

The role of the external auditor in providing credibility to the financial statements

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Abstract:

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Practical importance: It is represented in identifying the extent of the impact of investment aid on an impartial basis. The external reference, in addition to shedding light on the types of aid The consultancy provided by the external reference. Practical importance: This study is considered an objective vision to determine the extent of the need of the Iraqi environment. For reference offices to expand the scope of their professional assistance, and the extent of the capacity of this assistance. To meet customers' needs.

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Introduction

The external auditor plays an important role in providing confidence in the financial data contained in the financial statements. Management is responsible for completing the facility's financial statements. Management may sometimes deviate from generally accepted accounting principles or commit fraud to hide poor performance or raise profits to increase its share of incentives and support. Its functional positions. The reliability of the financial statements can be increased when they are reviewed by an independent third party, known as an auditor or auditor, who examines the financial statements to express his opinion as to whether these statements fairly express, in all their necessary aspects, the financial position of the facility and its results, and that they have been prepared in accordance with the standards. Generally speaking, if this opinion is written by independent auditors, external decision makers may have no other way to know whether the financial statements will serve their purposes and can be relied upon.

Therefore, there is a point of view towards auditing that it is an activity to reduce risks, and the definition that supports this opinion is that auditing is the process of reducing risks in data to a socially acceptable degree and presenting them to users of financial statements, as the economic activity occurs under conditions of business risks, which are the risks that the company expects. Such as an increase in

inflation, the occurrence of an employee strike, or similar independent risks. On the contrary, there are independent possibilities for positive events to occur. Auditors do not directly affect the business risks facing the facility. Data risk is the possibility that the financial statements published by an organization will be wrong. Or misleading, as financial analysts and investors rely on financial reports to make decisions to buy and sell securities on the stock exchange, and creditors, suppliers, banks, and others also use them to decide whether or not to grant commercial or imposed credit to establishments.

In this research, the researcher deals with the concept of external auditing and its importance, as well as analyzing the nature of interest in some of the most important Arab countries in implementing the mandatory change of the external auditor, as this interest will be reviewed in both the Kingdom of Saudi Arabia and the Arab Republic of Egypt:

The concept of external audit

It is defined as a job carried out by a supervisor or an independent professional institution whose goal is to review the final data and express a professional opinion about the fairness of those data.

It is also known as the external auditor's legal commitment to the stakeholders of the financial statements, and it is known as the follow-up and verification carried out by an external party that is completely independent and impartial from all parties related to the financial statements.

The researcher believes that the external audit is the process of careful and in-depth examination of the work elements in general and of the administrative and financial structure.

Second: The importance of external audit:

The importance of auditing appears in that it is a tool that serves large groups that rely heavily on the financial statements approved by the external auditor. These groups are represented in the following:

- Management and members of the Board of Directors: The primary goal of auditor assessment is to obtain data that enables them to review performance and evaluate the process of completing reports on complex financial operations.

- Total shares: They seek to obtain data that enables them to address the issue of legal management.

- Current and potential bondholders: This category needs data to help them evaluate the degree of risk in the institution.

- Employees' group and workers' unions: This group needs data to enable them to estimate profitability.

Objectives of external audit:

The objectives of the external audit have evolved to develop economic and social conditions, and among the objectives that the external audit seeks to achieve are:

Main objectives:

The main objectives of external audit are as follows:

- The primary goal of the external audit process is to express an impartial technical opinion about the veracity of the financial statements' expression of the results of the financial position's activities.

- Providing the organization's users with data on internal control systems and highlighting their shortcomings

- Providing users of financial statements, investors, banks, and others with data.

Special purposes:

These objectives are used as simple objectives that cross a link between audit standards and

procedures. These objectives are as follows:

- Verifying existence: that is, the assets and liabilities actually exist.
 - Verifying completeness: means that all assets and liabilities have been recorded in the books.
- Verifying ownership: means that all assets owned by the organization on a specific date.

Liabilities represent an obligation on the institution.

- Valuation verification: assets and liabilities have been evaluated.
- Verifying that the financial statements are presented honestly and fairly.

Others also believe that the objectives of external audit are as follows:

- Checking the project's accounts and completion to ensure that all operations are recorded correctly

- Detecting errors and fraud cases.
- Preventing errors and fraud through careful design of internal control systems.
- Responsibilities of the external auditor
- The external auditor's legal responsibility towards his clients:

- The auditor is legally responsible towards his client, that is, the institution whose accounts he audits. The relationship between the auditor and his client is governed by the contract concluded between them or any other documents or letters that determine the nature of the process. The auditor bears responsibility for violating the provisions of that contract or other documents to clarify the nature of the process. For the client, it specifies the limits within which the auditor must work, and in the event that he does not exercise this professional care, they have the right to request compensation for the damage that may result from that, thus placing the auditor before civil liability.

