audit function as instruments of governance and how its effectiveness varies across institutional settings.

2.2 The Relationship Between Audit Quality and Transparency

The link between audit quality and financial transparency has long been recognized in both academic literature and policy frameworks. High-quality audits serve as a cornerstone of trustworthy financial reporting, playing a pivotal role in reducing the risk of misstatements, detecting fraud, and holding public and private institutions accountable. As argued by Hay and Cordery (2010), transparency in financial disclosures depends significantly on the assurance provided by independent and competent audit processes. Similarly, Kimbro (2002) emphasizes that effective audits are instrumental in curbing corruption, especially in environments with weak governance.

However, the effectiveness of audits in promoting transparency depends heavily on the context in which they are conducted. In developed economies, where audit standards are strictly enforced

and institutions are resilient, the pathway from audit quality to transparency is relatively linear and well supported. In contrast, in many emerging markets, this pathway is disrupted by weak regulatory oversight, limited auditor independence, and lack of institutional autonomy.

In such contexts, audit recommendations—often a key output of the audit process—are less likely to be implemented, diminishing the potential impact of audits on financial transparency. When recommendations are ignored or inadequately addressed, systemic inefficiencies persist, eroding public trust and weakening institutional accountability. Thus, audit quality should be viewed not only as a technical measure of audit inputs but as a determinant of how audits contribute to broader governance goals, particularly through their ability to foster transparency and promote actionable change. A deeper understanding of this relationship is essential for assessing whether audits contribute meaningfully to transparency or serve only as a formal compliance exercise without substantive impact.

2.2.1 The Role of External Audit in Promoting Transparency

External audits are widely recognized as a cornerstone of financial transparency and accountability, especially in the public sector. Their primary role is to provide an independent assessment of whether an entity's financial statements are free from material misstatement, whether due to error or fraud. By doing so, audits reduce information asymmetry between the government and its stakeholders—public, investors, donors, and oversight bodies—thus strengthening trust and governance.

One of the key functions of external audits is to detect and deter irregularities in financial reporting. Through rigorous examination of accounting records and compliance with established standards, audits serve as a control mechanism that discourages misuse of public funds and promotes adherence to legal and regulatory frameworks. By reviewing procurement processes, budgeting practices, and internal controls, audits not only identify current weaknesses but also issue recommendations aimed at improving systems going forward. The extent to which these recommendations are implemented serves as a tangible indicator of audit effectiveness and the government's commitment to transparency.

In emerging economies, the implementation of audit recommendations becomes especially significant. Given limited institutional capacity and the lack of institutional autonomy, audit reports alone are not sufficient to bring about reform. Follow-up mechanisms and enforcement play a crucial role in translating audit findings into concrete improvements. Where such mechanisms are weak, audit reports risk becoming performative rather than transformative.

In addition to uncovering financial misstatements, external audits contribute to transparency by ensuring that financial disclosures are accurate, timely, and complete. These audits help build credibility for public financial information, enabling stakeholders to make informed decisions about resource allocation, governance, and investment. This is especially relevant for international donors and financial institutions, who often rely on audited financial statements to assess risk and accountability in recipient countries.

Moreover, audits play a significant role in enforcing regulatory compliance and improving fiscal discipline. Audit recommendations, when implemented, often lead to strengthened internal controls and better budgetary practices. Over time, this can result in more efficient use of public resources and improved service delivery.

Empirical studies support a positive link between audit strength and governance outcomes. Countries with robust audit institutions tend to experience lower levels of corruption, higher investor confidence, and improved public sector performance (Hay & Cordery, 2010; Kimbro, 2002, p.325-350). In this sense, external audits not only promote transparency but also contribute to broader development goals by enhancing institutional integrity and public trust.

However, the effectiveness of external audits in promoting transparency depends largely on the independence of auditors, the strength of oversight mechanisms, and the willingness of audited entities to act on recommendations. In settings where lack of institutional autonomy is prevalent or where follow-up is weak, even the most well-conducted audits may fail to produce meaningful reforms. Therefore, for audits to fully achieve their transparency-enhancing potential, they must be embedded within a supportive institutional framework that ensures accountability and follow-up.

2.2.2 Empirical Evidence on Audit Quality and Transparency

A substantial body of empirical research supports the claim that high audit quality plays a critical role in enhancing financial transparency, accountability, and governance. Transparent financial reporting not only strengthens institutional credibility but also fosters trust among stakeholders, including investors, public, and international financial institutions.

García-Blandón and Argilés-Bosch (2013) provide compelling evidence that higher audit quality leads to more reliable and transparent financial statements, which in turn improves investor confidence and regulatory compliance. Their study emphasizes the importance of rigorous audit practices in reducing information asymmetry and enhancing stakeholder decision-making. Similarly, Bushman and Smith (2001) highlight the role of transparency in mitigating the risk of financial fraud and misallocation of resources. By ensuring that financial disclosures are accurate and verifiable, high-quality audits act as a deterrent to misconduct and promote more efficient resource use.

