The Role of the Process of Studying and Analyzing the Challenges Associated With Collecting Audit Evidence in Improving the Quality of the External Auditor Performance

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Abstract
The study aimed to clarify the nature of the relationship between the practice of studying and analyzing the challenges associated with collecting auditing evidence and the quality level of the external auditor's performance. This study was based on a hypothesis that states that the careful analysis of these challenges will facilitate the task of the external auditor who responsible for collecting such evidence and improving the quality of auditing performance in the best possible way. In order to achieve the objectives of the study and test its hypotheses, a questionnaire was formulated by the researcher and distributed to a group of external auditors serving in audit offices in the Republic of Iraq, then collect and analyze data using a set of statistical methods and tools, and discuss the results that has been achieved.

The study reached a number of conclusions, the most important of which is that one of the most challenges facing the external auditor when collecting audit evidence is the problem of audit technology and lack the knowledge to keeping pace with technological programs and applications related to modern auditing compared to traditional auditing, in addition to the problem of weakness in audit wages and their disproportion with the size and level of activity of company whose financial statements are being audited.

Keywords: Audit Evidence, External Audit, External Auditor Performance, Audit Technology, Financial Statement.

Structure of the Study

1.1. Study Problem
The problem of the study represent by that although the audit evidence considered as the essence of the auditing work, a major and crucial stage of the audit practices model on which the quality of the auditor’s report depends, in addition to that it consider as a major indicator through which it is possible to judge the efficiency and effectiveness of the accounting information system applied for business organizations, in contrast of that, it is noted that there are many challenges and difficulties facing the external auditor in collecting such evidence, which clearly effects on the quality of the external auditor's duties and the results that are reached.

In the light of this problem, the following questions can be formulated, that represent the most important challenges facing the external auditor:

▪ Does the external auditor require sufficient knowledge of audit technology in order to deal with electronic evidence in auditing along with its traditional counterpart to judge the effectiveness of the accounting information system for the entities subject to audit?

▪ Does the level of accounting and auditing culture of the entities subject to auditing and the degree of their familiarity with local and international standards in accounting and auditing effect on the level of sufficiency and appropriateness of the audit evidence collected by the external auditor?

▪ Does the size of the entity subject to the audit, the level of complexity of its activities and financial operations effect on the quantity and volume of audit evidence required to be collected by the external auditor?

1.2. Study Hypothesis
The study is based on a main hypothesis that state “the process of studying and analyzing the challenges associated with the task of collecting audit evidence by the external auditor before starting the task of audit...
engagement can reflect in a set of positive results, including improving the quality level of the external auditor’s performance and his opinion in auditing report”.

From the main hypothesis the following subsidiary hypotheses can be derived:

- \( H_1 \) There is a significant statistical correlation between the task of studying and analyzing the challenges in collecting audit evidence and the quality level of the external auditor performance.
- \( H_2 \) There is a significant influence of the task of studying and analyzing the challenges in collecting audit evidence on the quality level of the external auditor performance.

**1.3. Objectives of the Study**

The study seeks to achieve the following objectives:

- Formulating a conceptual framework adopting the concept of external audit and one of the most important modern literatures that has recently increased interest in auditing represented by the audit evidence.
- Identify the nature of the relationship between the task of studying and analyzing the challenges in collecting audit evidence and the quality level of the external auditor’s performance.
- Highlight on the most important results that can be achieved from the study and analysis of the challenges associated with the task of collecting audit evidence in relation to auditing practices.

**1.4. The Importance of Study**

The study derives its importance from its variables as dealt with the audit evidence in accordance with the requirements of International Standard of Audit Evidence (ISA 500), that obtains by the external auditor through a combination of examining the internal control system and objective tests of transactions and records of the economic activities to the entities subject to the audit, that significantly increased interest in it, by the regulatory authorities due to its role in the success and strengthening of the final opinion of the external auditor and improving the quality level of the auditing report.

**1.5. Study Methodology**

To achieve the objectives of the study, the researcher followed the deductive research approach to building, defining the sections and chapters of the study and formulating their hypotheses, the descriptive analytical approach in diagnosing the nature of the relationship between audit evidence (independent variable) and the quality of the external auditor performance (dependent variable) through the analytical study that was conducted on a group of external auditors that serving in the auditing offices, then the inductive research approach to test the validity of the hypotheses and discuss the results of relationship between variables, whether positive or negative.

**1.6. Tools & Sources of Study**

The study relied on the following sources:

- Official documents and reports issued by local and international accounting and auditing societies and boards.
- Text books in English & Arabic language.
- Academic Theses and dissertations that related to study variables at the local and international levels.
- Scientific articles and paper published in academic journals, local and international conferences & symposiums
- Internet sources.

