



THE IMPACT OF EXTERNAL AUDITING ON THE QUALITY OF PERFORMANCE OF IRAQI BANKS

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Article history:	Abstract:
Received: 6 th November 2022 Accepted: 8 th December 2022 Published: 11 th January 2023	The external audit constitutes an important mechanism for maintaining the mutual and necessary trust in the financial relations between the different parties in the Iraqi society, because of the great role it plays in meeting the needs of the parties through a neutral and independent technical opinion regarding the numbers and financial data presented by the founder’s management, as the study aims to highlight Highlighting the history of auditing and external auditing as one of the most important mechanisms that contribute to improving the quality of financial statements and their impact on the quality of performance of Iraqi banks.

Keywords: External audit, importance of external audit, Iraqi banks, quality of external audit.

INTRODUCTION:

The great development witnessed by many institutions over time and the development and diversity of economic relations made institutions deal with many parties that have direct and indirect interests, which worked on the complexity of the organizational structure of institutions and the separation of ownership from management and increased (Ouargla, 2013:31), the institutions’ need for honest information to take the necessary measures and decisions based on Based on honest information based on actual monitoring by relying on the financial statements issued by the institutions, the need arose to find control mechanisms that work to ensure the generation of financial (Buhafs,2018:49), statements characterized by reliability and objectivity for the development of institutions and to make relations between institutions based on justice and transparency, and among these mechanisms is “auditing externa Which is one of the most important mechanisms that work to discover possible deviations in Iraqi banks and ensure the correctness and safety of all operations by assigning parties concerned with monitoring the actions of the banking administration and granting guarantees to various users of the financial statements of Iraqi banks (Sanaa,2020:55), The study aims to define the concept of external auditing, its importance and objectives, Statement of the determinants of the external auditor’s competence and their impact on audit quality, The importance of using the external auditor for internal audit work, The extent of the effect External audit on the quality of performance of Iraqi banks.

1. LITERATURE REVIEW:

The study aims to explain the methods of manipulation in the financial statements and to explain the mechanisms of external auditing, which are represented in analytical procedures, rules and professional standards in detecting manipulation in the financial statements, Manipulating the financial statements (Al-Naasan,2018:12) .The study aimed to clarify the role of external audit in evaluating the internal control system in the organization by questioning some officials regarding the internal control system (Sanhaji,2017:32).

The study aimed to identify the factors affecting the relationship between internal audit and external audit, and their impact on strengthening the internal control system and reducing the cost of external audit from the point of view of internal auditors and external auditors on banks operating in the Gaza Strip, The complementary role of the relationship between internal audit and external audit in achieving effectiveness for banks by strengthening the internal control system and reducing the fees of the external auditor (Abu Amra,2018:11).

The study aimed to identify the impact of the effectiveness of internal control on the quality of external auditing in the Jordanian independent governmental sector institutions. The study adopted several factors as independent variables, which are the elements of internal control. The most important of them was the existence of a statistically significant relationship at a certain level between the effectiveness of internal control with its components and the quality of external auditing in the



sector of independent government institutions in Jordan (Qasim&Fayhaa,2021:271).

1.1. CONCEPT OF AUDITING:

Auditing is defined as a process aimed at reviewing and verifying accounting books, and ensuring their conformity with the financial statements on the ground, (Anani,2021:231)."Examining the institution's control systems, data, documents, accounts, and books in a critical and organized manner, with the intention of obtaining a neutral technical opinion on the extent to which the financial statements indicate the financial position of that institution at the end of a known period of time, and the extent to which they portray the results of its business in terms of profit or loss for That period (Al-Manhal,2022:23)".A systematic and structured process that helps the auditor to obtain evidence related to economic events in the institution and the duration of their conformity with reality, in order to ensure that things are conducted according to recognized standards, and to communicate the results to the relevant users (Mohamed,2017:51).

The American Accounting Association defines auditing as: an organized process based on objectivity and transparency, aimed to collecting evidence and evaluating economic events in order to verify whether they comply with the stipulated standards or not, and communicating the results to interested parties (Assia,2018:53).