Further studies have found that audit quality is strongly associated with the strength of enforcement mechanisms and institutional frameworks. For example, Francis and Yu (2009) demonstrate that in countries with well-developed legal systems and independent oversight bodies, audit firms tend to produce more reliable and consistent audit outcomes. These environments encourage compliance with international standards and promote greater accountability in financial reporting.

However, the effectiveness of audits in fostering transparency is not uniform across contexts. The impact of audit quality is significantly influenced by the institutional, regulatory, and governmental

conditions in which audits are conducted. In developed economies, external audits are generally more effective due to:

- **Strong regulatory institutions** with the authority and resources to enforce audit findings and ensure compliance.
- **Independent oversight bodies**, such as the Public Company Accounting Oversight Board (PCAOB) in the U.S. or the Financial Reporting Council (FRC) in the U.K., which monitor auditor behavior and impose penalties for noncompliance.
- **Well-established professional standards** and high levels of auditor competence, which contribute to consistency and trust in audit outcomes.

Conversely, in emerging and post-transition economies, the capacity of external audits to improve transparency is often undermined by several systemic challenges:

- **Weak regulatory and recommendation enforcement** limits the ability of oversight institutions to ensure implementation of audit recommendations, reducing their overall effectiveness (PCAOB, 2018).
- **Lack of institutional autonomy** compromises auditor independence, particularly in the public sector, where government influence can deter auditors from reporting misstatements or irregularities objectively (González & Meca, 2014).
- **Limited professional training and capacity**, especially in smaller or local audit firms, diminishes the ability of auditors to conduct thorough examinations and uphold international auditing standards (Knechel et al., 2013).

Kosovo, as a post-conflict and transitional economy, exemplifies many of these barriers. While the country has made strides in adopting International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), implementation and enforcement remain weak. Public sector audits, though theoretically designed to enhance transparency and accountability, often fall short due to limited institutional capacity, insufficient follow-up on audit recommendations, and ongoing governance related challenges.

To strengthen the theoretical-practical link, it is important to revisit how the Audit Quality Model (AQM) translates into real-world implications. The AQM posits that high audit quality—defined by auditor competence, independence, and regulatory enforcement—should lead to improvements in transparency and institutional accountability. This assumption is partially validated in Kosovo's audit environment. For example, independent institutions, which tend to operate within more structured governance frameworks, consistently exhibit higher implementation rates of audit recommendations.

This observation aligns with the AQM's emphasis on contextual factors: audit effectiveness is shaped not only by the technical quality of the audit itself but also by the institutional environment in which it operates. Conversely, the recurring failure to resolve audit findings—particularly in

governmental sensitive or resource-constrained areas—underscores the model’s core argument that without adequate enforcement and follow-through, even technically sound audits may fail to produce meaningful change.

The Kosovo case thus reinforces the AQM’s relevance by illustrating both the promise and the limitations of external audits in transitional contexts. It highlights the need for audits to be integrated into a broader accountability ecosystem—one that includes regulatory oversight and institutional capacity—to achieve their intended impact on financial transparency and public sector reform.

2.3 Differences Between Emerging and Developed Markets in Audit Quality

Audit quality is influenced by a country’s regulatory framework, institutional capacity, and market competition. Developed economies have well-established audit oversight institutions that enforce compliance and ensure audit independence (Francis & Yu, 2009). In contrast, emerging markets often lack the regulatory strength needed to maintain high audit quality, making audits more susceptible to external pressures and inefficiencies (World Bank, 2020).

The key differences between developed and emerging markets in audit quality can be categorized into three main areas: regulatory and institutional differences, audit market structure, and auditor independence enforcement.

2.3.1 Regulatory and Institutional Differences

In developed economies, external audits operate within stringent legal and regulatory frameworks. Countries such as the United States (regulated by the Public Company Accounting Oversight Board – PCAOB), the United Kingdom (regulated by the Financial Reporting Council – FRC), and Germany (regulated by the Auditor Oversight Authority – APAS) have independent institutions that monitor audit firms and enforce compliance with professional standards (PCAOB, 2018; World Bank, 2020).

In contrast, emerging markets frequently lack robust oversight institutions, leading to:

- **Limited enforcement of audit findings**, reducing the credibility of external audits (Heald & Hodges, 2015).
- **Weak regulatory frameworks**, which fail to provide sufficient legal consequences for audit failures (Hope et al., 2009).
- **Lack of transparency in public sector audits**, making it easier for financial mismanagement and corruption to persist (Kimbrow, 2002, p.325-350).

Kosovo’s audit profession remains in the early stages of development, with the country struggling to establish an independent regulatory authority that can effectively monitor audit quality and enforce compliance. This lack of oversight raises concerns about the reliability of financial reporting in public institutions.

