

A Proposed Audit Program to Integrate Modern and Traditional Auditing Methods

Asst. Prof. Dr. Faez Abdulhasan Jasim Allami

Department Business of Administration, college of Administration and Economics, University of Misan, Amarah, 62001, Misan, Iraq.

E-mail: Allamifaez67@uomisan.edu.iq

Lect. Dr. Ali Khazaal Jabbar

Department Business of Administration, college of Administration and Economics, University of Misan, Amarah, 62001, Misan, Iraq.

E-mail: ali-khazaal@uomisan.edu.iq

ABSTRACT

The study proposes an integrated audit program that balances the role of classic and new auditing methodologies. Within the legal framework controlling the audit profession and based on relevant norms and procedures, this program aims to enhance the audit process, decrease and identify mistakes and fraud in financial statements, and reduce audit risks. The benefits of these two types of methodologies may be used as a guide for the auditor when creating an audit strategy and program to meet the audit objectives.

ARTICLE INFO

Received: 4th March 2022

Revised: 6th April 2022

Accepted: 21st May 2022

KEYWORDS:

Research methodology

Introduction and research problem:

All professions strive to enhance and keep up with changes in their workplace. One of these professions is auditing, which must keep up with changes in the workplace and achieve its goals by searching for modern and advanced methods that are compatible with the elements of the profession imposed by professional organizations and scientific institutions, which include rules and standards and are adaptable to new means and methods. The research attempts to present an integrative framework between those means and methods imposed by those organizations and institutions, and between modern means and methods that can be employed within this integrative framework. This may contribute to preparing a model for an audit program that combines traditional and modern methods that can be used by auditors to achieve the best results from the audit process. This will be reflected on the audit profession by increasing confidence in the auditor's report and improving the quality of his performance.

The research problem can be formulated through the following question:

- Can modern methods, through integration with traditional methods, contribute to the preparation of an effective audit program that leads to the achievement of the objectives of the audit process?

The importance of research:

The significance of the research is in the quest for current means and techniques other than those commonly employed by auditors in developing the audit program and carrying out the audit process duties in order to enhance the efficiency and effectiveness of audit.

Research Objectives:

The research aims to achieve the following objectives:

- 1- Providing an integrative audit program between modern and traditional auditing methods.
- 2- Shedding light on a number of modern methods that can be used in the field of auditing.
- 3- A statement of the role of the proposed audit program in improving audit quality.
- 4- A statement of the impact of the proposed audit program on the auditor's report and the confidence of its beneficiaries.

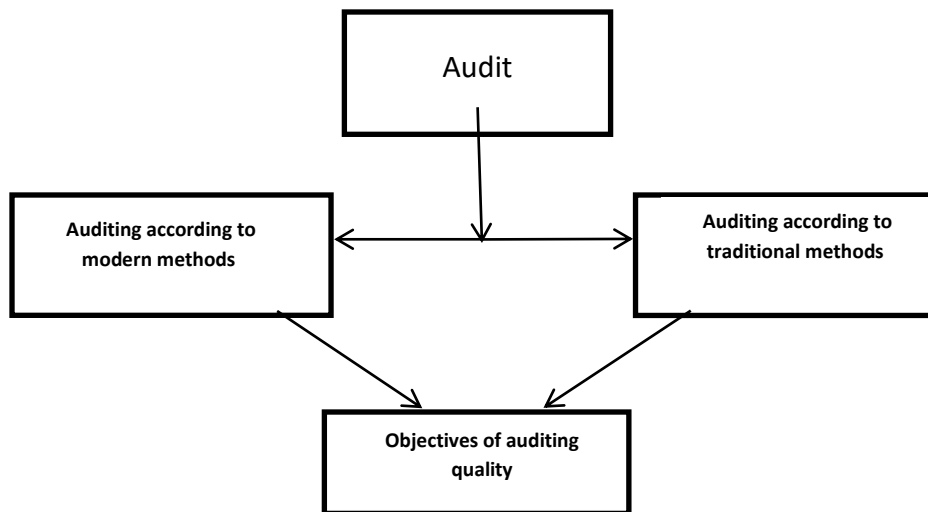
Research Hypothesis:

The research hypothesis can be formulated as follows:

((The possibility of preparing an integrative audit program between modern and traditional auditing methods to achieve audit objectives))

The research model:

The following figure shows the search form



The quality, importance and objectives of the audit

The quality of the audit:

Quality is described as a combination of features and characteristics that distinguish a product or service that satisfy and delight consumers and customers. (Nakah and Al-Asadi, 2013:264). It is also defined as the probability that the auditor will discover and report any breach in the client's accounting system (De Angelo, 1981:186). It is noted, according to this definition, that there is a link between the quality of auditing and the quality of financial reports. The financial report represents a high audit quality in the event that it is free of any violations. Knechel indicated that audit quality is the level of assurance we obtain (Knechel, 2007, 2). As for the American General Accounting Office GAO, it is possible to obtain a high audit quality by implementing the following (GAO, 2003:13):

- 1- Compliance with generally accepted auditing standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are presented in accordance with generally accepted accounting principles (GAAP).
- 2- Excluding the existence of material misrepresentations, whether due to fraud or error.

