

# Diagnosing Factors Affecting on the Quality Level of Auditing Evidence and Its Reflecting of The Effectiveness for Accounting Information System.

<sup>1</sup>Asst. Prof. DR. ALI QASIM HASAN AL-  
OBAIDI

Al-Nahrain University - College of Business  
Economics  
Baghdad, Republic of Iraq  
[Email: alialobidi633@gmail.com](mailto:alialobidi633@gmail.com)

<sup>2</sup> Nouran Khalil Tariq

Al-Nahrain University - College of Business  
Economics  
Baghdad, Republic of Iraq  
[Email: nurankhalel@gmail.com](mailto:nurankhalel@gmail.com)

## ABSTRACT

This study seeking to identify the relationship between the quality level of auditing evidence and the effectiveness of accounting information system. Study based on main hypothesis that state diagnosing and analyzing the most important factors that can effect on quality level of audit evidence that are collected before starting the tasks of audit engagement can reflect in a number of results, including obtaining high quality evidence that contributes to facilitating the task of judgment the effectiveness accounting information system and the outputs it produces for the audited entities. in order to reach the objectives of the study and test its hypotheses, a questionnaire was formulated by the researcher and distributed to sample of the study (107 respondents) represented by a group of external auditors serving in audit offices in the Republic of Iraq, then collect and analyze data using a set of statistical methods and tools, and discuss the results that has been achieved.

The study reached a number of conclusions, the most important of which is that one of the most important factors that can affect the quality of the audit evidence that is collected is the level of knowledge and the accumulation of experience for the external auditor who is responsible for collecting such evidence at the academic and professional level, as the impact of this factor on the task of distinguishing useful from non-useful evidence in process of judging the fairness of the financial statements.

**Keywords:** Quality Level of Audit Evidence, Accounting Information System AIS , External Auditor , Financial Statement , Business Entities.

## Structure of The Study

### 1.1. Study Problem

The problem of the study is that despite the significant role that audit evidence plays in facilitating the tasks of the external auditor in judging the credibility and fairness of the outputs of the accounting information system represented by the financial statements that are audited, on the other hand, the external auditor is required to observe accuracy in the process of collecting and selecting such evidence, by diagnosing a group of factors that have a direct impact on the quality level of evidence collected, including accumulation knowledge and experience in audit profession, sources of evidence and the quality of the internal control system for the audited entity.

The problem of study can be embodied through the following questions, which represent the most important factors that affect the quality of the audit evidence collected:

- Does the highest degree in knowledge and experience for the external auditor at the academic and professional level contribute to facilitating the process of distinguishing useful evidence from those that are not useful for the purposes of professional judgment?
- Does the evidence that obtained from external sources more reliable (more convincing) and less volume than those that can be obtained from internal sources to the audited entity?
- Does the efficient and distinguished internal control system able to reduce the time, effort and cost in the process of collecting evidence by the external auditor by applying the cost-benefit trait, in a manner that the cost of collecting such evidence does not exceed the benefits derived from it?

### 1.2. Study Hypothesis

The study is based on a main hypothesis that state “diagnosing and analyzing the most important factors that can effect on quality level of audit evidence that are collected before starting the tasks of audit engagement can reflect in a number of results, including obtaining high quality evidence that contributes to facilitating the task of judgment the effectiveness accounting information system and its output for the audited entities”.

From the main hypothesis the following subsidiary hypotheses can be derived:

- **H<sub>1</sub>** There is a significant statistical correlation between the practice of diagnosing factors affecting the quality level of audit evidence and the effectiveness of the accounting information system.
- **H<sub>2</sub>** There is a significant statistical influence of the practice of diagnosing factors affecting the quality level of audit evidence on the effectiveness of the accounting information system.

