

# **THE EFFECT OF ADOPTING THE STRATEGY OF INDUSTRIAL SPECIALIZATION AND ITS ROLE IN REDUCING AUDIT RISKS: A SURVEY OF THE VIEWS OF A SAMPLE OF EXTERNAL AUDITORS IN IRAQ**

Dr. Zaid Sherif Haddab

Department of Accounting, Collage of Administration and  
Economics, University of Thi Qar, Iraq  
zaid-sh@utq.edu.iq

A B S T R A C T	K E Y W O R D S
<p>The research deals with the concept and importance of industrial specialization for auditors, as well as the concept of audit risks and its divisions. It also deals with the role of industrial specialization in reducing audit risks. It argues that industrial specialization plays a major role in controlling related risks. Previous studies showed that a specialized auditor can detect fraud in financial reports due to his/her experience in the client's field of activity and as a result of his/ her continuous review of homogeneous activities. Specialized auditors, when practicing their professional work within their field of specialization, have sufficient experience, and also the ability to detect fraud compared to auditors with little experience. However, when specialized auditors practices the audit process outside their field of specialization, the degree of their professional competence decreases, as does their ability to study and analyze the causes of fraud. The study also concludes that a specialized auditor can control the risks of the business of the entity under review by studying and analyzing the administrative aspects of the client, as well as integrity and competition in the industry and the financial trends of the entity. In addition to the above, if an auditor acts as a specialized auditor, he/she will have the ability to control the risks of his/her work.</p>	

## **Introduction**

The auditing profession is one of the service professions that aim to serve the community by providing its various individuals and organizations with the information they need to give reliability and confidence to the information published for various business establishments. It aims to provide an appropriate level of emphasis on the reliability of

that information and its suitability for decision-making purposes. The auditing profession's failure in developing new professional services that meet the needs of decision makers to that appropriate level of professional confirmation on various types of information means losing the confidence of its current customers. This also means its inability to maintain its market share in the appropriate information market for decision-making. This also means the loss of the opportunities offered by these markets to gain the confidence of new customers by providing new professional services that meet their needs for the necessary professional confirmation of the quality and content of various types of information. These are related to all aspects of the financial, operational and electronic performance of various business establishments.

## **Research Methodology**

The methodology of the study is the first step that clarifies the scientific path chosen by the researcher, as the problem of the study will be addressed and its dimensions will be determined. It will also include the importance of the study as well as a review of the hypotheses that it has built to reach the objective to be achieved.

### **First: The Research Problem:**

The research problem can be formulated in the following questions.

- 1- Does the industrial specialization of external auditors when adopting the industrial specialization strategy have a role in reducing audit risks?
- 2- To what extent does industrial specialization contribute to increasing the ability of external auditors to detect errors and fraud in financial statements?

### **Second: Research Objectives:**

This research aims to:

- Identifying the concept of industrial specialization of external auditors.
- Studying and analysing the role of the industrial specialization of auditors in reducing audit risks.
- Determining the ability of industrially specialized auditors to detect errors and thus reduce audit risks.
- Identifying areas in which the industrial specialization of external auditors contributes to the development of the performance of the audit process.

### **Third: the importance of research:**

The importance of this study can be seen at both, academic and professional levels. At the academic level, it explores two research areas in the field of auditing, namely the problem of auditing risks and the strategy of industrial specialization of auditors. It is necessary to consider the availability of the element of industrial specialization of auditors in a particular economic activity as a prerequisite for assigning them to perform the audit task, which will lead to reducing audit risks, and thus increasing confidence in

the quality of the audit process. Likewise, this attempt is considered to employ the auditors' industrial specialization strategy in the possibility of contributing to reducing audit risks in the auditing environment, in addition, this study is generally considered as a complementary link to the previous research series in the industrial specialization of auditors.

#### **Fourth: Research Hypotheses:**

In light of the importance of the research and the objectives of the study, the following hypotheses can be formulated.

The first hypothesis: The industrial specialization of auditors has an effect on the reduction of audit risks.

