

Anchoring on dynamic auditing capabilities to manage small and medium audit practices in a Covid-19-induced turbulent business environment

Dynamic
auditing
capabilities

73

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Twaha Kigongo Kaawaase

*Department of Accounting, Makerere University Business School,
Kampala, Uganda and*

Department of Auditing, Sejjaaka Kaawaase & Co. CPAs, Kampala, Uganda

Abstract

Purpose – The purpose of the study is to examine how small and medium audit practices (SMPs) in emerging economies build and anchor on dynamic auditing capability to operate in a turbulent business environment occasioned by the Covid-19 pandemic.

Design/methodology/approach – The study adopts an exploratory qualitative methodology using qualitative data collected with the aid of an open-ended instrument. With the help of a qualitative data analysis software QSR NVivo9, data were analyzed following Gioia's methodology with a four-stage coding process that combines both a deductive and an inductive approach.

Findings – The findings of the study show that to manage operations during the Covid-19 pandemic, SMPs developed and anchored on dynamic auditing capabilities. Specifically, the findings show that this required transformation of existing operational capabilities, shiftiness, flexibility and innovativeness of the SMPs as well as leveraging networking and adaptive sub-capabilities.

Originality/value – The study produces a pioneer result of how to develop and anchor on the dynamic auditing capability by the SMP subsector of the audit industry to continue operations in a turbulent business environment the magnitude of the Covid-19 pandemic.

Keywords Dynamic auditing capabilities, Small and medium audit practices, Turbulent business environment, Covid-19 pandemic, Uganda

Paper type Research paper

1. Introduction

A turbulent business environment is a confounding and uncertain operating environment where management has no influence or control over factors causing the uncertainty. Such environment can be triggered by either a natural or man-made crisis, resulting into significant economic and human life disruptions across industries (CRED, 2020). For the audit industry, in addition to the challenges occasioned by natural disasters, man-made crises such as seen from the recent global financial crisis (Sikka, 2009), terrorist attacks (Moser, 2019) and severe political and economic crisis (Mangena *et al.*, 2012) disrupt demand for and methods of delivering audits, and raise questions on the value of audits. The turbulent business environment created by the ongoing Covid-19 pandemic has put to test the capabilities of firms of all sizes and challenged known business assumptions and rules of operation.



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It is still uncertain what will be the final economic and human effects once the pandemic is over.

For the audit industry, the novel “Covid-19 pandemic business environment” emerged at a prime time when many entities were in the process of closing their year ends with attendant year-end audits in progress. And, it is predicted to be the toughest challenge for auditors and their clients since the 2007–2008 global financial crisis (Albitar *et al.*, 2021). Its ultimate impact on auditors and audit quality in view of its effect on audit fees, going concern assessments, audit human capital, audit personnel salaries and audit effort is yet to be fully appreciated. Despite the challenges, regulators still require auditors to follow auditing standards. Although the International Auditing and Assurance Standards Board: IAASB (2020) outlines the performance requirements for obtaining reasonable assurance that the financial statements are free from material misstatements, it does not set specific guidance on how auditors might obtain that assurance in a fast-changing environment. Small and medium audit practices (SMPs) have been exceptionally hit during the Covid-19 pandemic, yet they play a unique role globally. SMPs service an extremely significant segment of the global economy – the small and medium-sized entities (SMEs). More than 90% of the enterprises across the world are SMEs, accounting for approximately 60% of private sector employment and contributing significantly to countries’ gross domestic product (IFAC, 2020). In emerging economies, SMPs are the major source of advice and support to small and medium enterprises (SMEs) who form the bulk of enterprises (Kaawaase *et al.*, 2020), yet it is not fully known how they are withstanding the Covid-19 pandemic.

The dynamic capabilities (DCs) theory is fronted as a theory that can provide explanations of firms’ continuation with operations in a fast-changing environment. This is because DCs are a firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments (Teece *et al.*, 1997). In situations where firms are facing a fast rate of change and unpredictable events, it is likely that their operational capabilities may rapidly be eroded (Eisenhardt and Martin, 2000). To survive, enterprises must build the capability to adapt to environmental changes according to the continually changing internal and external environment (Ma *et al.*, 2021). This calls for unique DCs to stay afloat, because such capabilities can generate and modify operational routines and practices of a firm (Zollo and Winter, 2002), thereby leading to organizational survival (Shah *et al.*, 2019).

Since Teece *et al.* (1997) extensive research has shown, the value of DCs in firm competitive performance and survival in turbulent times (see Bitencourt *et al.*, 2020; Fainshmidt *et al.*, 2016). International retailers with DCs were found to cope better with high-speed changing legal environment in China (Cao, 2011); SMEs possessing DCs are more resilient to environmental turbulences (Shah *et al.*, 2019) and achieve higher performance (Orobia *et al.*, 2020), while multiplicity of DCs was found to be necessary in volatile, uncertain, complex and ambiguous environments in India (Pandit *et al.*, 2018). However what DCs are and how they affect performance is still an open question up for examination, more so in turbulent environments (Helfat *et al.*, 2007). And, calls are made for the DC theoretical arguments to be complemented by more country- and industry-specific empirical studies (Døving and Gooderham, 2008; Aimilia *et al.*, 2011), moreover using qualitative methods (Easterby-Smith *et al.*, 2009). It is expected that this will provide more insights based on the different settings and conditions. Studies underpinned by the DC theory in accounting and auditing literature in developing countries are incipient. For example, Kaawaase *et al.* (2020) document results that show the importance of DCs in the performance of SMPs through professionalism. Orobia *et al.* (2020) indicate that DCs, through managerial competence, lead to a positive change in the performance of SMEs. Omeke *et al.* (2021) post results that show that DCs are vital in promoting the growth of financial cooperative enterprises. All the sprouting studies continue to call for further research and have ignored the disrupting effects of a turbulence in

