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Joint Audit and its Impact on The Quality of External Audit: Evidence from Iraq

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Abstract:

Purpose: This research aims to identify the concept, importance, and objectives of Joint Audit (JA) and the impact of JA on Audit Quality (AQ).

Theoretical framework: This researcher relied on the basic concepts of agency theory and the problems emerging from it, as the JA came to reduce these problems in a way that contributes to achieving AQ.

Methodology: This researcher relied on the questionnaire form to collect information, using the statistical program SPSS to analyze the questionnaire forms. The study included the JA variable as an independent variable. In contrast, the dependent variable included AQ in terms of the dimension of the auditor's independence, the auditor's performance, and the quality of his report.

Results: This research reached a set of conclusions, the most important of which is that the JA impacts the auditor's performance and the quality of the audit reports that the auditors.

Research, Practical & Social implications: JA positively impacts the degree of reliability of financial statements.

Value/originality: This study adds knowledge and contributes to the limited literature on JA and AQ, especially in Iraq. The study underscores critical insights from the audit market in emerging countries.

Keywords: Joint Audit; audit quality; auditor independence.

JEL Classification: M4, M40, M41, M42.

Authors' individual contribution: Conceptualization — N.G.A.R.; Methodology — N.G.A.R.; Formal Analysis — N.G.A.R.; Investigation — N.G.A.R.; Data Curation — N.G.A.R.; Writing — Original Draft — N.G.A.R.; Writing — Review & Editing — N.G.A.R.; Visualization — N.G.A.R.; Supervision — N.G.A.R.; Project Administration —N.G.A.R

1. Introduction:

With the increasing dynamism of economic conditions and the increasing needs and expectations of stakeholders regarding the integrity and reliability of financial statements, the topic of improving AQ remains one of the research trends in which researchers are intensely interested, as well as professional organizations and legislative and supervisory bodies (Bakri, 2024). Therefore, the need arose to provide a set of mechanisms that would support and enhance confidence in the quality of the audit process carried out by the auditor. As a result of the response to previous events, the European Commission's proposals in 2010 were the Green Paper entitled Audit Policy Lessons from The Crises to discuss ways to enhance the AQ through a set of proposals aimed at addressing the loss of confidence in the auditor and the auditing profession after the aftermath of the global financial crisis (Thijee et al., 2018; Ghalib et al., 2020). Among these proposals presented by the Green Paper is to oblige joint stock companies listed on the stock market to conduct JA to enhance AQ and encourage competition between audit offices by assigning two auditors to carry out the stages of the audit process together and issue a JA report (Arsyad & Natsir, 2023). On 10/30/2011, the European Commission announced its support for the optional activation of JA due to its positive impact in enhancing the auditor's independence, professional skepticism practices, and AQ (Qader & Cek, 2024). Adopting JA has been raised as a possible way to improve AQ (Flayyih et al., 2024). This can only be done if the appropriate environment is available, the basis of which is the auditor's independence without any pressure being exerted on him by the entity subject to the audit, as the traditional auditing profession faces many challenges, including restrictions and limitations that the company's management may impose it to influence the auditor's opinion. The most important feature of the JA is that both audit offices must sign the audit report; if one refuses to sign, the audit report cannot be issued (Abass et al., 2023). Moreover, this makes the auditor more independent and impartial (Francis, 2023). Many professional organizations specializing in accounting and auditing have enacted laws that support JA, as it is one of the exciting topics related to increasing the quality of the auditor's professional performance and making their role more effective in reducing the occurrence of financial crises. The issuance of the International Auditing Standards Board represents the most essential form of this support. (IASB) Auditing Standard No. (600) regarding using the work of another auditor. This standard clarifies the instructions for auditors when applying JA (Hubais et al., 2023). JA, both mandatory and optional, is one of the methods that audit offices seek to follow when auditing large companies, which contributes significantly to raising the quality of the professional performance of audit operations and enhancing confidence for users of financial reports after the crises that affected central international audit offices (Hichri, 2023). Margaret et al., (2023) indicate that the professional organizations that apply JA have differed in the method and mechanism of application, between mandatory or optional, due to the additional costs associated with the process of applying JA on the one hand and the nature of the auditing environment for each country on the other hand. Concerning the impact of JA on the quality of the auditing process, the accounting thought literature has confirmed that applying JA contributes to improving the AQ by providing financial and auditing reports that are understandable, which leads to improving the economic decisions of users of these reports, and facilitates the procedures for internal auditing of companies, limiting their profit management practices, and reducing opportunities for manipulation of the results of operations, which is reflected in increasing the company's profitability, as well as maintaining the company's stability and growth (Juliyanti Sidik Tjan et al., 2024). The JA is based on two different auditing companies auditing the company's accounts and financial statements and distributing the audit work between them, with joint responsibility for the information in the audit report.

