

معيار التدقيق الدولي (700) ودوره في تحسين تقرير مدقق الحسابات

International Auditing Standard (700) and its Role in Improving the Auditor's Report¹

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ABSTRACT

To ensure that the auditor's report achieves its main objective, careful attention must be given to its content and language. The report should be easily understandable to users of financial data and align with the objectives of professional bodies supported by studies and research. The adoption of International Auditing Standard (700) by professional bodies plays a crucial role in shaping the auditor's report. In the context of Iraq, where this research was conducted in the Federal Office of Financial Supervision and external audit offices, auditors' compliance contributes to the consistency of financial report data.

The study aimed to clarify the concept of the auditor's report, identify the factors influencing its quality, and examine the impact of implementing International Auditing Standard (700) on enhancing the auditor's report in the Iraqi setting. A total of 100 questionnaires were distributed, and 90 valid responses were collected for statistical analysis, indicating a response rate of 90%. The data was analyzed using the SPSS program to extract research results based on the sample responses.

The research yielded several conclusions, the most important of which is that the auditor's responsibility is to express an opinion on the financial data based on the audit work conducted in accordance with international auditing standards. In light of these findings, the researcher recommends that the management, as the primary party responsible for presenting the financial data fairly, carefully review the reports before sharing them with stakeholders to ensure accuracy, completeness, and absence of errors or omissions.

Keywords : *International auditing standards; International Auditing Standard (700); auditor's report.*

INTRODUCTION

The accounting system places great importance on auditing due to its pivotal role in ensuring accuracy and reliability. Over the years, the auditing profession has witnessed developments to enhance professionalism and independence. One of the main outcomes of the auditing process is the auditor's report, which serves as a crucial communication tool for stakeholders. Its primary objective is to enhance the credibility of the financial information generated by management. Accounting literature emphasizes the informational value of the auditor's report, recognizing it as a fundamental tool for educating users of financial data about the role and function of the auditing process.

To achieve the main objective of auditing, the auditor's report must be accurately formulated in terms of its content and language. It should enable users of financial data to understand its implications accurately, aligning with the objectives advocated by professional bodies through studies and research. The importance of implementing the International Standard on Auditing (ISA 700) in the auditor's report is emphasized. Locally, auditors rely on specific sets of local audit evidence that govern their audit procedures, requiring the auditor's report to be accurate, transparent, and unbiased. However, the evidence does not obligate auditors to provide explanations in their reports regarding the risks they deem necessary to disclose. Even in cases where specific explanations are provided, they do not address how these risks were addressed during the audit. In contrast, ISA 700 addresses the auditor's responsibility in forming

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an opinion on the financial data, as well as the form and content of the resulting report from auditing the financial statements.

The researcher chose the current topic to investigate the level of compliance of auditors in the local environment with the requirements of the International Standard on Auditing (ISA 700) and the extent of its impact on improving and enhancing the quality of the auditor's report.

FIRST TOPIC: RESEARCH METHODOLOGY

First : research problem

The auditor's report has undergone various changes and developments aimed at enhancing the communication of audit results to users of financial data. However, these developments sometimes lead to positive outcomes that facilitate accurate information communication, narrow the expectation gap, and promote transparency. On the other hand, negative consequences can arise, resulting in challenges in effectively conveying information in the auditor's report and consequently increasing auditors' responsibilities and deepening the expectation gap. The International Standard on Auditing (ISA 700) specifically focuses on forming an opinion and preparing reports on financial data, specifying specific requirements for the content of the auditor's report as the final outcome of the audit process. It also provides clear explanations of the auditor's responsibilities regarding management's responsibilities, in addition to clarifying the nature, scope, and limitations of the audit. These measures aim to instill confidence in the financial data.

In this context, the research problem can be expressed through the following questions:

1. What role do international auditing standards and the International Standard on Auditing (ISA 700) play in improving the auditor's report?
2. Is there an impact through the adoption of the International Standard on Auditing (ISA 700), and what is the role of that impact in improving the auditor's reports?