the operating environment of firms in emerging economies. To answer the calls and fill the void, the current study considers the Covid-19 pandemic as an opportunity for a DC underpinned study in the audit industry, specifically the SMPs from an emerging economy. The study adopts an exploratory qualitative methodology with an open-ended question survey of 213 SMPs registered in Uganda (ICPAU, 2020a) to provide initial evidence of how such firms develop and leverage on dynamic auditing capabilities in a turbulent business environment within an emerging economy.

The study has important implications to the academia, society and the policy makers. First, the study adds to the body of existing literature on the importance of DCs in explaining firm survival and growth. Second, the study alerts managing partners, members of the accounting profession, government and professional accountancy bodies on how audit firms can integrate resources to ensure survival. Lastly, the study illuminates the important DCs for the SMPs in a turbulent environment.

The rest of the paper is organized as follows. The next section is literature review providing the study setting, a theoretical framework and a review of existing empirical literature forming a basis of our research question. Section 3 provides the methodology, while Section 4 provides the findings of the study that are discussed under Section 5. The final section provides conclusions and implications of the study.

2. Literature review

2.1 Study setting

Uganda provides an interesting setting for a study on DCs and SMPs. SMPs are the main providers of audit and advisory services to SMEs in Uganda. The SMEs are spread across all sectors, accounting for 49% of service sector, 33% in commerce and trade, 10% in manufacturing and 8% in other fields and contribute 20% of the gross domestic product (Ojiambo, 2016). Of the 223 audit firms licensed in Uganda, the majority (213) are SMPs. The International Big 4 audit firms – *PriceWaterhouseCoopers; Ernst & Young; Deloitte & Touché and KPMG*, as well as next-tier international network firms (*BDO and Grant Thornton*) also have offices in the country (The ICPAU, 2020a). The audit profession is self-regulated under the *Accountants Act (2013)*, by the Institute of Certified Public Accountants of Uganda (ICPAU). The country adopted International Accounting Standards and International Standards on Auditing in 1998 (ICPAU, 2020b). The profession is still nascent, and anecdotal evidence points to operational challenges of many member firms of the institute (ICPAU, 2020c).

2.2 The pre-covid status of small and medium audit practices

Pre-Covid-19, SMPs in Uganda were already faced with a number challenges impacting on their performance, including inability to keep up to date with regulations and standards, technological developments, staff constraints and inability to retain clients (Kaawaase *et al.*, 2020; Otete, 2018). Empirical evidence indicates that the annual revenue for a majority of SMPs (92%) prior to Covid-19 was less than US\$1m, with an average number of clients billed per SMP of below 60 (Otete, 2021). The register for accounting practicing firms shows that even before the onset of the Covid-19 pandemic, specifically for the period 2012–2016, an average of 5% of SMPs dropped out of the practice (ICPAU, 2016). Further, although the advantages of automating operations are clear, SMPs in Uganda and within the East African region are reported to be slow with uptake and adoption of ICT in particular audit software. This is attributed to the high associated costs (Otete, 2020; Katamba *et al.*, 2017). It remains a valid question how SMPs are able to withstand such challenges and even continue operations even in a Covid-19-induced turbulence.

2.3 Theoretical framework

Ability to perpetuate operations by firms of all sizes can be explained by both resource-based view (RBV) and DC theories. RBV explains a need for firms to have both tangible and intangible resources so as to continue operations. And that, such resources should be peculiar, rare, heterogeneously present and inimitable to drive performance (Barney, 1991). However, RBV has been criticized as too static and may not be able to explain performance of firms during a turbulent environment (Williamson, 1999). Teece *et al.* (1997) introduced the DC concept as an extension of RBV to focus on how firms could maneuver the turbulent and dynamic environments and stay afloat.

DCs enable organizations to integrate, build and reconfigure their resources and competencies and, therefore, maintain performance in the face of changing business environments (Teece *et al.*, 1997). DCs create capacity for an organization to purposefully create, extend or modify its resource base (Helfat *et al.* (2007) in such environment. Firms need both operational/ordinary and DCs to perform a particular activity or function (Newey and Zahra, 2009). Operational capabilities help a firm to perform basic functional activities and to ensure day-to-day operational efficiency, DCs on the other hand help to transform and reconfigure operational capabilities by enabling the creation, extension and modification of operational resources (Teece *et al.*, 1997; Zollo and Winter, 2002; Pisano and Teece, 2007).

DCs as a high-order construct have sub-capabilities that have been identified over time (Table 1) and could further be sub-grouped into internally focused (within the entity) competencies and externally focused competences (Døving and Gooderham, 2008).

