

Article info

Received on: 21.10.2021

Accepted on: 30.11.2021

Published on: 30.11.2021

doi: <https://doi.org/10.52688/ASP45127>

Research Article

A field study on a sample of companies listed in the iraq stock exchange: the effect of peer review on improving audit quality

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ABSTRACT

This research aims to study the effect of peer review in improving audit quality according to the opinions of a sample of internal auditors and workers in Iraqi private banks. This is conducted by testing the relationship between peer review and audit quality through the presence or lack of a statistically significant relationship between peer review and improving audit quality and using the Statistical Package for Social Sciences (SPSS). This research has reached several results, including: The application of the peer review program in banks by examining the performance of each other, as well as its application according to standards, procedures, and policies that guarantee the achievement of the quality of the audit process. This study recommends a number of recommendations, including: the need to develop procedures and policies for the peer review program by the Association of Certified Public Accountants or the Board of Audit and Control Profession, which contributes to the quality of the audit process. Moreover, the need to give the subject of the peer review program as much attention as possible and maintain it by the study sample banks, as well as by the supervisory bodies regulating the audit profession in order to improve the quality of auditing in banks.

Keywords: Peer review, audit quality, risk management, fraud, reducing financial fraud

INTRODUCTION

The problem of the study: the absence of inspection over the work of auditing offices, companies and private banks in the private sector in Iraq. This is the responsibility of the Audit Profession Council, which has not sought to find means to achieve this inspection. Based on this problem, the following question can be formulated: Is there a significant impact of peer review in improving audit quality?

The hypothesis of the study: In light of the nature of the problem and the objectives of the research, the following hypothesis is formulated:

The first hypothesis: There is a significant effect of peer review in improving audit quality.

The significance of the study: The significance of the research can be determined through the following:

1. Finding a relationship between the application of the peer review method and improving the quality of the audit.
2. Shedding light on improving the quality of auditing and the extent to which all offices and private banks adhere to the necessary instructions at work. The study acquires its importance through the scientific and practical aspects.

Objective of the study: The objectives of the research can be summarized in several points, the most important of which are:

Reviewing of previous studies related to both peer review and audit quality.

Identifying the theoretical approach to the concept of peer review, its importance and objectives.

Identifying the theoretical approach to the concept of audit quality, its importance, scope and means of improvement

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PREVIOUS STUDIES

The study by *Al-Zubair (2021)*: This study aims to identify the relationship between peer review and the characteristics of the audit office, the role of peer review in managing the audit process, the relationship between peer review and human resources in the audit office, and to clarify the role of peer review in consolidating the relationship of the audit office with the client. This study has adopted the descriptive analytical approach, and used a questionnaire to collect data from external audit offices in the state of Khartoum. A number of (120) questionnaire forms are distributed to the research community which is a sample of external audit offices in the state. This study concludes that the peer review contributes to providing reasonable assurance that the audit office under examination is committed to quality control standards. The peer review has managed the review process by putting in place a good program of regular monitoring and inspection. The peer review has also worked to develop human resources in audit offices by providing moral support to exert more effort. It recommends the development of a good program for regular monitoring, taking into account the good study of changes in the client's activity, and increasing interest in developing human resources in the audit office through increasing the use of technology to develop the skills of auditors.

The study by *Hamza (2021)*: This study aims at measuring the impact of peer review in narrowing the performance gap, studying the relationship between peer review and narrowing the standards compliance gap, and clarifying the impact of peer review in narrowing the reporting gap. This study has adopted the descriptive analytical method. A sample of (80) items is considered, and (76) forms are retrieved with a retrieval rate of (95%) valid for statistical analysis. This study has reached several results, the most important of which are: peer review has contributed to narrowing the performance gap by discovering and disclosing illegal behavior. The peer review has narrowed the standards compliance gap by ensuring the auditors' administrative commitment to applying audit quality control standards, and providing reasonable assurance that the audit office under examination is committed to quality control standards in the case of a clean report, which in turn has contributed to narrowing the report's expectations gap.

