

Using the Expert Report to Strengthen the External Auditor's Evidence/An Empirical Study in Iraq

Sameer Taha Yaseen ¹

Anfal Saber Sharif ²

^{1,2} Northern technical university (NTU), Administrative Technical College, Mosul, Iraq

Abstract:

The expert report represents the result of analysis and evaluation of financial and technical data and evidence related to the external audit. The expert report relies on its professional experience to analyze this evidence. The expert report aims to clarify the facts and evaluate the evidence in a comprehensive and systematic manner. Thus if enhance the strength of the evidence provided in the context of the external audit. The expert required when the external audit need engagement out of accounting and auditing. In audit, consequences of poor decision-making are significant. In this paper, the proposed method based on machine learning which was introduced to improve the ISA 620 standard for experts report by utilizing the respond from 25 external auditors using questionnaire. Logistic Regression model was used to analysis the importance and quality of expert report. The proposed method shows good result of accuracy based metric with (acc=100%) when applied the dataset came from questionnaire (training and testing stages). It is more contribute to enhancing evidentiary evidence and ensuring the quality of the external audit.

Keywords: Evidence, Expert Reports, External audit.

1- Introduction

A financial report auditor's role is to objectively scrutinise a company's financial statements and provide an opinion as in case the statements fairly represent the company's financial affairs [1]. Expert members have more sophisticated expertise understand better accounting treatment and changes in some accounts. [2]. In this paper, the proposed method has been agreed that the audit committee members possessing accounting and auditing knowledge can promote effective control of the financial report.

The objective of the financial auditor, according to the International Standards on Auditing (ISA) and paragraph 11 of ISA 200, is to obtain reasonable assurance that the financial statements of an audited entity are free from material misstatement (International Auditing and Assurance Standards Board [IAASB], 2009a) [3.]. One of the important ISA with serial number 620, which ISA 620 allows the auditor to consult an IT expert for technical advice (IAASB, 2009d).

External auditing is one of the basic processes that contribute to ensuring the transparency and credibility of companies' financial statements. The external auditor evaluates the validity and integrity of the financial statements and makes recommendations to improve financial and operational procedures. Among the important tools that the external auditor relies on in evaluating financial evidence and guiding decisions, the expert auditor's report is a powerful tool that enhances the strength of evidence and ensures the quality of the external audit.

Citation: Yaseen, S. T. ., & Sharif, A. S. . (2024). Using the Expert Report to Strengthen the External Auditor's Evidence/An Empirical Study in Iraq. American Journal of Economics and Business Management, 7(11), 1092–1099. Retrieved from <https://globalresearchnetwork.us/index.php/ajebm/article/view/3060>

Received: 21 Sep 2024

Revised: 29 Sep 2024

Accepted: 20 Oct 2024

Published: 16 Nov 2024



Copyright: © 2024 by the authors.
This work is licensed under a
Creative Commons Attribution- 4.0
International License (CC - BY 4.0)

In audit, consequences of poor decision-making are significant [4]. Consideration of why decision support technologies are underused in the field provides an insight to addressing these issues more broadly. This paper explores one research questions:

RQ1. : How can the expert report improve the auditors evidence.

This paper responds to calls for further research into practices that encourage application of knowledge-based machine learning systems in organizations, and factors of critical relevance to the quality and usefulness of information systems for decision-making and knowledge management initiatives.

This research aims to high light on the role of the expert report in enhancing evidentiary evidence and ensuring the quality of the external audit. By understanding the importance of this tool and analyzing previous experiences, confidence in the external audit process can be enhanced and high-quality financial reports based on this evidence can be achieved.

The problem of this study can be formulated as: "What is the role and impact of using the expert report in strengthening the external auditor's evidentiary evidence? How can the expert report contribute to improving the quality of evidence and increasing its credibility.

This study assumes that the use of the expert report contributes to strengthening the external auditor's evidentiary evidence. Thus, an improvement in the quality of ISA 620 and strength of external audit is achieved and its credibility is increased.

The contribution of this paper is focuses on the following:

- 1- Contributing to the understanding of how existing theoretical models regarding technology acceptance apply within the context of the external audit profession.
- 2- Highlighting the need for strong collaboration between decision support system specialists and audit professionals.
- 3- Addressing concerns about the quality of financial report audits and the inadequacy of quality control processes within firms.