2.4 Building dynamic capabilities

DCs have to be developed before they can support an entity sail through a turbulent environment. Zollo and Winter (2002) indicate that this requires a learning process that involves accumulation of experience, articulation of knowledge and the codification of knowledge through a process of integration, reconfiguration, acquisition and release of resources. Teece (2007) guides that the process of developing DCs requires (1) detecting and shaping opportunities and threats; (2) using capabilities based on the choice of product architecture and business models, outlining organizational boundaries, defining decision-making rules and building employee loyalty; and (3) maintaining, strengthening, integrating, protecting and, if necessary, reconfiguring intangible resources. Cyfert *et al.* (2021) extend these studies and empirically show that the five components interact to develop DCs. These components include adaptation (whose manifests include transformation of business model, ensuring flexibility of the organizational structure, managing organization identity); searching for opportunities (manifested by awareness of changes in environment, ability to create new ideas, ability to analyze the environment so as to meet customer needs); configuration and reconfiguration (indicated by implementing new technologies, acquiring and creating resources and capabilities, integrating resources, innovation and disposing/releasing redundant or unnecessary resources); coordination (manifested by building employee engagement, managing strategic alliances, building stakeholder reality, creating consistent decision-making rules); and knowledge management (encouraging innovation and experimentation, acquiring/learning new knowledge, transferring new knowledge within the organization, allocating and storing knowledge). It is these elements that combine to positively influence economic activity of an enterprise.

The impact of the ongoing Covid-19 pandemic on auditing and audit firms is not yet fully known. It is, however, reported to be impacting audit fees payable to audit firms, ability of audit firms to assess going concern of audit clients, availability of audit human capital and ability to meet audit personnel salaries (Albitar *et al.*, 2021). Emerging studies, for example Kend and Nguyen (2022) show that a small proportion (3% of total audit procedures)

Type and meaning of sub-DCs	Manifests of the capability	Authors
Adaptive	<ul style="list-style-type: none"> Identifying emerging opportunities Capitalizing on the opportunities Flexibility of the firm's resources Firm's own flexibility in applying resources Transforming the business model Recognizing value in new external information Assimilating new external information Taking advantage of the new external information Exhibiting innovative behavior Practicing innovative behavior Implementing innovative behavior Exhibiting innovative processes Practicing innovative processes Implementing innovative processes Spontaneously reacting to unfolding environment Reconfiguring resources in real time as environment unfolds Building new operational capabilities to match environment 	<p>Sanchez (1995), Wang and Ahmed (2007), Cyfert <i>et al.</i> (2021)</p> <p>Zahra and George (2002), Wang and Ahmed (2007), Cohen and Levinthal (1990)</p> <p>Wang and Ahmed (2004), Lazonick and Prencipe (2005), Figueiredo and Piana (2018), Jakhar <i>et al.</i> (2020)</p>
Absorptive	<ul style="list-style-type: none"> Exhibiting innovative behavior Practicing innovative behavior Implementing innovative behavior Exhibiting innovative processes Practicing innovative processes 	<p>El Sawy <i>et al.</i> (2008), Cyfert <i>et al.</i> (2021)</p>
Innovative	<ul style="list-style-type: none"> Spontaneously reacting to unfolding environment Reconfiguring resources in real time as environment unfolds Building new operational capabilities to match environment 	<p>Walter <i>et al.</i> (2006), Parida <i>et al.</i> (2016)</p>
Improvisational	<ul style="list-style-type: none"> Developing relationships with other entities Exploiting the relationships to access resources Exploiting the relationships to meet demands of the business environment Identifying opportunities in customer needs Assessing opportunities to meet customer needs Identifying threats to customer needs Assessing threats to customer needs Technological opportunities/threats to meet customer needs 	<p>Teece <i>et al.</i> (2016), Teece (2017)</p>
Networking	<ul style="list-style-type: none"> Mobilizing needed resources Capturing value from resources Quick implementation of new approaches Quick implementation of other essential changes to the strength existing DCs 	<p>Teece <i>et al.</i> (2016), Teece (2017)</p>
Sensing	<ul style="list-style-type: none"> Continuous renewal of exiting capabilities Continuous aligning of existing capabilities Undertaking necessary investments to match environment 	<p>Teece <i>et al.</i> (2016), Teece (2017)</p>
Seizing	<ul style="list-style-type: none"> Undertaking necessary investments to match environment 	<p>Teece <i>et al.</i> (2016), Teece (2017)</p>
Transforming/Shifting	<ul style="list-style-type: none"> Undertaking necessary investments to match environment 	<p>Teece <i>et al.</i> (2016), Teece (2017)</p>
Source(s): Literature review		

Table 1.
Types of dynamic capabilities

undertaken during the year 2020 were designed to address audit risks associated with the Covid-19 pandemic, but smaller practitioners reported much less audit procedures related to Covid-19 audit risks than most larger audit firms. Specifically, in a Covid-19-induced turbulence, [Dovbischuk \(2022\)](#) posts results that show that it is firms with greater levels of capacity to innovate that will achieve significantly different dynamic resilience.