External audit is defined as "the main independent and impartial performance that aims to examine the financial statements. On the other hand, external audit in its developed, modern and comprehensive sense is nothing but a system that aims to give an objective opinion on reports, systems and procedures concerned with protecting the property of the entity subject to audit (Misbah,2016:21). External auditing is an organized examination by impartial technical personnel of books and documents and obtaining the necessary evidence and clues(Setif,2011:54), In order to express impartial and transparent technical opinions about the financial statements of the institution, and the extent of the efficiency of the responsible management in using the available resources in the institution correctly (Brahmi ,2019:84).

It is also defined as "an organized process for collecting and objectively evaluating evidence related to the client's allegations regarding the results of economic events and actions, to determine the extent to which these allegations are in line with the specified criteria, and to communicate the results to the users of the financial statements, the stakeholders in the project (Al-Masdar,2013:183).

Janmolt&Germond(2010) is defined auditing as: a systematic examination by responsible bodies with independence and expertise in order to develop appropriate analyses of the institution's situation on the credibility of its financial information provided by the institution, (Al-Masdar,2013:183) ,which the duties are respected in the preparation of this information in each party, and the extent to which the accounting principles and laws in force are respected in the expression A true picture of the assets, financial position and results of the institution (Souad&Kahina:2022:19).

1.2. General Picture Of External Auditing:

The external audit is a mechanism that works to obtain evidence and proofs based on document monitoring of the events carried out by the banks by following a systematic and organized approach and using tools that work to reach a technical opinion characterized by transparency, impartiality and fairness of the financial statements and showing the true financial position of the banks, which gives The element of confidence in the information contained therein, so that the users of this information can take decisions and positions related to the institution (Al-Naasan,2018:12).

The industrial revolution, inventions, and the prosperity of trade in Europe led to the emergence of many different projects that have a wide activity and increased their capital, and this matter is one of the most important factors that contributed greatly to the development of the financial accounting profession and the auditing process and the increase in demand for accounting services (Abu Amra,2018:16), as limited liability companies appeared And joint stock companies, and the economic and industrial development and the growth of national income in the twentieth century led to the proliferation of joint stock companies and increased their importance and danger, as they became playing a fundamental role in the national economy, and with the emergence and spread of joint stock companies, they contributed to the separation of ownership from management, which worked to increase the desire of shareholder owners To the services of accountants and auditors to protect their rights and interests (Assia,2018:57).

The auditing process arose since ancient times, when it was known by many terms unlike what it is now, as it was attributed on the basis of the process carried out by the person entrusted with the profession of auditing, so the term "monitor" is applied to the person entrusted with monitoring the king's money to protect it, and the term "accountant" is used. The person who carries out the same task as the observer, but in a different era and



under different circumstances, must hold those in charge of the king's money accountable (Qasim&Fayhaa,2021:278), The auditing process was not of recent origin, but the term auditing became widely circulated in a not long period, and the emergence of the auditing process was under several names and terms, the most important of which are (Al-Masdar,2013:186):

1.2.1. Review:The term audit is the first term in which the auditing process appeared at the beginning of the emergence of thought with the advent of accounting, as accounting was a set of simple symbols that each reader could understand, and the accountant was the person who was assigned to monitor and hold accountable other individuals working in the property of the king Any shortage issued by them, and the accountant plays an essential role, which is accounting.

1.2.2. Audit: Auditing was defined on the ruins of auditing, by virtue of its comprehensiveness of the auditing process through evaluation and study of the internal control system, examination and analysis of documents and books, so 1987 was the most important period in clarifying the concepts of auditing and auditing in terms of theoretical and practical version, as accounting rules in this field were issued by the Institute of Accountants Those accredited in the United States of America in 1987 explain in these rules the difference between revision and audit:

- On the basis of differentiation: In the event that the auditor examines the accounting data in the books and records to verify their correctness, he is in the process of carrying out the audit process, but in the event that this person evaluates the system, he is in the process of carrying out the audit process.

On the basis of the reasons for bonding: The auditing and auditing professions are interrelated, interdependent and complementary. This interdependence is embodied in the person of the individual auditor. If this person performs an examination without analysis, then he reviews, and if he does the opposite, then he audits (Brahmi ,2019:87). There was advanced professional legislation in Iraq in 1919 derived from the British and Indian companies law until 1957, the Iraqi company's law was passed in 1958 (Mohamed,2017:58).