The rest of the paper proceeds as follows. Section 1 reviews the existing definition of the experts report, ISA620 , and expert reports. A also it deals with the background of the main problem and objectives which has been highlighted. While literature relating to the IS auditor role is presented is section.2 , Section .3 shows the data collection used to test the proposed method. Section. 4 explores the nature of an explanation theory and its implications for the research proposed approach is explained. Section 5 presents the result and discussion, and highlighted the contributions of this paper. Finally, conclusion, future works and limitations are explained in section.6.

2- Literature review

2.1 The concept of the expert report

Expert means a person possessing expertise in a particular field that is relevant to the engagement, and is not possessed by the auditor [5].

An expert report is an independent and authoritative report prepared and submitted by an external expert with in-depth experience and specialization in a specific field. The expert is called upon to provide an independent and objective assessment of a particular issue or performance. The expert maybe either internal or external [6].

The expert report is characterized by professionalism, accuracy and objectivity, as it is based on the auditor's deep knowledge and experience in the particular field. The report includes a comprehensive analysis and assessment of the current situation and adopted practices, and may also include recommendations and guidance to improve performance or solve identified problems.

The expert report is typically used in the context of external audits, compliance checks and independent assessments. Confidence in this report is attributed to the auditor's independence and specialized experience, which makes it a valuable tool for evaluating performance and enhancing credibility and transparency in financial and administrative operations based on the US sarbanes .oxley act of 2002 definition of expertise [8].

2.2 Areas of benefit from the expert report

If an auditor has limited expert knowledge to obtain sufficient appropriate audit evidence, the assistance of an expert will be considered [7].

ISA 620, using defines an expert report as: An individual possessing expertise in field other than accounting or auditing [9].

The expert report can be of great benefit in several areas. Here after some areas are showed where the report can be useful:

1. Financial audit: In financial report audit , the subject matter is the climes financial statement [10]. The expert report is used to evaluate the validity and reliability of financial statements in institutions and companies. The report can reveal potential errors in financial reporting and provide recommendations for improving financial operations and risk management.
2. Criminal investigation: In cases of suspected financial crimes or embezzlement of funds, an expert can analyze financial records and submit a report showing evidence and information supporting the case.
3. Compliance and verification of laws: The expert report helps companies and institutions verify compliance with applicable financial laws and regulations. The report can identify gaps in processes and provide recommendations for improving compliance and verification.
4. Risk assessment: The report can help analyze and evaluate the financial and operational risks faced by organizations. An experienced auditor can identify weak points in the system and suggest actions to mitigate risks and limit exposure to losses.
5. Consulting and guidance: The report can provide recommendations and consultations to companies and institutions to improve the performance of financial operations and risk management. An expert is an experienced financial advisor who can provide valuable advice for improvement and development.

These are some of the main areas in which the expert report can benefit. It should be noted that the use of the report depends on the nature and needs of the specific organization or situation

2.3 The concept of evidentiary evidence

The concept of "evidence" refers to information, documents and evidence that are used to support or prove a particular claim or fact in a judicial or legal context[11]. Probative evidence is an important part of the audit process of finding the truth and making legal decisions[12]. The evidence quality depend to the professional judgment[13].

The different types of audit evidence can be classified as being [14]:

1. Written documents: Include contracts, invoices, financial records, official correspondence, and other written reports that document facts and information related to the case at hand.
2. Witnesses: People who testify or know facts can be of interest as witnesses. Witnesses are investigated by questioning them and listening to their testimony regarding events or information related to the case.

3. Physical evidence: includes objects or physical evidence that could be relevant to the case, such as forensic evidence such as genetic fingerprints, and medical evidence that supports injuries or diseases.
4. Electronic evidence: includes data and information stored on electronic devices such as mobile phones, computers, email, logins, and social media. This evidence can be important in cybercrime cases or cases involving the use of technology.
5. Experts: Technical experts can provide scientific and technical evidence to support facts or to interpret other evidence. They may be experts in the fields of medicine, engineering, accounting, or forensic science, and provide their analyzes and conclusions based on experience and knowledge.

Evidence must be presented in objective and legal ways, and may be evaluated in accordance with the rules of due process and applicable laws of the judicial system.

