

# Litigation Risks and Their Impact on the Responsibilities of External Auditors

## (A Survey Study on a Sample of External Auditors in Iraq)

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**Abstract:** The purpose of this study is to ascertain the potential risks linked to litigation and their impact on the duties of auditors. To investigate research inquiries and test hypotheses, the researcher utilized a descriptive-analytical approach to explore the theoretical aspect. This was accomplished by referencing previous studies, theses, and scientific frameworks. The research findings underwent analysis, and the hypotheses were tested using the statistical software SPSS. A research instrument in the form of a questionnaire was utilized and subsequently distributed to a research sample consisting of auditors employed in auditing and accounting firms. The questionnaire underwent a thorough assessment and validation process by experts in the relevant field prior to its distribution. The research sample consisted of a total of 52 auditors. The results of the field study have provided evidence to support the idea that auditing and accounting offices are dedicated to achieving accuracy and reliability in the auditing process. Auditors perform their responsibilities with the aim of maintaining their professional reputation, enhancing confidence in their expertise, and minimizing the likelihood of legal conflicts.

**Keywords:** litigation risks, external auditor, tasks of the external auditor.

### Introduction

The assessment of litigation risks is seen as a crucial aspect of the auditor's responsibilities within the context of the auditing procedure. The auditing profession is widely seen as a social function that revolves around the delivery of auditor services, which heavily relies on the establishment of mutual trust between auditors and the parties involved. Litigation is the procedural course of initiating legal claims inside the judicial system, with the objective of resolving legal conflicts between involved parties, namely the client and the auditor. The engagement in litigation and legal investigations can provide significant hazards to the auditor's responsibilities, as it may divert their attention and consume their time and effort. This diversion has the ability to distract the auditor from their primary obligations.

Additionally, litigation can result in the dissemination of crucial information, heightened financial expenses, and harm to one's reputation. The increasing dependence of decision-makers on financial statements has heightened the accountability of auditors in ensuring the integrity, precision,

and trustworthiness of the auditing procedure, particularly in light of the repercussions of several corporate misconduct cases. The rise in legal actions initiated by customers and other entities against auditing companies, alleging professional negligence in the execution of their obligations during the auditing procedure, has emerged as a matter of apprehension within the auditing profession. This study is of utmost importance as it examines a possible risk that could result in substantial financial damages for professionals, thereby eroding public confidence in the auditing field. Additionally, it could lead to an upsurge in legal actions due to a decline in credibility and trust towards auditors' responsibilities.

The profound and adverse consequences of litigation risks on the professional accountability of auditing and auditors have resulted in a persistent emphasis on the necessity for auditors to undergo examination. This presents a compelling rationale for the activation of the auditing profession and the concerted efforts to mitigate the potential legal risks faced by auditing companies. The auditing process provides stakeholders with a level of confidence that the task has been carried out with trust, credibility, a high level of competence, efficiency, and honesty. Certain legal risks are linked to auditing tasks, fees, and the audit environment. The many hazards encountered by auditors during the course of their work have a significant influence on their performance and the quality of their auditing tasks. The escalation of legal issues in the form of lawsuits targeting auditors and auditing companies necessitates a cautious approach in handling litigation, as auditors are required to effectively navigate the risks associated with such matters. It is imperative for companies and institutions to implement appropriate measures in order to mitigate the risk of protracted and expensive legal conflicts that may have an adverse impact on the effectiveness and proficiency of auditors.

## Chapter One Research Framework

### First: Research Problem

The problem of litigation risks and their impact on the tasks of external auditors is a significant topic discussed in the fields of accounting and auditing. Auditing firms and external auditors may face various risks associated with litigation, which can affect the nature, scope, and responsibilities of their work. Therefore, the current research problem lies in understanding the impact of litigation risks on the tasks of auditors. This is reflected in the following question:

What is the impact (reflection) of litigation risks on the tasks of the external auditor?

### Second: Research Significance

The research's significance is derived from studying the circumstances and reasons leading to litigation risks, whether caused by the client or resulting from collusion between the client and the auditor. Auditors must be vigilant in avoiding these risks by defining the relationship between them and the client or individuals, and exercising the necessary professional care during the auditing process. Understanding and addressing these aspects are crucial for auditors to uphold professional integrity, prevent conflicts of interest, and maintain the trust of stakeholders in the auditing profession.

### Third: Research Objective

The primary objective of this research is to gain a comprehensive understanding of the characteristics of litigation risks and their influence on the responsibilities of external auditors. In order to fulfill the primary goal, it is imperative to address the following subordinate goals: delineating the attributes of litigation risks and their implications for the responsibilities of the external auditor, investigating the factors that prompt individuals to initiate legal actions against

auditors, scrutinizing the strategies employed by auditors to mitigate litigation risks, and evaluating the magnitude of the impact of legal claims on the functions performed by the external auditor.

#### **Fourth: Research Hypothesis**

**Firstly:** There is a statistically significant relationship between litigation risks and the tasks of the external auditor.