## 1.3.Objectives of the Study

The study aim to reach the following objectives:

- Formulating a conceptual framework dealing with the term of audit evidence and one of the most important accounting literatures that has increased significantly in recent times represented by the accounting information system.
- Identifying of the most important factors that can affect the quality level of audit evidence that is collected before starting the tasks of audit engagement.
- Clarifying the role that can play by distinguished audit evidence in judging the effectiveness of the accounting information system for the entities subject to audit and defining the nature of the relationship between them.

## 1.4.The Importance of Study

The study derives its importance from the importance of its variables that deals with, represented by audit evidence that considered the essence of audit profession as directly related to the task of judging the fairness of the financial statements and the extent of the success of the auditing practice. Also derives its importance by addressing one of the most important concepts related to information technology and accounting technology that is the accounting information system, which represents the outcome of the entity subject to audit, through which it can enhance confidence from the view of beneficiaries and reduce the audit expectations gap to the least possible level.

## 1.5.Study Methodology

the study adopted the deductive research approach to formulating , defining the paragraphs and chapters of the study and buildings their hypotheses, the descriptive analytical approach in diagnosing the nature of the relationship between quality of audit evidence (independent variable) and the effectiveness of accounting information system (dependent variable) through the analytical study that was conducted on a group of external auditors that serving in the auditing offices, then the inductive research approach to test the validity of the hypotheses and discuss the results of relationship between variables.

## 1.6.Means & Sources Of Study

The study relied on the following sources:

- Text books in English & Arabic language.

- Theses and dissertations that related to academic and professional studies at the local and global levels.
- Academic manuscripts and articles published in Scientific journals, local and international conferences & symposiums
- Internet sources.

### 1.7.Study Model

Depending on the main research problem and hypothesis, a study diagram was formulated, that describes the nature of the relationship between the study variables (independent variable) represented by the quality of audit evidence and (dependent variable) represented by effectiveness of accounting information system.

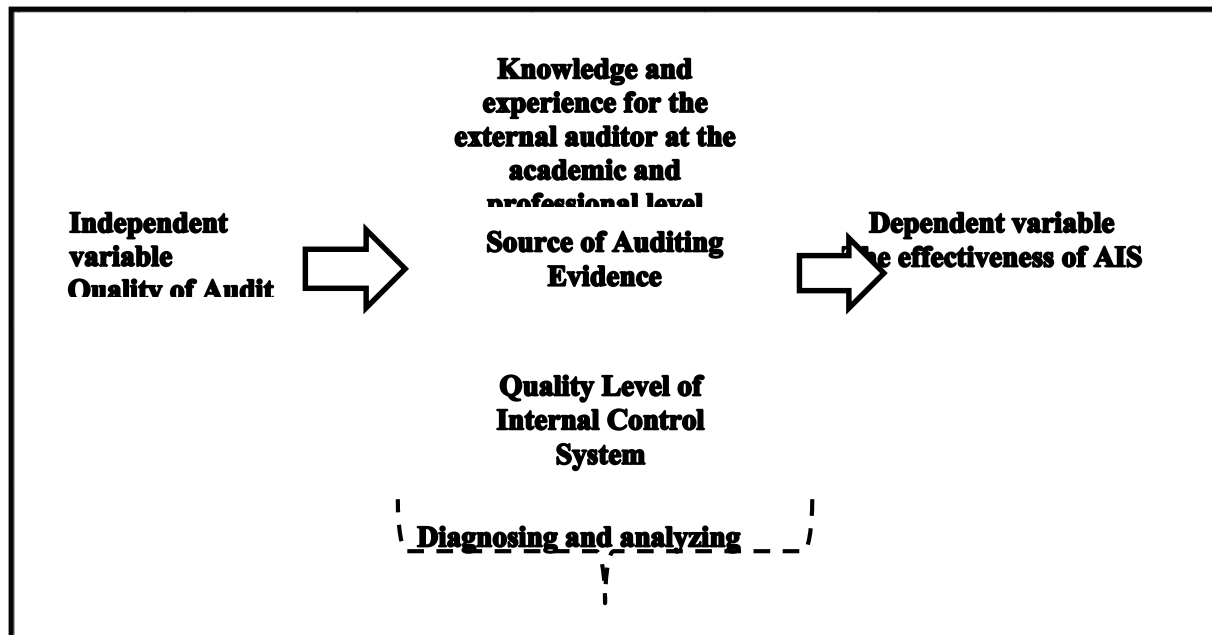


Figure 1.1. Study Model

Source (Prepared by the researcher based on study literature)