The audit process program is divided into the planning stage, the stage of collecting and interpreting evidentiary evidence, and the stage of preparing the audit report. According to certain principles, each audit office performs the assigned tasks, after which a unified joint report is issued and signed by the two partners, with joint responsibility for the information in this report (Muterera & Brettle, 2024). JA is a tool that confirms the quality of the audit process. It means that independent auditors perform the process of auditing the financial statements of the same company and that they prepare the unified audit report, which is mandatory in many countries, including the State of Sweden and Egypt, where the company replaces the audit selects one of the auditors. The Financial Supervision Authority selects the other auditor. The researcher believes that despite the interest in accounting procedures in JA and its impact on the AQ, the researcher believes that the issue of studying the interactive effect and the relationship between them has not been addressed, to the researcher's knowledge, directly in the Iraqi business environment. Hence, the research problem lies in the following questions: 1) Does the JA impact the external auditor's independence? 2) Does the JA impact the quality of the external auditor's report?

2. Literature Review And Hypotheses Development:

The study (Hima et al., 2024) aims to identify the impact of JA on the quality of the auditing process. The researchers used a questionnaire form to collect information. The subject of the research was several bank managers and auditors. The researchers relied on the statistical program SPSS to analyze the research data. The study reached several conclusions, the most important of which was a positive relationship between JA operations and AQ. At the same time, the aim of the study (AbuRaya, 2023) is to study the impact of JA on the relationship between AQ and the audit committee. This study was conducted in Egypt, and the study sample represents several non-financial companies listed on the Egyptian Stock Exchange. The researcher relied on financial statements from 2016 to 2020. The study concluded that the audit committee is independent and that the audit company's size hurts the audit's quality.

As for the study (Van der Zahn, 2023), it aims to identify the extent of the impact of changes in audit offices after abolishing the mandatory JA requirements on the delay in audit reports, as well as identifying the role of JA in determining the change in the delay in audit reports, and determining the quality of the audit, and this study was conducted. On a group of 132 companies listed on the Kuwait Stock Exchange from 2015 to 2019, one of the most important findings of this study is that there is a significant negative correlation between the quality of the JA and the delay in audit reports. There is no significant correlation between the delay in audit reports and the quality Type of individual audits. While the study (Nurunnabi et al., 2020) aims to identify the relationship between local auditing firms and the major Big4 auditing firms represented by PwC, KPMG, Ernst, Young, and the study concluded that the Big4 auditing firms have mutual relationships among themselves and that the relationship of these Big4 firms with Other international and local auditing is weak, and 68%) of the auditing market is controlled by the Big4 auditing firms. The study (Mahmoud Hussein Nashwan, 2023) indicated the impact of electronic brainstorming on the JA team in enhancing audit efficiency. The researcher relied on the descriptive analytical approach to reach logical results in his study. The study sample represented several auditors in Palestine, and the study concluded that there was a significant impact. Electronic brainstorming for JA effectively increases the ability to detect fraud, and JA contributes to raising the efficiency of the auditing process.

The study (Mnif & Salamn, 2022) aims to study the impact of the JA on improving the quality of the electronic auditor's report in Iraqi banks by studying whether the banks that the JA audits enjoy high quality in the electronic audit report of the banks, which one/single auditor audits. The study sample represented several 10 Iraqi banks from 2015 to 2020. This researcher relied on SPSS statistical analysis to analyze the financial statements. The study concluded that the companies that JAors audit the electronic audit report it issues are of higher quality than

banks that individual auditors audit. Additionally, the electronic audit report is more understandable and faithfully represents banks that use JA.

The study (Mohanty, 2023) aims to identify the impact of JA operations on AQ. This study was conducted in India and concluded that JA improves the AQ. In addition, JA has a negative impact on AQ. The study (Malekian et al., 2024) aims to identify the impact of JA on the relationship between AQ and earnings management. The research community was represented by Iraqi banks listed on the Iraqi Stock Exchange, which numbered 44 banks. The research sample consisted of 15 banks, and the study concluded there was no correlation between earnings management and AQ. Moreover, one of its conclusions is that JA moderates the relationship between earnings management and AQ.