2.5 Dynamic capabilities and a turbulent environment

The focus of this study is on how SMPs develop and anchor on dynamic auditing capabilities to navigate and operate in a turbulent business environment occasioned by the Covid-19 pandemic. A turbulent environment has a lot of unpredictability arising from unexpected and sudden changes in both an external environment and internal business environment ([El Sawy et al., 2008](#)). This affects both supplies of resources and customers' needs and behaviors. There is evidence confirming the importance of DCs to meet challenges of both competitive and turbulent business environments. In the USA, an early study by [Tripsas \(1997\)](#) shows that only firms in the typesetting industry with DCs were able to survive discontinuous technological change by developing the required technological capability fitting shifting environmental conditions. In Taiwan, [Wu \(2006\)](#) posts results showing that resources influence performance of firm through exercising DC.

On the other hand, if resources are tested in direct way with performance, the results are not supported. [Wang and Ahmed \(2007\)](#) show that the more a firm demonstrates its absorptive capability, the more it exhibits DCs. [Døving and Gooderham \(2008\)](#) document results that show DCs have a distinct impact on the scope of services for Norwegian small firm accountancy practices. [Bitencourt et al. \(2020\)](#) provide meta-analysis results showing that DCs mediate the relationship between resources, knowledge management and learning, alliances/networks, environment dynamism and firm performance. [Kaawaase et al. \(2020\)](#) document results that show the boosting nature of DCs in the performance of SMPs through professionalism. DCs through managerial competence lead to a positive change in the performance of SMEs ([Orobia et al., 2020](#)). [Omeke et al. \(2021\)](#) post results that show DCs are vital in promoting the growth of financial cooperative enterprises, especially with the presence of networks.

In view of the above, it is proposed that developing and anchoring on unique auditing DCs could provide the answers to the observed heterogeneity of operation of SMPs during the Covid-19 pandemic-induced turbulent environment. To examine this proposition, the current study put the following specific question to partners of SMPs in Uganda:

RQ. What has enabled you to continue with (prevented you from continuing with) audit work during Covid-19 period?

3. Methodology

To answer the research question, the study adopts an exploratory qualitative methodology with an e-mailed open-ended question to allow cross-case comparisons. Qualitative inquiry has been widely used in DC studies across industries ([Koch, 2010](#); [Narayanan et al., 2009](#); [Newey and Zahra, 2009](#); [Bruni and Verona, 2009](#)). Specifically, the open-ended survey responses methodology is used in organizational research to gather new information about an experience and to explore different dimensions of respondents' experiences ([Sproull, 1988](#)). In comparison to interviews or focus group discussions, the methodology offers greater anonymity to respondents and often elicits more honest responses ([Erickson and Kaplan, 2000](#)).

3.1 Data collection and sampling

3.1.1 Data collection instrument. The preamble of the data collection instrument introduces the study and assures respondents of anonymity and confidentiality. It also provides phone

and e-mail contacts of the researchers for ease of contact by the respondents. [Section 1](#) collects data about the respondent's profile: gender, age, academic and professional qualifications, work experience and position in the audit firm. [Section 2](#) collects data on the profile of the audit firm: number of partners in the firm, firm age, firm size and number of ongoing audits, and [Section 3](#) collects data from the open-ended question.

3.1.2 Sampling and data collection. The study adopted a three criterion-based sample selection method ([LeCompte et al., 1993](#)) where by a potential sample of 213 SMPs was identified from a population of 223 registered and authorized audit firms in Uganda ([The ICPAU, 2020a](#)). First, the audit firm is a member firm of the Institute of Certified Public Accountants of Uganda and listed as such. Second, the firm has a valid license for the year 2020, and the third criterion, the firm is a typical SMP with no more than two partners and not a member in an international network of audit firms.

The data collection instrument was e-mailed to partners of the selected 213 SMPs on April 21, 2020. Partners in small audit firms are responsible for management of the firm and ultimately take all decisions affecting the firm. Moreover, developing new concepts within organizations requires an approach that captures meaning from people living the experience of interest ([Gioia et al., 2012](#)). Follow-up and clarification phone calls were made; however, by the time of easing the second lockdown (July 2021), only 15 firms had responded. Responses were subjected to preliminary review as they trickled-in, and it was noted that no new ideas were emerging from SMPs by the 21st response. It was, therefore, concluded that the saturation cutoff point had been realized ([Miles and Huberman, 1994](#)) by the 21st response, thereby limiting the final sample of the study to 21 respondents.

The approach of probing for new ideas up to a point when nothing new is being elicited is widely accepted and applied in qualitative studies of small businesses (e.g. see [Orobia et al., 2013](#); [Halabi et al., 2010](#)). Further, the response rate for our study is typical for online surveys ([Amany and Krishna, 2017](#); [Yan and Fan, 2010](#)), but specifically, being a qualitative inquiry meets the recommended threshold for a small sample of at least 12 responses, provided a saturation point is reached ([Vasileiou et al., 2018](#); [Patton, 1990](#)). The study, therefore, fulfills the sample size criteria suggested for exploratory research ([McCracken, 1988](#)).

[Table 2](#) provides details of the respondents. In total, 81% were male, while 19% were female, meaning that there are more male SMP partners than females. With exception of four respondents, all were above 40 years of age. For education level, diploma holders are 5%, bachelor's degree (24%), masters' degree (61%) and 10% have a third degree (PhD). All respondents possess an additional professional qualification in accounting, with CPA as the most dominant (71%), the rest (29%) hold the ACCA qualification. Majority (76%) of the respondents have worked for at least 11 years. All respondents (100%) are at a level of a partner in the audit firm. Collectively, these results suggest that respondents were highly knowledgeable and experienced in auditing and hence provided reliable and useful responses.