### 2.Literature Review

This section presenting the effort of authors and scholars that are related to the variables of study. For this reason, the current study variables are listed in the following subheadings:

## 2.1. The Concept and Type of Audit Evidence

The auditor usually form his opinion depending on the process of obtaining and collecting sufficient and appropriate evidence, which enables him to formulating a conclusion whether the financial statements of an business accurate , fair and away from any sort of fraud.

Hence, we can identify the term of audit evidence as “ is comprehensive information collected by an auditor or certified public accountant (CPA) it’s necessary in practicing of judgment on the fairness of financial statement for entity audited , its quality rely upon the quantity of such evidence and audit scope ”. (Greg Shields , 2020: p.40)

While (AL -Jamal , Jihan A. , 2014: p.15) considered audit evidence as “ a set of documents and other source that obtain by external auditor depending on a mix of examinations of company internal control and financial transactions in order to support the final opinion of auditor about the correctness of financial position and accounting reports for entity subject to audit”.

From above, the author define the term of Audit Evidence as “a correlated group of financial and non-financial paper that obtain by an auditor in cooperation with internal audit staff for the purpose of formulating audit report with high quality in a manner helps in strengthen the governance polices in interest of third party in protecting financial transaction from any form of theft or manipulating”

The table below summarizing the main types of audit evidence:

<b>Table 2.1. The Type of Audit Evidence</b>	
Inspection of document	This process can be used by auditor to examine the existence of financial and non-financial transaction.
Inspection of tangible assets	This process include a set of procedures to examine some assets and their conditions like examine motor vehicle, auditors may request to verify if it’s still working or not.
Observation	This is the process of seen the company’s staff achieving a particular control procedure.
Inquiry	Include process of asking the employees within company audited some

	question in written or oral form.
Confirmation	This process includes obtaining some information from third party as bank statement that obtains directly from company's bank.
Recalculation	This process contains some mathematical calculation related to particular document in order to assurance the accuracy such document.
Analytical procedures	This process include relationship both financial and non-financial data, evaluation of trends, ratios.

Source: prepared by author depending on (<https://assignmentpoint.com/auditing-evidence-definition-characteristics/> )

## 2.2.Sufficiency and Reliability of Auditing Evidence

Sufficiency of audit evidence is considered as a main tool of identifying and measuring the quality of evidence. Before auditors could start to judge the financial statements as a whole or any part, they need to make some assurance about the evidence they obtain whether is sufficient enough with appropriate quality to conclude. Audit evidence is sufficient when they are presented in adequate quantity. For example, if an auditor was given just one bank statement of a company, it would not be enough to make any conclusions on the financial standing of that company. So, an auditor applies different audit procedures to obtain sufficient audit evidence like observation and analytical producers. (Seokyoung H. , 2020 : p. 372).

Evidence obtained by the auditor also required to owns the trait of reliability, because all evidence is persuasive rather than conclusive, and we cannot consider such evidence completely trusted for formulating a final auditor opinion. Reliability seeks to determine whether or not the any document can be trusted and counted on for forming an opinion. (AL -Jamal , Jihan A. , 2014: p.23)

In addition to qualities that mentioned above, the source of obtain evidence plays critical role in determination the quality of such evidence.

The table below determines the impact of the sources of obtaining audit evidence on the quality level of that evidences.