1.3. The objectives and importance of external auditing.

Objectives of External Audit:The objectives of the external audit are summarized in two groups (Sanhaji,2017:37):

- The main goals.
- Subsidiary goals.

In terms of the main objectives of external audit, they are (Souad&Kahina:2022:25):

- Develop impartial and credible technical opinions regarding the financial statements of the concerned institution in accordance with known accounting principles.
- Feedback by giving evidence-based information to the organization's management on the quality of the internal control system in the organization and highlighting its shortcomings, through the recommendations submitted by the auditor in his reports in order to improve the performance of this system.
- Provide investors with credible financial data and information to help them make the necessary decisions.
- The sub-objectives of external audit are:
- Check for assets and liabilities.
- Verify that all assets, liabilities, expenses and revenues (have already been recorded) in the books and records are complete, i.e. there is nothing missing that is not registered.
- Verification of ownership: that all assets and property are owned by the institution, and that liabilities represent a real obligation of the institution.
- Valuation verification: that assets and liabilities have been valued at their appropriate value.
- Verify that the financial statements are presented fairly and honestly.
- Verifying the legitimacy and validity of all financial transactions.

1.3.1. The Importance of External Audit:

Auditing is a means, not an end, as it benefits all parties involved in the activity of the institution being audited. We will mention the importance of auditing for the owners of the institution and external parties (Misbah,2016:27):

For business owners :

- Early detection of errors and fraud due to the psychological impact left by the auditor's visits to the organization's employees, and therefore no attempt is made in the future to commit or get involved in them.
- Discovering gaps in the organization's internal control system helps the management to take corrective decisions.
- Facilitate the settlement of accounts.
- Facilitating the estimation of the sale price of the establishment in case its owners want to sell it to others.



- Increasing reassurance for the owners of the institution and ensuring the safety of their invested funds.

For external parties:

- It works to facilitate the task of taxation in linking the tax to the result of the enterprise's business.
- Auditing benefits government agencies and state agencies specialized in the planning and control process, as well as price-fixing and project supervision agencies.
- The audit helps different categories of institutions and the public that rely on the auditor's report and the published lists of joint stock companies, among them (investors, creditors, banks, insurance companies, and workers).

1.3.2. Impact of external auditing on quality.

quality of external auditing and its impact on the quality of performance.

Concepts related to the quality of external audit differed according to the different experiences that the external audit mission went through at the international level, and the different schools on which professionals relied, reports issued by it (Ouargla, 2013:35).

Audit quality according to the international standard for quality control: This standard deals with the responsibilities of the firm with regard to its system of quality control for the process of reviewing and examining the financial statements, other assurances and related services engagements, and this standard is applied to all offices of certified public accountants, and aims to (Sanaa,2020:58):

- That all audit offices be subject to professional standards and applicable legal and regulatory requirements.
- The reports submitted by the offices are appropriate.
- Importance of Audit Quality (Anani,2021:235):
- The external auditor aims to implement the audit process with the highest possible quality in order to give the highest levels of credibility to his report.
- Banks seek to ensure that they have reliable financial statements, which necessitates that the audit process be carried out at the highest level of quality.
- Executing the audit process at the highest level of quality is in the interest of all users of the financial statements.
- The quality of the auditing profession is a criterion for evaluating auditing firms in light of the fierce competition between those firms.

1.3.3. Methods and techniques for implementing external audit:

There are many methods and techniques that work to implement the external audit, which affects the quality of the performance of Iraqi banks, and the most important of these methods (Al-Manhal,2022:26):

- Inspection and actual inventory: The auditor must inspect the original on the ground and examine the documents proving its existence, and carry out measurement, counting and inventory operations, and this method is one of the most important and powerful means to verify the actual existence of the asset.
- Audit: This procedure aims to ensure the integrity of the accounting data and numbers recorded in the documents, books and financial statements, and that is only from an arithmetic perspective.
- Documentary review: Documents are papers that are considered a sound reference, on which the auditor relies to ascertain the actual occurrence of a particular incident.
- Examining and evaluating the internal control system: This procedure is one of the important procedures for the work of the auditor, and it must be done, through which the auditor can determine the scope of the audit process as well as estimate the extent of reliance on that system.