A study by *Lukas Lohlein (2016)*: This study aims to search for the previous peer review system and the current PCAOB system. This study deals with an analysis and documentation of previous studies across three research axes: the validity of reviews and monitoring, recognition of reviews and PCAOB monitoring for decision-making, and the impact of reviews and monitoring on audit quality. This study has reached a set of results, the most important of which is that the initial introduction of external quality controls through peer review may enhance the quality of services provided by audit offices.

A study by *Walled Khalid Salah and Dew Tin Hal (2015)*: This study aims to show that audit quality has gained a prominent position in the past few years as a tool for evaluating the effectiveness of quality assurance efforts in recent times. There is an increasing importance attached to the State Audit and Administrative Control Bureau and Accounting Bureau which carry out the quality control of monitoring. The responsibility for public sector audits rests with Supreme Audit Institutions, whose primary role is to perform audits and other assurance services that enhance public sector accountability. The results of this study indicate that audit quality is often related to the efficiency and independence of auditors who are able to discover material errors and are willing to issue appropriate audit reports to reflect their results. It should also ensure the participation of civil society and citizens, since international cooperation creates productive conditions for acquiring knowledge of the successful or bitter experiences of other countries. To develop a mutual understanding of corruption and taking necessary measures in international law, the contributions of the international community should be taken into account at every step of the strategy. This study concludes that audit quality is often linked to the efficiency and independence of auditors who are able to discover material errors and prepare to issue appropriate audit reports to reflect their results.

THE THEORETICAL FRAMEWORK OF THE RESEARCH

The theoretical approach to peer review, its significance and objectives: The concept of peer review: the audit profession works to develop the economy in each country and maintain its stability. The commitment to control the quality of the audit is the main determinant of the quality process. Thus, the researcher reviews in this part a simplification of auditing quality control, considering peer review as one of the most important methods of controlling the quality of auditing. AICPA (2019) defines it as a process of evaluating the performance of an audit office carried out by another audit office by one or more of its members (AICPA, 2019: 2) . Legal (2013) defines it as the establishment of a group of professionals using their expertise in the audit profession to evaluate the quality of the work of other professionals within the framework of a set of general standards for quality of performance, and the person in charge of the evaluation process is a person with experience and competence enables him to evaluate the performance of the office under audit (Legal, 2013: 64).

The significance of peer review: The importance of peer review is represented by a set of the following points (Ismail et.al., 2020: 161; Mahmoud, 2017: 25; Hamid, 2018: 42; and Mahmoud, 2014: 120):

Each audit office participating in the peer review program is subject to standard procedures, rules and mechanisms defined in the program.

It improves the way the key audit functions are performed and gives it advice such as guidance in this field.

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It helps those interested in the audit profession to increase the effectiveness of procedures related to the practical implementation of the audit process.

The peer review program is a tool or a means of confirming the quality of the audit process.

The information in the peer review report helps predict the failure of the audit process.

Peer review objectives: Peer review objectives are represented in the following points (Rivera, 2011: 1833; Hamid, 2018: 43; AICPA, 2019: 7-9, and Ismail et. al., 2020: 161):

Evaluating the appropriateness of the policies followed in the accounting and auditing offices, in addition to the procedures related to each of the elements related to quality control.

Confirming of the judgment on the extent of the commitment of the audit offices, as well as the performance of its quality within the framework of self-regulation.

Ensuring that the quality control system in the audit offices being followed up is designed in accordance with the quality control standards set by the AICPA.

Maintaining the position of the profession with regard to the quality of its performance as well as the effectiveness of the audit process.

Assessing the extent to which audit follow up offices comply with international standards for supreme audit institutions.

THEORETICAL INTRODUCTION TO THE CONCEPT OF AUDIT QUALITY AND ITS IMPORTANCE

The concept of audit quality: the concept of audit quality is broad, comprehensive and complex, and there are multiple concepts of audit quality. Each concept focuses on one aspect of audit quality. Some have linked the concept of audit quality to the discovery of irregularities and fundamental errors, while others focus on the fact that there are other factors related to the audited company that affect audit quality (Abu Nassar, 2019: 19-20).