In order to ensure audit quality, ISQCI has developed the International Standards for Quality Control, six areas of quality control policies and procedures, namely (IAASB):

- 1- Leadership responsibilities for quality within the company.
- 2- Ethical requirements including (integrity, objectivity, competence, due professional care, confidentiality, and professional conduct).
- 3- Acceptance and continuity of relationships with clients and defining tasks.
- 4- Human resources.
- 5- Performing tasks.
- 6- Monitoring.

The importance of audit quality:

There are a number of advantages and characteristics that audit offices can achieve by following the requirements to achieve audit quality, which are (Gibran, 14:2010):

- 1- Providing reasonable guarantees that the audit office's services meet generally accepted auditing standards.
- 2- Following the audit quality control criteria to improve the auditors' work program.
- 3- One of the ways new clients are recruited is via the usage of quality auditing procedures.
- 4- The financial statements have a high degree of trustworthiness, which indicates that they are devoid of serious flaws. This can only be accomplished by maintaining high quality standards.
- 5- A high-quality audit process may be considered a vital aspect of a company's control system, especially when the company's management actions are difficult to direct control over, boosting trust in the internal control system.

Audit Quality Objectives:

The most important objectives of audit quality can be summarized as follows (Rahmani and Sardouk, 194: 2014):

- 1- The auditor aims, through the implementation of the audit process with the highest possible quality, to release his responsibility to other parties.
- 2- The companies subject to audit seek to ensure that their lists had reliability.
- 3- Banks and financial institutions rely heavily on audited financial statements, especially in granting loans. The quality of the audit will positively affect the quality of their decisions.
- 4- Creditors are interested in the audited financial statements to grant customers credit facilities based on those lists. Also, there is no doubt that the quality of the audit will greatly affect the decisions of the required credit.
- 5- Government agencies depend on audited financial statements for many purposes, including (planning, control, and taxation). Government agencies seek to ensure that the audit process is of a very high level of quality in order to protect all those parties.
- 6- Professional organizations believe that the implementation of the audit process with the highest quality works to develop the profession and strengthen confidence in it in the interest of all users of the financial statements.

Of the foregoing, we note that audit quality is an important goal and requirement for all parties to the audit process, such as the auditor, the company subject to audit, and all beneficiaries of audit services, as well as professional organizations.

Modern methods of auditing

Using the innovative and sophisticated technology in modern auditing procedures has begun to grow swiftly and widely in numerous industries. Expert systems are the most commonly utilized of these strategies, thanks to contemporary technology.

The concept of expert systems:

They are computer applications that are designed to make a specific decision based on a knowledge base that represents a person's expertise in a specific field. It is used in various fields and is defined as an electronic program based on a set of components that work on the basis of experience and through which various problems are solved and advice is provided (Bullinaria, 2005:2). It is also a program with a wide base of knowledge that works in the same way as the human mind. It depends on human experiences by solving problems or making suggestions based on solutions provided by the user. Expert systems have a set of characteristics, namely: (Saadat and Araban, 34: 2019):

- 1- They contain a basic knowledge base similar to the experience acquired by man and the ways of dealing with problems.
- 2- The ability to deal with a large database.
- 3- They include highly efficient research methods.
- 4- Able to deal with incomplete data.
- 5- Understand and assimilate visual images and treat symbols and letters.
- 6- Benefit from previous experiences.

- 7- Solve problems in which important information is missing.
- 8- The ability to be creative and imaginative.

Expert systems can be defined by their characteristics as systems that simulate the human mind in solving various problems through storing experience, which is entered by users in a particular field.