However, regulatory frameworks alone do not determine audit quality. Market structure and competition also play an essential role in shaping the effectiveness of external audits.

2.3.2 Audit Market Structure

The structure of the audit market differs significantly between developed and emerging economies. In developed economies, the audit profession is characterized by a high level of competition among firms, rigorous audit methodologies, and strong reputational concerns that incentivize firms to maintain professional integrity (Francis & Yu, 2009).

Conversely, in emerging markets:

- **The number of audit firms is limited**, reducing competition and allowing weaker firms to dominate the market (DeFond et al., 2016).
- **Audit specialization is lower**, meaning that many firms lack expertise in key industries, reducing the effectiveness of audit procedures (Knechel et al., 2013).
- **Client pressure is more prevalent**, with audit firms often facing financial dependence on a few key clients, leading to potential compromises in audit independence (García-Blandón ve Argilés-Bosch, 2013).

These structural weaknesses contribute to lower overall audit quality in emerging markets, particularly in economies like Kosovo, where the audit profession is still developing.

One of the most significant consequences of these differences is the impact on auditor independence and the enforcement of audit regulations, as discussed in the next section.

2.3.3 Auditor Independence and Enforcement Mechanisms

A crucial distinction between developed and emerging markets is the level of enforcement of audit regulations. In developed economies, auditors face significant consequences for violations of independence rules, including:

- **Substantial fines**, imposed by regulatory agencies for non-compliance (PCAOB, 2018).
- **License revocation**, preventing firms from continuing audit operations after severe infractions (Francis, 2004, p1521-1552).
- **Legal prosecution**, ensuring that auditors are held accountable for fraudulent reporting or gross negligence (Hope et al., 2009).

In contrast, emerging markets often lack strict enforcement, allowing auditors to maintain long-term client relationships that may compromise their independence. Kosovo, for example, does not yet have a fully independent regulatory authority dedicated to audit enforcement, which according to González & Meca (2014) creates vulnerabilities in audit credibility.

This regulatory gap highlights the need for a theoretical framework to analyze audit quality in emerging markets. The following section explores the Audit Quality Model (AQM) as a theoretical lens for understanding the factors influencing audit quality and transparency in Kosovo.

2.4 Summary and Theoretical Framework for This Study

The preceding literature review underlines that there is a strong conceptual link between audit quality and financial transparency. However, in emerging markets such as Kosovo, this relationship is significantly shaped by institutional and regulatory challenges—including weak enforcement mechanisms and limited follow-up on audit recommendations. These limitations often result in a gap between the formal execution of audits and their real-world impact on transparency and governance.

To analyze this relationship systematically, this study adopts the Audit Quality Model (AQM) as its theoretical foundation. Although no primary data (e.g., surveys or interviews) are used, the AQM remains relevant for interpreting the implementation trends of audit recommendations over time, as presented in reports from the Kosovo National Audit Office (KNAO).

The AQM is well-suited for this study for several reasons:

1. **Analytical Framework for Trend Interpretation:** The AQM provides a structured lens for evaluating how key audit quality dimensions—such as auditor competence, independence, and regulatory enforcement—may influence the rate and consistency of recommendation implementation across institutions and years.
2. **Linking Technical Quality with Practical Outcomes:** By focusing on the implementation of audit recommendations as an outcome indicator, the model helps assess whether technical audit processes translate into meaningful improvements in public sector transparency and accountability.
3. **Contextual Adaptability:** The AQM is flexible enough to accommodate an analysis based entirely on secondary data. Rather than measuring stakeholder perceptions directly, the model guides the interpretation of observed behaviors—such as fluctuating compliance rates and recurring audit findings—as reflections of broader audit quality strengths and weaknesses.
4. **Focus on Systemic Barriers:** The model also highlights the influence of external factors—such as regulatory strength, institutional capacity, and governmental priorities—on the effectiveness of audits. These elements are particularly useful in explaining why certain recommendations are repeatedly unimplemented despite recurring audit findings.

Although the Audit Quality Model (AQM) is traditionally employed in empirical studies to assess stakeholder perceptions of audit quality, this study adopts the model as a **conceptual framework** to guide the analysis of secondary data. The AQM's multidimensional structure—encompassing internal factors such as auditor competence and independence, as well as external elements like

regulatory enforcement and institutional oversight—offers a suitable lens for evaluating how audit quality interacts with transparency outcomes in the public sector. Given the focus on Kosovo's audit environment between 2018 and 2022, the AQM facilitates an interpretive assessment of audit effectiveness by framing the relationship between audit processes and the implementation of audit recommendations across different levels of public institutions.

3. Research Methodology

This study adopts a qualitative, longitudinal research design based on the analysis of secondary data to evaluate the role of audit quality in enhancing financial transparency and accountability in the Kosovo's public sector. Given the absence of primary data collection, the methodology is based on content analysis of published audit reports, academic literature, and regulatory documents. By doing so, it captures both the structural features of audit practices and the practical outcomes—specifically, the implementation of audit recommendations—as proxies for transparency and audit effectiveness.