Second : Importance Of Research

The current research is significant due to the increasing global focus on international auditing standards, particularly those related to the auditor's report and its evolution. There is growing interest in this topic among academic and professional organizations, which emphasizes the importance of examining whether local auditing practices align with international auditing standards, especially the International Standard on Auditing (ISA 700). The research's importance is highlighted precisely by exploring the role of ISA 700 in enhancing and improving the quality of the auditor's report, particularly in the context of local auditing practices.

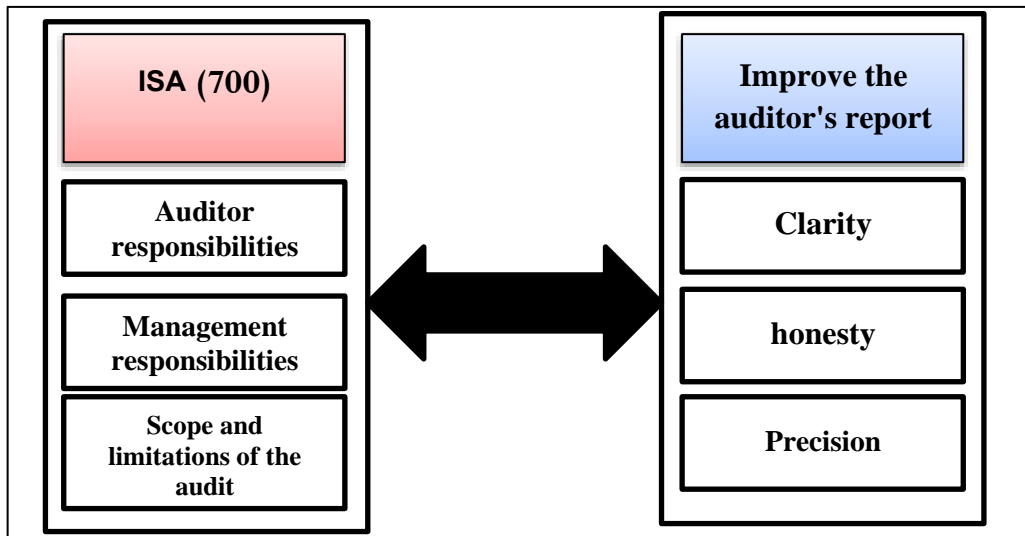
Third : Research Objectives

1. Explain the concept of the auditor's report and the factors influencing the quality of the auditor's report.
2. Clarify the International Standard on Auditing (ISA 700).
3. Illustrate the impact of adopting the International Standard on Auditing (ISA 700) on improving the auditor's report in the Iraqi context.

Fourth : Research Hypotheses

The research is based on the following hypotheses:

1. There is a significant correlation between adopting the International Standard on Auditing (ISA 700) and improving the quality of the auditor's report.
2. There is a significant causal relationship between adopting the International Standard on Auditing (ISA 700) and improving the quality of the auditor's report.

Fifth: Hypothetical Research**Figure (1) The hypothetical scheme of the research**

Source: prepared by the researcher.

Sixth : Research Community And Its Sample

The research community consists of a group of auditors for the government and private sectors in Iraq, while the research sample is a random sample consisting of auditors in the Office of Financial Supervision (public sector) and a sample of auditors in external audit offices (private sector).

With regard to the manner and method through which the size of the random sample was determined, the researcher distributed the questionnaires in the easy way, as (50) forms were distributed to the sample of auditors in the Federal Office of Financial Supervision and (50) forms to the sample of auditors in external offices.

SECOND TOPIC: THEORETICAL SIDE**First axis : the international auditing standard (700)****First : International Auditing Standard (700), amended (forming an opinion and preparing reports on the financial statements)**

The International Standard on Auditing 700 holds significant importance as one of the key international auditing standards. It primarily focuses on providing guidance and regulations for preparing the auditor's report and clarifying the auditor's responsibilities in forming an opinion on the financial statements of the audited entity. The standard aims to establish rules and guidelines related to the structure and content of the external auditor's report based on the audit procedures performed on the entity's financial statements.