2.4 Characteristics of evidentiary evidence

The characteristics of evidentiary evidence vary depending on the type of evidence and the field to which it belongs. However, some general characteristics of evidentiary evidence include [15,16]:

1. Relying on facts: Evidence must be based on established and undisputed facts, and may not rely on assumptions or guesses.
2. Validity and reliability: The witness or document used as evidence must be valid and reliable, and must be thoroughly verified before it is used as evidence.
3. Relevance to the topic: Evidence must be directly relevant to the point being defended or judged, and evidence that lacks relevance to the topic may not be used.
4. Clarity: Evidence must be clear and understandable, and it is not permissible to use ambiguous or ambiguous evidence.
5. Comprehensiveness: Evidence must include all aspects necessary to prove the required point, and incomplete or limited evidence may not be used.
6. Legality: Evidence must be legitimate and legal, and must adhere to legal procedures approved in the courts.
7. Probability: Evidence must be able to prove the required point clearly and beyond doubt.
8. Reliability: Evidence must be stable, cannot be easily changed, and have the ability to maintain its validity and reliability over time.

2.5 The importance of the expert report

The auditor refers to expert report when required by law or regulation [17,21]. The importance in enhancing the evidentiary evidence in the external audit is evident in the following points:

- 1- Reliability of evidence: The expert report contributes to increasing the reliability of the evidence provided. The expert auditor is considered an authority in his field and uses his experience and knowledge to analyze and evaluate evidence in an objective and specialized manner.
- 2- Clarifying the results: The report contributes to clarifying the results and recommendations that were reached after analysis and evaluation. The evidence and justifications that were used in the analysis are documented and thus the report allows for a deeper understanding of the evidence presented and the conclusions drawn.

- 3- Supporting decisions: The expert report can contribute to supporting the decision-making process. Through the expert auditor's evaluation and recommendations, the entity benefiting from the report can use it as a basis for making important decisions related to the specific issues that the expert auditor is dealing with.
- 4- Supporting the strength of arguments: The expert report can be used as a strong argument in legal cases or arbitration disputes. An expert report can provide important evidence to support arguments and claims made and can have a significant impact on the outcome of a dispute or case.
- 5- Increasing trust and transparency: The expert report enhances the level of trust and transparency in the external audit process. The report provides a reliable and detailed document based on independent evidence and analysis, thus increasing the credibility of the audit process and enhancing confidence in the results presented.

3- Sample and Data collection

This paper has been adapted the electronic questionnaire which assigned to 25 external auditors. The questionnaire has been included six questions which shown in table 1.1.

| No | Questions | Number of external auditors | Type of variable |
|----|--|-----------------------------|----------------------|
| 1 | Is the External Auditor's Evidence strong? | | Dependent variable |
| 1 | The expert's report contributes to strengthening the evidentiary evidence. | 25 | Independent variable |
| 2 | ISA 620 is important for expert. | | |
| 3 | The external auditor, in cooperation with the Audit Committee, determines the need for the report. | | |
| 4 | The importance and effectiveness of evidentiary evidence decrease without the expert's report. | | |
| 5 | The expert's report be considered official evidence. | | |

4. Proposed Method:

The proposed method is based on machine learning has been coming to solve the decision for external auditors which classify the agree or disagree for the questionnaire. The machine learning method was used: Logistic Regression model. The data used code "1" for agree, and "0" for disagree, the training data has applied for 20 external auditors and the rest of 5 external auditors for testing data. The accuracy based metric, and confusion matrix to analysis the impact of using the expert report in strengthening the external auditor's evidentiary evidence. The matrix predicts the class label of an input instance. The logistic regression model for the study is given as:

$$\text{logit}(P_i) = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5$$

When:

X1: The expert's report contributes to strengthening the evidentiary evidence.

X2: The external auditor, in cooperation with the Audit Committee, determines the need for the report.

X3: The external auditor, in cooperation with the Audit Committee, determines the need for the report.

X4: The importance and effectiveness of evidentiary evidence decrease without the expert's report)

X5: The expert's report be considered official evidence.

Pi represents the dependent variable in the model which is coded as "1" if an external auditor has agreed and "0" or otherwise.

Logistic regression results and discussions goodness of fit tests of the model indicates that the model performs is very good. This is clearly demonstrated by the Hosmer and Lemeshow goodness of fit test, which confirms that the given data perfectly fits the logistic regression model ($\chi^2 = 5.13$, $p = 0.745$). Furthermore, the model accounts for approximately 55 percent of the overall variation as the Nagelkerke R^2 value was 0.586. Additionally, the model accurately classifies 80.0 percent of the cases, surpassing the initial classification of 68.7 percent of the cases without the inclusion of explanatory variables. The logistic regression analysis results are presented in Table ().