Jaya et.al. (2016: 50) defines it as reflecting the auditor's performance of his/her work efficiently and effectively, as well as following the proper procedures, methods and means during the audit process. It is also defined by Halim et. al. (2014: 66) as the extent of the auditors' commitment to audit and performance standards for individuals within the auditing company. Performance standards are linked to a set of personal characteristics that must be met by employees in audit offices, such as objectivity, independence and efficiency of individuals.

The importance of audit quality: The audit profession has faced much criticism and constant pressure, due to the existence of cases of embezzlement and fundamental misrepresentations in the financial statements. These lawsuits against auditors have increased, especially after a big number of large American companies which have failed despite their financial statements being audited by the largest audit offices. In order to escape these pressures, it is essential to pay attention to the quality of the audit, which is a necessary requirement for all parties to the audit process (the auditor - the company being audited - the beneficiaries of audit services - professional organizations). The importance of audit quality stems from the following areas (Assi, 2015: 5; Dawwara, 2014: 19; Birjandi et al., 2013: 26; Al Abdoun, 2018: 134; and Khasharmeh & Hezabr, 2016: 497):

The quality of the audit helps investors (existing as well as future) to make their decisions. All the basic information sources for each investor come from the financial statements, and the average investor is not able to detect errors and fraud in the financial statements and largely depends on the auditor's report to meet that deficiency. Through this, the audit process is an essential element that contributes to changing the course of investment decisions. It is expected that the auditor performs the audit process with the highest levels of quality, credibility and efficiency, as the current and future investors represent the most important party to the continuity of the facility. One of the most important things that must be done by auditors is showing satisfaction when performing the audit process to the fullest.

Increasing the conflict between the interests of the agent represented by (management) and the original represented by (shareholders) may lead to an increase in the cost of the agency, and then there is an urgent need for audit offices to provide high quality services. It is in contrast to companies where the degree of conflict of interest is low, and when the degree of conflict is low, agency costs are low.

The quality of the audit always helps the management of the facility in its responsibilities when preparing the financial statements and making decisions, and its aim is to reduce the possibility of unintended errors as well as intentional errors such as manipulation and fraud.

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Market value and competitiveness lead to an increase in pedestrian stock prices, and, therefore, management must pay attention to the audit process with the highest quality.

THE PRACTICAL ASPECT OF THE RESEARCH

First: The population and research sample: To achieve the objective of the research, which includes detecting the impact of peer review in improving the quality of auditing, the study community consists of (44) private banks in Iraq chosen to embody the problem of the study and research in finding solutions. As for the research sample, it represents part of the research community in terms of characteristics and qualities. Thus, the study sample is chosen according to the simple random method, directly targeting accountants, internal auditors and workers in financial affairs from a total of (12) banks. A number of (120) questionnaires are distributed to the research sample, from which (86) questionnaires are retrieved. After unpacking the data, it is found that there are (16) incomplete questionnaires of data which are excluded, while the valid for statistical analysis amounted to (70) questionnaires. and then the researcher tested the five-item Likert scale consisting of five points to measure the respondents' approval of the items of the questionnaire as shown in Table (1).

Table (1): Names of the study sample banks

No.	Name of Bank	No.	Name of Bank
1	Sumer Commercial Bank	7	Bank of Baghdad
2	Gulf Commercial Bank	8	Elaf Islamic Bank
3	National Bank of Iraq	9	Investment Bank of Iraq
4	Iraqi Bank of Trade	10	Ashur International Bank
5	International Islamic Bank	11	Iraqi Islamic Bank
6	Credit Bank of Iraq	12	Iraqi Middle East Investment

Source: The table prepared by the researcher, based on the annual reports of the sample banks under study

The consistence of the questionnaire items using the alpha Cronbach coefficient: The reliability of the questionnaire items is measured using the Cronbach's alpha coefficient in order to know the internal consistency of the items. The researchers note from Table (2) that the reliability coefficient of the variables ranges between (0.923 - 0.929). This indicates the high degree of reliability and validity of the research tool, as illustrated by Table (2).