**1.7. Study Model**
Depending on the main research problem and hypothesis, a study diagram was formulated, that describes the nature of the relationship between the study variables (independent variable) represented by the audit evidence and (dependent variable) represented by the quality of the external auditor performance.

Figure 1.1. Study Model
Source (Prepared by the researcher based on study literature)

2. Literature Review
This section presenting the effort of authors and scholars that are related to the variables of study. For this reason, the current study variables are listed in the following subheadings:

2.1. The Concept of Audit Evidence
Due to the importance of the audit evidence, some of the various auditing boards and associations, accountants and auditors have defined this term. The International Auditing and Assurance Standards Board (IAASB) define audit evidence as mentioned in The International Auditing Standard No. (500) “information that the auditor uses in order to reach a conclusion based on it giving his neutral and technician opinion, its include all information related to the accounting records and statements, as well as the information reached through other sources”.

https://www.ifac.org 2010-iaasb -isa-500

According to the opinion of (Noureddine A., 2015:p. 69), the audit evidence defined as “All financial and accounting evidence obtained by the auditor and other information that supports his opinion about the fairness and validity of the financial statements as a whole”.

In view of the developments that have occurred in information technology and the communications revolution, the electronic evidence in auditing has emerged as referred to by the Canadian Institute of chartered Accountants (CICA) “information that is extracted, recorded, processed, and saved electronically to support and enhance the auditor’s opinion about the honesty and fairness of the financial statements”. (Paramanathan S., 2014: p.4)

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From the definitions mentioned above, the researcher defines the audit evidence as “It is a set of correlated and comprehensive data and information resulting from different sources, that the auditor concludes to help him in process of judge about the correctness and honesty of the financial statements”.

2.2. The Importance of Audit Evidence:
According to the opinions of many authors, the importance of audit evidence can be summarized as follows: (Dina D., 2010: P. 35); (AL-Qadi H., 2014 : P.367)
- It is considered as main essence on which the auditor relies in expressing a neutral technical opinion regarding the correctness of the financial position and the fairness of the company's financial statements.
- Through the level of quality of such evidence, it is possible to assessing the level of external auditor competence who is responsible for collecting such evidence and to judge the level of accounting and auditing culture for parties responsible for providing this evidence.
- The availability of sufficient, appropriate and accurate auditing evidence supports and enhances the position of the entity subject to audit and increase the confidence, reduce the expectations gap between this entity and its internal and external users especially investors and creditors.
- The strength and credibility of the auditing evidence affects directly on the strength and honesty of the final auditor's report that prepare by external auditor.

2.3. Qualities of Audit Evidence
It can be said that efficient auditing evidence should have the following characteristics: (Al Magrabi, M., 2016 : P.117); (Paramanathan S., 2014: p.15)
- Appropriateness: it means the validity of the auditing evidence and its ability to assist the auditor in concluding his technical opinion about fairness of accounting transactions. It includes several sub-characteristics, namely: the extent to which the evidence is related to the subject of the audit, the extent to which it can be relied upon, the degree of reliability of such evidence.
- Sufficiency: it means that the evidence is sufficient and appropriate, in accordance with the data and statements to be audited, and is sufficient to support the auditor's opinion regarding the fairness of the financial statements.
- Contentment: Conviction means that the evidence owns highest degree of conviction for the parties interested in the audit process, through the evidence and confirmations obtained by the auditor to support his opinion.

On the other hand, it is noted that the electronic evidence in auditing must possess the following characteristics: (Mansour S., 2016:p.133)
- Attestation: It means the possibility for the external auditor to use the authentication system with the entity subject to audit or with the production of such electronic information.
- Honesty: Under the heading of honesty, there are several characteristics which include comprehensiveness, accuracy, objectivity, and legality of the information. Therefore, the auditor can verify the legality of the information and that it has not undergone any changes or distortions when it was formed, processed, transferred or saved.
- Authority: It means the auditor's ability to ensure that the information is prepared, modified, corrected, sent, received and accessed only by authorized person.

2.4. The Concept of External Audit
In normal case, an external audit will seek to identify the condition of a company and its economic operations during a specific period of time. The Sarbanes-Oxley Act of 2002 imposed strict requirements on external auditors in collecting efficient auditing evidence, assessing internal controls and evaluating financial statement of companies that subject to audit.
An external audit can be defined as “a practice via which an independent person examines the accounting records related to business transactions and activities. In the majority of cases, an external audit will take place according to the legal and conditions”. (SOCPA, 2020: p. 16).