The second hypothesis: There is a significant relationship between the strategy of industrial specialization in raising the efficiency of the audit process and thus reducing audit risks.

#### **Fifth: the temporal and spatial limits of the research**

- 1- Spatial limits: these are represented by distributing a questionnaire to a number of auditors and academics in the field of specialization.
- 2- Temporal boundaries: The questionnaire was distributed for a specific period of time.

#### **Sixth: Sources of data and information collection**

##### **What is industrial specialization?**

##### **Introduction**

Specialization penetrated into most advanced professions such as medicine and engineering. However, most professions in the modern era have increased in their specializations so deeply that specialization has become the hallmark of most contemporary professions. The auditing profession is no less important a profession than the rest of the advanced professions, if it is not comparably equal in importance due to the role it plays, whether at the economic or social level. The economic activities and the multiplicity of their fields and the diversity of legal forms that are subject to them and the degree of complexity inherent to these activities and the accompanying accounting practices have witnessed a good deal of development. Moreover, many cases of financial corruption and the bankruptcy of many major international business establishments have emerged. The most prominent of these cases was Enron Energy Company and the subsequent collapse of the five major accounting firms Arthur Anderson. As a result of all the above, the industrial specialization in auditing has become a performance syndrome for the auditing profession in recent years.

**First : The concept of industrial specialization for external auditors**

Identifying industrial institutions specialized in a particular field is a difficult task, and academic researchers have followed various paths to achieve this. The most common methods are those that assume that the institutions with the largest market share for each industrial activity are specialized in this industrial field (Metwally, 2006, p. 175). Prior to delving into the different concepts of industrial specialization, whether at the level of individual references or auditing company, it is important to address the concept of experience as a source of specialization and differentiate between the two types of general and professional experience.

Specialization or specialized expertise can be defined from the point of view of (Aziz, 2003, p. 379) as the possession of a wide area of knowledge and scientific skill in a particular field. According to Bonner and Lewis (1990, p. 2), specialized experience is the information an auditor has obtained as a result of specialization in examining customers in a particular business or carrying out particular activities. Abdel-Wahab (2000, p. 19) believes that general experience, although difficult to describe in the field of auditing, but it has evidence and measures through which the concept of experience can be determined by studying the mental factors used by auditors. Furthermore, according to Hammersley (2006, p. 315), it refers to professionals who are experts in a certain area and who work as specialized auditors for their company. These professionals have received training in that industry and use that training exclusively.

**Second: the importance of the industrial specialization of external auditors**

The steady increase in technical and information developments, and the complex entanglement in the pillars of the economic system are considered a continuous and progressive process of collecting and evaluating information and linking the results of knowledge to evidence or evidence of evidence and information related to all stages of the audit process. Also part of this process is the fact that there are radical differences between the nature and quality of the economic activities of the business establishment. This operates in different economic sectors and the different economic conditions for them. This process also includes the accounting and internal control systems in place, and the accounting policies and accounting requirements characteristic of certain economic sectors rather than the others and the fact that the process of familiarity with the nature of the client's activity. All of these confirm the importance of the external auditors' specialization in auditing a particular economic activity (Labib, 2005, p. 102). The professional specialization of auditors acquires its importance because of the following (Suleiman, 2012, p. 8):

- 1- The professional specialization of auditors is one of the recent trends in the development of the auditing profession, and one of the most prominent entrances to continuity in the auditing market to face the increasing competition in light of globalization and openness of markets (Al-Maqtari, 2011, p. 413). This is confirmed by what a sample of accounting firms in America looked at in 1998 that industrial

specialization is considered as a critical issue for future survival for audit firms (Ali, et al., 2008, p. 91). O'keefe, et al. (1994, p. 42) also indicated that one of the main reasons for high-quality audits is the interest of audit clients in obtaining a audit process at lower costs than their interest in obtaining high quality, as well as a lack of specialized knowledge of the industry in which the client originator operates.