Additionally, the standard addresses the form and content of the auditor's report resulting from the audit of the financial statements. Its ultimate goal is to enable the auditor to form a clear opinion on the financial statements based on the assessment of audit evidence obtained during the audit process. The auditor is expected to express this opinion explicitly through a written report (ISA, 2016: 752).

In recent years, several revisions and amendments have been made to the auditor's report with the aim of enhancing the clarity and comprehensiveness of the audit process. These reviews have focused on defining the scope of the audit process and clearly delineating the responsibilities of both management and the auditor. The amendments aim to improve the communication of audit findings, bridge the expectation gap in auditing, and enhance consistency in audit reporting across international standards.

The revised International Standard on Auditing 700 emphasizes the need for the auditor's report to provide transparent explanations of the responsibilities of both the auditor and management. Furthermore, the standard highlights the importance of explaining the nature, scope, and factors influencing the audit process to enhance users'

understanding of the audit process, align their expectations with the actual roles of the auditor and management, build confidence in the reliability of the audited financial data, and reduce the expectation gap (Trezi, 2013: 30).

To clarify the International Standard on Auditing 700, the following paragraphs will be addressed: (International Standard on Auditing 700, 2017: 2) :

1. Scope of the Standard

a. The International Standard on Auditing (ISA) 700 addresses the auditor's responsibility in forming an opinion on the financial statements and also covers the form and content of the auditor's report resulting from the audit of the financial statements.

b. The requirements of this standard aim to strike a suitable balance between the need for consistency and comparability in the auditor's report at the global level and the need to enhance the value of the auditor's report by making the information contained therein more relevant to users. This standard promotes consistency in the auditor's report while also considering the need for flexibility to accommodate the specific circumstances of each country. When audits are conducted in accordance with auditing standards, consistency in the auditor's report enhances credibility in the global market by facilitating recognition and understanding of audit procedures based on internationally recognized and accepted standards.

2. Purpose of the Standard

The revised International Standard on Auditing (ISA) 700 serves the purpose of establishing standards and providing guidance on the independent auditor's report issued following the audit of general-purpose financial statements. These financial statements are prepared in accordance with the financial reporting framework aimed at ensuring fair presentation and meeting the diverse needs of various users and stakeholders. The standard also provides guidance on the factors that the auditor considers when forming an opinion on these financial statements.

3. Objectives of the Standard

- a. To form an opinion on the financial statements based on the evaluation of audit evidence obtained.
- b. To express the opinion clearly through a written report.

4. Requirements of International Standard on Auditing (ISA) 700

a. Forming an Opinion on the Financial Statements :

1. The auditor is required to evaluate whether the financial statements have been prepared in accordance with the relevant financial reporting framework, considering all significant aspects.

2. In order to form an opinion, the auditor must determine whether they have obtained sufficient and appropriate audit evidence to provide reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to error or fraud. The auditor should consider the following:

- The auditor's conclusion, in accordance with ISA 330, on whether sufficient appropriate audit evidence has been obtained.
- The auditor's conclusion, in accordance with ISA 450, on whether uncorrected misstatements are material, individually or in aggregate.

3. The auditor should evaluate whether the financial statements, taken as a whole, are prepared, in all material respects, in accordance with the applicable financial reporting framework. This evaluation should include consideration of the qualitative aspects of the entity's accounting practices, including indicators of potential management bias.

b. Form of the Opinion :

The auditor should express an unmodified opinion when they conclude that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

c. Auditor's Report :

The auditor's report should be in writing, and the form and content of the report will be addressed in detail in the next section.

SECOND AXIS : THE AUDITOR'S REPORT**First : Concept Of The Auditor's Report**

A financial auditor's report is considered a final outcome of the auditing process and the sole means of communication through which the auditor can convey the results of the audit to the interested parties (Geiger & Raghunandan, 2002: 70).