In this study, the Audit Quality Model (AQM) is not applied through empirical instruments such as surveys or interviews, but rather serves as a theoretical and analytical guide for interpreting trends identified in official audit reports. By examining recurring audit findings, the frequency and nature of recommendations, and year-on-year implementation rates, the study draws on the AQM's core principles to infer the effectiveness of audits in promoting transparency. The model enables a structured evaluation of audit performance in Kosovo's public sector, focusing on how internal audit characteristics and external governance conditions have influenced public financial accountability over time. This theoretical application ensures that the analysis remains based on an established audit quality framework while adapting to the constraints and strengths of document-based research.

3.1 Research Design

The research is structured as a longitudinal qualitative content analysis, covering the period from 2018 to 2022. This timeframe allows for an in-depth examination of audit quality trends over several years of post-independence development. The study explores patterns in audit recommendations, regulatory enforcement, and implementation progress across central institutions, municipalities, and independent agencies.

The longitudinal approach is appropriate because:

- It captures shifts in audit practices, transparency, and institutional responsiveness over time (Bryman, 2016).
- It aligns with the study's aim to assess how recurring audit issues have been addressed (or not) across multiple fiscal years (Francis, 2004, 345-368).

- It allows comparison across different types of public entities, reflecting institutional diversity and governance maturity in Kosovo (World Bank, 2022).

3.2 Data Sources and Collection

This research exclusively uses **secondary data**, primarily drawn from the following sources:

- **Audit Reports from the National Audit Office (KNAO):** These audit reports provide detailed evaluations of public institutions, including financial irregularities, internal control weaknesses, and corresponding audit recommendations. These reports also track the follow-up actions taken by public institutions and provide year-over-year implementation rates, offering a practical measure of audit impact.
- **Relevant Literature and Policy Assessments:** Academic articles, regulatory evaluations, and comparative international reports provide context and help interpret Kosovo's audit practices within the broader framework of emerging market governance.

3.3 Analytical Framework

The analysis applies qualitative content analysis to identify recurring themes, implementation trends, and governance issues. It is guided by the Audit Quality Model (AQM), which frames audit quality as a function of both internal (e.g., auditor competence, independence) and external (e.g., regulatory oversight, enforcement) factors.

The evaluation focuses on:

- The frequency and nature of audit recommendations across institutions.
- The rate of implementation over the five-year period.
- The recurrence of unresolved issues, and what these patterns reveal about audit effectiveness and transparency.
- Institutional differences across central government, municipalities, and independent agencies.

This analytical strategy helps illuminate whether improvements in audit quality—broadly understood as consistent, independent, and well-enforced audit practices—are associated with greater transparency and better public financial governance.

3.4 Methodological Considerations and Limitations

Although relying on secondary data enhances objectivity and historical depth, it presents certain limitations:

- The analysis is constrained by the availability and completeness of public audit reports.

- The study does not include firsthand stakeholder perspectives, such as interviews or surveys, which could provide deeper insight into perceived audit quality or institutional challenges.
- As a document-based analysis, the findings reflect only what has been formally reported and may not capture informal practices or unreported issues.

However, by focusing on verified and publicly accessible sources, the methodology ensures transparency, replicability, and compliance with ethical research standards.

4. Analysis and Results

This section provides an in-depth analysis of findings based on the review of audit reports, quality assessments, and literature on audit effectiveness in Kosovo's public sector. The analysis examines trends in audit quality, regulatory enforcement, financial transparency, and the implementation of audit recommendations. The findings are structured as follows:

- **Overview of Audit Quality Trends** – Assessing compliance with auditing standards, audit consistency, and systemic weaknesses.
- **Implementation of Audit Recommendations** – Assessing how public institutions respond to audit findings, including progress in financial governance and transparency.
- **Institutional and Regulatory Challenges** – Exploring obstacles such as lack of institutional autonomy, enforcement gaps, and limited capacity;
- **Comparative Analysis Across Public Sector Entities** – Highlighting differences between central government institutions, municipal administrations, and independent agencies in responding to audit recommendations.

By analyzing audit reports and regulatory assessments over multiple years, this section highlights patterns in financial accountability, transparency improvements, and ongoing governance challenges in Kosovo's public sector.

4.1 Analysis of Audit Reports for Kosovo

As Kosovo continues to build and refine its institutional structures, the National Audit Office (KNAO) has emerged as a critical oversight body in ensuring financial accountability, transparency, and good governance within the public sector. Operating as the country's supreme audit institution, the KNAO is responsible for conducting independent audits of public institutions, evaluating their financial management practices, and ensuring compliance with both national and international financial reporting standards. The KNAO's mandate extends across multiple levels of government (Assembly of the Republic of Kosovo, 2019), including:

1. **Ministries and Central Government Institutions** – Evaluating financial statements, budgetary compliance, and the effectiveness of internal controls within **ministerial bodies and executive agencies** responsible for national policy implementation.
2. **Independent Institutions** – Conducting audits of regulatory bodies, state-owned enterprises, and autonomous public entities, ensuring they adhere to financial management principles and governance standards.
3. **Municipal Administrations** – Assessing local government financial operations, including procurement procedures, asset management, and the execution of municipal budgets, to promote accountability at the regional level.