Table 2.2. The Sources and Quality of Audit Evidence	
Sources of Evidence	Quality level of Audit Evidence
Auditors	Evidence obtained directly by auditors, through direct Inquiry, analytical procedures, Recalculation and confirmation is more accurate than those obtained indirectly.
External Source	Evidence obtained from an external source is more reliable more than internal due to its objectivity to third parties.
Internal Source	Evidence that depends on an effective internal control more useful than from internal control that contains many weak points.
Written Evidence	Written data in the form of the document is more truthful than the oral form of data.
Original Document	Original document is more relevant than those of the copy one.

Source: prepared by author depending on (Greg Shields , 2020: p.53 )

### 2.3.The Concept of Accounting Information System

Accounting information systems can be define as “an integrated group of individuals, equipment and documents that interact with each other within a specific framework, according to a set of instructions and procedures, in order to process data and transform it through operational processes into useful accounting information that meets the needs of the different users”. (Marshall B. Romney & Paul J. Steinbart, 2021, p.78)

It also can be define as “a process of capturing, processing and storage of accounting data by adopting a computer-based method for tracking accounting activity in conjunction with information technology that used by internal users in order to report information to investors, creditors, and government”. (Debian, M., & Abdul-Latif, N. , 2015: p.111)

While (Abu Lehiya, 2015: pp. 24-25), define the term of accounting information system through the following indicators:

- ✓ The system consists of a set of physical and moral parts.
- ✓ Each system has a specific goal that it seeks to achieve.

- ✓ Each system has a enormous set of policies and procedures that interact with other parts to achieve the desired goal of the system.
- ✓ The system mainly consists of three basic phase: inputs, processing, and outputs.
- ✓ Each system has a specific framework and each system has an internal and external surrounding environment.
- ✓ All systems have the main objective of presenting information to decision makers at the appropriate time to make the best decisions, whether these users are internal or external.

Therefore, it can be said that the accounting information system mainly performs several main functions, which are as follows :( Mutee', Yasser S. , 2007: p. 62).

- Collecting and saving data related to the organization's activities in efficiently and effectively way.
- Processing, sorting, classification and summarization of financial and non-financial data.
- Providing useful accounting information to decision makers.

From the definitions that mentioned above, the author define AIS as following “An integrated and comprehensive set of data, human and financial resources, programs, and devices that interact with each other within a certain framework of directives, standards and guidelines to produce and deliver accurate, efficient and timely accounting information to decision makers inside or outside the business entity to help them make the best decisions”.

## **2.4.The Components of an accounting information system**

The accounting information system, as part of a unified set of information systems, treated as tangible physical system like other systems. So, the most important components of the accounting information system can be presented as follows: (Debian, M., & Abdul-Latif, N. , 2015: p.127)

- 1- Processing Unit: It is the physical tools through which raw data is converted into useful accounting information. This process may be done either by electronic computer or manually.
- 2- Database: It contains all the data that has been saved, whether on magnetic disks and cylinders, or through accounting records.
- 3- Procedures and Instructions: It is a series of instructions that follow the steps of processing raw data within the system and are accomplished either electronically or manually.
- 4- Units of Data entry and Data exit: They are the means used in saving and retrieving data and information, whether they are stored automatically or manually.



- 5- Other resources: These are the cost of the initial investment, the fixed assets that set up the system, and human resources (accountants, IT designer involved in designing the accounting information system).

## 2.5.Characteristics and Factors Affecting The Accounting Information System

There are several characteristics of the accounting information system must possess, the most important of which can be summarized as follows: (Al-Mousawi, Ali F., 2016: p.31)

- 1- Effectiveness: It means meeting all the needs of the interested users to make the best decisions in a timely manner.
- 2- Efficiency: It means the optimal use of resources.
- 3- Reliability: It means the extent to which the credibility of the information provided by the system is relied upon.
- 4- Relevance: It means the extent to which the information is related to the desired objectives of the system.
- 5- Simplicity: It means ease of use, processing and avoid complexity in all procedures to solve any problems that may occur.
- 6- Flexibility: the system's ability to deal with all circumstances that may occur inside or outside the system.
- 7- Monitoring: It means the ability of the administration to monitor the functioning of the system and take the best corrective decisions.
- 8- Comprehensiveness: It means that, the information (outputs) meet all the objectives to be achieved.