The auditor's report is defined as a written document issued by an individual who possesses personal qualities, ethical standards, academic qualifications, and practical experience. This person is capable of expressing an impartial professional opinion (Ali & Almutasem, 2003: 368).

The auditor's report is also known as an official document issued by a qualified individual, both academically and practically, through which a neutral professional opinion is given regarding the accuracy and reliability of the final financial statements of the economic entity. It also assesses their usability by external stakeholders and their sufficiency in making financial decisions affecting their financial position (Munai, 2009: 57).

The auditor's report explicitly represents the main task of the financial auditor, which involves examining and evaluating the financial statements of the economic entity assigned for audit and providing an unbiased and accurate representation of its financial performance. It determines whether those statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This opinion is then explained through the presentation of a final report, which represents the culmination of the auditing process (Eghliaow, 2013: 5).

The auditor's report is defined as a summary of the findings obtained by the financial auditor through the process of auditing the financial statements of the economic entity. It involves familiarizing oneself with its activities, examining evidence and documents, raising questions and inquiries, and documenting observations and evidence that support the audit process. This culminates in the presentation of a comprehensive report known as the auditor's report (Abdulrahman, 2017: 56).

According to Sowaid and Al-Mashhadani, the auditor's report is a written document issued by a qualified individual through which they communicate their opinion on the truthfulness and fairness of the financial reports of the economic entity whose financial statements and financial position have been audited for a specified period of time, usually a fiscal year, to assist stakeholders in making appropriate economic decisions (Sowaid & Al-Mashhadani, 2017: 10).

Second : Importance Of The Auditor's Report

Most organizations and economic entities around the world have shown great interest in the auditor's report. The authorities directly responsible for legislating laws related to the auditing profession have established regulations that include formal requirements for the content of reports issued by audited economic entities (Al-Sabban & Hilal, 2000: 366).

Auditor's reports represent an important aspect of the auditing profession as they provide valuable information to all relevant parties. Professional standards require the issuance of a report that includes all the procedures performed by the economic entity during a specific period of time. It has been recognized that preparing the auditor's report is crucial as it serves as a means of communication that defines the nature of the audit procedures conducted on the financial statements of the economic entity (Arens & Loebbecke, 2009: 62).

Third : Types of the auditor's report**1. In terms of the degree of obligation**

In terms of degree of obligation, auditor's reports can be divided into the following categories (Abdullah, 2012: 94) :

a. Special reports : These are reports related to specific and specialized tasks that are not required by law. Examples include reports on economic entities and partial audit procedures such as reputation assessment or estimation of losses resulting from a specific incident. Such reports are non-binding.

b. General reports : These are reports prepared by auditors in accordance with the regulations governing economic entities that are required to have their accounts audited by an external auditor. The purpose of these reports is to express an opinion on the fairness and accuracy of the financial statements. The auditor bears full responsibility for the audited financial statements.

2. In terms of content

In terms of content, auditor's reports can be categorized as follows (Matarneh, 2013: 121) :

a. Summarized reports : These reports are generally referred to as concise reports or balance sheet reports. They usually consist of two sections. The first section relates to the scope of the audit, where auditors provide an explanation of the audit procedures conducted. The second section contains the opinion, where auditors provide an unbiased professional opinion on the financial records, financial data, and financial performance of the entity during the audited financial period. Summarized reports include basic financial data, such as the balance sheet, income statement, retained earnings statement, cash flow statement, accompanying notes to the financial statements that disclose the accounting policies applied in their preparation, and detailed schedules of financial statement items.

b. Extended reports : These reports are prepared for specific purposes and presented to management. This type of report includes a detailed explanation and matters not mentioned in the summarized report, such as reports explaining errors discovered by the auditor during their work, recommendations regarding the accounting system to enhance its efficiency, and recommendations for the development of the internal control system. Extended reports may include statistical statements, detailed explanations of certain financial statement items, and non-accounting information.