Components of expert systems:

Expert systems consist of a number of main components, namely (Mohammed, 44: 2014):

- 1- Knowledge base: It is a sub-system within the expert system that contains specialized knowledge in a specific field. This knowledge is derived from experience and through techniques used by the knowledge engineer. Knowledge is stored in a structure understandable to the system.
- 2- Working memory: It contains the facts about the problem, which includes all the information related to the problem, whether that information provided by the beneficiary or information that the system operates. The system undertakes the process of comparing information with the knowledge contained in the system in the knowledge base to reproduce new facts.
- 3- The inference machine: It is the heart of the system that is used for the purpose of finding solutions related to the problem to reach judgments.

Advantages and Disadvantages of Expert Systems:

Expert systems have a number of advantages and disadvantages, as follows (Al-Jubouri and Fatima: 2017, 239):

The most important advantages can be summarized as follows:

- 1- Unforgettable.
- 2- The expert system treats similar issues in the same way.
- 3- Documenting decisions on a permanent basis.
- 4- Pooling the experience of more than one person in one system.

The main disadvantages of expert systems are:

- 1- The expert system is not distinguished by perception, unlike the expert person.
- 2- The expert system is unable to deal with an unusual case.
- 3- The expert system needs to be updated as circumstances change.
- 4- Inadequate expert systems to solve problems outside the scope of their ability.

We note that expert systems have a number of disadvantages, but their advantages and characteristics make them an important tool that auditors can use in their work to achieve various audit objectives.

Fourth: The Role of Modern Methods in Supporting Audit Strategies:

The audit strategy is defined as the plan set by the auditor to complete the audit process within a specified period. During which work is distributed among the assistant auditors according to a program designed to achieve the audit objectives. It includes a set of steps to be followed up and implemented. Through modern methods of auditing to perform the following, according to the strategy adopted (Al-Khasawneh: 2013, 5):

- 1- Documentary audit strategy: The auditor audits documents and records and then the financial statements, or vice versa, so that the auditor can issue his opinion on the fairness of disclosure in the financial statements. Modern methods help to carry out this task through the use of simulation programs in parallel with traditional public and private programs.
- 2- Systems entrance strategy: It will be used for the large size of companies and projects, which is reflected in the lack of control over the company's assets and funds. This requires delegation of authority and division of business and objectives. And modern methods help in carrying out the tasks of the systems entrance strategy through modern private and public programs.
- 3- The essential entry: Cases of fraud and deception increase with cases of fraud and financial insolvency, causing criticism of auditors and accusing them of negligence. This entry focuses on a comprehensive audit which can be achieved through the diversity of modern electronic programs.
- 4- Professional entry: It is carried out in accordance with the accepted auditing standards.

A general framework for a proposed audit program to integrate modern and traditional auditing methods

A proposed model will be submitted for a dual audit program that includes two directions:

- 1- The traditional approach in auditing: It uses the traditional procedures and steps recognized in the design and implementation of the audit program to achieve the objectives of the audit.
- 2- The modern trend in auditing: it is done through the use of modern electronic programs such as expert systems that simulate the human mind in dealing with data, analyzing it and addressing problems to reach results and make decisions.

The following is the proposed general framework for an audit program model that includes the integration between the above two trends:

First: Requirements for applying the program:

In order to successfully implement the proposed model of the audit program, a set of requirements must be met, the most important ones are:

- 1- Provides a team specialized in modern methods and a good understanding of their work and methods of employing them in the various fields of auditing, through the following:
 - Practically rehabilitating the audit office.
 - Full knowledge of electronic computers.
 - Full knowledge of modern applications, especially artificial intelligence applications.
 - Full knowledge of electronic computer languages.
 - Provides various software.
 - Provides necessary devices and equipment.
 - Provides a database that includes all the necessary data that the auditor needs about the company to be audited.
- 2- Understand the nature of the company work in terms of its legal entity, type of activity, organizational structure and accounting system followed.
- 3- Understand and study the internal control system and internal control.
- 4- The external auditor supervises the work of his assistants.
- 5- Choosing the appropriate type of modern technology to be applied by the auditor.

Second: Objectives of applying the proposed model:

The application of the proposed model aims for the external auditor to reach a neutral professional opinion that he can present in his report on the financial statements of the companies that he audits with confidence and credibility. Through this model, a number of objectives can be achieved. The most important ones are:

- 1- Expressing an impartial technical opinion on the financial statements as follows:
 - Do the financial statements honestly and fairly reflect the financial position of the company and the results of its operations?
 - Are the financial statements prepared in accordance with accounting standards?
 - Verifying the extent to which the company has achieved the objectives set for it.
 - Verifying the ownership of fixed assets and their optimal use.
 - Verifying that revenue has been legally collected and recorded in the records.
 - Efficient use of the various resources of the company.
 - Ensuring proper recording of operations.
 - Detecting errors and cheating.
 - Examining the effectiveness and strength of the company's internal control system.
- 2- Using the model as an additional means and proof of evidence for the external auditor to exercise the required professional care, which he can use to pay legal responsibility for him in case he is accused of violating his professional duties.
- 3- Narrowing the expectations gap by improving the quality of the external auditor's work.
- 4- Saving the time and effort required for the audit process.
- 5- Achieving the competitive advantage of audit firms.
- 6- The possibility of circulating the form to audit offices.
- 7- Giving warning signs to the external auditor to make greater efforts to ensure that the financial statements are free of fraudulent practices when using traditional auditing methods only.
- 8- Using the proposed model as an indicator for the availability of quality elements in audit offices.

9- Achieving objectivity and avoiding bias in judging the financial statements.

10- Assisting the parties benefiting from the opinion of the external auditor in taking various decisions.

Third: Stages of applying the proposed model:

The stages of applying the proposed model are divided into:

1- Planning stage: This stage includes a number of activities, as follows:

- The timing of the application process of the proposed model.
- The understanding audit of the scope of application for the proposed model and the task of the audit.
- Documenting all the basic elements used in the application of the proposed model.
- Determining an estimated budget for implementing the proposed model, including the cost of implementing the proposed model, the time required to implement it, and determining the feasibility of its application. It is necessary to take into account three dimensions related to the feasibility of applying the proposed model, which are:
 - Economic dimension: This dimension refers to ensuring that the benefits of applying this proposed model will be the cost of its design and implementation.
 - The organizational dimension: It aims to ensure that the application of the proposed model enjoys the support of decision makers, both from the beneficiary parties inside and outside the company.
 - Technical dimension: This dimension aims to ensure the application of the proposed model and the continuity of its application through the availability of experience, skills, necessary hardware, equipment and software, and the ability to understand and analyze the results of the proposed model.
- The initial agreement between the management and the audit office regarding the task to be performed and the responsibilities that each of them will bear:
- Preparing the audit program, which includes:
 - Supervising and controlling the audit process.
 - Allocating and distributing work among the audit team and defining responsibilities and tasks between them. Some of them are specialized in auditing tasks according to traditional methods. The other department performs audit tasks according to modern electronic methods, with the flexibility that the program must have and its ability to modify and change.

Fourth: Implementation stage: In this stage, the proposed model is applied through the two groups that were divided into the audit team and according to the audit procedures established. The results of each group are matched. If the results of the two groups are identical, then the opinion is expressed and the report of the external auditor is written in the light of those results. If there is a difference in the results of the two groups, and some errors and irregularities were discovered by the team specialized in electronic methods of auditing but not discovered by the traditional auditing team, the audit office must increase the audit sample and make additional efforts and procedures to search for those errors and irregularities. This means that the use of modern electronic methods is a red flag for the auditor indicating the presence of irregularities in the financial statements. Accordingly, the external auditor will express his impartial professional opinion on the financial statements. This opinion is adopted by all stakeholders in making various decisions.

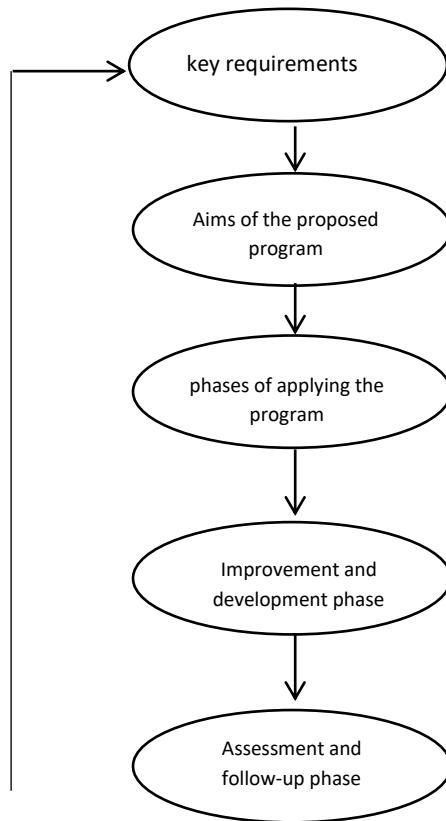
Fifth: The stage of improvement and development: This stage consists of a set of procedures that contribute to the development of the proposed model, including:

- 1- The audit office has to be committed to professional requirements (independence, honesty and confidentiality, taking professional care, adhering to the rules of professional conduct.
- 2- Practically rehabilitating the audit team on an ongoing basis to develop their skills and increase their efficiency. This is done through continuous training.
- 3- The external auditor supervises the work of the audit team, distributes tasks and works among them, and follows up on the work entrusted to them.
- 4- Consulting with others and the assistance of experts in case of problems during the application of the proposed model.
- 5- Develop a continuous and periodic training program for the audit work team

Sixth: Assessment and Follow-up Phase:

This stage includes evaluating the work of the proposed model and its results. The problems encountered during its application, indicating the accuracy of the model and its ability to achieve its goals for which it was designed. This phase includes addressing those problems and gaps, improving the model and making the necessary modifications to it.