- 2- Global review companies and professional and governmental organizations recognize the importance of the review. The KPMG peat Marwick company has restructured its business on the basis of Industrial Specialization Services. It was the leading company of the five major companies implementing the Customer Industry-Based Audit Services (Ali, et al., 2008, p. 91). The other major audit companies have restructured their affirmation practices based on industrial activities.
- 3- Implicit affirmation of US and international auditing standards on the importance of industrial specialization in the profession of external review. Although there is no standard that explicitly implies the need for industrial specialization, there are criteria that indicate that the auditor's understanding of the nature of the industry in which the auditing institution operates is a basic necessity to complete its duties. This helps to find out the existence of dangers in these industries and better plan for audits (Al-Maqtari, 2011, p. 413).

### **Third: Evaluation of the auditor's industrial specialization strategy**

Auditing firms have developed their expertise in the industry to achieve several goals represented in (Jamal El-Din, 2008, p. 369):

- 1- Increasing demand for audit and non-audit services across these industries for audit firms.
- 2- Improving the efficiency of the audit firm through economies of scale resulting from the concentration of investment resources and technology in a specific industry.
- 3- The increase in the level of specialization of auditing firms, as measured by their market share, as a result of the increasing economies of scale of the auditing firm.
- 4- Creating barriers for competitors to enter the audit industry.

The application of the strategy of industrial specialization is beneficial to the profession of external audit through the following axes (Gramling & Stone, 2001, p. 1):

- 1- Supporting the access of audit firms to appropriate shares in the market for the services of the external audit profession, whether at the level of local or international markets, as well as whether at the level of large business establishments or at the level of large and medium business establishments or at the level of large, medium and small business establishments.
- 2- Strengthening the market for external auditing services by raising the level of professional competition, the level of experience and professional performance, as well as upgrading the degree of strength of strategies and tools of the external auditing profession and the modern techniques used in accomplishing the details of that task.

- 3- Strengthening the stock market, by raising the level of confidence in the fairness of the published financial statements, which have been examined by specialized auditors.
- 4- Raising the levels of professional fees for the external auditors, and granting them more power in negotiating with their clients about the fair levels of their fees. It would also work to increase the capabilities of professional auditing firms to take advantage of economies of scale in determining fair levels of professional fees.

### **The concept of audit risk and types of risk**

#### **Introduction**

The audit aims to examine and test the items contained in the financial statements for the purpose of giving a neutral technical opinion about the fairness and validity of the financial statements and their representation of the financial position and business results of the entity under audit. This is in order to help decision makers who rely on the information contained in the financial statements to make sound decisions. This can only be achieved through the auditor's report in which the auditor expresses his/her opinion about the credibility of the items contained in the financial statements due to the auditor's possession of what is supposed to be scientific and practical qualifications and independence from the entity under audit.

When an auditor issue their report, he/she may be exposed to some risks resulting from expressing an incorrect opinion on the financial statements of the institution under review and the consequent incorrect decisions and losses to the parties related to the institution. These risks may be spared by the auditor or the entire audit team, or may even be the most exposed to them. Therefore, the auditor may be subject to legal liability, whether civil, criminal, disciplinary, or all. In order to reduce the risks to which the auditor is exposed, there has recently been an increase in the need for the auditor to specialize in auditing a particular sector, as a result of increased professional competition in the external audit market, global variables on an international scale, and the diversity of accounting rules and principles for each industrial activity separately. Therefore, there is an urgent need to understand more about the nature of client activity, the accuracy of audit risk assessment, and the quality of the audit planning process. This is in order to increase the ability of the external auditor to confront administrative and financial corruption.

This has made the sectoral specialization of auditors an effective way to provide high-quality audits with low risk. Therefore, highlighting one of the important and modern topics, which is to reduce the risks that the auditor may be exposed to through the auditor's specialization in reviewing a specific sector can be achieved by answering the following question: Does the sectoral specialization of the auditor have a role in reducing the audit risks?