3. In terms of expressing an opinion

Auditor's reports can be divided based on the type of opinion expressed by the auditor into the following types (Whittington & Pany, 2008: 680) :

a. Unqualified opinion : Auditors issue an unqualified opinion on the financial statements when the economic entity presents the financial statements fairly and applies generally accepted accounting principles. Additionally, there are no management-imposed restrictions on the scope of the auditor's work. An unqualified opinion is the preferred opinion for audit clients, as clients usually make all necessary adjustments to obtain this type of opinion.

b. Unqualified opinion with an explanatory paragraph: In uncertain circumstances, auditors may add an explanatory paragraph to their report even when issuing an unqualified opinion. This paragraph does not constitute a qualification and does not affect the opinion issued. It is merely a notification of a specific matter.

c. Qualified opinion: Auditors issue a qualified opinion when they are unable to issue an unqualified opinion due to various reasons, such as disagreements with management, restrictions on the scope of work leading to a qualified opinion, or even abstaining from expressing an opinion. Disagreements with management regarding the acceptability and application of accounting policies, adequacy of disclosures in the financial statements, or disputes regarding the extent of compliance may also lead to a qualified opinion or a disclaimer of opinion. In such cases, the auditor should use the word "except for" to express reservations on the specific paragraph (Filipovic & Filipovic, 2009: 1099).

Types of opinions can also be categorized into four types (Iraqi Board of Supreme Audit, 1999: 219) :

a. Unqualified opinion : Sometimes referred to as a clean report because the opinion on the financial statements is not accompanied by any reservations.

b. Qualified opinion: The opinion is positive but is accompanied by qualifications, either to limit the scope of control or due to reservations that include criticism of the financial statements.

c. Adverse opinion: There are significant relative reservations that have a clear impact on the financial position and results of operations. The auditor is convinced that the financial statements do not reflect the true financial position of the economic entity or represent its activities adequately.

d. Disclaimer of opinion: The auditor is unable to express an opinion on the financial statements either due to a lack of information and explanations that enable them to express a neutral professional opinion or due to withholding essential information. In this case, the auditor expresses their inability to provide an opinion.

THIRD TOPIC: PRACTICAL SIDE

First : The reasons for choosing the Office of Financial Supervision and the offices of external auditing as a research community

The Office of Financial Supervision and the external audit offices were chosen by the researcher as a sample for several reasons, including:

1. The Federal Financial Supervision Bureau is an independent body with high authority, as it enjoys independence and possesses powers that exceed the ministries and other departments.
2. He has a large number of employees and workers, and this helps in the practical aspect.
3. The presence of a large number of employees, as their addresses and certificates differ and they have different responsibilities, which helps in reaching more accurate information.

Second : Testing the correlations between the search variables

The current paragraph focuses on examining the relationship between the independent variable, represented by International Auditing Standard (700), and the dependent variable, which is the improvement of the audit report. The Pearson correlation coefficient will be used to assess the strength and direction of this relationship. The coefficient indicates whether there is a positive or negative correlation between the variables. A positive correlation means that an increase in one variable corresponds to an increase in the other variable, while a negative correlation means that an increase in one variable corresponds to a decrease in the other variable. A positive correlation is considered strong when it falls within the range of (+0.3 to +0.7) and acceptable when it ranges from (+0.1 to +0.3). On the other hand, a negative correlation is considered strong when it falls within the range of (-0.3 to -0.7) and weak when it ranges from (-0.1 to -0.3). A correlation coefficient of (+1) indicates a perfect positive correlation, (-1) indicates a perfect negative correlation, and (0) indicates no correlation. The results of the correlation analysis are presented in Table (1).

The correlation coefficient between International Auditing Standard (700) and the improvement of the audit report has been determined to be 0.827 at a significance level of 0.000, which is lower than the significance level of 0.05. This indicates a significant relationship between International Auditing Standard (700) and the improvement of the auditor's report in the study office and offices. Therefore, the first main hypothesis, which suggests a significant correlation between International Auditing Standard (700) and the improvement of the auditor's report, has been accepted.