Mandatory change of external auditor in Arab countries:

Mandatory change in the Kingdom of Saudi Arabia

Ministerial Resolution No. 903 in the Kingdom of Saudi Arabia obligated joint stock companies to change the audit office every three years, and it can continue for an additional two years if another office joins it as a partner, meaning that there should be two audit offices in the fourth and fifth years. Recently, Ministerial Resolution No. (Q/ 622) dated 8/8/1429 AH corresponding to 9/1/2008 AD and is effective as of 8/31/2008. The decision stipulated the amendment of Paragraph (8) of the controls attached to Ministerial Resolution No. (93) so that it was stated in the Mubarak 2010 study that: The period of review of a joint-stock company carried out by the audit office must not exceed five continuous years, and a period of two years must elapse before it is resumed. It is reviewed by the office itself. The review period for joint stock companies that maintained an audit office on the effective date of this decision is calculated as five years or more as of May 10, 2005 AD.

Mandatory change in the Arab Republic of Egypt:

The Financial Supervisory Authority was established pursuant to Law No. (10) of 2009 to carry out many obligations, including what was stated in Section Seven under the title (Corporate Governance Rules), which emphasizes the necessity of appointing an external auditor from among those registered in the Financial Supervisory Authority's register to renew it. It is changed every six years after that. The Authority may remove the external auditor from the Authority's register of external auditors if he violates his obligations stipulated in the rules of corporate governance, as well as take any measures against him, in accordance with the provisions of the applicable laws and regulations of the decision of the General Board of Directors of the Capital Market for the year 2007 AD.

Opinions for and against implementing the mandatory change policy for the external

auditor:

Many studies have analyzed the impact of implementing the policy of mandatory change for the external auditor, but they have reached conflicting points of view, which necessitated presenting this conflict of points of view through the following two points:

A- Viewpoints supporting the mandatory change of the external auditor.

B- Viewpoints opposing the mandatory change of the external auditor.

A- Viewpoints supporting the mandatory change of the external auditor:

Mautz believes that as a result of the long contract period between the external auditor of the company being audited, familiarity between them increases, which makes the auditor more compatible with the accounting treatments seen by the management of the company being audited, and more compatible with the necessary decisions it issues regarding the completion of the financial statements. On the other hand, the external auditor's fear is noted that the loss of the company being audited will reduce the degree of his professional impartiality during the implementation of the audit process. This was supported by Broody in his study, where he believes that the length of the contract period may have a negative impact on the impartiality of the external auditor, and that the external auditor needs to change the company being audited after a certain period in order to enable his professional neutrality, which emphasizes the importance of implementing the change. It is mandatory for the external auditor to be appointed periodically, as stated by (Benson 2002) in his study that the external auditors must be changed after a specific period of the contractual relationship between him and the company being audited, because this has a positive impact on the auditor's ability to resist the pressures exerted by the management of the company being audited, i.e. Support and enable the degree of professional impartiality in implementing the review process.

In light of the above, the researcher believes that whoever has a point of view in favor of the mandatory change of the external auditor believes that it came to empower his professional neutrality in exchange for the gradual erosion to which his professional neutrality is exposed in light of the lengthy period of the contract between him and the company being audited.

B- Viewpoints supporting the mandatory change of the external auditor:

Arrandada Andpaz believes that the continuation of the relationship between the external auditor and the company under review supports his professional impartiality because the length of the contract period has a positive impact on the amount of knowledge associated with the activities of this company, which provides him with a greater opportunity to discover material misstatements, in addition to the length of the contract period. The expenses of carrying out the audit process decrease, which positively affects the net profits he obtains, and this has a positive impact on his exercise of due professional care, and then reflects positively on the external auditor's view of the management of the company being audited.

Accordingly, the researcher believes that opponents of the mandatory change of the external auditor are based on the lack of evidence proving the positive impact of this change on the impartiality of the external auditor. Rather, it has a positive impact on the impartiality of the professional as a result of the increase in expenses, and the resulting attempt to reduce these expenses by reducing the number of hours. The review process, or by reducing fees, aims to attract the company under review to contract with him, which reflects negatively on his professional impartiality.

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