## **Definition of Audit Risk:**

Professional organizations and writers have paid great attention to the risks facing auditors. In 1972, The American Institute of Certified Public Accountants (1972, p. 60) issued Bulletin No. 1 related to audit risk, and provided an explanation of how audit risks affect the scope of the examination. This is so that the examination's scope may be determined by studying and evaluating internal control systems. This will undoubtedly affect the audit procedures, as the stronger the internal control, the lower the audit risk. In 1981, the Institute issued Standard No. 39, where the term audit risk appeared for the first time, and it represents the fundamental errors in the accounting records and books, which affect the financial statements that were not discovered by the auditor. In 1983, the Institute issued Standard No. 47 entitled Audit risk and the relative importance in the performance of the audit process. This was called the final risk of the audit process it was defined as the risk resulting from the existence of material or material errors in the financial statements of the entity being audited, which are not discovered even after the end of the audit process. It was also defined as the failure of the auditor without his/her knowledge to be cautious in his/her report when there is a fundamental error in the financial statements.

ALmaialy, & Alawaad (2020, p. 140) believe that audit risks are nothing but the auditor's expression of an incorrect or misleading opinion as a result of errors or material or material distortion in the financial statements.

## **Types of audit risk**

The auditor is liable to a set of risks during the audit process, because the auditor cannot, of course, reveal all the misrepresentations and material irregularities contained in the financial statements. Some of these risks are related to the entity being audited, while others are related to the auditor him/herself. Some of these risks are related to the nature of the review process, which is the test review, i.e. the auditor's failure to conduct a comprehensive audit of all items. Standard No. (47) issued by the American Institute of Certified Public Accountants recommended that the auditor, when planning the audit process, take into account that the audit risk is as low as possible and appropriate to express a sound opinion on the financial statements.

### **1- Inherent or inherited risks:**

It is the possibility of a material error affecting the balance of an account or a group of similar transactions individually or immediately, or when combined with errors in other balances or groups, assuming that there is no relevant internal control. Technology has an effect on economy and its environment, and the nature of the account balance or the type of operations such as accounts that include a high degree of personal appreciation or those that are difficult to calculate or those that are subject to change in consumer demand or their value is affected (Farhat, 1997, p. 104).

The inherent risk is associated with a direct relationship with the evidence, as the greater the inherent risk, the more the auditor needs to collect the largest amount of

evidence, and this requires a highly experienced auditor. Lutfi (1988, p. 47) defined the inherent risk as the risk that results from a significant error associated with the balance of a particular account or a certain type of operation. This is presuming there is no internal control system in place to oversee them, regardless of whether this error is considerable and significant on its own or when combined with additional faults in other account balances or other types of processes. According to Colbert (1987, p. 49), an error that could happen in an accounting item or a certain type of operation is considered to be inherent risk if it is significant and not the result of a poor internal control system. Colbert also discusses the possibility that an item of a specific type of operation may include an inherent risk, given that the error is serious, of relative importance, and not the result of a flaw in the internal control system. The inherent risk is an inherited risk of a special nature, and the auditor cannot control or change it, and he/she must pay great attention to it when planning the audit process. This is because of its impact on the efficiency and effectiveness of the audit, and the auditors must estimate this risk at its highest level, and not the appropriate limit on the condition of compatibility between the costs and benefits of the audit process. The inherent risk depends on many factors, including the nature and sensitivity of the balance to error and the type of operations, as well as on some external factors such as:

## **2- Control risks:**

The Iraqi Audit Manual No. 4 defines it as the risks of material errors occurring in the accounts without the possibility of preventing or detecting them in a timely manner through the accounting system and internal control systems (IFAC, 2005).

It was defined as "a relatively significant risk of misinformation that is not detected or protected from through internal control procedures applied in economic units. Control risks are an indication of the effectiveness of the internal control system. If this system is effective, then it increases the possibility of preventing or discovering errors if they occur by this system. Therefore, the risk factor that can be determined for those risks, is less and vice versa. In view of this, any system of internal control, no matter how effective and efficient it is, cannot eliminate all the possibilities of occurrence or non-occurrence of discovering errors due to the existence of violations (Al-Qadi et al., 2014, p. 273).