Table (1) shows the correlation between the International Auditing Standard (700) and the improvement of the auditor's report	
Pearson correlation coefficient	0.827
Morale level Sig.	0.000

Source : Prepared by the researcher based on the outputs of SPSS V.24.

Third : Testing the influence relationships between the research variables

The research conducted an analysis of the correlation between the variables included in the study. To further examine the results of the analysis, the research investigated the impact of the independent variable, International Auditing Standard (700), on the dependent variable, the improvement of the audit report. The study employed statistical non-parametric methods to test the hypothesis and determine the validity of the relationships. The second main hypothesis was tested using the simple regression coefficient, as explained in the following paragraphs.

1. Testing the Second Main Hypothesis

To test the hypothesis that states the following (There is a significant effect between International Auditing Standard (700) and the improvement of the auditor's report), the analysis will be conducted using the simple linear regression model, as follows :

$$Y = \alpha + \beta (X)$$

$$Y = 0.878 + 0.781 (X)$$

The calculated value of the statistic (F) for the relationship between International Auditing Standard (700) and the improvement of the auditor's report was 201.386, which is greater than the critical value of (F) at 3.94 at a significance level of 0.05. Therefore, the hypothesis stating the presence of a significant effect between International Auditing Standard (700) and the improvement of the auditor's report is accepted at a 95% confidence level and a significance level of 5%.

The value of the coefficient of determination (R^2) of 0.684 indicates that International Auditing Standard (700) explains 68.4% of the variance in the improvement of the auditor's report, while the remaining 31.6% is attributed to other variables not included in the research model.

Furthermore, the results indicate that a one-unit increase in International Auditing Standard (700) will result in a 78.1% increase in the improvement of the auditor's report. The constant term (α) in the equation is 0.878, indicating that when International Auditing Standard (700) is equal to zero, the improvement of the auditor's report will not be less than this value.

Table (2) shows the impact of the international auditing standard (700) in improving the auditor's report								
the independent variable	dependent variable	Fixed limit value (α)	Marginal slope coefficient value (β)	Determination coefficient (R^2)	The calculated (F) value	Tabular (F) value	Sig	indication
ISA (700)	Improve the auditor's report	0.878	0.781	0.684	201,386	3.94	0.000	moral

Source : Prepared by the researcher based on the outputs of SPSS V.24.

FOURTH TOPIC: CONCLUSIONS AND RECOMMENDATIONS

First : Conclusions

1. A significant correlation was observed between International Auditing Standard (700) and the improvement of the auditor's report.
2. The results indicate a significant impact of International Auditing Standard (700) on the improvement of the auditor's report.
3. The results confirm that it is the responsibility of the auditor to express an opinion based on the audit report.
4. The auditor is responsible for expressing an opinion on the financial statements based on the conducted audit procedures and in accordance with international auditing standards.
5. The auditor adheres to Auditing Standard (700) to enhance the relevance of the audited financial data for decision-making purposes.

Second : Recommendations

Based on the conclusions reached, the researcher recommends the following:

1. The researcher recommends that audit regulators in the government and external audit offices specify the reasons for expressing their opinion in the report they submit.
2. Since management is primarily responsible for presenting financial data fairly, it should review the financial statements before presenting them to the stakeholders to ensure that these statements are free from errors or omissions.
3. The researcher recommends the importance of holding developmental seminars and conducting training courses within and outside the country, specifically focusing on International Auditing Standard (700). The survey results showed that the majority of auditors in Iraq have limited familiarity with International Auditing Standard (700).

4. The relevant authorities should pay attention to presenting the report sections in an organized manner according to relative importance to benefit the stakeholders.
5. Emphasis should be placed on aligning financial reports as they are the foundation in the decision-making process by stakeholders and interested parties.

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