[Table 3](#) provides details of the respondents' audit firms. All are typical small and medium-sized audit firms of not more than two partners, 90% of the firms have less than 15 members of staff. However, majority (76%) have been in existence for more than ten years, and 62% had ongoing audit work during the Covid-19 pandemic compared to 38% that could not continue with audits. The profile of the respondents and their respective firms provides support to the assertion that appropriate and relevant data were collected for this study.

3.2 Data analysis and validity

Data from the open-ended question was saved in a Word file per respondent. A qualitative data analysis software QSR NVivo9 was utilized. We follow prior qualitative studies on survival of small businesses and the Covid-19 pandemic (e.g. [Rashid and Ratten, 2021](#)) and utilize the Gioia methodology of data analysis ([Gioia et al., 2012](#)). Following this methodology

Category	Item	(100%)
Gender	Male	17 (81%)
	Female	4 (19%)
Age of the respondent	30–39 years	4 (19%)
	40–49 years	9 (43%)
	50–59 years	6 (28%)
	60 and above	2 (10%)
	Diploma	1 (5%)
Highest academic qualification	Bachelor's degree	5 (24%)
	Master's degree	13 (61%)
	PhD	2 (10%)
Professional qualification	CPA	15 (71%)
	ACCA	6 (29%)
	CIMA	0 (0%)
	Others	0 (0%)
Work experience	5 years and below	1 (5%)
	6–10 years	4 (19%)
	11–15 years	5 (24%)
	16–20 years	4 (19%)
	20 years and above	7 (33%)
Position in the audit firm	Auditor	0 (0%)
	Senior auditor	0 (0%)
	Audit manager	0 (0%)
	Partner	21 (100%)

Table 2.
Characteristics of the
21 respondents from
study audit firms

Source(s): Primary data

Category	Item	(100%)
No. of partners in the firm	1 partner	9 (43%)
	2 partners	12 (57%)
	3 and above	0 (0%)
Age of the audit firm	5 years and below	1 (5%)
	6–10 years	4 (19%)
	11–15 years	5 (24%)
	More than 15 years	11 (52%)
Firm size (no. of staff) (exclusive of partners)	1 to 5 staff	5 (24%)
	6 to 10 staff	12 (56%)
	11 to 15 staff	2 (10%)
	16 to 20 staff	1 (5%)
	21 and above	1 (5%)
No. of ongoing audits	None	8 (38%)
	1 to 5 audits	10 (48%)
	6 to 10 audits	2 (9%)
	Above 11 audits	1 (5%)

Table 3.
Characteristics of the
21 audit firms in
the study

Source(s): Primary data

and Miles and Huberman's (1994) steps for qualitative data analysis, we deploy a four-stage coding methodology that combines deductive and inductive approaches underpinned by a *priori* understanding of DCs and their manifests (Table 1).

In the first stage of coding, we discover the relevant concepts from empirical data. At this stage, the "raw" concepts identified were broad as they emerged from the SMP's responses.

In the second stage of coding, the first-stage concepts were narrowed, specified and grouped into what we referred to as the second-order themes. In the third stage, the emerging second-order themes were further grouped to culminate into the construct of interest – *dynamic auditing capability* in the fourth and final stage, as presented in [Figure 1](#).

Given that data were sourced from a single informant (the partner of the SMP), it was potentially susceptible to common methods bias. To minimize the problem of bias, we followed the guidance offered by [Podsakoff et al. \(2003\)](#) and assured respondents of confidentiality and anonymity. In addition, to increase validity and reliability of the findings, the coded data were subjected to a second review by an independent but knowledgeable party for agreement of the ascribed themes from each respondent, in line with guidance for inter-rater reliability by [Stake \(2000\)](#).

4. Findings

The results in [Table 3](#) show that majority of SMPs (62%) had ongoing audit assignments compared to 38% that did not have any audit assignments. This result suggests that majority of the SMPs in the study were able to continue with operations during the Covid-19 pandemic. This finding resonates with [Otete \(2021\)](#) who indicates that despite the pandemic, SMPs within East Africa, who are able to operate during the pandemic, have registered an annual revenue increase of 28%.

The findings in [Figure 1](#) show that continuing with operations during the Covid-19 pandemic was possible by SMPs developing and anchoring on dynamic auditing capability. Specifically, the findings show that SMPs developed this capability by transforming existing operational capabilities, shiftiness and innovativeness. And that while the DC theory advances various sub-DCs, developing auditing capabilities requires more of transformation/shifting, flexibility, networking, innovativeness and adaptive sub-capabilities. This supports the proposition that in times of turbulence, SMPs will need more than one DC to withstand the storm. This is because when DCs act jointly and along with operational capabilities, successful innovations to survive a volatile and complex environment will be implemented ([Pandit et al., 2018](#)). This requires a firm to focus both internally (on existing resources) and externally toward adapting to the fast-changing environment.