There are several reasons for audit risks (Jabbar, 2010, p. 116).

- 1- Control risks result from the possibility of overcoming material errors of internal control elements to find their way to the financial statements.
- 2- Control risks depend on the effectiveness of the internal control elements, and therefore effective internal control results in less control risks, and vice versa.
- 3- Control risk can be viewed as a measure used by the auditor to estimate the probability that internal control will fail to prevent or detect and rectify material misstatements in the financial statements.
- 4- This type of risk is not subject to the control of the auditor, because it is not the cause of these risks, as is the case with inherited risks. Rather, it is his/her responsibility to



assess the degree of those risks through studying and evaluating the internal control and determining the possibility of its failure to prevent, detect and rectify errors and violations.

### **3- Discovery Risks:**

These are risks that show that an auditor's procedures for checking accounts do not reveal an error in the balance of an account or a group of similar transactions that may be significant individually or when combined with errors in other balances or groups of operations. It should be noted that the risks of discovery always exist, even if the audit is 100%. In other words, even if the audit process is detailed, these risks cannot be completely avoided, because most of the evidence is presented and not decisive, and also because there are limitations and subjective perceptions of any audit process (International Federation of Accountants, 2003, p. 126).

The reasons for these risks are attributed to the following: (Jabbar, 2010, p. 116)

- 1- Failure to detect error or fraud due to the use of an inappropriate sampling method or insufficient sample size.
- 2- The use of inappropriate audit procedures at a particular time.
- 3- Failure to reach the correct conclusion through audit evidence and analytical examination.
- 4- Failure to interpret the results reached.
- 5- Incompetence or sufficient qualification of the auditor.

### **Risks associated with the industrial specialization strategy in auditing**

The past years have witnessed the merger of some major audit offices in order to reorganize their activities in the field of auditing on the basis of sectoral specialization. The aim of these mergers is providing audit services at a high degree of efficiency, and in order to increase the confidence of the external auditor in the community's confidence in reducing the process of risks to which the auditor is exposed. This is ultimately reflected in the degree of quality and accuracy of the external audit process, as sectoral specialization does not succeed except in light of the size of the large audit offices, and their reliance on providing an appropriate number of auditors with different sectoral specializations.

McAllister & Cripe (2008) indicated that in order to face the risks that may accompany the industrial specialization strategy, an approach consisting of several steps must be followed, as follows:

The first step: It aims to confront the inappropriate publication of customer information, by adopting the following:

- 1- Asking three questions at the beginning of each audit correlation in order to reduce the possibility of inappropriate publication of information, whether intentional or unintentional. The three questions are: Who has the right to access the customer's information? What are the guidelines for maintaining the

confidentiality of customer information? To whom is proprietary information distributed?

2- Creating an environment of awareness within the audit firm regarding the confidentiality of client information, based on five factors:

- A. Good example by the senior management in the auditing company.
- B. Order and law.
- C. Technology.
- D. Education and training.
- E. Audit correlation management.

The second step: It aims to confront the familiarity between the auditor and the audit client. This step includes the following:

- a) Compulsory rotation of auditors after a period of five years maximum.
- b) Strengthening and activating governance procedures on an ongoing basis.
- c) Expanding the base of companies that the auditor audits within the specialization.

The third step: It aims to activate the supervisory role of the professional bodies, the stock exchange and the relevant government agencies.

### **The relationship between audit specialization and audit risk**

Audit specialization in a specific sector audit plays a significant role in reducing the risk of fraud resulting from cheating. It also plays a significant role in controlling the risk of correlation. One study indicated that the specialist auditor could detect cases of fraud in the financial reports, given their experience in the area of client activity and the result of their continuous auditing of homogeneous activities. One study saw that specialized audits when engaged in their professional work within their field of specialization had sufficient expertise, and had the ability to detect fraud compared with the auditors' limited experience. However, when specialist auditors go out of their field of specialization, their degree of professionalism decreases, and their ability to study and analyse the causes of fraud is reduced.