Table (2): Alpha Cronbach coeffecient to measure the reliability of the questionnaire

No	Variables	No. of items	alpha cronbach coefficient	Self validity coefficient
1	Peer review	8	0.929	0.963
2	Audit quality	10	0.923	0.960

Source: Table prepared by the researcher based on SPSS program outputs.

DESCRIPTION AND DIAGNOSIS OF THE CHARACTERISTICS AND GENERAL INFORMATION OF THE RESEARCH SAMPLE MEMBERS

Gender: The researchers note from the results of Table (3) that the number of respondents according to gender is the highest for males with a percentage of (67.1%), while the percentage for females is (32.9%).

Table (3): Gender Distribution

Social Gender	Recurrence	Percentage
Male	47	67.1
Female	23	32.9
Total	70	100.0

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

Job title: The researchers note from Table (4) that the highest percentage is for the job title (accountant) with a percentage of (45.7%), and the lowest percentage is for (assistant auditor) with a percentage of (18.6%).

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Table (4): Job Title Distribution

Position	Recurrence	Percentage
Assistant auditor	13	18.6
Auditor	21	30.0
Accountant	32	45.7
Executive Director	4	5.7
Total	70	100.0

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

Academic qualification: The researchers note from the results of Table (5) that the majority of the sample members have a educational (academic) qualification (Bachelor) with a percentage of (64.3%), followed by (Master) with a percentage (24.3%) of the total sample members, and the lowest percentage is for the qualification of (Ph.D.) with a percentage of (2.9%).

Table (5): Educational Qualification Distribution

Educational Qualification	Recurrence	Percentage
Lower than B.A.	6	8.6
B.A.	45	64.3
M.A.	17	24.3
Ph.D.	2	2.9
Total	70	100.0

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

Scientific specialization: The researchers note from the results of Table (6) that the highest percentage reached (52.9 %) for the specialization (accounting), followed by the percentage (21.4%) for the scientific specialization (management), the percentage (12.9 %) for the specialization (information systems), and the lowest percentage is for the specialization (economics) with a percentage of (5.7%).

Table (6): Distribution of scientific specialization

Section type	Recurrence	Percentage
Accounting	37	52.9
Management	15	21.4
Economics	4	5.7
Banking and Financial Sciences	5	7.1
Information Systems	9	12.9
Total	70	100.0

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

Years of experience: The researchers note from Table (7) that the majority of the sample members are those with job experience (less than 5 years) with a percentage of (34.3%), followed by (25.7%) for years of experience (5-10 years), followed by a close percentage of those with job experience (11-15 years) by (22.9%), and finally those who have experience (16 years or more) at a percentage of (17.1%).

Table (7): Distribution of years of service (experience)

Years of Service (experience)	Recurrence	Percentage
Less than 5 years	24	34.3
5-10 years	18	25.7
11-15 years	16	22.9
16 years and above	12	17.1
100.0	70	100.0

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

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DESCRIPTION AND DIAGNOSIS OF RESEARCH VARIABLES (PEER REVIEW AND AUDIT QUALITY)

The two researchers extracted the arithmetic mean, the standard deviation, the relative importance of the research variables and the functions that illustrate this.

Description and diagnosis of peer review: The independent variable of the study (peer review) in the questionnaire includes (8) items to be measured. The researchers note from the results of Table (8) that the level of peer review practice from the respondents' point of view in the banks under study is at a general arithmetic mean of (4.176) and a standard deviation (0.500), which indicates a low dispersion less than one correct. That is, there is convergence and homogeneity in the views of the study sample members towards the peer review used in private banks and with a high relative importance reaching (83.5%) higher than the weighted average (3). The results are shown in Table (8).