The study of (Elmashtawy et al., 2023) aims to evaluate the impact of JA on the relationship between AQ and audit committees. This study was conducted in Egypt, and the sample represented several non-financial companies listed on the Egyptian Stock Market, numbering 61 companies, and the financial statements were approved. For the period from 2016 - 2020, the study concluded that JA significantly and positively impacts the relationship between AQ and audit committees. Based on the literary contributions, we developed the following hypotheses to appropriately deal with the research variables and provide answers to the research questions. The hypotheses of the current research are as follows:

H1: There is no effect of a JA on the auditor's independence.

H2: There is no effect of the JA on the auditor's performance and the quality of the issued reports.

3. Methodology:

3.1. Sample:

The research community consists of several auditors working in audit offices in Basra, Maysan, and Dhi-Qar governorates, who number 52 auditors. The number of questionnaires distributed reached (100) questionnaires distributed to the research sample, and the forms received and suitable for analysis are 81 questionnaires, and thus the response rate is (81). Approximately %) and this percentage is considered acceptable for generalizing its results to the research community to achieve the research objectives. A descriptive analytical approach was used, through which it attempts to describe the phenomenon that is the subject of the research and analyze its data, as well as the relationship between its components, the opinions surrounding it, the processes it includes, and the effects it produces. The research methodology aims to identify the impact of JA on the quality of external auditing. Therefore, the importance of the research comes from the increasing level of auditors' interest in JA to address the problems and difficulties facing the low level of effectiveness of professional performance and to raise the efficiency and effectiveness of auditing performance. This research deals with the topic of JA, one of the recent trends focused on advancing the auditing profession. This research is expected to contribute from a practical perspective to urging professional organizations related to the Iraqi environment to issue decisions that encourage adopting the JA approach between auditors.

2.3 Statistical methods:

To achieve the research objectives and analyze the collected data, many appropriate SPSS statistical methods were adopted using the statistical packages for the social sciences. The data was coded and entered into the computer according to the five-point Likert scale, and to determine the length of the five-point Likert scale period (lower and upper limits) used in the research hypotheses, the range $(5-1 = 4)$ was calculated and then divided by the number of five periods of the scale to obtain the length of the item, i.e. $(5/4 = 0.8)$. Then, this value was added to the lowest value in the scale (which is the correct one) to determine the upper limit for the first period, and so on. Table (1) below shows the most extended periods.

Table (1): Scale items

Interval	1.8-1	2.6-1.8	3.4-2.6	4.2-3.4	5.0-4.2
Response	Not important	Not very important	Neutral	Important	Very important
Score	1	2	3	4	5
Relative average	%36-%20	%36-%52	%52-%68	%68-%84	%86-%100

4. Results:

4.1. Descriptive results:

4.1.1. Results of Joint Audit:

This hypothesis states (that there is no effect of the JA on the auditor's independence), and after analyzing the answers of the research sample members to the questionnaire forms, the means and standard deviations for this hypothesis are found. The results are as in table (2).

Table (2): Descriptive statistical analysis of the JA's impact on the auditor's independence

Influencing factors	Mean	Standard deviation	Rank	Relative importance
Applying JA leads to exchanging expertise in different technical specializations between the audit offices participating in the audit process.	3.428	1.015	3	Medium
JA negatively impacts the auditor's independence because each audit office may seek to gain the approval of the entity subject to the audit and collude with it, thus reducing the quality of the audit process.	3.119	0.967	9	Medium
Adopting JA leads to the emergence of the problem of opinion marketing as a result of the possibility of the management of the company being audited purchasing the opinion of one of the two audit offices and influencing it, which affects the auditor's independence.	3.214	0.842	8	Medium
The JA reduces the financial pressure on the auditor of the company being audited, improving the AQ.	3.404	1.037	4	Medium
JA reduces the possibility of collusion between the auditors and the company being audited.	3.285	1.031	5	Medium
The JA reduces management's interference with specific results or estimates in the audit process report due to more than one auditor participating in the audit process.	3.261	1.105	6	Medium
The procedures and actions carried out by the other auditor participating with him in the audit process. The JA contributes to assisting the auditor in verifying	4.714	7.985	1	High
JA improves the level of corporate governance and the AQ of the company being audited.	3.523	1.173	2	High
The possibility of informal agreements between the two audit firms participating in the application process leads to the JA being made a formal process, ultimately turning it into an individual audit.	3.238	1.031	7	Medium
Mean of all items	3.465		1.978	

It is clear from the Table above that the means for the first hypothesis ranged between (4.714 and 3.119), and the mean for all items was (3.465), while the standard deviation reached (1.978). We conclude from this that Item No. (7), which states (among the procedures and actions carried out by the other auditor participating with him in the audit process.