The audit criteria issued by the American Institute of Certified Public Accountants clarify that the risks of correlation must be taken into account in each audit process, where the risks of the correlation are: the risks of the auditor's actions, which are the risks related to the cost of litigation resulting from the failure of a specific audit process, as well as the risks related to the ability of the institution under review and its inability to continue and obtain the return, as specialized auditors can control the risks of the business under review by studying and analyzing the administrative aspects of the customer. This is also due to the integrity and competition in the industry and the financial trends of the institution. In addition to the above, if an auditor acted as a specialist, he/she will have the ability to control the risks of his/her work. The auditor's specialization plays a big role in assessing and reducing the risks of the audit inherent in the nature of the industry or the nature of the account. Therefore, the auditor designs

the verification procedures that help him/her in achieving a sound judgment on the inherent risks. The importance of specialization lies in evaluating these procedures, because the auditor's knowledge of the nature of the industry to which the audited entity belongs enables him/her to be fully aware of the laws and regulations that regulate it, and the economic conditions it is going through that may put pressure on it. Moreover the auditor has a high degree of understanding of the effects of non-continuity in the industry, as well as understanding the electronic systems in force in the entity. To assess the risks of control, the auditor studies the internal control system applied and its efficiency and identifies its weaknesses in terms of conducting compliance tests on the one hand and to ensure the extent of compliance during practical application on the other. This can be achieved by understanding the internal control system that can be judged on the extent of reliability. The auditor's specialization contributes to the identification of compliance tests, as they provide the auditor with knowledge of where unintentional errors are, as well as elements that are easy to manipulate in that industry and as a result of the repetition of the audit process in that industry he has a complete picture of the internal control system.

The specialist auditor can control the risk of detection based on his/her assessment of the control risks and inherent risks, by reducing the risk of detection to the lowest possible level by performing analytical examination and sample tests. The risk here lies in analytical tests that may fail to detect a material misstatement if the analysis is done incorrectly. Therefore, the specialized auditor has full awareness of the assessment of the risks of financial statements. In this regard, one study found that companies that have been audited by specialized auditors have high levels of information consistency from companies that have been audited by non-specialized auditors. Since the auditor's goal is to reduce the degree of risk resulting from accounting information, the informational consistency associated with specialization improves the quality of the audit process as one of the tasks of the auditing profession.

Finally, the specialization of the auditor in auditing a specific sector, in addition to reducing the risk of auditing, leads to raising the level of fees charged by the auditor, as well as leads to increasing the quality of the audit process by raising the professionalism of the auditors.

## Field study

**Study methodology:** the analytical descriptive approach was used, which relies on studying the phenomenon as it is in reality, describes it accurately and expresses it quantitatively and qualitatively, by relying on two sources of data collection, namely:

- **Secondary sources,** which included the literature related to the subject in books, periodicals, research, reports, and Arabic and foreign publications, in addition to government documents, laws and regulations related to the subject of the study to cover the theoretical aspect.

- **Primary sources:** which included a questionnaire designed and distributed to a group of certified accountants working in the public and private sectors.

**Table (1): Cronbach's alpha internal consistency coefficient for the dimensions and for the tool as a whole**

The field	internal consistency	The number of items	level of internal consistency
The industrial specialization of the external auditor helps when adopting the strategy of industrial specialization, which plays a role in reducing audit risks.	0.84	7	good
The extent to which industrial specialization contributes to increasing the ability of external auditors to detect errors and fraud in the financial statements	0.82	5	good
The tool as a whole (all items)	0.82	12	good

Table (1) shows that the value of alpha is indicative of the stability of the study tool and its internal consistency for the axes of the study, where the alpha value ranged between (0.82) in its lower limit and (0.84) in its upper limit. It also refers to the alpha value of the study tool as a whole and for all its items. This indicates that there is a fair degree of stability and consistency, as this value reached (0.82).