| Model | Coefficients | Wald test | p-value | Odd ratio |
|-----------|--------------|-----------|---------|-----------|
| Intercept | -2.78 | 2.4 | 0.045 | 0.062 |
| X1 | 2.677 | 6.41 | 0.015 | 14.54 |
| X2 | 1.037 | 10.97 | 0.00 | 2.82 |
| X3 | 1.29 | 11.29 | 0.00 | 3.63 |
| X4 | -0.67 | 5.2 | 0.04 | 0.511 |
| X5 | 0.298 | 4.3 | 0.013 | 1.347 |

The intercept signifies the logarithm of the odds of the response variable when all predictor variables are at zero. In this particular scenario, the intercept is computed as -2.78, and the odds ratio amounts to 0.062. The p-value implies that the intercept significantly deviates from zero. With each one-unit escalation in X1, the logarithm of the odds of the response variable amplifies by 2.677. The odds ratio of 14.54 indicates that the likelihood of the event (response variable) transpiring intensifies by roughly 14.54 times for every one-unit increment in X1. The p-value conveys that X1 holds substantial predictive significance. Similar to X1, an increase of one unit in X2 is associated with a 1.037 increase in the logarithm of the odds of the response variable. The odds ratio of 2.82 implies that the odds of the event increase by approximately 2.82 times for every one-unit increase in X2. The p-value provides evidence that X2 is a significant predictor. The coefficient, odds ratio, and p-value for X3 can be interpreted in a similar manner as X2. For each one-unit increase in X4, the logarithm of the odds of the response variable decreases by 0.67. The odds ratio of 0.511 suggests that the odds of the event decrease by approximately 51.1% for every one-unit increase in X4. The p-value indicates that X4 is a significant predictor. For every incremental unit of X5, there is an associated increase of 0.298 in the logarithmic odds of the response variable. The odds ratio of 1.347 implies that the likelihood of the event increases by approximately 34.7% with each one-unit increment in X5. The significance of X5 as a predictor is indicated by the p-value

5. Result and Discussion

Refer to Figure 1.1, the confusion matrix shown the actual and predicated value for the true positive, true negative, false positive, and false negative. The accuracy based metric has shown higher with (accuracy =100%) when tested the unknown five external auditors that answered to the questionnaire with the aforementioned five questions, for instances the testing data was external auditors -1 x1-test: [0 1 1 0 1], x2-test: [0 1 0 0 1], x3-test: [0 1 1 0 0], x4-test: [1 1 1 0 1], and x5-test: [1 1 1 1 1]. It means that expert report contributes to strengthening the external auditor's evidentiary evidence. Thus, an improvement in the quality and strength of external audit is achieved and its credibility is increased.

The accuracy which is based on metric has recorded with (accuracy =80%) when tested the

unknown five external auditors that answered to the questionnaire with the aforementioned five questions, for instances the testing data was external auditors -1 x1-test : [0 0 0 0 1] , x2-test : [0 0 0 0 1], x3-test : [1 0 0 0 0], x4-test : [1 0 0 0 1], and x5-test : [1 0 1 0 0] . It means that expert report contributes to acceptable result for highlighted the importance of the external auditor's evidentiary evidence. Therefore , an improvement in the quality and strength of external audit is achieved.

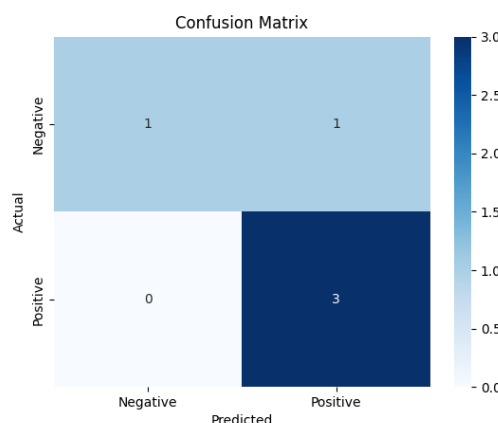


Figure 1.1: The confusion matrix for the Logistic Regression model.

6. Conclusion

In this study, the important of expert report is set to support the external auditor's evidences. The main tool which reach to accuracy engagement on financial statements is ISA 620 standard with its expert report, external auditors make a good professional report. By using a questionnaire of five questions for 25 external auditors based- machine learning (Logistic Regression) for more analysis, the results have been shown more importance of using the expert report which has contributed to audit evidence by high accuracy based-metric of (accuracy=80%). The contributing paper is used to improve the ISA 620 standard for expert's report by utilizing the respond from 25 external auditors using questionnaire.

