

THE IMPORTANCE OF KNOWLEDGE IN INCREASING THE PERCEPTIONS OF THE EXTERNAL AUDITOR WHEN AUDITING FAIR VALUE ESTIMATES AND ITS REFLECTION ON THE EFFECTIVENESS OF PROFESSIONAL SKEPTICISM / AN ANALYTICAL STUDY OF IRAQI AUDITING FIRMS

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A B S T R A C T	KEY WORDS
<p>The research aims to demonstrate the importance of knowledge and its impact on enhancing the external auditor's awareness when auditing fair value estimates, as it is reflected in improving the auditor's practice of professional skepticism. Among the findings of the research is that there is a statistical significance for external auditors in Iraq in their possession of technical knowledge of evaluation methods and that they have sufficient understanding of the activity of the economic unit in order to realize their responsibilities in identifying and evaluating the risks of material errors when auditing and exercising professional skepticism more effectively in order to achieve quality information in the auditor's report.</p>	<p>knowledge, external auditor's perception, fair value. professional skepticism.</p>

Introduction

The auditor should have the ability and knowledge to interpret data and analyze reasons when solving general problems. Experienced auditors who have a correct knowledge base but lack the ability to solve problems will not be sufficiently qualified for some tasks. Likewise, auditors who have the ability to solve those problems, but do not have a sound knowledge base, their performance will be weak in some tasks, the auditor needs to perform the audit process with quality and efficiency so that he can express the opinion of the impartial technician in the financial statements fairly and honestly. Therefore, the focus was on the concept of quality as one of the modern concepts in auditing that receives the attention of scientific bodies and societies that are interested in the field of auditing. Therefore, knowledge is considered the most prominent means through which the auditor can achieve quality in auditing. The research also aims to answer the

following question: Is the perception of the external auditor dependent on On a set of governance standards, processes, and procedures Knowledge whose impact is reflected in their professional skepticism?

1- Literature review and previous studies

The study (Oyewo & Babajide / 2019) included the post-implementation challenges for measuring fair value - International Financial Reporting Standard No. (13) in Nigeria, where the study concluded that the most severe challenge to fair value estimates is the scarcity of information to evaluate the elements and the magnitude of these challenges appears to be A. Although the characteristics of the auditing firm are similar affecting the perception of the challenges, there is the first agreement that the manipulation of the values of assets and liabilities without a market price during estimation, and taking advantage of the lack of market information on assets/liabilities by managers The manipulation of financial statements, and the low level of training and scientific qualification of auditors are the most prominent challenges facing auditing fair value estimates, while 2017 included examining whether auditors differ in opinion (Al, Glover, et al., 2017) on the adequacy of audit evidence when auditing fair value estimates. complex, and to identify the relationship of this problem with the expectations gap using the analytical descriptive approach The study recommended the need for auditors to understand all the models used in measuring fair value, especially their shortcomings, by reviewing the research of academics, valuation experts, and agencies concerned with fair value evaluations and management.

2- Knowledge-based audit profession:

There are extensive studies that have extensively reviewed the behavioral and personality characteristics of auditors and experts (Wright, McKnight, 2011: 191), where identification is critical for audit firms in developing training programs and systems for experts, and in defining employment guidelines where It is important for auditors to have a comprehensive understanding of other accounts (Adbol, & Shanteau, 1992: 58), therefore describing knowledge as the most important among the personal traits. It is to relate that knowledge to the work of the customer's employees so that the main challenge regarding auditing is to write off the customer's activity and its competitive advantage (Schult & Donnell'o: 2005: 921) in the sense of knowing the customer's business and commercial risks and the information contained in the customer's financial statements. Therefore, the audit evolves to the vision of the strategic systems of the units, with a broad understanding of the economic risks and response to those strategies and threats. (bell: 1997:6) (Emily & other, 2018:172), Whoa, and there are three types. From the knowledge that must be available with the hammer:

- i. The auditor's field of knowledge should include knowledge of international accounting and auditing standards.
- ii. Knowledge of sub-disciplines related to specialized industries, and auditors acquire that knowledge through work or training in specific specializations for certain industries, and it is unlikely that this knowledge will be acquired by all auditors who have an M level.
- iii. General knowledge of the business sector. This type of knowledge is likely to determine the qualifications of the auditor, such as understanding the orientations and motives of management in areas of consistency in performing certain audit tasks.