Table (2): the standard of the analysis scale on which the analysis was based using the arithmetic mean values.

**Table (2): Standard Analysis Scale**

SMA	Class
1-2.49	Low
higher than 2.49 -3.49	Medium
higher than 3.49-5	High

### Testing the hypotheses of the study

In this part, the hypotheses of the study will be tested and discussed according to the axes of the study.

**The first hypothesis:** ((The industrial specialization of auditors affects the reduction of audit risks)). To verify the validity of this hypothesis, the arithmetic means and standard deviations of the items related to the third hypothesis were extracted. Table (3) below illustrates this.

Table (3): Arithmetic means and standard deviations for items related to the first hypothesis.

standard deviation	SMA	items
The contribution of industrial specialization in discovering errors and financial fraud.	4.38	0.56
Industry specialization contributes to the quality of planning decisions and the improvement of audit risk estimation.	4.39	0.57
The contribution of industrial specialization to raising the level of professional competition and professional performance.	4.30	0.68
The contribution of industrial specialization in reducing accounting profit management methods.	4.25	0.60
The contribution of industrial specialization in reducing shading of financial statements	4.15	0.72
Specialized and in-depth knowledge of internal controls and their types are considered areas of industrial specialisation	4.15	0.64
Specialized knowledge of evidence, how to obtain evidence and document the audit process is an area of professional specialization	3.92	0.62
Total	4.22	0.63

Table (3) shows the mathematical means and standard deviations of the items relating to the first case, and the mathematical means ranged from (3.64-4.38), where the item states that "Industrial specialization contributes to the quality of planning decisions and to improve the estimation of risk assessment" in the first place with an average value of (4.39). The item stating "The specialized knowledge of evidence and how to obtain and document evidence and documentation of the exact process of professional specialization" came in the last rank averaging (3.92). The total arithmetic mean was (4.22). The arithmetic mean of the dimension is also compared with the standard (3) – the criterion of acceptance of the hypothesis – using the T-test as shown in Table (4).

Table (4): Arithmetic means, standard deviations, and T-test for items compared to standard (3)

Statistic al significance	degrees of freedom	valueT	standar d deviation	SMA	the nu mbe r	The concept and importance of professional specialization
0.000	12	21.41	0.63	4.22	39	

It can be seen from the table above that there are significant differences in statistical terms ( $\alpha > 0.05$ ) between the arithmetic mean and the standard score (3), where the T-value was 21.41 with a statistical significance of 0.000, and thus this hypothesis is rejected.

Second hypothesis: (The extent to which industrial specialization contributes to raising the ability of external investigators to detect errors and frauds with financial statements)) to validate this hypothesis, arithmetic means and standard deviations of items relating to the first hypothesis and the table below illustrates that.

**Table (5): The arithmetic means and standard deviations of the relevant items according to the arithmetic means**

standard deviation	SMA	items
Industrial specialization aims to give confidence to the data shown in the financial statements.	4.41	0.55
Industrial specialization aims to restore credibility in financial statements.	4.41	0.55
The industrial specialization of the external auditors results in a clear picture of the fairness of the financial statements.	4.30	0.65
The industrial specialization of the external auditors shows in a more transparent way the strength of the company's financial position.	4.30	0.66
The industrial specialization shows that the financial statements have sufficient disclosure of the company's activities as a whole	4.28	0.64
Total	4.34	0.61

Table (5) shows the arithmetic means and standard deviations of the items related to the second hypothesis. The arithmetic means ranged between (4.30-4.28). The first and second items showing the role of industrial specialization in enhancing the reliability in the data shown in the financial statements, as well as restoring credibility with the financial statements in the first place with a arithmetic mean of (4.41). The item that states "The industrial specialization shows that the financial statements have sufficient disclosure of the activities of the company as a whole" came last with an average value of (4.28). The total arithmetic mean as was (4.34).