With regard to the factors influencing the accounting information system, (Marshall B. Romney & Paul J. Steinbart, 2021, p.90) identified three main factors that significantly affect the accounting information system, which are: Organization strategy, information technology and organization culture, As the technological evolution have a direct impact on changing the duties and design of the information system, as the appearing of the electronic computer led to a significant change in the work of the system as a whole. The process of data and information recording became through electronic programs, which provided many benefits to business organizations. On the other hand, the organization has the task of understanding this modern strategy to keep pace with developments and how to apply it to the practical reality. Therefore, it can be said that these three factors have an impact on the accounting information system and this system has an impact on these factors, meaning there is a reciprocal relationship between them.

### 3. Research Methodology

To achieve the study goals and test its key hypothesis, the researcher designs and adopts a survey for this analysis by creating a questionnaire that includes a set of questions aimed at the respondents to develop, appropriate data and properly analyze it. It involves a collection of questions that fit the respondents' expectations and opinions. The sampling method used in this study is simple random sampling as there is no distinction between employers within the company; the selected population of this study consists of 107 (external auditors) who are working in auditing offices in the Republic of Iraq and they have the same opportunity to participate in this process. In terms of the questionnaire structure, it consists of two parts, the first section includes demographic data for respondents while the second section relates to studying and analyzing the data of the study and examining, testing its main hypotheses.

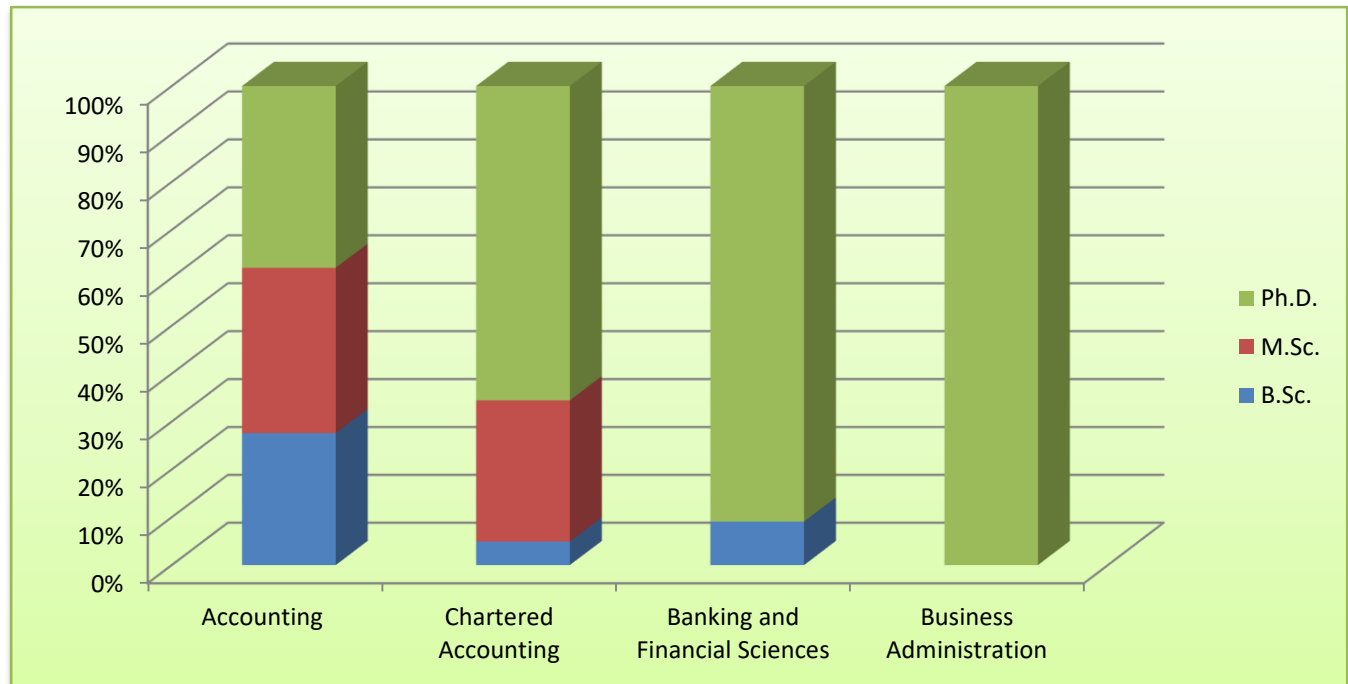
To get specific answers, all questions were better listed and explained to the respondents in full. The questionnaire consisted of 50 questions from which the external auditor is required to choose the option to be deemed acceptable by using the 5-Likert scale to tick appropriately. Only the 107 completely completed out of 120 questionnaires given, and only used for data processing. The questionnaire was submitted, and subsequently collected electronically on time by implementing the Google form application.