3- knowledge and its role in increasing the awareness of the external auditor:

Knowledge in a specific field and understanding of specific problems leads to enhancing the experience and skill that the individual acquires from practice in practical life and through studies and educational courses. It is related to the issuance of professional judgments (Herliansyah & Ilyas 2006:25), and experience on the basis of activity affects the increase in the auditor's awareness, which he acquires through dealing with customers, which increases exponentially with the increase in the demand for audit and assurance services by the customer (Moronoy & Carey: 2007:2). Knowledge is an important factor for the auditor's competence and goes hand in hand with academic qualification. The competence of the external auditor derives from education and experience. Actual knowledge is also acquired through practical auditing because the increase in familiarity with the task leads to a greater degree of experience (Hudiwinarsih: 2008:256). Therefore, the auditor's acquisition of knowledge and experience, including the skill associated with the use of modern methods and techniques, is reflected in g In addition to his ability to audit and express a neutral professional opinion (Rodgers et al: 2017:565), the auditor's ability to discover errors or irregularities is the result of the knowledge that the auditor uses to detect and explain deficiencies. However, auditors are required to increase their capabilities to reduce failure to discover errors. To maintain the reliability of the audited financial statements (Dwirandra & Suryanawa: 2018:90).

4- The role of the external auditor in auditing the fair value estimates of financial assets.

The role of the auditor is based on auditing the estimates of the management of the economic unit by examining the soundness of the internal controls of the unit at its planning stage (

\ Krishnamoorthy:2000:500). Reliable information and improving the sound governance of economic units (Ester, et al: 2012:729), where the auditor is interested in making sure that management makes unbiased estimates and evaluates the practice of strong governance and control to help the economic unit achieve the objectives of the financial reporting standard (IFRS9), Because the unit needs to inform investors of plans related to evaluations to face the risks of material misstatement. As a result, the auditor enhances assurances about the credibility of financial reports (Deloitte: 2020:9) and strengthens internal control as much as possible, with the external auditor searching for the reasons for changes in accounting estimates and assumptions and issues related to the ability to manage the unit to continue, (2018: 8 In this regard, the competence of the external auditor is reflected in examining the quality of the performance of the audit committee, because the audit committees have an impact on the accurate evaluation and pricing of financial assets, and these evaluations cast a shadow over the performance of shares in the stock market, and guide investors to take the right decisions when forming Their investment portfolios (Hamza, and Mselmi ;2017:152).

5- Testing research hypotheses

The research is based on the following hypothesis:

There is no correlation or significant effect between the importance of the auditor's knowledge when auditing fair value estimates and the effectiveness of professional skepticism.

6- Descriptive statistics of the research questionnaire data:

In order to identify the relationship between the importance of knowledge of the external auditor when auditing fair value estimates and the effectiveness of professional skepticism from the point

of view of the auditors of the research sample, the necessary information was collected to design a questionnaire for the research sample of companies and audit offices of the first category, which is found in the 2022 bulletin issued by the Profession Council. To monitor and audit accounts in Iraq.

The questionnaire was based on a five-point Likert scale and weights for the type of answer in each paragraph ((Strongly agree = 5, Agree = 4, Neutral = 3, Disagree = 2, Disagree at all = 1) And the weighted arithmetic mean is calculated for each paragraph according to the answers of the research sample to determine the degree of approval by comparing it with the degrees of approval proven according to the five-point Likert scale by calculating the length of the period (0.80) through (4/5), which is shown in the following table:

Table (1) shows the periods of weighted average agreement of response trends

Degree of agreement (direction of answers)	weighted average periods
I don't agree at all	1.00 - 1.79
I agree not	1.80 - 2.59
neutral	2.60 - 3.39
agree	3.40 - 4.19
Strongly Agree	4.20 - 5.00

Source / prepared by the researchers

For ease of dealing statistically with the paragraphs or questions of the axis in the questionnaire form when conducting the descriptive statistics and the rest of the statistical analysis of the form, the paragraphs of the first axis are coded with the symbol X, while the paragraphs of the second axis are coded with the symbol Y.

Table (2) Coding the paragraphs of the first axis, the importance of training and qualification for the external auditor when auditing fair value estimates (explanatory variable)

phrases (paragraphs)	Paragraph symbol
The availability of understanding of the activity of the economic unit, training and scientific qualification reflects positively on the quality of the professional judgments issued by the external auditor.	X₁
The inputs to the fair value estimates are based on personal judgment, which makes it difficult for the external auditor to audit them.	X₂
The potential bias by management is one of the most difficult challenges to detect because: Some accounting estimates involve uncertainties that lead to substantial risks.	X₃
The auditor must make sure that the evaluation method is commensurate with the nature of the item to be evaluated and is compatible with the framework of financial disclosure and the nature of the activity of the economic unit.	X₄
Auditors face difficulties in obtaining appropriate and sufficient audit evidence when: 1- There is no active market price for the asset or liability. 2- Using inappropriate valuation methods to evaluate fair value estimates.	X₅
The auditor is interested in verifying the data sources on which the fair value estimates are based through mathematical recalculation and verifying information sources to ensure internal consistency.	X₆
The auditor should verify that the fair value estimation methods are appropriate and that they are applied on a regular basis.	X₇