**Secondly:** There is a statistically significant impact of litigation risks on the tasks of the external auditor.

#### **Fifth: Research Methodology**

The researcher adopted two research methodologies in the scientific research:

##### **1. Descriptive Methodology:**

- The researcher relied on accounting literature related to the research topic, especially concerning the theoretical aspect. This was achieved through reviewing academic theses, research papers, scientific conferences, books, and articles from both Arabic and foreign electronic sources.

##### **2. Applied Methodology:**

- The researcher employed a questionnaire as a tool for data collection, benefitting from its efficiency in saving time and effort, and its ability to cover a specific sample size within a defined time frame. The hypotheses were analyzed and tested using the statistical software SPSS (Statistical Package for the Social Sciences).

## **Chapter Two**

### **The Theoretical Framework of Litigation Risks**

Litigation risks are considered one of the foremost challenges facing the auditing profession and auditors at present. The significance of litigation risks became evident in the aftermath of the financial crises in 2001, These crises led to a decline in the trust of financial statement users in the auditing profession and the quality of the services it provides.

#### **First: Concept of Litigation Risks:**

The term "litigation" pertains to the procedural mechanism of initiating legal cases inside the judicial system in order to address and resolve issues and disputes between individuals or entities, Litigation risks encompass the legal assertions made against external auditors. The escalation of litigation risks results in a corresponding augmentation of the responsibilities and remuneration of external auditors within the auditing procedure, Moreover, the concept of litigation risks pertains to the engagement of auditors in legal actions (Abdo, 2018:18). This entails conforming to the laws and legal protocols that are relevant in the respective jurisdiction, procuring the guidance of a competent attorney for legal counsel, and advocating for the individual or organization in a court of law, Obtaining expert legal advice is crucial to guarantee that the appropriate and obligatory measures are undertaken in compliance with relevant legislation. Adhering to the prescribed legal protocols in a diligent and courteous manner is of utmost importance. Additionally, it is imperative to provide well-founded arguments and substantiating facts in order to bolster the assertions or defenses put out in a legal dispute (Matouli, Ali, 2020:48).

#### **Secondly: Factors of Litigation Risks**

Litigation risks vary and differ depending on the cases and legal systems applicable in each country. Although litigation is considered an important means to achieve justice and protect rights, it also involves some crucial factors, Among these factors: (Leider, Lenz ,2017:8).

##### **1. Emotional Stress:**

Litigation can be emotionally draining for individuals involved in legal proceedings. They may experience psychological pressure, stress, and anxiety due to dealing with the conflict and the requirements of the legal case.

## 2. Time and Effort:

Legal proceedings can take an exceptionally long time and may extend for several years. During this period, parties involved in the lawsuit may have to attend court, submit documents, provide evidence, and respond to various legal procedures, This could result in damage to personal and professional life and strained personal and professional relationships.

## 3. Media and Reputation:

Participants in legal proceedings may face public criticism and defamation, as details of the lawsuit are broadcasted in the media, This can negatively impact individuals' reputations and lead to psychological and social repercussions.

## 4. Uncertainty:

Lawsuit outcomes are not guaranteed, and results may vary depending on court interpretation, witnesses, and presented evidence, Parties involved may experience uncertainty and stress due to not knowing the possible outcomes of the lawsuit. (Giordani et al., 2020:429).

## 5. Financial Burdens:

Litigation is a highly costly process, requiring parties involved to bear legal fees, lawyer costs, legal expert fees, evidence collection costs, and other expenses associated with legal proceedings. This can be burdensome for parties with limited resources.

## 6. Unsatisfactory Results:

The final judgment in a lawsuit may be unsatisfactory or deemed unfair from the perspective of the involved parties, despite the efforts made in the judicial system to achieve justice, There is a possibility of dissatisfaction with the judgment and not achieving the desired outcome.

## 7. Impact on Personal and Professional Relationships:

Litigation can affect personal and professional relationships of individuals participating in the lawsuit. It may lead to strained family relationships, friendships, and business partnerships, eroding trust and causing social conflicts (Wong,2018:8).

It is apparent from the aforementioned statement that it is imperative for persons to possess a comprehensive understanding of the potential hazards linked to litigation. Furthermore, individuals should exercise caution and deliberate thought when contemplating the use of this legal process, taking into account both its financial and emotional implications. In certain instances, it may be advantageous to consider other approaches for the resolution of conflicts, such as negotiation and third-party mediation, in order to mitigate the potential hazards and expenses associated with litigation.

## Thirdly: Types of Litigation Risks

Litigation risks refer to the legal and financial risks that individuals or companies may face when dealing with the judicial system. These risks vary depending on the sector and activity in which the person or company is involved. The following are some common types of litigation risks (Giordani et al., 2020:429).

**1- Financial Risks:** These include compensation costs that the individual or company may have to pay to the other party in the event of losing a legal case. Legal defense costs can also be substantial, especially if experienced lawyers are hired. Additionally, interest and fines costs may be incurred if legal liability is proven.