The arithmetic mean of the dimension was also compared with the standard score (3) – the criterion for accepting the hypothesis – using the T-test as shown in Table (6).

**Table (6): Arithmetic means, standard deviations, and T-test for items compared to standard (3)**

The importance of professional specialization in information technology in providing audit services	Number	degrees of freedom	T-value	standard deviation	SMA	Statistical significance
	12	11	22.28	0.61	4.43	0.000



It can be seen from the table above that there are statistically significant differences ( $\alpha > 0.05$ ) between the arithmetic mean and the standard score (3), where the t-value was 22.28 with a statistical significance of 0.000, and thus this hypothesis is rejected.

## **Conclusions and recommendations**

### **First: Conclusions**

Based on the analysis and discussion of the results of the study, the most important findings can be summarized as follows:

- 1) The industrial specialization of the external auditor contributes to the development of the performance of the audit process through many areas, including increasing the ability of auditors to detect errors, and fraud in the financial statements and improving the assessment of audit risks.
- 2) The application of industrial specialization leads to the auditor to increase confidence and credibility in the financial statements and reports, as well as raise the quality of disclosure in them, and this works to develop the profession and reduce errors.
- 3) There are no significant differences in the auditors' opinions on the importance of the auditor's industrial specialization for the audit process, by improving the efficiency of audit risk assessment, and improving audit planning decisions.
- 4) The auditors agreed on the importance of the auditor's industrial specialization in improving the efficiency of estimating the audit risks as represented in the risk of control, the risk of detection, and the inevitable risk. This is done through the accuracy of determining compliance tests, judging the effectiveness of the internal control system, and the places where errors are repeated. It is also done through accurately determining analytical examination procedures, determining the relationship between the accurately related items, the degree of influence in the interpretation of the results, determining the items and accounts that represent a risk in nature, and facilitating the review of management estimates.

### **Second: Recommendations**

In light of the findings of this study, the researcher recommends the following:

- 1- The need to apply the industrial specialization of external auditors, which makes the auditor more specialized through the development of scientific and practical qualification, professional and technical experience, skill, continuous education and development.
- 2- The parties interested in the audit profession adopt the industrial specialization of audit offices by defining the basic objectives and the requirements necessary to achieve these objectives.
- 3- The relevant authorities responsible for the auditing profession should issue standards that understand and clarify the limits of applying industrial specialization.

- 4- Emphasizing the external auditors' need for full knowledge and full application of industrial specialization in the field of auditing through the development of their scientific, professional and technical skills in the industrial sector.

## Conclusion

Through the foregoing and in light of the results and recommendations of the research, if an auditor acts as a specialized auditor, he/she will have the ability to control the risks of the auditor's work. The auditor's specialization plays a major role in assessing and reducing the audit risks inherent in the nature of the industry or the nature of the account. Therefore, the auditor designs verification procedures that help him/her reach a sound judgment on the inherent risks. The importance of specialization lies in evaluating those procedures, because the auditor's knowledge of the nature of the industry to which the entity under review belongs enables him/her to be fully aware of the laws and regulations that regulate it, and the economic conditions under which it operates that may put pressure on it. Also, the auditor has a high understanding of the effects of non-continuity in the industry, as well as understanding of the electronic systems in force in the institution. To assess the risks of control, the auditor studies the internal control system applied and its efficiency and identifies its weaknesses in terms of conducting compliance tests, and on the other hand to ensure the extent of compliance during practical application. This is achieved by understanding the internal control system that can be judged on the extent of reliability. The auditor's specialization contributes to the identification of compliance tests, as they provide the auditor with knowledge of where unintentional errors are, as well as elements that are easy to manipulate in that industry and as a result of the repetition of the audit process in that industry he/she has a complete picture of the internal control system. The specialist auditor can control the risk of detection based on his/her assessment of the control risks and inherent risks, by reducing the risk of detection to the lowest possible level by performing analytical examination and sample tests. The risk here lies in analytical tests that may fail to detect a material misstatement if the analysis is done incorrectly.

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