By auditing these key entities, the KNAO plays an important role in identifying financial mismanagement, inefficiencies, and potential fraud within Kosovo's public administration.

4.2 The Importance of Audit Recommendations

Beyond identifying irregularities, the effectiveness of external audits is largely measured by the implementation of audit recommendations. Each audit report issued by the KNAO includes a series of recommendations aimed at improving financial discipline, governance structures, and transparency within the audited institution. These recommendations typically focus on:

- Enhancing budgetary discipline – Addressing overspending, budget misallocations, and unauthorized expenditures.
- Strengthening internal controls – Improving financial reporting mechanisms, preventing fraud, and ensuring adherence to procurement laws.
- Ensuring compliance with regulatory frameworks – Promoting adherence to International Public Sector Accounting Standards (IPSAS) and other national financial governance regulations.
- Increasing public sector efficiency – Streamlining administrative processes to enhance resource allocation and reduce waste.

The level of implementation of these recommendations serves as a key performance indicator (KPI) for public sector governance, reflecting the willingness and capacity of institutions to adopt reforms, strengthen financial oversight, and improve transparency.

4.3 Trends in Implementation of Audit Recommendations

The effectiveness of external audits largely depends on the extent to which public institutions implement audit recommendations. The following analysis provides an overview of the trends in audit recommendations and their implementation rates across central government institutions,

independent bodies, and municipal administrations in Kosovo between 2018 and 2022 (Kosovo National Audit Office [KNAO], 2019, 2021, 2022, 2023a, 2023b).

4.3.1 Overall Trends in Audit Recommendations and Implementation Rates

Over the five-year period, the total number of audit recommendations has generally declined, dropping from 921 in 2018 to 591 in 2022 (KNAO, 2019, 2021, 2022, 2023a, 2023b). While this decline indicates an improvement in financial management, the relatively low and inconsistent implementation rates suggest that many institutions continue to struggle with compliance and governance reforms.

The results are presented in the table below:

Tablo 1: Denetim Tavsiyelerinin Yıllara Göre Uygulanma Oranları, 2018–2022

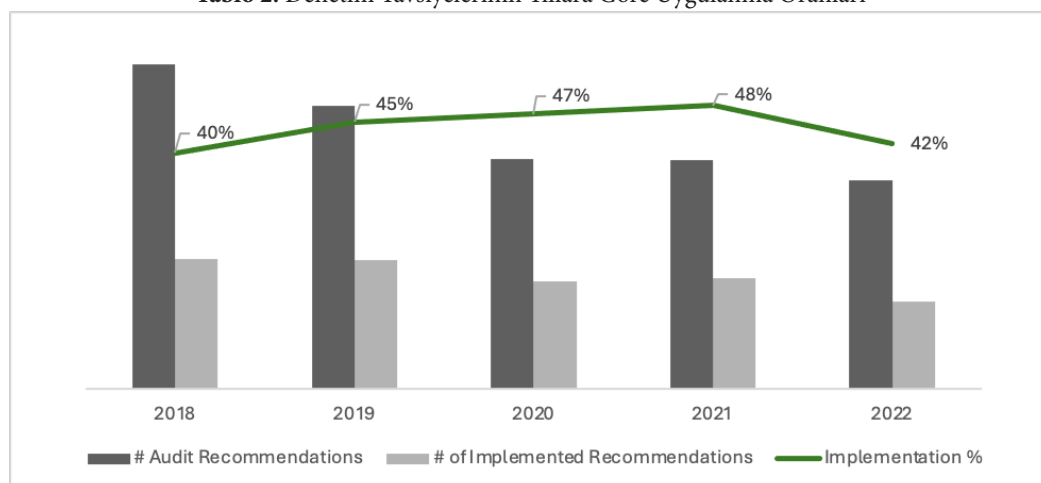
Year	Institution Type	Central Level	Independent Institutions	Local (Municipal) Level	Total
2018	# Audit Recommendations	274	59	588	921
2018	# of Implemented Recommendations	111	42	217	370
2018	Implementation %	41%	71%	37%	40%
2019	# Audit Recommendations	266	54	483	803
2019	# of Implemented Recommendations	138	30	197	365
2019	Implementation %	52%	56%	41%	45%
2020	# Audit Recommendations	237	46	371	654
2020	# of Implemented Recommendations	123	31	152	306
2020	Implementation %	52%	67%	41%	47%
2021	# Audit Recommendations	185	55	409	649
2021	# of Implemented Recommendations	88	39	186	313
2021	Implementation %	48%	71%	45%	48%
2022	# Audit Recommendations	166	53	372	591
2022	# of Implemented Recommendations	76	31	140	247
2022	Implementation %	46%	58%	38%	42%

