The Impact of Joint Auditing on Audit Quality in Banks Listed on the Iraq Stock Exchange

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Abstract

This research looks at how joint auditing affects audit quality in banks that are listed on the Iraq Stock Exchange. An essential function of banks listed on the Iraq Stock Exchange is to supply capital and propel the nation's economy forward. Given the significance of this role, enhancing audit quality and ensuring timely issuance of audit reports is of special importance. Therefore, this research examines how collaborative auditing affects audit quality and the prompt release of audit results in Iraqi banks. The study uses a combination of qualitative and quantitative research techniques for data collection and analysis. Initially, data and information were gathered through a library-based method, while research data were collected from financial statements, explanatory notes, and the monthly bulletin of the stock exchange. Subsequently, these data were analyzed using statistical methods to evaluate how cooperative auditing affects the caliber of audits. The study's findings demonstrate that, in banks listed on the Iraq Stock Exchange, the application of joint auditing may greatly enhance audit quality. These findings are presented to bank managers, auditors, and stock market regulators to help them make the best decisions to enhance transparency and trust in Iraq's financial market.

Keywords: Joint auditing, listed banks, Iraq Stock Exchange, audit quality.

The auditing of financial statements is a crucial component of the operation of capital markets (Marnet, 2021). According to Mandar et al. (2018), for the purpose of bolstering investor confidence and maintaining the effectiveness of financial markets, information must be provided in a consistent, high-quality manner. The European Commission released a Green Paper titled "Restoring Public Trust in the Quality of Published Financial Statements through Tightening External Auditors' Independence and Lowering Market Concentration to Ensure Higher Audit Quality. " 2010 saw the publication of "Audit Policy: Lessons from the Crisis," which included a discussion of several regulation measures (European Commission, 2010). These recommendations sought to strengthen financial stability by improving audit performance (Hauk et al., 2018). In its evaluation of the statutory audit services market, the UK's Competition and Markets Authority (CMA) recently suggested requiring joint audits (Competition and Markets Authority, 2019) (Marnet, 2021).

These audits involve the sharing of auditing responsibilities between at least two independent audit firms, who are also in charge of signing the

audit report and offering an audit opinion (Hauk et al., 2018). Potential benefits include improved market positioning for non-large audit firms and strengthened auditor independence. It is anticipated that this policy lowers any systemic risk among audit companies and fosters greater competitiveness in the audit sector (European Commission, 2011).

Joint auditing involves the involvement of two or more audit companies in a company audit entity. In this type of auditing, the audit firms perform their duties simultaneously and jointly, providing a single audit report. Joint audits are usually conducted to increase audit quality, reduce audit risks, and improve transparency and trust in financial reports. The role of joint auditing is especially important in sensitive markets such as banks. Due to the complexity of banks' financial structures and their potential risks, the need for more precise and high-quality auditing is felt more. The involvement of multiple audit firms can lead to increased accuracy, reduced bias in evaluations, and strengthened internal controls within the bank (Hauk et al., 2018).

Cost is often a topic of critical discussion regarding joint auditing, as it refers to the additional time and coordination requirements of joint audit arrangements (which involve extra costs), which contrast with the potential cost savings due to increased competition and enhanced confidence. One concern often raised regarding costs is the assumption that joint audits result in duplication of work, which necessarily leads to significant increases in costs with perceived little benefit for audit quality (Mammet, 2022).

Audit quality refers to the final report's accuracy, correctness, and dependability as well as the audit process's, guaranteeing that the business's financial accounts are fairly presented and comply with accounting and auditing standards. Audit quality depends on several factors, with some of the most important being auditor independence, professional expertise, adherence to ethical principles, and the timely issuance of reports. Auditor independence is a crucial factor that impacts the quality of audits; auditors have to assess financial accounts without any conflicts of interest or outside or internal pressure. The auditor's expertise and knowledge are also crucial, as auditors well-versed in regulations and accounting standards can more accurately identify financial problems and risks, ensuring the accuracy of the information. Ethical standards also hold great importance; auditors must act with professionalism, responsibility, and integrity. Lastly, the timeliness of the reports is another essential factor in evaluating audit quality, as timely reports help users of financial information make more informed decisions. In summary, audit quality depends not only on the thorough examination of financial accounts but also on external factors such as auditor independence, expertise, and commitment (Boom et al., 2018).