Table (8): The results of the responses of the study sample members to the peer review items

No.	Items	Arithmetic mean	Standard deviation	Relative importance	Order of importance	Rating level
1	Implemented by a team formed by the authority responsible for its implementation	4.271	0.759	85.4%	1	Very high
2	Consists of highly qualified and professional auditors	4.271	0.720	85.4%	2	Very high
3	Consists of specialists and practitioners in accounting	4.171	0.833	83.4%	4	high
4	Performs the examination process to determine the extent of the quality control system	4.157	0.810	83.1%	5	high
5	Examines records and files to discuss with office management	4.128	0.740	82.5%	6	high
6	The work team discusses the tasks with the auditors	4.185	0.803	83.7%	3	high
7	Discuss with the audit offices their performance of the assigned tasks	4.128	0.832	82.5%	7	high
8	The monitoring team reviews the adequacy of audit plans and programs to allocate time for certain tasks	4.100	0.836	82%	8	high
Total Peer Review		4.176	0.500	83.5%	-	high

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

As for the sub-items, all have come at a high level of importance, but differ in the order of their importance. The researchers note from Table (8) that items (1,2) which state (the peer review is applied by a work team formed by the authority responsible for its implementation) and (the work team consists of highly qualified and professional auditors) have obtained the highest arithmetic mean (4.271) ranking first at the level of relative importance (85.4%). As for item No. (8), which states (the monitoring team reviews the adequacy of audit plans and programs to allocate time for certain tasks), it obtained the lowest arithmetic mean (4.100) in the last rank at a level of relative importance (82%). These results are explained by the fact that the management of banks is interested in the application of peer review from members of a previously formed team that works on evaluating the quality of the audit profession in light of general performance standards. This team consists of accountants and practitioners who are qualified and professional, which enables them to carry out the evaluation process concerning the performance of other auditing offices. However, the process of discussing the results of evaluating the assigned tasks with the auditors from the authorities responsible for its formation does not pay attention to the appropriateness of plans and programs and reviewing them with the auditors in a timely manner for some tasks, which makes them lose the time management performance of those tasks. Those results are confirmed by the fact that the standard deviations of all items are less than the integer one, which indicates a low level of dispersion. This reflects the convergence and homogeneity in the answers of the study sample members and their perception of the importance of peer review practiced by the banking administration.

Description and diagnosis of audit quality items: The mediating variable for the study (audit quality) includes (10) items to be measured, where the researchers extracted the arithmetic mean, standard deviation and the relative importance of the items of the variable as a whole, and the results are as in Table (9).

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Table (9): The results of the responses of the study sample to the audit quality items

No.	Items	Arithmetic mean	Standard deviation	Relative importance	Order of importance	Rating level
9	The extent of the auditor's compliance with international auditing standards	4.371	0.684	87.4%	1	Very high
10	Reducing the discrepancy between the expectations of the statement users and the auditor, i.e. narrowing the expectation gap	3.971	0.916	79.4%	9	High
11	The auditor's detection of irregularities and fundamental errors in the financial statements	3.985	0.842	79.7%	8	High
12	The extent to which the financial statements subject to auditing are prepared in accordance with generally accepted accounting principles	4.028	0.916	80.5%	6	High
13	Increasing confidence in the audit report and the credibility of financial statements	4.114	0.790	82.2%	5	High
14	Reduces lawsuits filed against the auditor	3.671	0.977	73.4%	10	High
15	Accepting new customers and continuing with old ones	4.214	0.759	84.2%	3	Very High
16	The length of the auditor's office's association with the audited company – the customer	4.000	0.798	80%	7	High
17	Ability and competence such as hiring people with good professional experience	4.185	0,839	83.7%	4	High
18	Monitoring and follow-up as auditors' offices must evaluate their system of quality control and its continuity	4.242	0.731	84.8%	2	Very High
Total audit quality		4.046	0.502	80.9%	-	High