Kaynak: KNAO (2019, 2021, 2022, 2023a, 2023b)

The rate of implementation of audit recommendations has fluctuated over time. In 2018, only 40% of recommendations were implemented, with municipal governments having the lowest compliance rate (37%). By 2019, the overall implementation rate increased to 45%, with notable improvements at the central government level (52%). In 2020, implementation rates rose slightly to 47%, driven by a 67% compliance rate in independent institutions. In 2021, there was a marginal improvement to 48%, but implementation remained low in local governments (45%). However, in

2022, implementation rates declined to 42%, with local governments again demonstrating the lowest compliance (38%) (KNAO, 2019, 2021, 2022, 2023a, 2023b).

Tablo 2: Denetim Tavsiyelerinin Yıllara Göre Uygulanma Oranları



Source: KNAO (2019, 2021, 2022, 2023a, 2023b)

As seen in the table, audit recommendation implementation rates in the Kosovo public sector have exhibited varying degrees of compliance across different types of institutions, reflecting both progress and ongoing challenges in financial oversight.

4.3.2 Central-Level Institutions: Incremental Progress with Some Regression

At the central government level, implementation rates increased from 41% in 2018 to 52% in 2019 and 2020, indicating a growing recognition of audit recommendations and efforts to increase financial transparency. However, this upward trend did not continue, with compliance rates falling to 48% in 2021 and 46% in 2022 (KNAO, 2019, 2021, 2022, 2023a, 2023b). These fluctuations suggest that while progress has been made in implementing audit findings, maintaining long-term compliance remains a challenge. Inconsistency in implementation underscores the need for stronger regulatory mechanisms and institutional commitment to financial governance reforms.

4.3.3 Independent Institutions: Consistently High Compliance but Recent Decline

Among the three institutional categories, independent institutions have demonstrated the highest levels of compliance with audit recommendations. In both 2018 and 2021, implementation rates reached 71%, reflecting a relatively strong adherence to financial accountability measures. However, this positive trend reversed in 2022, with implementation falling to 58%, indicating a significant decline in follow-up of audit findings (KNAO, 2019, 2021, 2022, 2023a, 2023b). This shift raises

concerns about potential weakening of regulatory oversight or institutional engagement with audit directives, necessitating further examination of factors contributing to this decline.

4.3.4 Municipal Administrations: Persistent Challenges in Compliance

Municipal-level institutions have consistently struggled the most with implementing audit recommendations, highlighting systemic issues in local financial management. Their compliance rates have remained the lowest, starting at 37% in 2018, showing modest improvement to 45% in 2021, but falling again to 38% in 2022 (KNAO, 2019, 2021, 2022, 2023a, 2023b). This pattern indicates ongoing challenges related to weak enforcement mechanisms, administrative inefficiencies, and resource constraints at the municipal level.

Given the central role that municipalities play in public service delivery and budget execution, this persistent non-compliance raises significant concerns about the effectiveness of financial controls and accountability in decentralized governance. Inadequate follow-up, limited technical capacity, and constrained financial and human resources have contributed to a systemic inability to effectively implement audit recommendations.

To address these ongoing shortcomings, more robust follow-up mechanisms are necessary. A key strategy involves the development of mandatory, time-bound action plans for each audit recommendation, explicitly assigning responsibilities to individual departments or officials. According to OECD (2018), such structured plans—when made publicly accessible—can significantly increase institutional accountability and foster pressure for compliance (INTOSAI, 2015).

Moreover, parliamentary audit committees should intensify their oversight function by requiring regular progress reports from local institutions. Evidences from Estonia and Lithuania shows that formal follow-up hearings significantly enhance implementation rates and reinforce a culture of compliance (European Court of Auditors, 2016; World Bank, 2020).

Kosovo could also benefit from adopting performance-based monitoring systems, where funding allocations or executive performance reviews are partly linked to progress in implementing audit recommendations (OECD, 2022). Such mechanisms would create tangible incentives for reform and help align institutional behavior with audit expectations.

Finally, the introduction of centralized audit dashboards—digital tools that monitor implementation status across public institutions—would increase transparency, enable benchmarking, and help identify chronic non-compliance. These dashboards, already in use in several countries with evolving audit systems, offer an efficient way to visualize data, improve inter-agency coordination, and support targeted interventions (UNDP, 2021; INTOSAI, 2019).

By adopting these strategies, Kosovo can take important steps toward improving audit effectiveness at the municipal level and strengthening overall financial governance in its decentralized institutions.