The JA contributes to assisting the auditor in verifying), which is characterized by a high level of importance, as its mean reached (4.714).

4.1.2. Results related to AQ:

After analyzing the answers of the research sample members to the questionnaires, the means and standard deviations for this hypothesis were found, and the results were as in table (3).

Table (3): Descriptive statistical analysis of the impact of the JA on the performance of the auditor and the quality of the reports issued

Influencing factors	Mean	Standard deviation	Rank	Relative importance
The JA leads to the prompt issuance of the audit report.	4.714	7.985	1	High
The presence of more than one auditor at work positively impacts shareholders' confidence in the audit report and thus affects the company's financial reports.	3.428	1.015	3	Medium
Implementing JA results in reducing amendments to the audit report and reducing reformulation of financial reports, which is reflected in adding confidence in the financial reports to its users.	3.119	0.967	7	Medium
Professional discussions within the JA lead to issuing a more objective report.	3.404	1.037	5	Medium
Implementing JA strengthens auditors' professional competence and improves the implementation of auditing procedures.	3.425	0.940	4	Medium
Implementing JA reduces the delay in issuing the audit report.	3.261	1.105	6	Medium
Implementing JA provides mutual supervision and control between audit offices.	3.523	1.173	2	High
Implementing JA increases the probability of detecting errors and material misstatements, increasing the quality of financial reports.	3.000	0.937	8	Medium
Implementing JA increases confidence in the auditing profession because of the accuracy of the audit report.	2.976	0.949	9	Medium
Mean of all items	3.465		1.790	

It is clear from the above table that the means for the second hypothesis ranged between (2.976 and 4.714), and the mean for all items was (3.428). At the same time, the standard deviation reached (1.790). We conclude from this that item No. (1), which is characterized by a high level of importance; its mean was 4.71.

4.3. Hypothesis testing:

The research hypotheses will be tested through the data of the actual responses to the survey of the research group, which is represented by several auditors, using a T-test with a significance level of (0.05). The research hypotheses will be verified according to the sequence in which they were presented in the research, as follows:

4.3.1. Testing the first hypothesis:

To prove the validity of this hypothesis within the framework of the statistical analysis results, a t-test was conducted on the mean, the results of which are shown in the data in table (4).

Table (4): T-test results

Results of Testing	Mean	T-test	T-test	
First hypothesis	3.465	81	Tabular	Tabular
The first hypothesis is rejected.			2.113	1.979

It was revealed through statistical analysis that the calculated (T-test) has a value of (2.113), which is greater than its tabulated value of 1,979. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted, which states (that the JA impacts the auditor's independence).

4.3.2 Testing the second hypothesis:

To prove the validity of this hypothesis within the framework of the statistical analysis results, a T-test was conducted on the mean, the results of which are shown in the data in table (4).

Table (4): T-test results

Results of Testing	Mean	Sample	T-test	
Second hypothesis	3.428	81	Calculated	Tabular
The second hypothesis is rejected.			2.151	1.979

It was shown through statistical analysis that the calculated (T-test) has a value of (2.151), which is greater than its tabulated value of (1.979). Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted, which states (that the JA impacts the auditor's performance, and the quality of the reports issued).

5 .Conclusions:

We found that JA impacts the auditor's independence and the quality of the auditing process. The JA's impact on the auditor's performance and the quality of the reports issued by the auditors. The JA positively impacts the degree of reliability of the financial statements. It gives confidence to external investors by relying on the audit reports issued by the auditors. One of the main challenges of JAs is the increased burden of dealing with two auditors and communicating with them rather than just one. This also leads to a heavier workload due to double the audit work and, ultimately, higher costs since the company has contract with more than one auditor. We recommend that professional organizations conduct training courses for auditors to identify JA programs, how to apply them properly, and their advantages to overcome the problems and obstacles that auditors face when applying to JA. Auditing offices should be obligated to continuously develop the capabilities of their employees to keep pace with everything modern in professional practice by creating a mechanism for scheduling the necessary training courses.

Authors Declaration:

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved by The Local Ethical Committee in The University.

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