1.4. Impact Of External Auditing On The Quality Of Performance Of Iraqi Banks.

The objective of the external audit is to express a technical opinion in a neutral manner about the fairness of the expression of the financial statements in the Iraqi banks, and the consequent conferring credibility and confidence on the data contained in these lists, as the financial information disclosed by the Iraqi banks is useful and influencing the decisions of customers. Therefore, care and accuracy must be taken when providing such information in order for it to be of high quality, which leads to efficient decision-making (Buhafs,2018:65).

Banking work is subject to renewal and constant changes, as is the case with the standards of external auditing and accounting in the field of banks, as they change from time to time, which necessitates the existence of a continuous mechanism for dialogue between banking supervisors on the one hand and the external auditors of banks on the other hand in order to keep pace with the changes that occur. This dialogue takes place Through periodic meetings and panel discussions to discuss matters of concern to both parties, which works to provide an opportunity for external



auditors to express their point of view on the supervisory and banking policies in force or that will be applied in the future, and also allows banking observers to express their vision on accounting standards and auditing standards and their effectiveness and keeping pace with variables (Setif,2011:55).

This matter will raise the efficiency of the external audit of Iraqi banks and the regulatory and supervisory work, and the dialogue between the two parties can include important matters in the field of external audit of banks and the quality of the new standards that are supposed to be issued in conjunction with the new banking tools and products issued, and how to create harmony and coordination between external auditors and bank controllers (Souad&Kahina:2022:21).

The external auditor is considered as the third party that seeks to protect the rights of shareholders and control the activities of Iraqi banks. External auditing has a significant impact on the quality of performance of Iraqi banks, so the external auditor must be characterized by a set of characteristics that enhance its efficiency (Al-Masdar,2013:186).

1.5. Determinants of the efficiency of the external auditor:

Personal criteria: It is required that the auditor obtain an educational qualification and a sufficient amount of training and professional experience that enables him to carry out his work efficiently, as the quality of the audit is related to the ability of the external auditor to assume responsibility for the performance of his work, which is related to self-efficacy and professional development (Misbah,2016:25).

1.5.1. Field work standards: Effective control is a measure of business success and a means to facilitate the auditor's task in collecting evidence and forming his opinion. The more there is a clear delegation of responsibilities and separation of duties, the more effective the internal control system, and thus the audit quality increases and the auditor's efficiency in providing assurance services increases.

Reporting Standards: The quality of the auditor's opinion is affected by the type of audit evidence, and this is therefore due to the lack of confidence in official sources that require further examination, The more sufficient and reliable the evidence, the higher the quality of the auditor's reports (Buhafs,2018:58).

1.6. The use of the external auditor for internal audit work:

Internal audit is a function within banks that is based on evaluating the internal control system and examining banks' risk management and governance. This function evaluates the bank's work and provides guidance to

senior management, as the internal audit must be characterized by reliability and transparency in order for the external auditor to function properly.

External auditing has an important role and a great impact on the performance of Iraqi banks, because it has a great authority that governs the various financial operations. It thus ensures that things run in their natural and fair form away from various acts of fraud and forgery, and thus issuing reliable and transparent reports for Iraqi banks (Al-Naasan,2018:15).

2. RESULTS:

1. The study concluded the following results: The external auditor can improve the quality of auditing in Iraqi banks by relying on the work of the internal auditor.
2. The external audit aims to raise the efficiency of the performance of administrative and operational work in Iraqi banks, in addition to evaluating the internal control system and reaching the accuracy and completeness of the financial statements in various ways.
3. The departments of the internal audit departments in banks pay some attention to providing training programs that develop the capabilities, capabilities and information of the internal auditor in line with the performance of audit tasks with the required efficiency.
4. The quality of the external audit affects the internal audit within the banks.
5. The external audit helps provide an appropriate environment for making wise and quality decisions that enable the institution to apply its policies and procedures and achieve its goals efficiently and effectively.

3. RECOMMENDATIONS:

- 4.1. Work on activating the internal audit committees in Iraqi banks to take their effective role in detail with regard to the work of the internal audit through its non-executive members with experience in accounting and auditing, as their presence enhances the independence and quality of the performance of the internal audit departments.
- 4.2. Emphasizing the continued coordination of efforts between the work of internal audit and external audit in order to ensure comprehensive coverage of the field of work, reduce costs and time, and prevent duplication of work.

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