4.3.5 Most Common Recommendations and Their Implications

A recurring theme in the audit reports has been weak financial controls and budget mismanagement, particularly in procurement, payroll management, and asset registration. The most frequent recommendation over the years has been to improve financial reporting and implement tighter internal controls. The fact that this remains a common recommendation year after year suggests that many institutions have failed to implement fundamental financial management reforms, leading to repeated audit findings.

Key areas of concern include:

- **Procurement irregularities:** Many institutions **fail to adhere to public procurement laws**, increasing the risk of corruption and financial inefficiencies.
- **Unjustified expenditures:** Inadequate financial oversight leads to **misuse of public funds and budget misallocations**.
- **Payroll mismanagement:** Inconsistent **salary and benefits administration** creates inefficiencies and raises concerns about **transparency in hiring and compensation**.
- **Asset registration and management:** The lack of proper **tracking of government assets** results in **losses, mismanagement, and reduced public sector efficiency**.

The repeated emphasis on these issues underscores the need for stricter accountability mechanisms and stronger enforcement of financial regulations across government institutions.

Sectoral Disparities in Implementation

Analysis of implementation trends across different institutional levels reveals significant disparities in compliance with audit recommendations.

Independent Institutions consistently achieve the highest implementation rates, indicating stronger internal governance structures and better regulatory adherence. Their relatively high compliance suggests that external oversight pressures and stricter institutional frameworks contribute to better financial discipline.

Central-Level Ministries show moderate progress in addressing audit findings, demonstrating a gradual improvement in financial oversight. However, inconsistencies in compliance point to the need for continued monitoring and regulatory reinforcement.

Municipal Governments exhibit the lowest implementation rates, highlighting ongoing challenges in local financial management, administrative capacity, and governance oversight. Many municipalities struggle with resource limitations and weak enforcement mechanisms, which significantly hinder their ability to effectively address audit deficiencies.

Differences in the implementation of audit recommendations suggest that while some institutions prioritize financial accountability, others continue to face systemic barriers that limit progress. Targeted interventions are needed to close this alignment gap, particularly at the municipal level.

Challenges and Barriers to Implementation

- **Persistent Non-Compliance:** The recurrence of similar financial management issues over multiple years indicates that certain recommendations are not being effectively addressed, creating a cycle of repeated audit findings.
- **Weak Enforcement Mechanisms:** Limited follow-up mechanisms and accountability structures hinder the effective implementation of recommendations.
- **Resource Constraints:** Many institutions, particularly at the municipal level, face budgetary and administrative limitations that prevent them from fully implementing financial reforms.
- **Governmental priorities:** Institutional and administrative barriers often slow down the adoption of stricter financial controls and transparency measures.

4.4 Conclusion: Strengthening Public Sector Accountability

Although modest improvements in audit compliance have been observed over time, the high number of unaddressed audit recommendations remains a significant governance challenge. The fact that financial reporting and internal controls continue to be the most frequently cited issues indicates that Kosovo's public institutions still face fundamental weaknesses in financial discipline.

The following strategic actions are recommended to achieve sustainable improvements in public financial accountability,

1. **Stronger Enforcement of Audit Recommendations** – Regulatory authorities should improve oversight mechanisms and ensure that non-compliant institutions face clear consequences if they fail to implement audit findings.
2. **Improved Oversight in Procurement and Budget Processes** – Given the high prevalence of procurement irregularities and unjustified spending, stricter controls should be institutionalized to prevent financial mismanagement.
3. **Capacity Building for Public Sector Financial Officers** – Training programs should be expanded to improve financial literacy and internal control mechanisms, especially at the municipal level. Providing technical assistance and financial expertise to local governments could significantly improve audit compliance.
4. **Increased Transparency and Public Reporting** – Making audit reports and compliance records more accessible to the public can increase accountability and encourage institutions

to prioritize audit recommendations. Public awareness campaigns can also pressure institutions to maintain financial discipline.

5. **Targeted Reforms at the Municipal Level** – As municipal administrations continue to exhibit the lowest compliance rates, targeted reforms should focus on strengthening financial governance structures and providing additional support for audit implementation.

By taking these measures, Kosovo can significantly improve the effectiveness of its audit framework, and ensure that external audits contribute meaningfully to financial integrity, governance reforms, and public sector accountability. Without decisive action, audit processes risk becoming merely procedural exercises rather than effective tools for financial oversight

5. Conclusion and recommendations

5.1 Conclusion

Drawing on secondary data from official audit reports and institutional reviews, this study examined the relationship between audit quality and financial transparency in the Kosovo public sector. Using the Audit Quality Model (AQM) as a theoretical lens, the analysis highlighted the extent to which audit processes—particularly the implementation of audit recommendations—contribute to public accountability and governance.

While Kosovo has formally aligned its auditing practices with international standards such as ISA and IFRS, the effectiveness of audits in practice remains limited. One of the key findings is that the rate of implementation of audit recommendations is consistently low, with less than half being implemented each year. This poor follow-through significantly undermines the transformative potential of external audits, especially in the absence of strong regulatory enforcement and institutional oversight.

