



The Quality of the External Audit and its Impact on Financial Performance: An Exploratory Study of a Sample of the Opinions of Auditors in the Private Sector

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Abstract

The aim of the research is to identify the extent of the impact of the quality determinants of external auditing on financial performance, and to identify the extent to which auditors are aware of the determinants of audit quality, by analyzing the determinants of external audit quality on financial performance represented by (scientific qualification and experience, office size, audit fees). In order to achieve these goals, a questionnaire was designed consisting of two sections and two lists prepared for this purpose, and distributed to audit offices and on a final approved sample for research and analysis purposes from 34 external auditors practicing the profession in some selected governorates of Iraq, after using appropriate statistical methods and data analysis in the program.(SPSS.v.25) The hypotheses were tested, and the research concluded that there is an impact of the quality of external auditing on financial performance, and the research concluded with several recommendations, including that the external audit offices should involve their elements and urge them to obtain local and international professional certificates within the field of competence, because of its impact To raise the efficiency of the quality of audit work, and to give the beneficiaries of the final report sufficient confidence in the auditors' reports.

Keywords

Quality of external audit, financial performance.

JEL Classifications: J11, F43

1. Introduction

Leads an auditor in the business environment in contemporary organizations, as multiple parties depend on the services it provides in making decisions related to these organizations and their work.

Therefore, the accounts represent a pivot in improving financial performance. The audit process has evolved due to its dynamic nature, and its ability to develop to meet the growing needs. In light of the developments and changes in the business environment, and the changes faced by audit offices, whether they are internal as the requirements of regulation, or external such as competition and the complexity of the nature of the business of enterprises, and the many risks they are exposed to, most notably litigation, and the questions raised about the role of the audit profession, in the context of severe crises exposed to the contemporary business environment.

The First Topic: Research Methodology

First: The Research Problem

After the problems experienced by some local and international companies and in some cases led to their bankruptcy, which increased the need for companies and audit offices to pay attention to the quality of auditing and to enhance advisory and auditing work to increase confidence in the financial statements audited by them. The research problem can be formulated by asking the following questions:

1- Does the quality of audit affect the financial performance of companies?

The following questions emerge from this question: -

Does the professional competence and scientific qualification of the auditor affect the financial performance of companies?

Does the audit fee affect the financial performance of companies?

Does the size of the audit office affect the financial performance of companies?

Second: The Importance of Research

The importance of the research is due to the following points: -

1- The necessity of paying attention to the quality of auditing and performance of audit offices and determining the factors affecting them in order to improve the performance of auditors and improve the quality of auditing through the factors affecting them.

2- Contribute to reducing the criticism directed at the auditing profession for the shortcomings in the performance of services to clients compared to their expectations of them.

Third: - Research Objectives

This research seeks to achieve the following objectives:

1- A statement of the importance of audit quality and the factors affecting it (professional competence and scientific qualification of the auditor, audit fees and the size of the audit office).

2- A statement of the importance of the financial performance of the stakeholders, which reflects the extent of the company's success.

3- Statement of the impact of audit quality on the financial performance of companies.

Fourth: - Research Hypotheses

Main premise: There is a statistically significant impact of audit quality on the financial performance of companies, and the following hypotheses are derived from it:

There is a statistically significant effect of the professional competence and scientific qualification of the auditor on the financial performance

There is a statistically significant effect of audit fees on financial performance

There is a statistically significant effect of the size of the audit office on the financial performance

Fifthly: Research Limits

1- Spatial boundaries: a group of auditors' offices in the Iraqi private sector in Baghdad and Diwaniyah.

2- Time limits: February 2022 to May 2022

Sixth: - Research Community and Sample

The research community is represented by a group of auditors' offices in the Iraqi private sector. As for the research sample, a number of auditors' offices were selected in Baghdad and Diwaniyah.