In banks Because these banks are essential financial institutions that are listed on the Iraq Stock Exchange and have a significant impact on the nation's economy, audit quality is extremely important. Joint auditing can enhance the financial reporting quality of these banks and increase investor and stakeholder confidence in these financial institutions.

Despite the advantages of joint auditing, its successful implementation requires precise coordination between audit firms and bank management. Operational challenges such as the division of tasks, interference in auditing methods, and additional costs are some issues that may arise in implementing this approach. For this reason, examining the impact of joint auditing on audit quality in banks listed on the Iraq Stock Exchange can help identify the opportunities and challenges of this approach and offer suitable solutions to improve the auditing process in these growing markets. Given that Iraq's stock market is developing and evolving, the need for modern tools to enhance transparency and build trust among domestic and foreign investors is more pressing than ever. In this regard, joint auditing can be one of the

effective tools to improve audit quality and strengthen trust in the financial reports of active banks in this market. Given the above, this research seeks to answer the question: How does the use of joint auditing affect audit quality in banks listed on the Iraq Stock Exchange?

Based on It was revealed that the empirical results of these studies are not entirely compatible with the research underpinning and analysis of the impact of collaborative auditing vs individual auditing. In terms of the impact on audit quality, Marnet (2021) thinks that financial institutions working together can enhance the possibility that auditors will find mistakes and deliberate misrepresentations in the client's financial reports, leading to a greater audit quality than that attained in individual audits, as demonstrated by the superior quality audit that was accomplished in the client's financial reports. Because audit companies may leverage the experience of their peers, collaboration in a joint audit can lead to an improvement in audit quality. Joint audits minimize professional skepticism and improve the speed and quality of audit reports, according to empirical research by Hoss et al. (2017). Nevertheless, these findings were not corroborated by Boom et al. (2018), Holm and Thinggaard (2018), or Lesage et al. (2017).

The use of joint auditing as a novel approach in auditing has increasingly attracted attention in financial and accounting literature. This method not only helps to improve audit accuracy and quality but also reduces risks related to financial reporting. According to research conducted, one of the main advantages of joint auditing is the decrease in the presence of conflicts of interest. For example, studies like the one conducted by Mitra et al. (2013) have shown that cooperation among multiple audit firms can lead to increased oversight and control over financial processes, thereby improving the accuracy of financial reports.

Furthermore, the multiple expertise and knowledge of auditors in joint audits allow for more precise identification of complex financial problems. The research by Kiemer et al. (2018) also highlights that when several audit firms work together, their ability to detect errors and violations increases. This interaction can lead to more thorough examination of financial information, thus improving overall audit quality.

Additionally, the impact of joint auditing on financial transparency is also of particular importance. According to the study by Bushman et al. (2015), timely and accurate information is vital for investors and other stakeholders, and joint auditing, by increasing the credibility of reports, can contribute to public trust. This trust, in turn, able to positively affect the financial markets' performance.

Recent reviews also show that joint auditing not only enhances audit quality but may boost businesses' and financial institutions' general performance. For example, a study by Simon et al. (2020) shows that banks using joint audits have experienced significant improvements to improve the standard of financial reporting as well as overall effectiveness. These findings indicate that joint auditing can be used as an effective tool to enhance audit quality and improve financial transparency in financial institutions.

The following section references studies conducted both domestically and internationally. In this regard, Asgari and Momeni (2021) in their research titled " Cost Stickiness and the Effect of Joint Auditing Research indicates that joint auditing significantly affects cost stickiness (see "Considering the Role of Managers' Expectations"). The research results also indicate that joint auditing does not change the cost stickiness of supply regarding optimistic management expectations, nor does it change the cost stickiness of supply regarding pessimistic management expectations.

Internationally, Biehl et al. (2021) Unbalances in the distribution of audit work can raise (or lower) audit quality, and when the similarity between auditors is low (high), it can lower (raise) costs, according to a study titled

"Effects of Joint Auditing on Audit Quality and Audit Costs: A Game-Theoretical Explanation for Conflicting Empirical Results." When the resemblance between the auditors is modest, a combined audit may result in greater audit quality and cheaper audit expenses.

Mandor and Al-Haridi (2018) In contrast to dual audits, there was a negative correlation between joint auditing and discretionary accruals in a study that sought to ascertain the effect of voluntary adoption of the joint external audit strategy in lowering earnings management techniques through accruals and real operations. Thus, firms that do joint audits are less likely to manage their earnings using the accrual method. Furthermore, accrual-based earnings management is less common in big businesses that use joint audits.