#### 3.1. Demographic data for respondents

This section of the analysis offers general knowledge on the respondents. The key information includes; gender, educational qualification level, years of work experience and professional jobs.

Table.3.1. Public Information of Respondents.		
Data	Frequency	Percentage
<b>Gender</b>		
Male	79	73.8 %
Female	28	26.2%
Total	107	100%
<b>Qualification</b>		
B.Sc.	12	11.2%
Higher diploma	5	4.7%
M.Sc.	28	26.2%

Ph.D.	62	57.9%
	107	100%
<b>Scientific Specialization</b>		
Accounting	19	17.8 %
Accounting and financial control	3	2.8%
Accounting and Auditing	8	7.5%
Chartered Accounting	75	70.1%
Banking and Financial Sciences	1	0.9%
Business Administration	1	0.9%
	107	100%
<b>Working Experience</b>		
Below 5 years	17	15.9 %
5 - 10 years	18	16.8%
11 - 20 years	26	24.3%
20 years & above	46	43%
	107	100%
<b>Professional job.</b>		
Licensed Chartered Accountant	98	91.6%
Unlicensed Chartered Accountant	9	8.4%
	107	100%



**Figure 3.1. Scientific Specialization & Qualification of Selected Sample**

Source (Prepared by the researcher based on data presented)

### 3.2. Testing of Hypothesis and Results

This part include the testing of hypothesis of study, a particular statistical method was used by the researcher to summarize, analyze and testing relationships between study variables as simple linear Correlation and simple linear regression.

#### One – sample t-test

One – sample t-test is the test of the arithmetic mean with the hypothetical mean. The test compares the arithmetic mean with the hypothetical mean. If the arithmetic mean is bigger than the hypothetical mean, this means that the moral degree is in favor of the arithmetic mean, that is, the application of the section is positive, but if the arithmetic mean is smaller than the hypothetical mean, this means that moral degree is in favor of the hypothetical mean, that is, the application of the section is in the negative way, i.e. the reverse.

Table.3.2. One – Sample T-Test & Arithmetic Mean				
	arithmetic mean	standard deviation	T-Distribution Table	indication
Examination and testing of the degree of compliance with the application of the international standard of evidence.	3.92	0.49	19.39	positive
Examination and testing of factors affecting the appropriateness and sufficiency of audit evidence.	4.01	0.48	21.94	positive
Examination and testing of the degree of relevance of the evidence collected.	4.05	0.47	23.39	positive
Examination and testing of the effectiveness of the accounting information system.	3.97	0.52	19.26	positive

### Testing of hypothesis 1

- **H<sub>0</sub>** There is no a significant statistical correlation between the practice of diagnosing factors affecting the quality level of audit evidence and the effectiveness of the accounting information system.
- **H<sub>1</sub>** There is a significant statistical correlation between the practice of diagnosing factors affecting the quality level of audit evidence and the effectiveness of the accounting information system.