Seventh: A Sample and Society Search

make up Community search target From all offices audit outer working in Provinces (Baghdad, Qadisiyah) that managed From Before auditors they own license vacation From Before board profession control and check the accounts Iraqi, according to bulletin watchers the accounts licensed for work For the year (2021), and holders of membership checker accounts legal licensed, and published on the site Association Iraqi for accountants legal, that reach There are 68 offices 11 a company practice profession audit in the form of Actual, because reach the number total for society search 138 an item and in selection process the sample It was completed Approval method the sample Random Mini And by 27% of the size the society total, Where reach size the sample 38 items From auditors the accounts,

And yet proces distribution survey form and retrieve it reach Number forms Refunds 34 by Recovery 89 ,%reached Number forms damaged up to 4 forms.

Eighth: The Hypothetical Scheme of The Research

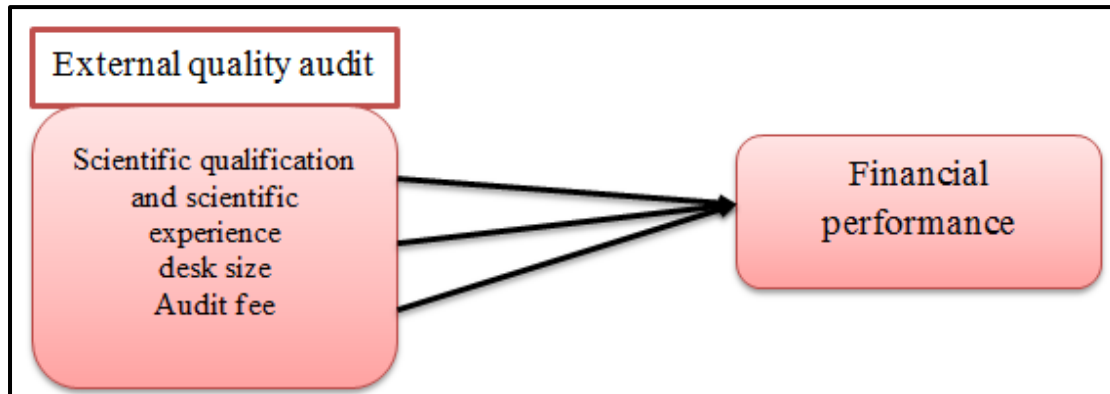


Figure 1. Hypothesis

Source: Prepared by the researchers

The Second Topic: The Theoretical Side

First: The Concept of External Audit Quality

He knew Deangelo the concept of the quality of the external audit as the assessment of the possibility that the auditor will discover gaps and errors in the client's accounting system and record this in the report issued at the end of the audit process. While the American Accounting Association defined it as the organized process of obtaining and evaluating evidence related to economic events in objective ways to ensure the degree of conformity of these elements with objective standards and to present the results to the concerned parties (Ben Barika Abdel-Wahab, 2016).

while they knew him Davidson & Neu termed the auditor's ability to detect, limit, or limit tampering with material misrepresentations in insider reports. In a definition issued by the Association of Certified Public Accountants in 1994 in Auditing Standards Bulletin No. 04 that the quality of external audit is achieved through adherence to auditing standards by applying a set of considerations for quality control in auditing companies. (Al-Ayeb Bin Abd Al-Rahman, 2017)

From the previous definitions, the researchers can define the quality of the external audit as the auditor's ability to discover irregularities and errors in the financial statements and to ensure that they were prepared in accordance with generally accepted standards and principles.

Secondly: The Importance of Audit Quality

Audit companies and offices must carry out high-quality audit work to avoid exposure to professional penalties and penalties. Because in the event that

companies and audit offices do not carry out their work in accordance with the generally accepted standards for auditing, including the quality control standard, which would expose them to legal lawsuits from the beneficiaries of the reports, or may expose them to professional penalties from professional bodies or the authorities responsible for them, so all offices and companies seek The audit aims to follow the internal system of quality control to implement its work with high quality to achieve the objectives of the audit profession, reduce its exposure to the legal issue, as well as increase the risks. The entities subject to audit have an understanding and awareness of the audit requirements that apply to their businesss (Al-Zuhairi, 2014).

Third: Factors Affecting the Quality of Auditing

There Are Many Factors by Which Audit Quality Can Be Measured, Including:

1-The size of the audit office: the large audit offices have better performance motives because they have a high professional reputation and do not want to risk losing their reputation. The relationship between the size of the audit office and the quality of the audit can be determined through (Hassan, 2008):

- The amount of revenue collected from clients subject to audit.
- Number of employees working as auditors in the audit office.
- The affiliation of the audit office to one of the international auditing offices.