The study conducted by Hauk et al. (2018) was titled "Joint Audits: Does the Allocation of Audit Work Affect Audit Quality and Audit Costs?" determined that there exists a correlation between the audit quality and the audit fee of big audit firms as a percentage of the overall audit charge.

Boom (2018), Rejecting all three of his hypotheses, the research sought to provide a thorough examination of the relationship between joint audit commitment and audit quality and accounting conservatism. Specifically, the study found no meaningful correlation between joint auditing and the book-to-market ratio, classification shifting, or discretionary accruals. This indicates that there is no correlation, under the specified circumstances, between joint auditing and more conservative accounting practices and greater audit quality. Classification shifting and the book-to-market ratio, which have not before been connected to a combined audit environment in the literature, are the proxies used in this paper's key addition to the measurement of audit quality with a bigger data sample.

Holm and Thinggaard (2018) Through the use of survey data, the study paper "From Joint Auditing to Solo Auditing - Differences in Audit Quality" first presented the opinions of Danish CFOs regarding their experiences selecting between solo and joint audits as well as their assessments of audit quality. Second, based on information from the year that required joint audits were removed (2005) and used anomalous accruals two years later to examine variations in audit quality. The majority of CFOs discovered that joint audits involving one or two big audit firms produced audit quality comparable to that of large audit firms.

They could not discover any indication that the audits carried out by a big company and the two combinations of joint audits they performed differed in quality.

Research Hypothesis

The study hypothesis is developed based on the research title and the offered theoretical framework as follows:

Research Hypothesis: Joint auditing positively affects audit quality.

Research Methodology

This research falls under the category of applied studies. In terms of nature, it is classified as descriptive research, and from the method perspective, it is considered descriptive-correlational research. Regarding time dimension, it is a mixed (cross-sectional–time series) study. The data analysis method is statistical. Finally, based on the research approach, it is categorized as rationalist (semi-experimental), as there is no possibility of manipulation or intervention in the independent variables in this approach. Data and information collection were done using the library method, while financial statements, explanatory notes, and the monthly bulletin of the stock exchange were reviewed for the research data. Descriptive and inferential statistics were used to describe and summarize the collected data. Preliminary tests like the F-Limer test were conducted to analyze the data, followed by multiple regression

tests to confirm or reject research hypotheses using the EViews software.

Statistical Population and Sample Selection

The statistical population of this study consists of banks listed on the Iraq Stock Exchange during the years 2015 to 2021. The sampling method is selective, meaning that out of all banks listed on the Iraq Stock Exchange, those that do not meet any of the following criteria will be excluded, and ultimately, all remaining banks, totaling 147 banks, will be selected for testing:

- Banks that were listed on the Iraq Stock Exchange before 2015 and remained active until the end of 2021.
- Banks must be of investment companies and financial intermediaries' type (leasing, insurance, holding, banks, and financial institutions).
- Financial information for these banks must be available for the period from 2015 to 2021.

Given that the selected sample includes 21 banks over 7 years, the number of observations is 147.

Research Model and Variables

To examine the research hypothesis, model (1) has been developed in the current study:

(1) $AQi,t = \beta0 + \beta1*JA + \beta2\ Size + \beta3\ CSRit* CEO\ Powerit + \beta4\ PPE\ it + \beta5\ Firm\ Sizeit + \beta6\ ATOit + \varepsilon$

Independent Variable

JA, or the joint auditing variable: When a company uses two or more auditing firms to audit its operations, this variable takes on the value of one; otherwise, it takes on the value of zero.

Dependent Variable

The profits management index is utilized in this research as a measure of the audit quality variable or AQi.

According to Chen, Chen, Lobo, and Wang (2011), accrual-based earnings management is used as a gauge of audit quality since it lessens the ability of opportunistic managers to make decisions about financial reporting. Here's how discretionary accruals are estimated using the modified Jones model (1991):

(2) $EM\ j,t = \alpha0 + \alpha1\ 1/Aj,t{-}1 + \alpha2\ \Delta Sj,t{-}\Delta ARj,t + \alpha3PPEj,t + \varepsilon$

EM j, t: Total accruals of company j in year t.