The following figure summarizes the steps of the proposed model:



Findings and Recommendations:

First, the results:

- 1- The traditional methods of auditing have become insufficient alone to achieve the objectives of auditing with the development and complexity of the business environment and the large size of companies and projects. This may require the introduction of additional modern methods for different audit tasks such as expert systems and various artificial intelligence applications.
- 2- Modern methods of audit are of accuracy, objectivity, impartiality, speed and low cost.
- 3- Modern methods of auditing, in parallel with the traditional methods, constitute an integrated approach to auditing that would enhance the various audit functions.
- 4- Modern methods of auditing are considered as additional evidence that the audit office has completed its tasks in a professional manner.
- 5- Modern methods of auditing can be used to push the legal responsibility of the audit office in the event that it is accused of violating its professional duties.

Second: Recommendations and Suggestions:

- 1- The employees should be informed in the auditing office of the modern methods of auditing.
- 2- All employees should be trained in auditing offices on the use of modern methods of auditing.
- 3- The interest of professional organizations in the necessity of educating about modern methods of auditing and issuing various bulletins and periodicals about them.

- 4- Adoption of the audit offices use of modern methods of auditing as an indicator of their enjoyment of the elements of quality.
- 5- Incorporating the study of modern methods of auditing into the curricula of the accounting and auditing departments in universities and scientific institutes.

References:

- 1- Al-Dulai, W. E. (2004) *The Extent of Quality Control Application in Accounting Offices in Yemen: A Field Study*. Yarmouk University, Faculty of Economics and Administrative Sciences.
- 2- Al-Jubouri, N. J. & Salman, F. Z. (2017) Expert systems and their impact on accounting information systems. *Journal of the University College of Heritage*, No. 21, Baghdad.
- 3- Al-Khasawneh, R. (2013) *The Role of Electronic Auditing in Achieving Competitive Advantages and Supporting the External Audit Strategy in Audit Offices in Jordan*. Second International Scientific Conference of the College of Finance and Business, International Islamic University of Sciences.
- 4- De Angelo, I., (1981) Auditor size and Audit Quality. *Journal of Accounting and Economics*, Issue 3.
- 5- Gao. (2003) *Public Accounting Firms: Required Study on the potential Effects of Mandatory Audit Firms Rotation*, U.S. Government Accountability office, Report No. Gao- 04-216, Nov, Washington D.C., Government. Printing office.
- 6- IAASB. (2004) *Handbook of International Quality Control", Auditing Review, other Assurance, and Related Services Prnouncements*, International Auditing and Assurance Board, Vol. 1.
- 7- John, A, Bullinaria. (2005) *Expert System*.
- 8- Jubran. M. (2010) *Factors Affecting the Quality of Account Auditing from the Point of View of Certified Accountants in Yemen"*, Twelfth Symposium on Ways to Develop Accounting in the Kingdom of Saudi Arabia, King Saud University.
- 9- Knechel W. R., Salterio S.E, Ballon, B., (2007) *Auditing Assurance and Risk"*, 3d edition, chapter 4, Thomson South- Western publishing.
- 10- Muhammad. M. A. (2016) Auditing Quality by Adopting Artificial Intelligence - Applied Research. *Journal of Accounting and Financial Studies*, Volume 11, Issue 34.
- 11- Nikkah, N, & Al-Asadi, K. (2013) The Role and Importance of Automating Banking Activities, Achieving Quality and Reducing Service Costs. *Journal of the University of Baghdad College of Economic Sciences*, Issue 34.
- 12- Rahmani, M, & Sardouk. F. (2014) The concept of audit quality in light of academic studies and professional audit bodies. *Journal of Human Sciences, Mohamed Henidir University of Biskra*, No. 34, Algeria.
- 13- Tsaadit, B, & Araban, A. (2019) *Auditing accounting information systems using the application of expert systems for artificial intelligence in the light of the information and communication technology environment"*, Vol.1, No. 2.