2- Professional competence and scientific qualification of the auditor: Audit offices that possess material and human resources are able to attract more skilled cadres to practice the audit process and have the ability to continue training their cadres continuously, which enables them to achieve more revenues due to the reduction of their exposure to legal claims. Auditing. (Hamdan, 2012)

3- Auditor's fee: Al-Jaber defines the auditor's fee as (the wages, fees, or sums charged by the auditor in return for performing the audits of the accounts of the economic unit) and believes that there is a positive relationship between the quality of the work and the quality of the possible factors. Auditor fees, including: (Al-Jaber, 2013)

- Customer activity volume.
- The office provides advisory services to the client himself.
- The strength of the internal control system.
- Competition between offices.

Fourthly: The Concept of Financial Performance

The financial performance is one of the indicators used that show the extent of the continuity of the economic unit in achieving its objectives. The financial performance is described as the measure that reveals the position of the economic unit and helps in knowing the extent to which the economic unit has improved in terms of its profitability as a result of providing its services. (Moussaoui. Abbas Nawar Kheit, 2016; Nwala et al., 2020) looks at financial performance as nothing

but the organization's ability to achieve financial goals using financial means represented in the profitability rate, liquidity ratio and debt ratio efficiently and effectively.

Fifth: Financial Performance Goals

There are many goals that make companies interested in financial performance indicators, they provide a reliable process for determining whether the company's current system is performing well or not. In today's economy there is a growing demand for transparency and scrutiny of business practices, and these goals promote a company's use of data and operating results as a means of demonstrating its performance. The following are some points that clarify the most important objectives of these indicators (Felizardo et al., 2017):-

- 1- Provide feedback on the quality and efficiency of work.
- 2 Supporting the decision-making process and increasing the management's ability to focus on the most important matters.
- 3- Help increase managers' ability to understand and measure performance.
- 4- Support and assign responsibility and encourage accountability and attribution.
- 5 Creating effective communication between employees and managers by providing a common language between them.
- 6 Provide a way to know whether the strategic plan is working well or not.
- 7 Provides a basis for companies to assess the progress of their results towards pre-established goals, and to measure their effectiveness and efficiency on an ongoing basis, in accordance with operational strategy, human resources, information, marketing and financial systems.
- 8 Provide support and promotion to companies in order to allocate their resources into improved and attractive activities.
- 9 Attention is focused on the company's ability to provide liquidity, profitability and borrowing, taking into account investment decisions and the risks associated with them.

Sixthly: Factors Affecting Financial Performance

The various economic units face some difficulties and problems that prevent them from carrying out their work in an efficient and effective manner, and this affects the financial performance of these units. The reasons for this are due to many factors, including internal and external ones. (Al-Khaqani, 2019)

The set of factors can be summed up as follows:

A- Internal factors: They are a set of factors related to the internal environment of the economic unit, the most important of which are:-

1-Organizational Structure: The organizational structure plays an important role in improving the performance of the economic unit in general and the financial

performance in particular by defining the powers and responsibilities of departments and administrative units. (Hamdan, 2012)

2-Organizational factors: What is meant by organizational factors are the set of internal factors that are specific to the economic unit, including the volume of business and resources owned by the economic unit, as well as the nature of its structures and movement. These factors are considered important and have a significant impact in determining the efficiency and productivity of the unit's activities. (Hamdan, 2012)

3-The technology used: It is the set of methods that are used to complete the work in the economic unit and the degree of work completion. The greater the use of technology, the higher the degree of work completion, and this leads to a higher quality of services provided and will lead to a reduction in cost and an increase in profitability (Assi, 2010).

4-The type of activity of the economic unit: the activities in the economic units differ from one unit to another. There may be commercial units, other comprehensive units, as well as specialized units that specialize in a particular sector, and these activities have an influential role as the performance varies from one unit to another. For example, the performance of the commercial economic unit differs from the unit Industrial Economics (Taleb, 2018).

5-Organizational Climate: The organizational climate includes ensuring the safety of performance in a positive and efficient manner from the administrative and financial standpoints, as well as transferring information to the decision maker to help him in drawing the form of performance and to know the extent of performance application, modification or development, with the aim of harmonizing technology and performance (Husseini, 2017).