Aj,t-1: Total assets of company j in the previous year (t-1)

ΔSj, t: The net sales of company j in year t minus the net sales of the previous year (t-1)

ΔARj, t: The change in accounts receivable from the previous year to the current year (t-1 to t)

PEj, t ،t: Refers to property, plant, and equipment of company j in year t.

Control Variables

a. Company Size (SIZE): Company size is calculated using the natural logarithm of the company's total sales.

b. Financial Leverage (LEV): The ratio of liabilities to assets represents the company's financial leverage, indicating the level of long-term external financing of the business unit. In this study, this ratio is obtained by dividing total liabilities by total assets (Shah Alizadeh & Moradzadeh, 2020).

c. Profitability (ROA): Return on Assets (ROA) is calculated by dividing net income by total assets.

Data Analysis

Descriptive Statistics of Research Variables

Before testing the hypotheses, the variables are briefly reviewed in Table (1):

Table 1: Descriptive Statistics of the Companies' Variables

Profitability	Financial Leverage	Company Size	Joint Audit	Audit Quality	
ROA	LEV	SIZE	JA	AQ	Variable Symbol
0.261096	0.4643	25.542	0.6190	0.5524	Mean
0.067300	0.4714	25.225	1.0000	0.2676	Median
64.12130	0.7899	34.288	1.0000	6.1315	Max
-20.07690	0.0854	17.511	0.0000	-3.8806	Min
3.057818	0.1721	4.2060	0.4872	2.5852	Standard Deviation
15.76896	-0.1286	0.1623	-0.4902	0.0536	Skewness
312.5000	2.1490	2.8658	1.2403	2.3484	Kurtosis
147	147	147	147	147	Observations

Source: (Researcher's Findings)

In Table (1), Iraqi banks have low averages for joint audit factors, financial leverage, property, plant, and equipment in year t, and changes in accounts receivable from year to year. In statistics, a dataset's features are described using descriptive indicators. A dataset's average value is represented by an indicator called the mean. A dataset's mean is found by adding up all of the values and dividing the total number of values.

Correlation Test Between Variables

The Pearson correlation coefficient is a statistical method used to measure the strength and direction of a linear relationship between two continuous variables, as presented in Table 2:

Table 2. Correlation Matrix Between Variables

ROA	LEV	SIZE	AQ	Correlation
			1	AQ
			0.0839	ARTIT
		1	0.1427	SIZE
	1	-0.1878	-0.1344	LEV
1	-0.0368	0.1095	-0.1309	ROA

Source: (Researcher's Findings)

In Table (2), The variables do not significantly correlate, as indicated by the Pearson correlation coefficient computed, which is less than 0.75.

F-Limer and Hausman Tests

The results of the F-Limer and Hausman tests for the research hypotheses are provided in Table (3):

Table 3: Results of the F-Limer and Hausman Tests

Result	Significance Level	Hausman Test	Result	Significance Level	F-Limer Test	Model
Constant Effect	0/0013	16.556740	Panel	0/0000	344.409579	1

Source: (Researcher's Findings)

In Table (3), The panel data approach is utilized to estimate the model since the likelihood of the F-Limer test for the research model is less than 5%. The fixed effects technique is used based on the Hausman test results.

Examination of the Research Hypothesis

Research Hypothesis: Joint auditing positively affects audit quality.

Therefore, the results are examined in Table 4

Table 4. Model Estimation Results

Result	Significance Level	t-Statistics	Standard Error	Coefficients	Variable Symbol	Variable name
Negative	0.0000	-6.826281	0.590965	-4.034093	α_0	Intercept
Positive	0.0000	8.312588	0.007434	0.061796	JA	Joint Audit
Positive	0.0406	2.069794	0.003528	0.007303	SIZE	Company Size
Negative	0.0353	-2.128674	0.182613	-0.388723	LEV	Financial Leverage
-	0.5235	-0.639826	3.35E-05	-2.15E-05	ROA	Profitability
0.819499					R-Squared	
0.792467					Adjusted R-Squared	
30.31531					F-Statistic	
0.000000					Significance Level	
2.458714					Durbin-Watson	

Source: (Researcher's Findings)

In Table 4, Less than 5% is the likelihood that the t-statistics will be used to represent the intercept and coefficients of the joint audit, firm size, and financial leverage variables on audit quality. The association is statistically significant as a result. There is a clear and substantial correlation between joint auditing and audit quality as evidenced by the joint audit variable's positive and significant coefficient concerning audit quality. However, the profitability variable on audit quality has a t-statistical probability larger than 5%, which indicates that the link is not statistically significant. Consequently, this variable is considered irrelevant in the model with a 95% confidence level.