While some opinions defined this term as “a financial review that is achieved by a person not associated with the company that is voluntarily or involuntarily under audit, this practice takes place within a defined set of standards, rules and policies. Its final results submitted and used by shareholders, creditors, government agencies, and others parties” (Noureddine A., 2015:p.54).

External auditors are usually appointed by shareholders of business at the annual general meeting of the company. In addition to that, external auditor are usually chosen based on his skills, experiences, qualifications, academic, practical certification and reputations. As a result, auditor depends on evidence in order to express his final opinion in the audit report, whether financial reports of company present honestly, in all material respects, in accordance with the national and international accounting standards and rules. (AL- Qadi H. , 2014 : P.380)

3. Research Methodology

To achieve the study goals and test its key hypothesis, the researcher designs and adopts a survey for this analysis by creating a questionnaire that includes a set of questions aimed at the respondents to develop, appropriate data and properly analyze it. it involves a collection of questions that fit the respondents' expectations and opinions. The sampling method used in this study is simple random sampling as there is no distinction between employers within the company; the selected population of this study consists of 107(external auditors) who working in auditing offices in the republic of Iraq and they have the same opportunity to participate in this process. In terms of the questionnaire structure, it consists of two parts, the first section include demographic data for respondents while the second section relates to studying and analyzing the data of the study and examining, testing its main hypotheses.

To get specific answers, all questions were better listed and explained to the respondents in full. The questionnaire consisted of 50 questions from which the external auditor is required to choose the option to be deemed acceptable by using the 5-likert scale to tick appropriately. Only the 107 completely completed out of 120 questionnaires given, and only used for data processing. The questionnaire was submitted, and subsequently collected electronically on time by implementing the Google form application.

3.1. Demographic data for respondents

This section of the analysis offers general knowledge on the respondents. The key information includes; gender, educational qualification level, years of work experience and professional jobs.

<table>
<thead>
<tr>
<th>Table 3.1. Public Information of Respondents</th>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>79</td>
<td>73.8 %</td>
</tr>
<tr>
<td>Female</td>
<td>28</td>
<td>26.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>107</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Qualification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.Sc.</td>
<td>12</td>
<td>11.2%</td>
</tr>
<tr>
<td>Higher diploma</td>
<td>5</td>
<td>4.7%</td>
</tr>
<tr>
<td>M.Sc.</td>
<td>28</td>
<td>26.2%</td>
</tr>
<tr>
<td>Ph.D.</td>
<td>62</td>
<td>57.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>107</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Scientific Specialization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>19</td>
<td>17.8%</td>
</tr>
<tr>
<td>Accounting and financial control</td>
<td>3</td>
<td>2.8%</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
<td>8</td>
<td>7.5%</td>
</tr>
<tr>
<td>Chartered Accounting</td>
<td>75</td>
<td>70.1%</td>
</tr>
<tr>
<td>Banking and Financial Sciences</td>
<td>1</td>
<td>0.9%</td>
</tr>
<tr>
<td>Business Administration</td>
<td>1</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

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### Working Experience

<table>
<thead>
<tr>
<th>Experience</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 years</td>
<td>17</td>
<td>15.9%</td>
</tr>
<tr>
<td>5 - 10 years</td>
<td>18</td>
<td>16.8%</td>
</tr>
<tr>
<td>11 - 20 years</td>
<td>26</td>
<td>24.3%</td>
</tr>
<tr>
<td>20 years &amp; above</td>
<td>46</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Professional job.

<table>
<thead>
<tr>
<th>Professional Status</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed Chartered Accountant</td>
<td>98</td>
<td>91.6%</td>
</tr>
<tr>
<td>Unlicensed Chartered Accountant</td>
<td>9</td>
<td>8.4%</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100%</td>
</tr>
</tbody>
</table>

### 3.2. Testing of Hypothesis and Results

This part include the testing of hypothesis of study, a particular statistical method was used by the researcher to summarize, analyze and testing relationships between study variables as simple linear Correlation and simple linear regression.

**Testing of hypothesis 1**

- $H_0$ There is no significant statistical correlation between the task of studying and analyzing the challenges in collecting audit evidence and the quality level of the external auditor performance.
- $H_1$ There is a significant statistical correlation between the task of studying and analyzing the challenges in collecting audit evidence and the quality level of the external auditor performance.