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

The researchers note from the results of Table (9) that the level of audit quality from the respondents' point of view at the banks under study, is at a general arithmetic mean of (4.046) and a standard deviation (0.502). This indicates the low dispersion with less than the integer one. This means that there is convergence and homogeneity in the viewpoints of the study sample members towards the quality of auditing in private banks, and with a high relative importance reaching (80.9%) higher than the weighted average (3). As for the sub-items, all have come at a high level of importance, but differ in the order of their importance. The researchers note from Table (9) that item No. (9) which states (The extent of the auditor's compliance with international auditing standards) obtained the highest arithmetic mean (4,371) in the first rank at a significance level of (87.4%). As for item No. (14), which states (lawsuits filed against the auditor), it obtained the lowest arithmetic mean (4,671) in the last rank at the level of relative importance (73.4%). These results explain the fact that the management of banks and their auditors are committed to international auditing standards, as a result of what the auditors' offices are doing in continually evaluating their system. This encourages old customers to remain and to attract new customers to these banks, which makes the banks' interest in attracting good professional expertise in order to increase confidence in the credibility of the financial statements. This encourages customers to stay connected with the auditor's offices. However, some errors and violations in the financial statements are not discovered by the auditor, which increases the expectations gap between the users of the accounts and the auditors, which in turn causes lawsuits to be filed against the auditor as a result of the unexpected irregularities when preparing the financial statements. These results are confirmed by the fact that the standard deviations of all items are less than the integer one, which indicates a low level of dispersion. This reflects the convergence and homogeneity in the answers of the study sample members and their perception of the importance of the audit quality that these private banks possess.

TESTING AND DISCUSSING THE RESEARCH HYPOTHESES

The first main hypothesis: There is a statistically significant effect of peer review on the audit quality of a sample of private banks in Iraq. In order to identify whether or not there is an effect of peer review on audit quality and to answer the first study question: Is there a significant effect of peer review in improving audit quality ?, the researchers have used the simple linear regression test via (SPSS) program for statistical analysis.

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Table (10): Simple regression test for the effect of peer review on audit quality

audit quality			dependent variable
Sig. Probability value	Calculated T	Beta Regression coefficient	Independent variable
0.000	7.014	0.648	Peer review
coefficient of determination) R^2 (=0.420			
Adjusted coefficient of determination) R^2 Adjusted 0.411 = (
Value(F) for variance measurement (ANOVA) 49.193 =			
Probability value) Sig(=0.000			

Source: The table is prepared by the researcher based

on the outputs of the (SPSS) program.

The researchers note from Table (10) that the degree of the coefficient of determination (R^2) amounts to (0.420), which is the explanatory power that explains (42%) of the discrepancy in audit quality resulting from the changes in peer review by the bank managements. What confirms this result is the value (t) of the peer review variable, which amounts to (7.014), which is significant at the level of statistical significance (0.00) less than the level of significance (0.05). Also, the significance of the positive impact on audit quality, as the value of the regression coefficient (β) has reached its value (0.648). This means that an increase of one degree in the level of interest by the managements of private banks in peer review enhances the quality of the audit under study. Based on the presence of the effect of peer review on the quality of auditing in the Iraqi private banks, this is what the above table indicates in that the value of (F) is significant in the regression model, as it reached (49.193) and is significant at the level of statistical significance (0.00) less than the level of moral significance (0.05). Therefore, these results confirm the validity of the answer to the first question of the study and the first main hypothesis in the form of proof, which states: **There is a statistically significant effect of peer review on the audit quality of a sample of private banks in Iraq.**

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Some offices often resort to consulting other auditing offices or consulting specialized persons from outside the office to answer some professional inquiries about the lists that the office is auditing. Enhancing the quality of auditing by the management of banks. This is taken by banks in their work and clearly contributes to improving its effectiveness, which is characterized by the auditors' interest in evaluating performance on an ongoing basis. The importance of applying the peer review program works to develop and improve the quality of auditing by following modern methods and technological developments in the audit process, as well as following the modern guidelines for auditing standards.

RECOMMENDATIONS

The researchers recommend the necessity of bank administrations' interest in using the expertise of audit professionals in evaluating the quality of work through references and regarding the observance of general standards of performance and their implications for the peer review process in a better way. The researchers recommend focusing on the quality of auditing, to ensure that the quality of the financial reports of the banks subject to monitoring is achieved to meet the needs of their users, as well as the possibility of evaluating the financial performance.

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