4.1 Transformation of operational capabilities

The findings reveal three core operational resources that SMPs leveraged and transformed into an auditing DC: Information Communication Technology (ICT) (hardware and software), human resources and social capital. This was done through a number of ways and required quick actions by the SMPs to implement the necessary changes to address the unfolding circumstances.

4.1.1 Information Communication Technology hardware and soft ware. SMPs tapped into existing ICT hardware and software capacity but also were able to identify and utilize untapped value in such existing resources as attested to by the following respondents:

[. . .] we carried home the necessary ICT hardware like laptops and mobile printers that has helped us a lot. Covid-19 has actually enabled us to realize that we were not fully utilizing our equipment [. . .] [. . .] we had not explored tools like Zoom we are now using (*Respondent 1*).

[. . .] luckily we use an online software—Case ware cloud—that allows us to work remotely on many aspects [. . .] Working online has helped especially on payrolls and accounting work (*Respondent 6*).

I have found the mobile phone to be handy in these times and used a lot of Zoom meetings in some cases and increased use of Google drive to access scanned audit evidence (*Respondent 12*).

At first using digital meeting tools like Skype, Zoom and Teams was a challenge as staff had not been exposed to them, with continued guidance it became easy and we could conduct some exit meetings

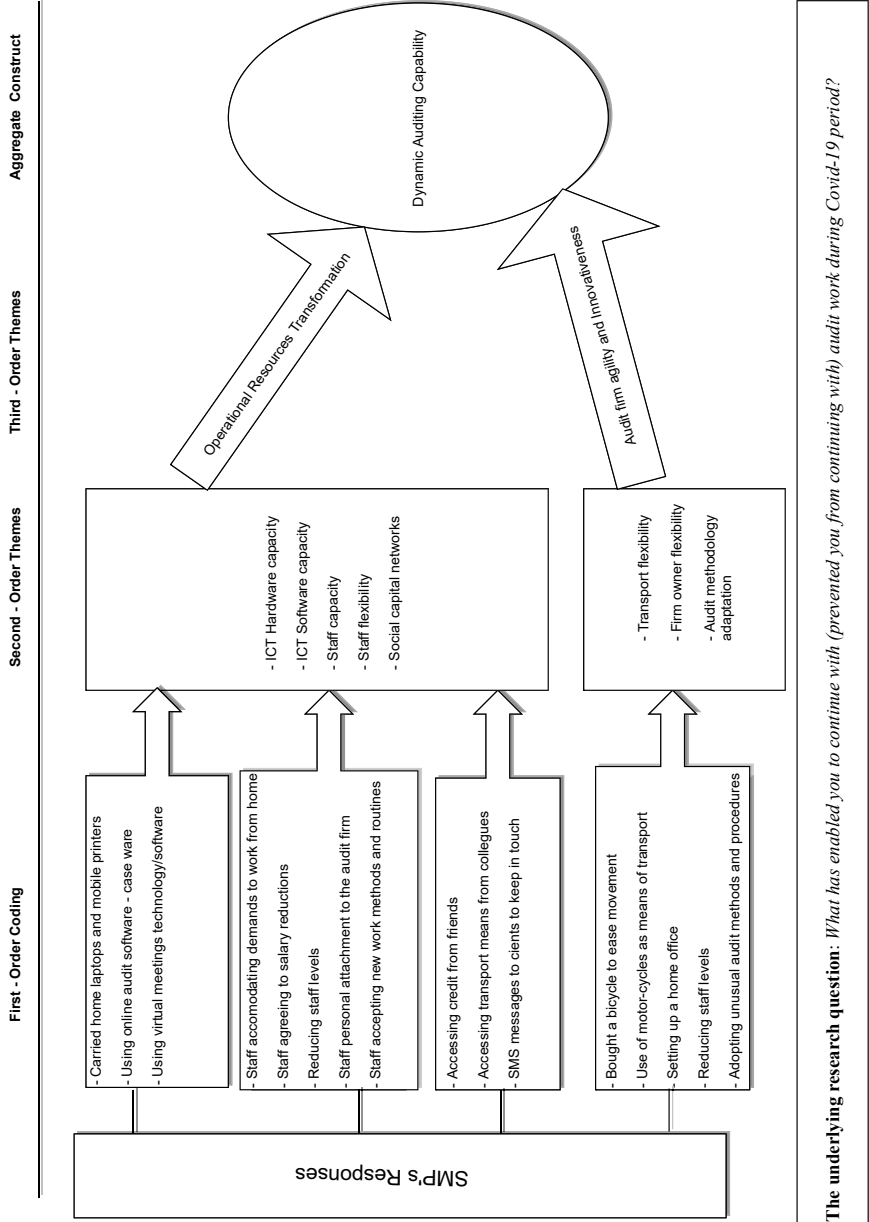


Figure 1.
Data analysis and structure

with clients and also discuss audit evidence subject to extra confirmation as necessary after lockdown (*Respondent 18*).

4.1.2 Staff capacity and flexibility. Staff are an important and critical resource and ought to be on board, flexible and buy into the suggested ways if an SMP is to survive a business turbulence. Sample responses below attest to this finding:

Staff agreed to a salary reduction, we are only able to pay about 50% of their normal salary [. . .] has helped the firm to survive within the available cash flows [. . .] (*Respondent 9*).