Table.3.3. Testing Statistical Correlation Of Study Variables				
Correlation coefficient value	Correlation test via t-test value	Degrees of freedom in t-test	T-Distribution Table	indication
0.75	11.62	105	1.97	There is a direct correlation

From the table above, it is noted that The Correlation test via t-test value was (11.62) that is bigger than its tabulated value at the level of significance (0.05) and a degree of freedom in t-test (105), which is (1.97). This indicates the rejection of the null hypothesis and acceptance of the alternative hypothesis that states “There is a significant statistical correlation between the practice of diagnosing factors affecting the quality level of audit evidence and the effectiveness of the accounting information system”.

### Testing of hypothesis 2

- **H<sub>0</sub>** There is no a significant statistical influence of the practice of diagnosing factors affecting the quality level of audit evidence on the effectiveness of the accounting information system.
- **H<sub>2</sub>** There is a significant statistical influence of the practice of diagnosing factors affecting the quality level of audit evidence on the effectiveness of the accounting information system.

<b>Table.3.4. Testing Statistical Influence of Study Variables</b>						
Constant value	beta coefficient t value	R Square R <sup>2</sup>	F value	Degree s of freedom	F - Distribution Table s	indication
1.11	0.74	0.56	133.22	105	3.96	there's influence

From the table above, it is noted that F value (133.22) that is bigger than F - Distribution Tables at the level of significance (0.05) and a degree of freedom (105), which is (3.96). This indicates the rejection of the null hypothesis and acceptance of the alternative hypothesis that states “There is a significant statistical influence of the practice of diagnosing factors affecting the quality level of audit evidence on the effectiveness of the accounting information system”.

through the results of correlation and regression, in which all the sub-hypotheses were examined and accepted, as well as the results of the one sample t-test, all of which were also accepted in a positive way, we conclude from that the proof of the main hypothesis, which states:” “diagnosing and analyzing the most important factors that can effect on quality level of audit evidence that are collected before starting the tasks of audit engagement can reflect in a number of results, including obtaining high

quality evidence that contributes to facilitating the task of judgment the effectiveness accounting information system and its output for the audited entities”.

## 4. Conclusions & Recommendations

Based on the findings of this analysis the researcher made the following conclusions:

1. One of the most important factors that can affect the quality of the audit evidence that is collected is the level of knowledge and the accumulation of experience for the external auditor who is responsible for collecting such evidence at the academic and professional level, as the impact of this factor on the task of distinguishing useful from non-useful evidence in process of judging the fairness of the financial statements.
2. The quality level of audit evidence is greatly affected by the source of obtaining that evidence. It can be said that the evidence that can be obtained from external sources is more accurate and fair than other can be obtain internally from the entity audited.
3. The strict and effective internal control system for the entities subject to audit needs less evidence in terms of cost, volume and effort, compared to the incoherent internal control system and this factor reflected positively on the quality level of evidence and on the effectiveness of the accounting system for those entities.
4. The adoption of technological applications and tools in accounting and auditing is considered as one of the critical factors that can affect the task of the external auditor in the process of collecting evidence of high quality, as these techniques can be used in many procedures followed in collecting such evidence, especially with regard to analytical procedures and examination of tangible assets.
5. The characteristic of the sufficiency and reliability of the evidence that is collected does not mean that such evidence has the absolute accuracy in judging the fairness and credibility of the financial statements, because as such evidence may lack the feature of appropriateness in terms of the degree of its relation with the information to be audited or the feature of understandability in terms of the complexity level of evidence that collected in a way that is reflected in the quality level of the auditor's final report.

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