References

1. Afenya, M. S., Arthur, B., Kwarteng, W., & Opoku, P. (2022). The impact of audit committee characteristics on audit fees; evidence from Ghana. *Cogent Business & Management*, 9(1), 2141091.
2. Baatwah, S. R., Ahmad, N., & Salleh, Z. (2016). Audit committee financial expertise and financial reporting timeliness in emerging market: Does audit committee chair matter. *Issues in Social and Environmental Accounting*, 10(4), 63-85.
3. Axelsen, M., Green, P., & Ridley, G. (2017). Explaining the information systems auditor role in the public sector financial audit. *International Journal of Accounting Information Systems*, 24, 15-3.
4. Ng, Y. F. (2019). In the moonlight?: The control and accountability of government corporations in Australia. *Melbourne University Law Review*, 43(1), 303-336.
5. Dimitrova, J., Gorgieva-Trajkovska, O., & Kostadinovski, A. (2013). Experts inclusion in the audit for better audit reports. *Юбилејна меѓународна научнопрактична конференција-Финансиите и финансиското сметководство-состојби, тенденции, перспективи, Стопанска академија Ценов, Свиштов, Бугарија*, 2013.
6. Zakari, M. (2013, September). Does Audit Evidence Type Effects on Quality of Auditor's Opinion?. In *International Conference" Financial Distress: Corporate Governance and Financial Reporting Issues"*, Rome (Italy) October (pp. 17-18).
7. Kok, M., & Maroun, W. (2021). Not all experts are equal in the eyes of the International Auditing and Assurance Standards Board: On the application of ISA510 and ISA620 by South African registered auditors. *South African Journal of Economic and Management Sciences*, 24(1), 1-13.

8. Alsmady, A. A. (2022). Quality of financial reporting, external audit, earnings power and companies performance: The case of Gulf Corporate Council Countries. *Research in Globalization*, 5, 100093.
9. Technical article available at "https://www.acceglobal.com/student/student_accountant/article/archive/", ACCA, May 2011.
10. Meredith, K., Blake, J., Baxter, P., & Kerr, D. (2020). Drivers of and barriers to decision support technology use by financial report auditors. *Decision Support Systems*, 139, 113402.
11. Augustine, O. E., Mgbame, C., Lucky, G. O., & Kuegbe, K. (2013). Impact of Audit Evidence on Auditor's Report. *Research Journal of Finance and Accounting*. ISSN, 2222-1697.
12. Yin, X. (2020). Audit Evidence Classification and Collection Techniques in China and the US. *Global Journal of Management and Business Research*, 19(5), 1-6.
13. Niktaba, A., & Aslani, A. (2015). The Effect of Audit Evidence on the Auditor's Report. *International Journal of Accounting Research*, 2(6), 62-66.
14. Zakari, M. (2013, September). Does Audit Evidence Type Effects on Quality of Auditor's Opinion?. In *International Conference "Financial Distress: Corporate Governance and Financial Reporting Issues"*, Rome (Italy) October (pp. 17-18).
15. Zuca, S. (2015). Audit evidence–necessity to qualify a pertinent opinion. *Procedia Economics and Finance*, 20, 700-704.
16. Gospel, J., ORDU, P. A., BARIGBON, M., & NAMAPELE, A. (2019). Sufficiency and Appropriateness of Audit Evidence for Giving an Opinion on the True and Fair View of Financial Statements. *International Journal of Innovative Development and Policy Studies*, 7(3), 36-43.
17. Agenda Item, D. (2009). IAASB CAG PAPER.
18. Yassen, Samir Taha, and Seemaa Anmar Salim Alrefaee. "THE EFFECT OF FINANCIAL RATIOS ON BANK CREDIT FOR A SAMPLE OF IRAQI COMMERCIAL BANKS." *Academy of Strategic Management Journal* 21.4 (2022): 1-12.
19. Yaseen, Samer Taha, and Shahad Bashar Mohammed. "Factors affecting the market value of the shares of a sample of companies working in the scientific field/an analytical study from 2015-2020." *Res militaris* 13.2 (2023): 3137-3149.
20. Yaseen, Sameer Taha, and Shahad Mofaq Al-Hamadane, , "Using Sherrod Model Indicators to Predict Financial Failure: Applied Research in the National Company for Tourism Investment in Iraq for the Period (2016-2021)", *Kurdish Studies*, volume (12).No(1),ISSN (2051-4891), Jan 2024, pp.3475-3481,
21. Yassin, A. P. D. S. T. (2020). Requirements for expansion of the professional services of the independent external auditor/An analytical study of the Iraq environment. *Tikrit Journal of Administration and Economics Sciences*, 16(50 Part 1).