We are a “family” and staff are part of that family [. . .] We took staff safety as a critical factor, we briefed and prepared them for the lockdown implications and availed them with some sanitizers and safety information about Covid-19 and other resources to face the challenge. (*Respondent 13*).

[. . .] [Staff] readily accepted the new normal and work methods. It was interesting to see them willing to use their homes to do office work [. . .] (*Respondent 19*).

4.1.3 Social capital networks. Existing social networks and relationships were revealed to be very useful to meet the demands of a changing environment, provided one is able to tap into them as pointed out by the following respondents:

[. . .] borrowed funds from a colleague to meet some of our financial needs (*Respondent 1*).

We were able to access us a movement permit using connections of one of our clients under audit [. . .] With this movement sticker our office car could move, station key staff and even deliver reports for signing [. . .] (*Respondent 20*).

[. . .] Having our pool van helped with the transportation of core staff during the time when public transport was not allowed . . . (*Respondent 9*).

4.2 Audit firm agility and innovativeness

Small audit firm practitioners revealed quick and seamless adaptation and integration of unusual ways of getting around the challenges occasioned by the pandemic in mobility, collecting and analyzing audit evidence. Such means are associated with agility, flexibility and innovativeness of the SMPs as a firm and its owner, which are core manifests of dynamic audit capability. The following partners exemplify this capability.

4.2.1 Audit firm flexibility and innovativeness. Audit firm and owner flexibility and innovativeness are highlighted by the following:

[. . .] I bought a bicycle and have used it as an alternate means of transport to pick important information from office and clients (*Respondent 3*).

[. . .] Covid 19 notwithstanding we have continued to look out for tenders and writing proposals for audit service from home. From the word go [. . .] for some of our clients we had to consider their reporting needs a top priority [. . .] to meet their requirements (*Respondent 11*).

I set up a fully-fledged office at home which enabled me to attend to [. . .] on-going audits. I have also encouraged staff to see the silver linings in the challenges especially how we have been able to deliver some assignments and move on with search methods [. . .] (*Respondent 18*).

4.2.2 Audit methodology adaptation. Small audit firms implemented novel audit gathering means and processes to ensure work gets done during the Covid-19 pandemic as attested to by the following small audit firm partners.

I have gone through a “back and forth” experience of having to scan documents of the work in progress and discussing with my team on-line to agree to a finding or otherwise based on the scans [. . .] (*Respondent 3*).

[...]one of our clients opted to deliver all hard source documents and books of accounts using a boda-boda (motor cycle transportation) to a staff member's residence to continue with [...] [audit work] (*Respondent 8*).

For some clients we requested them to authorize banks to send bank confirmations electronically instead of the usual hard copy letters [...] We have had to place a direct phone call to the banks to verify that the emails are indeed from the respective banks (*Respondent 9*).

I have found the mobile phone to be handy [...] and increased use of Google drive to access scanned audit evidence (*Respondent 12*).

4.3 Inability to operate due to a lack of dynamic auditing capability

SMPs that had not developed the requisite dynamic auditing capabilities found themselves unable to continue with audit work during the Covid-19 pandemic, as highlighted by this partner:

We are unable to conduct audit field work due to ban on private transport [...] audit personnel were classified as non-essential services hence have no movement stickers [...] We witnessed a reduction in networking opportunities to seek new [...] Government postponed our payments [...] hence locking up our liquidity (*Respondent 5*).

5. Discussion

Theoretically, this study is based on the realization that RBV fails to support continued SMPs operation in a turbulent business environment, and that the DC theory could offer the support. The findings of the study indicate that to operate in a turbulent business environment occasioned by the Covid-19 pandemic, SMPs require to build and anchor operations on dynamic auditing capability. This is because in such environment, survival depends more on DCs than on operational capabilities (*Wu, 2010*).

The process SMPs followed to build dynamic auditing capabilities is in agreement with that proposed by earlier scholars (*Zollo and Winter, 2002; Teece, 2007; Cyfert et al., 2021*). The current study has, however, isolated adaptation, configuration and reconfiguration of resources, and innovativeness as the most important route in the development of DCs. This reinforces the DC theory (*Teece et al., 1997*), which recognizes that having operational capabilities is important; however, organizations need to purposely integrate, build and reconfigure those operational resources and competencies to maintain performance in the face of changing business environments that takes = DCs. The finding also supports *Pandit et al. (2018)* and *Døving and Gooderham (2008)* that it takes a firm a multiplicity of DCs to survive in volatile, uncertain, complex and ambiguous environments and the complimenting effect of internal competencies like human capital, properly configured routines and systems and a range of alliances with external networks for small accounting firms to diversify their operations. This is a cornerstone of the DC theory that organizations have to focus on both their internal perspectives (i.e. modify the layout of existing resources) and their external perspective to orient toward adapting to and following a dynamically changing environment (*Cyfert et al., 2021*).

The finding that SMPs will require to develop and anchor on dynamic auditing capabilities in turbulent environments is in agreement with a stream of earlier scholars who have posted results to the effect that it is the heterogeneity of dynamic capabilities that ultimately defines which firm will survive a turbulent environment, and that investing in DCs positively impacts on firm's outcomes (*Bitencourt et al., 2020; Zou et al., 2018; Fainshmidt et al., 2016; Karna et al., 2016*). Specifically, for small firms, the study supports *Shah et al. (2019)* who post results that SMEs possessing DCs are more resilient to environment

turbulence. The study supports [Otete \(2021\)](#) who reports the results of increased revenues for SMPs who were able to operate during the Covid-19 pandemic.