79% of the fluctuations in the dependent variable can be explained by the independent variables, as shown by the adjusted R-squared. The model is statistically significant, according to the F-statistical probability. The residuals in the fitted models were examined for independence using the Durbin-Watson test statistics. It is verified that the residuals are independent if the statistic's value is between 1.5 and 2.5. The Durbin-Watson value in this instance is 2.46, which is within the permitted range and verifies the residuals' independence. The null hypothesis (H0) is rejected since the joint audit variable's coefficient on audit quality is positive and significant. This demonstrates how cooperative auditing improves audit quality.

Discussion and Conclusion

The sources that have been provided indicate that financial reporting and decision-making procedures heavily depend on the quality of the audit. The results show that collaborative auditing significantly affects the caliber of audits. It is clear from the joint audit variable's positive coefficient that joint auditing and audit quality are positively correlated. When two or more independent auditing companies work together during the audit process, the result is joint auditing, which increases the thoroughness and accuracy of audit assessments. The procedure is more comprehensive when each business uses its distinct skills to study and evaluate financial data. From an accounting standpoint, this guarantees a more thorough evaluation of all an organization's financial components, decreasing the possibility that fraud or errors would go unnoticed.

Joint auditing also reduces the possibility of auditors and management of the company working together. Transparency and confidence in the audit process are increased when several independent auditing companies are monitoring each other's work. Investor confidence in financial reporting is raised by this reciprocal scrutiny, which also lowers the risks related to inaccurate financial information. Additionally, from an accounting perspective, collaborative auditing encourages audit firms to share information. The improvement of auditors'

professional abilities as a result of this exchange of expertise raises the caliber of audits overall.

In conclusion, collaborative auditing lowers the possibility of mistakes and raises the caliber of audit reports by encouraging each business to carry out its responsibilities with more precision and emphasis. As a result, collaborative auditing is seen as a successful strategy for raising audit quality and guaranteeing the accuracy of financial data in businesses. This hypothesis's outcomes are consistent with those of other research projects. Asgari and Momeni (2021) have shown that collaborative auditing contributes significantly to better oversight and cost control, both of which increase audit quality indirectly. Mahmoud and Yassin (2023) verified that collaborative auditing had a beneficial impact on banks registered on the Iraq Stock Exchange by decreasing earnings management and raising audit quality. Additionally, Nabil et al. (2024) discovered that by boosting international knowledge and skills, the inclusion of a foreign auditor in joint auditing might improve audit quality. The beneficial effect of collaborative auditing on the caliber of electronic audit reports in Iraqi banks was also mentioned by Menfi et al. (2022). In a similar vein, Behl et al. (2021) and Hauk et al. (2018) concluded that collaborative auditing raises the caliber of audits.

Recommendations for Improving Audit Quality:

- Strengthening Collaboration Between Joint Auditors: This includes exchanging information and experiences, holding joint meetings to discuss audit issues, and creating appropriate mechanisms for ongoing communication between auditors.
- Enhancing Auditor Knowledge and Skills: It is recommended to offer training courses related to bank auditing and relevant financial regulations for auditors working with listed banks. Using up-to-date and reputable educational resources is also advised.
- Adhering to Audit Guidelines and Standards: Listed banks on the Baghdad Stock Exchange should focus on audit guidelines and standards, following the methods and concepts presented therein to ensure audit quality.
- Reviewing Feedback and Continuous Improvement: Using feedback from clients and other stakeholders can help improve audit quality. It is recommended to periodically review audit reports and apply received suggestions for enhancing audit performance.

Suggestions for Future Research:

- Analysis of Factors Affecting Audit Quality: Investigating factors such as accounting and reporting systems, audit processes, internal controls, auditor independence, and other elements that influence audit quality can provide valuable insights and recommendations for improving audit quality.
- Evaluation of Automated Audit Systems: Examining the effectiveness of automated audit systems, including the use of artificial intelligence and other technologies, can offer a better understanding of these systems' advantages and disadvantages in the auditing field.
- Assessment of Auditor Independence's Impact on Audit Quality: Exploring the relationship between auditor independence and audit quality in the Baghdad Stock Exchange can be a valuable area of research. These studies could examine how auditor independence influences the quality of financial information and investor confidence.

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