Source: prepared by the two researchers

Table (3) Coding the paragraphs of the second axis, the effectiveness of professional skepticism (response variable)

phrases (paragraphs)	Paragraph symbol	phrases (paragraphs)	Paragraph symbol
The characteristic of the questioning mentality does not adhere to international auditing standards only in thinking, but also includes everything related to understanding and analyzing the facts Aim to examine evidence.	Y ₁	The auditor is required to take into account the psychological and personal dimensions when dealing with the customer.	Y ₇
The auditor pays attention to all available information before issuing a professional judgment.	Y ₂	The auditor must match the content of the verbal and non-verbal information in order to reach an understanding of the customer's personality.	Y ₈
The search for knowledge feature enhances giving clear perceptions of the factors that help in evaluating the evidence according to a realistic and accurate perspective.	Y ₃	The auditor does not allow any external influences to change his skeptical attitude, as he controls himself and his feelings.	Y ₉
The auditor is always ready to reveal knowledge of the mind and has a new mentality, as he practices open questioning.	Y ₄	The tendency of professional skepticism is based on the fact that the auditor possesses self-confidence and self-respect, which enables him not to be inclined to temptations that limit his his practices of professional skepticism.	Y ₁₀
The availability of evidence indicating the integrity and honesty of management does not exempt the auditor from practicing professional skepticism.	Y ₅	The availability of evidence indicating the integrity and honesty of management does not exempt the auditor from practicing professional skepticism.	Y ₁₁
The critical evaluation of evidence requires the auditor not to accept any unconvincing audit evidence for use.	Y ₆	The critical evaluation of evidence requires the auditor not to accept any unconvincing audit evidence for use.	Y ₁₂

Source: prepared by the two researchers

In order to find out the answers to the sample trends for each paragraph of the questionnaire form, the ratios, frequencies, arithmetic means, and standard deviations were used, as well as the results presented in Tables No. (2) and (3). The research sample answers to the questionnaire paragraphs were used as follows:

Table (4)

Frequencies of the sample's answers, the arithmetic mean, standard deviations, and the degree of agreement with the paragraphs of the first axis (the role of training and scientific qualification of the external auditor when auditing fair value estimates)

n	Paragrap h symbol	the answers										Ari th me tic me an	nda rd v iat ion	degree of approval
		Strongly agree		agree		neutral		not agree		Do not agree Agree at all				
		5		4		3		2		1				
		s	%	s	%	s	%	s	%	s	%			
1	X ₁	42	60.0	28	40.0	0	0	0	0	0	0	4.60	0.49	Strongly Agree
2	X ₂	20	28.6	34	48.6	14	20.0	2	2.9	0	0	4.03	0.78	Agree
3	X ₃	26	37.1	36	51.4	8	11.4	0	0	0	0	4.26	0.65	Strongly Agree
4	X ₄	31	44.3	33	47.1	6	8.6	0	0	0	0	4.36	0.64	Strongly Agree
5	X ₅	25	35.7	30	42.9	15	21.4	0	0	0	0	4.14	0.75	Agree
6	X ₆	25	35.7	43	61.4	2	2.9	0	0	0	0	4.33	0.53	Strongly Agree
7	X ₇	26	37.1	37	52.9	7	10.0	0	0	0	0	4.27	0.64	Strongly Agree
The arithmetic mean and standard deviation of the first axis												4.28	0.36	Strongly Agree

Source: The preparation of the two researchers based on the results of the program SPSS.

From table (4), we note that most of the answers of the research sample were distributed between two options (strongly agree, agree) in large numbers and percentages. Checking the fair value estimates) all of them are based on the arithmetic mean based on the sample size (70) greater than (4), most of them except for paragraphs X₂ and X₅, and the arithmetic mean for the first axis was (4.28) and a standard deviation (0.36), and this indicates the agreement of the research sample and agreement Their opinions on the importance of the paragraphs of this axis, and it is clear from Table (4) that the third main factor of the first axis (the explanatory variable (independent)) (the importance of training and scientific qualification of the external auditor when auditing fair value estimates) one paragraph (X₁) guarantees that there is an understanding of the activity The economic unit, training and experience reflect positively on the quality of the professional judgments issued by the external auditor) and it has a relative importance with a value of (0.941) and it can be called a factor (the level of accumulated experience of the external auditor to issue professional judgments in my work The results of the descriptive statistics for the second axis (the effectiveness of professional skepticism) were as follows:

Table (5) frequencies of the sample's answers, the arithmetic mean, standard deviations, and the degree of agreement for the paragraphs of the second axis (the effectiveness of professional

n	Paragrap h symbol	the answers										Arithmeti c mean	standard deviation	degree of approval
		Strongly agree		agree		neutral		not agree		Do not agree Agree at all				
		5		4		3		2		1				
		s	%	s	%	s	%	s	%	s	%			
1	X ₁	19	27. 1	43	61.4	8	11. 4	0	0	0	0	4.16	0.61	Agree
2	X ₂	20	28. 6	45	64.3	5	7.1	0	0	0	0	4.21	0.56	Strongly Agree
3	X ₃	20	28. 6	40	57.1	10	14. 3	0	0	0	0	4.14	0.64	Agree
4	X ₄	21	30. 0	36	51.4	10	14. 3	2	2.9	1	1.4	4.06	0.83	Agree
5	X ₅	37	52. 9	23	32.9	5	7.1	1	1.4	4	5.7	4.26	1.06	Strongly Agree
6	X ₆	15	21. 4	49	70.0	6	8.6	0	0	0	0	4.13	0.54	Agree
7	X ₇	15	21. 4	34	48.6	12	17. 1	6	8.6	3	4.3	3.74	1.03	Agree
8	Y ₈	18	25. 7	36	51.4	13	18. 6	3	4.3	0	0	3.99	0.79	Agree
9	Y ₉	30	42. 9	30	42.9	10	14. 3	0	0	0	0	4.29	0.70	Strongly Agree
10	Y ₁₀	33	47. 1	32	45.7	5	7.1	0	0	0	0	4.40	0.62	Strongly Agree
11	Y ₁₁	26	37. 1	40	57.1	4	5.7	0	0	0	0	4.31	0.58	Strongly Agree
12	Y ₁₂	34	48. 6	32	45.7	3	4.3	1	1.4	0	0	4.41	0.65	Strongly Agree
The arithmetic mean and standard deviation of the second axis												4.18	0.40	Agree

skepticism).

.Source: The preparation of the two researchers based on the results of the program SPSS.

It is clear from Table (5) that the first main factor for the second axis (the effectiveness of professional skepticism) included two paragraphs ((Y4, Y3). Paragraph Y2 showed (that the auditor is always ready to discover new knowledge because he is practicing interrogation of the mind and has an open mind). (0.790), while the second paragraph Y3 (enhances the search for knowledge feature by giving clear perceptions of the factors that help in evaluating evidence of evidence according to a realistic and accurate perspective) with a value of (0.777), and paragraph Y7 indicated (the auditor is required to take into account the psychological and personal dimensions when Dealing with the customer.) The greatest relative importance with a value of (0.752), while the second paragraph was Y11 (the auditor's competence, knowledge, and technical qualifications

enable him to avoid any behavior of the customer that is believed to affect the professional suspicion practiced by the auditor) with a value of (0.609), while the third paragraph is Y6 (The critical evaluation of the evidence requires the auditor not to accept any audit evidence that is not convincing for use (it showed the least relative importance in the second main factor of the second axis (the dependent variable) with a value of (0.594).

7-Based on the results shown in the previous tables, the following is clear:

- There is a significant correlation between (the importance of knowledge of the external auditor when auditing fair value estimates) X and (the effectiveness of professional skepticism) Y.
- There is a significant effect relationship between (the importance of knowledge of the external auditor when auditing fair value estimates) X and (the effectiveness of professional skepticism) Y.

8- results

- 1) The basis for the external auditor to be aware of the impact of fair value estimates is to possess technical training, scientific qualification, and sufficient understanding of the activity of the economic unit.
- 2) The effectiveness of the professional skepticism of the external auditor is affected by the auditor's knowledge of the impact of fair value estimates.
- 3) Low level of expertise and sufficient skill of the external auditor in auditing fair value estimates in light of the multiplicity of measurement methods and their reliance on personal judgment.
- 4) The importance of the external auditor choosing appropriate evidence related to the fair value estimates, which stimulates the effectiveness of his professional skepticism and his issuance of professional judgments.
- 5) The need to hold training courses to reduce the challenges and difficulties faced by auditors when auditing fair value estimates in the Iraqi environment for the purpose of improving their practices of professional doubt about those estimates.
- 6) Possibility of conducting more studies that provide an additional explanation of the effects of auditors' commitment in the Iraqi environment to practice professional skepticism effectively while auditing management's fair value assumptions.
- 7) The auditor's skill and knowledge of the rationale for fair value estimations help him in solving the fundamental problems in the audit and is reflected in improving the auditor's professional skepticism practices.
- 8) The results of the statistical analysis showed that most of the respondents agree that acquiring specialized knowledge of the auditor contributes to enhancing the auditor's performance.

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