To leverage on the *transformational/shifting capability*, the current study has identified that it is critical to align and adjust existing operational capabilities and resources to the environment as critical. Resources have been recognized as an important antecedent of DCs ([Fallon-Byrne and Harney, 2017](#)) because they are a key element for creating and sustaining competitive advantage ([Teece et al., 1997](#)). The study revealed the importance of owning ICT hardware, ICT software and flexibility of the human resources of the firm and of the firm itself to match the environment in a turbulent environment. Firms need flexibility in developing new and existing resources and capabilities to meet changing conditions in the environment ([Pettus et al., 2009](#)). The current study supports [Otete \(2020\)](#) who highlights ICT adoption as very critical in audit work, and other authors ([Koch, 2010](#); [El Sawy et al., 2008](#); [Neumann and Fink, 2007](#); [Wu, 2006](#)) who have reported supportive results of ICT in developing and leveraging DCs. [Parida et al. \(2016\)](#) indicate that the criticality of ICT is also evident across other capabilities: adoptive, adaptive, networking and innovative capabilities.

Further, the study has illuminated a need to anchor on *networking capabilities* is illuminated as essential for continued operations of SMPs in a turbulent environment. This supports [Bitencourt et al. \(2020\)](#) who document the results of a mediating role of DCs in relationship between alliances/networks, environmental dynamism and firm performance. It also supports [Omeke et al. \(2021\)](#) who post the results that show DCs are vital in promoting the growth of financial cooperative enterprises but more so in the presence of networks. This is because alliance and networks confer access to a variety of resources ([Døving and Gooderham, 2008](#)). In a turbulent environment, the current study has indicated that this lies in the ability to exploit social capital and relationships.

On agility and innovativeness, the study identified improvisation and implementation of unconventional means, processes and methods of work as the most underlying way to leverage the capability. This finding supports earlier scholars ([Ma et al., 2021](#); [Jakhar et al., 2020](#); [Figueiredo and Piana, 2018](#)) who have posted results that show executives of firms do seek unusual and novel solutions to challenges they face. Spontaneous reaction and reconfiguring existing human and other resources also stand out as a requirement for developing dynamic auditing capabilities and survive a turbulence. It further supports [El Sawy et al. \(2008\)](#) who suggest that because there is often insufficient time for formal planning in a highly turbulent business environment, managers must spontaneously adapt to new conditions on-the-fly by acting outside their formal plans and processes. Specifically, in a Covid-19-induced turbulence, the study supports [Dovbischuk \(2022\)](#) to the extent that it is firms with greater levels of capacity to innovate that achieve significantly different dynamic resilience.

6. Conclusion and implications

Anchored by the DC theory, the goal of this study was to fill a gap in the application of the theory to a specific industry (audit), specifically the continuation of audit work by SMPs in a turbulent business environment occasioned by the Covid-19 pandemic. One specific question was posed: *What has enabled you to continue with (prevented you from continuing with) audit work during this Covid-19 period?* The findings have shown that developing dynamic auditing capability out of exiting operational capabilities and by being agile and innovative is extremely important for SMP firms to continue operations in a turbulent business environment. Specifically, while the DC theory advances various sub-DCs, developing dynamic auditing capabilities in a turbulent business environment is underpinned by transformation/shifting flexibility, networking, innovativeness and adaptive capabilities.

The contribution of this study is, first, it adds to the body of existing literature on the importance of DCs in explaining firm survival and growth. And with caution of generalizing

to the whole auditing profession, it directly answers calls by [Aimilia et al. \(2011\)](#), [Easterby-Smith et al. \(2009\)](#) and [Helfat et al. \(2007\)](#) for industry-specific examination of DCs by putting forward the construct of “*Dynamic auditing capability*.”

Second, the study has major practical implications for the owners of SMPs. It is recommended that partners of SMPs in emerging economies should prioritize investment in digital ICT programs and human resources. These have been identified as major drivers that underpin development and exploitation of DCs. SMPs need to pay attention to the specific ways of reconfiguring and flexing available resources to develop and take advantage of the DCs essential for continued operations in a turbulent environment.

Third, to policy makers, the study has illuminated the underpinnings of dynamic auditing capabilities as specific ways that require targeted emphasis when developing and implementing policies governing the audit profession.

The main limitation of this study is that it is restricted to SMPs within the audit profession in a specific country. This could affect the generalizability of the findings. Although precautions were taken to buttress the validity of the study, a future wider quantitative research could utilize a larger sample size to offer valuable insights into building dynamic auditing capabilities.

In addition, data were collected through an emailed instrument to respondents; this limited further follow-up questions as would have been possible in a face-to-face interview. To mitigate on the problem, respondents were given an opportunity to reach the researcher by phone for any clarifications; however, future studies may adopt face-to-face interviews and focus group discussions to allow for deeper probing of the concepts.

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Corresponding author

Twaha Kigongo Kaawaase can be contacted at: tkaawaase@mubs.ac.ug