The study also found that independent institutions generally more compliant with audit recommendations, while municipal administrations consistently lag behind. These disparities reflect deeper systemic challenges, such as limited administrative capacity, weak internal controls, and a lack of financial management expertise at the local level. Moreover, recurring audit findings in areas such as procurement, payroll, and asset registration point to structural deficiencies that remain unresolved year after year.

Lack of institutional autonomy, insufficient auditor independence, and ineffective enforcement mechanisms further constrain audit credibility and reduce the likelihood that recommendations will be translated into meaningful reforms. Collectively, these factors collectively hinder transparency and reduce the public sector's ability to maintain financial discipline.

The following actions are needed to improve audit quality and strengthen public sector governance in Kosovo:

- **Enhancing regulatory enforcement** to ensure that audit recommendations are not only issued but also implemented;
- **Protecting auditor independence** by ensuring the autonomy of audit institutions;
- **Building administrative and financial management capacity**, particularly at the municipal level, through targeted training and institutional support;
- **Increasing transparency and accountability** by improving public access to audit findings and ensuring that implementation progress is monitored and reported consistently.

Ultimately, while progress has been made in formalizing audit practices, Kosovo's audit environment still needs to be significantly strengthened to function as an effective tool for transparency and accountability. Sustainable reforms, combined with stronger oversight and greater institutional commitment to enforcement, are critical to realizing the full potential of external audits in improving governance and public trust.

5.2 Limitations of the study

While this study provides valuable insights into **audit quality and transparency in Kosovo**, certain limitations should be taken into account when interpreting the findings:

- **Geographic and Contextual Limitations** – Findings that focus only on Kosovo's public sector, may not be generalizable to other emerging or post-conflict economies, where regulatory and enforcement challenges are different. Future studies should compare audit practices in Kosovo with those in similar economies.
- **Reliance on Secondary Data** – Using KNAO audit reports, the study lacks real-time observations of audit processes, limiting insight into practical enforcement challenges faced by auditors and institutions.
- **Limited Coverage of the Private Sector** – While the study assesses public sector audits, it does not fully examine audit quality in the private sector or compare local and international audit firms, leaving a gap in understanding their relative effectiveness.
- **Data Availability and Transparency Challenges** – Limited access to audit implementation data and limited disclosure by government institutions raise concerns about audit independence and lack of institutional autonomy, potentially understating financial mismanagement issues.

Lack of Stakeholder Perceptions – Unlike studies that include stakeholder surveys, this research does not include direct input from auditors, regulators, or public officials, leaving perceptions of audit effectiveness and governance challenges incomplete. Despite these limitations, this study provides an important basis for evaluating audit effectiveness in the Kosovo public sector. By

addressing the identified challenges through greater regulatory enforcement, greater transparency, and stronger institutional oversight, Kosovo can strengthen its financial governance framework and increase public trust in external audits.

5.3 Implications for Future Research

To improve understanding of audit quality and transparency in Kosovo and beyond, future research should address several key areas.

- **Comparative Studies Across Emerging Markets** – Expanding the research to other emerging economies could provide insights into regulatory frameworks, audit enforcement, and best practices. Comparative studies with countries such as Estonia and Poland, known for strong audit oversight, could serve as benchmarks for Kosovo's progress.
- **Longitudinal Analysis of Audit Reforms** – Monitoring improvements in audit quality over a 5–10 year period will help assess whether regulatory reforms have increased transparency and financial accountability. It would be particularly valuable to examine whether institutions implementing audit recommendations have shown measurable financial improvements.
- **Role of Technology in Auditing** – Advancements in blockchain, artificial intelligence, and data analytics are transforming fraud detection and audit efficiency. Future research should explore how digital auditing impacts transparency, cybersecurity risks, and regulatory compliance.
- **Auditor Independence and Ethical Challenges** – Studies on regulatory policies, auditor rotation, and financial incentives could shed light on threats to auditor independence. Conducting interviews with auditors who have faced institutional or client pressures would provide deeper insights into ethical dilemmas within the profession.
- **Public Engagement and Accountability** – Understanding how public, investors, and stakeholders engage with audit reports is essential for strengthening government accountability. Future studies should examine whether public disclosure of audit findings influences policy reforms and financial decision-making.
- **Enhancing Audit Enforcement Mechanisms** – Research should focus on best practices from highly regulated systems, such as the U.S. PCAOB and U.K. FRC, to improve audit enforcement in Kosovo. Key areas include:
 - The effectiveness of audit penalties and fines
 - Legal consequences for non-compliance
 - Strategies for strengthening oversight and follow-through on audit recommendations

By addressing these gaps, future research can contribute to more effective audit practices, stronger financial governance, and improved public sector accountability in Kosovo and other emerging markets.

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