B- External (Environmental) Factors: The external factors affecting financial performance are divided into:

1-Legal and political environment: The political and legal environment is the environment that cannot be controlled and includes, for example, the security and political stability of the state, as well as the state's system of governance, relations with the outside world, laws and decisions etc. All of these previous factors affect the performance of economic units, as they may represent opportunities Some units benefit from it to improve their overall performance, and on the contrary, they may be risks imposed on other units that reduce their performance.

2-The social and cultural environment: It means the traditions and customs in which the community believes, as well as their cultural level, which has a prominent role in influencing the nature of the activities and services provided by the units. (Al-Khafaji, 2018)

3-Economic environment: It includes the nature of the economic system as well as the resources available in the country and the investment opportunities and investment climate, which are also available. (Bushnaq, 2011).

4-The competition: The competitive advantage appears as soon as the economic units reach the new methods that are more effective than the methods used by other competitors. Competitive strategy is defined as a complete set of activities that lead to the achievement of competitive advantage, innovative and new over other competitors (Hussein, 2017).

2. The Practical Aspect of Research

In this topic, we will discuss a detailed presentation of the research design and methodology, the statistical analysis of the research variables, and the testing of its hypotheses. following:

1- Tool and Method Search

It was completed Approval curriculum descriptive Analytical And in the form correspond with theme and goals search, As for the tool that It was completed reliance It was represented by a form questionnaire that It was completed her design distance review His literary thought Accountant and checker related subject search, as it included the form on me metrics and vocabulary It was completed formatted Depending on the review literature and research and studies previous, After modification on me some its poor partially to match with nature community and goals search.

2-Techniques Analysis Data

for a purpose Investigation Goals search and test his hypotheses, Lost It was completed Using the program statistician for science Social (SPSS.v.25) Across Approval methods statistic following:

A-Methods Statistics Descriptive

middle included arithmetic, percentages, deviation normative, mode to get to know on the properties Individuals a sample search, and extent dispersion the answers.

B - One Sample Test-T

It was completed use test Tto sample one, and that the test Acceptance or Hypotheses rejected search, where if It was there an agreement From before people the sample on me Which A question From Questions survey form meaning approval on me content the question, any if she was Values Tcalculated Larger From Values ((Ttabular when Degree freedom and level indication (1.697) or When is being level morale Less From. Right and vice versa (0.05= Sig).

3. Tab and Interpretation Answers Individuals the Sample about Search Variables, and Test His Hypotheses.

a-a test Hypotheses:

1- analysis and interpretation phrase Bezel Effect Qualification Scientific and experience professional on me the performance financial:

dimension	Men	percentage	atestCalculated T	level indication
X1	4.55	91%	13.33	0.000
X2	4.70	94%	18.41	0.000
X3	4.48	89.6%	13.79	0.000
X4	4.42	88.4%	13.32	0.000
X1	4.54	90.8%	30.53	0.000

Notice in schedule above that average arithmetic likely for all questions The dimension the first (X1) equals(4.54)Which that all Dimension questions the first positive and bigger From middle hypothetical adult (3)Which meet Answer agree severely and by (%90.8.)while reached the value of Tcalculated according to a test (T) for the first dimension (30.53) and questions The dimension ranged between level when(30.53)Statistic In a moral sense (0.05)and this is You know? that For this determinant effect morally Significant Statistic on me Quality performance checker the accounts external, thus prove verification and accept Hypothesis first

b-analysis and interpretation phrase Bezel Effect fee audit on me the performance financial

dimension	Men	percentage	atestCalculated T	levelindication
X5	3.78	69.6%	2.775	0.000
X6	2.94	58.8%	-0.571	0.000
X7	4.42	88.4%	11,549	0.000
	3.613	69.6%	1.948	0.000

Notice in schedule above that the middle arithmetic for the paragraph (X5) Increases About level the middle hypothetical so Achieve Rate (69.6%) when Values (2.775) and this is You know? that Individuals the sample on me that the fees that The fit with Effort and performance done self-influence on Quality audit, while We find that Paragraph (X6) may be achieved Negative result and level Without the middle hypothetical, in the rate of (58.8%) and the value of (-0.571) Which Values not acceptable because it Without tabular value, while We find that Paragraph (X7) may be achieved Negative result and level Without the middle hypothetical, in the rate of (58.8%) and the value of (11,549) Which Values not acceptable Except she is Without tabular value, and upon it van this is Paragraph Prepare not morale and this You know? that For this determinant moral effect self-indication Statistic on me Quality performance checker External accounts, and in that Acceptance and check Hypothesis the second.