#### Table 3.2. Testing Statistical Correlation Of Study Variables

<table>
<thead>
<tr>
<th>Correlation coefficient value</th>
<th>Correlation test via t-test value</th>
<th>Degrees of freedom in t-test</th>
<th>T-Distribution Table</th>
<th>indication</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.62</td>
<td>8.10</td>
<td>105</td>
<td>1.97</td>
<td>There is a direct correlation</td>
</tr>
</tbody>
</table>

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**Figure 3.1. Scientific qualification of selected sample**

Source (Prepared by the researcher based on data presented)
From the table above, it is noted that The Correlation test via t-test value was (8.10) that is bigger than its tabulated value at the level of significance (0.05) and a degree of freedom in t-test (105), which is (1.97). This indicates the rejection of the null hypothesis and acceptance of the alternative hypothesis that states “There is a significant statistical correlation between the task of studying and analyzing the challenges in collecting audit evidence and the quality level of the external auditor performance”.

Testing of hypothesis 2
- $H_0$ There is no significant influence of the task of studying and analyzing the challenges in collecting audit evidence on the quality level of the external auditor performance.
- $H_2$ There is a significant influence of the task of studying and analyzing the challenges in collecting audit evidence on the quality level of the external auditor performance.

<table>
<thead>
<tr>
<th>Table 3.3. Testing Statistical Influence of Study Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant value</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>1.75</td>
</tr>
</tbody>
</table>

From the table above, it is noted that F value (64.16) that is bigger than F - Distribution Tables at the level of significance (0.05) and a degree of freedom (105), which is (3.96). This indicates the rejection of the null hypothesis and acceptance of the alternative hypothesis that states “There is a significant influence of the task of studying and analyzing the challenges in collecting audit evidence on the quality level of the external auditor performance”.

One – sample t-test
One – sample t-test is the test of the arithmetic mean with the hypothetical mean. the test compares the arithmetic mean with the hypothetical mean. If the arithmetic mean is bigger than the hypothetical mean, this means that the moral degree is in favor of the arithmetic mean, that is, the application of the section is positive, but if the arithmetic mean is smaller than the hypothetical mean, this means that moral degree is in favor of the hypothetical mean, that is, the application of the section is in the negative way, i.e. the reverse.

<table>
<thead>
<tr>
<th>Table 3.4. One – Sample T-Test &amp; Arithmetic Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>arithmetic mean</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>Task of studying and analyzing the challenges in knowledge of audit technology</td>
</tr>
<tr>
<td>Task of studying and analyzing the level of accounting and auditing culture of the entities subject to auditing</td>
</tr>
<tr>
<td>Task of studying and analyzing the level of complexity activities and financial operations effect of the entities subject to auditing</td>
</tr>
<tr>
<td>Quality level of the external auditor performance</td>
</tr>
</tbody>
</table>

through the results of correlation and regression, in which all the sub-hypotheses were examined and accepted, as well as the results of the one sample t-test, all of which were also accepted in a positive way, we conclude from that the proof of the main hypothesis, which states:” the process of studying and analyzing the challenges associated with the task of collecting audit evidence by the external auditor before starting the task of audit
engagement can reflect in a set of positive results, including improving the quality level of the external auditor’s performance and his opinion in auditing report”.

4. Conclusions & Recommendations
Based on the findings of this analysis the researcher made the following conclusions:

1. One of the most important challenges facing the external auditor in the process of collecting auditing evidence is those related to audit technology, due to the weak infrastructure for audit offices that serving in the Republic of Iraq and the lack of sufficient knowledge to keeping pace with applications and programs related to modern auditing and confining to traditional auditing practices only.

2. Most of the auditing staff that working in business organizations subject to audit, lack the required level of accounting and auditing culture and insufficient knowledge of auditing standards at the local and international levels, this represents a major obstacle for the external auditor in dealing with these staff in order to obtain sufficient and appropriate evidence.

3. The entities subject to the audit are required to take into consideration the audit fees for the external auditor in a manner that is commensurate with the size of activities that are audited and the level of complexity of those activities, this reflected positively in relation to the task of collecting evidence by the external auditor.

4. The task of collecting evidence is not limited only to the external auditor, but rather requires integrated cooperation with all parties for the entities subject to audit and providing adequate support by senior management in order to facilitate the task of collecting such evidence in a way that enhances the quality level of the final audit report to judge fairly on the financial statements.

5. Obtaining efficient evidence from the external auditor, does not mean an absolute judgment on the integrity and fairness of the financial statements, due to reliance on the sampling method, which saves time against the element of accuracy and the volume of transactions and records that require review and audit for the entity subject to the audit.

6. The external auditor should adhere to the international standard on auditing (300) planning before embarking on the task of engagement to the audit in order to study the nature of the activity and size of the entity audited and to determine the required team, experts to complete the task of examining the internal control system and preparing the audit report in a correct manner.

REFERENCES

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**Internet Sources.**