T-analysis and interpretation phrase Bezel Effect Audit office size on the performance financial

dimension	Men	percentage	atestCalculated T	levelindication
X8	4.52	90.4%	14.072	0.000
X9	1.70	34%	-10.944	0.000
X10	4.42	88.4%	11,549	0.000
X11	0.645	33.4.%	6.006	0.000

Notice in schedule above that the middle arithmetic for the paragraph (X8) higher From level the middle hypothetical so Achieve Rate (90.4%) when Values (14.072) and this is You know? that Individuals the sample on me that the fees that The fit with Effort and performance done self-influence on Quality audit, while We find that Paragraph (X9) may be achieved Negative result and level Without the middle hypothetical, in the rate of (34%) and the value of (-10.944) Which Values not acceptable because it Without tabular value, while We find that Paragraph (10X) may be achieved Negative result and level Without the middle hypothetical, in the rate of (88.4%) and the value of (11,549) Which Values not acceptable Except she is Without tabular value, while We find that Paragraph (11X) may be achieved positive result and level Without the middle hypothetical, in the rate of (33.4 .%) and the value of (6.006) Which Values not acceptable Except she is Without The value of a tabular, and therefore van this is Paragraph Prepare not morale and this You know? that For this determinant moral effect self-indication Statistic on me Quality performance checker External accounts, and in that Acceptance and check Hypothesis the third.

4. Conclusions and Recommendations

4.1 Conclusions

1- turns out From During consequences Analysis non to have members Audit offices cuff search on me Certificates Vocational foreign she was or arabic ,when him from Effect negative on me efficiency and quality audit, And from then low Users trust Reports audit in quality the information offered by offices audit.

2-in Shade absence total for organizations and bodies that care setting standards local, or created in Light Standards International, find that there gap big between the environment the interior From Where to develop reality Occupation and what keep up The environment international, when So of trace on me low level Occupation, And from then Quality audit.

3-Knowledge not adequate standards Accounting and standards international audit I have most Individuals offices audit outer and in the form that it causes happening gap between What secrete it Occupation From events and developments New and between What he is followed Really in audit procedures, And from then the delay About Enrollment ride the scientist talk and not her ability From add character the new About All What coming from innovations in Mg The Occupation.

4-that non adoption Desk audit for any strategy in Sectoral Specialization when performance Occupation consequent on him Effect negative on me operation performance audit, and that that sleep About non availability Specialized cadres with expertise in area a certain, it's up that drives offices audit to me Approval Policies and procedures checking from Customer to last itself.

4.2 Recommendations

1-should on me offices audit outer gets involved elements and urge them to get on me Certificates Vocational local and international within a field Jurisdiction, when for him From Effect on me upload efficiency work quality audit, and gives beneficiaries from the report ultimate confidence adequate with reports auditors.

2-should on me organizations and bodies self-Relationship career move Toward development Grammar Occupation acquaintance on her locally with Indeed international, and that to create agree between Indeed domestic and standards International to check, and from then Strengthen trust beneficiaries in Reports audit accomplished according to Standards enjoy with international acceptance.

3- Necessity the work on me adoption strategy Specialization segmental in performance profession audit, Across Availability elements self-Experience and efficiency Specialized field a certain, it's up that cast Overshadowed by to improve Quality audit From Were planning good, speed in achievement, and ease implementation, About road Recruitment of cadres to her knowledge and capacity adequate on me performance Occupation no matter how different size the side cuff audit or nature her job.

4-get away Saucepan possible About All What Displays Autonomy Audit offices damage presenting Services other not audit should be done by auditor's specialists sector a certain and they have the ability and knowledge artistic required to perform.

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