**2- Business Risks:** These risks include damage to reputation. Individuals or companies may face public scrutiny and damage to their reputation in the case of lengthy and publicized lawsuits, leading to a loss of trust from customers and business partners (Leider, Lenz, 2017:8)).

**3- Legal Risks:** Legal risks encompass regulatory violations, where individuals or companies may face legal action if they violate local or international laws and regulations. Contractual obligations can result in legal disputes if the terms of the contract between parties are not adhered to.

**4- Administrative Risks:** These risks involve the time and effort expended. Lawsuits can consume a significant amount of time and effort for individuals or companies, impacting their ability to carry out other activities. Financial dispersion, resulting from involvement in legal disputes, can lead to the scattering of financial resources and affect the sustainability of business operations (Bouferh, 2020:7).

Hence, it is imperative for both individuals and organizations to possess an understanding of the potential hazards linked to legal proceedings and adopt appropriate measures to mitigate such risks. It is recommended that people and corporations seek the guidance of a competent legal professional in order to evaluate and address potential risks, as well as to develop and execute legal strategies aimed at minimizing those risks. In conclusion, litigation is a potent and influential method that necessitates individuals to do thorough research and seek expert guidance in order to comprehend their entitlements, obligations, and requisite protocols for attaining their objectives inside the realm of legal processes.

### Chapter Three

#### The Theoretical Framework of External Auditor's Tasks

In the context of continuous economic and social development, companies and institutions are increasingly dealing with a large number of complex financial and accounting operations. To ensure integrity and transparency in these operations, the external auditor plays a vital role in verifying the accuracy and appropriateness of the financial and accounting records of companies.

##### First: The Concept of External Auditor

An external auditor is defined as a term referring to an independent individual or specialized firm tasked with evaluating and examining the financial records and financial operations of a company or institution. The purpose is to verify the accuracy and reliability of these records and financial disclosures. The external auditor is considered an independent and reliable source responsible for assessing the company's compliance with accounting standards and financial laws in force (Ali: Hashem, 2020:48).

##### Second: The Importance of the External Auditor

The importance of the external auditor lies in being an independent professional reference tasked with evaluating and examining the accounting and internal control systems in institutions and companies. The external auditor possesses the necessary expertise and knowledge to assess financial risks and identify potential gaps and deviations in the company's operations. The external auditor works independently and objectively, aiming to provide independent confirmation of the accuracy and appropriateness of financial and accounting records (Kowalesk, Zachary, 2018:15).

##### Third: Tasks of the External Auditor

The tasks of the auditor are the responsibilities carried out by the auditor during the auditing process, aiming to audit the financial information of companies and verify that financial data is free from errors, theft, fraud, and misrepresentation. Additionally, the auditor provides reports, results, and suggestions based on the auditor's findings and evaluates financial data and conditions (Rashid, Fatah, 2022:7). Furthermore, the auditor verifies the recording of accounting entries correctly in accordance with Generally Accepted Accounting Principles (GAAP) and checks the accuracy of the financial statements and other financial reports. When a company seeks an auditor, it prefers one with



skills and experiences such as objectivity, neutrality, integrity, good data analysis skills, proficiency in preparing financial reports, trustworthiness, and proficiency in Microsoft Office software. The auditor should also maintain the confidentiality of the client being audited and exhibit professionalism in interactions (Al-Nesaan, 2018:48). In some cases, auditors may face complexity in their tasks due to the supervisors or clients who exert pressure on novice auditors, affecting their behavior and decisions. This pressure necessitates the development of auditing processes, leading to acquiring new skills and conducting efficient and effective audits (Badertscher, N., Jorgensen, B., Katz, S., 2013:5). The auditor performs various tasks, including detecting fraud in financial statements, auditing actual cases of fraud, proposing ways to address it, examining and evaluating appropriate evidence, forming an opinion on financial fraud, attending court sessions, providing testimony, clarifying financial issues, examining financial records, preparing reports, and evaluating internal controls. The auditor provides guidance to companies to improve financial and business operations (Jassem, 2019:243).

(Kowalesk, Zachary, 2018:15) mentioned two aspects of the complexity of auditor tasks: the difficulty of the task itself, which is always associated with the quantity of information, meaning that the availability of information reduces its complexity, The other aspect is the task structure, which relates to the clarity of information. Thus, the complexity of tasks negatively affects auditor judgments, and this impact will be reflected in the quality of auditing.

Typically, companies employ external auditors for a duration of at least one year, adhering to legal provisions and professional standards that govern and guide the conduct of their auditing activities, The criteria for an external auditor differ among countries, contingent upon local rules and international accounting standards. The external auditor is required to maintain independence and objectivity while carrying out their duties, in accordance with established professional standards and ethical principles. Conclusions and reports are derived from the information that is currently accessible, nevertheless, they do not offer an unequivocal assurance of the authenticity and dependability of financial information.

## Chapter Four

### Litigation Risks and Their Impact on the External Auditor's Tasks

The tasks of the external auditor are significantly affected by the presence of litigation threats. External auditors may be exposed to legal and financial liabilities as a result of errors or negligence in the execution of their professional responsibilities. The potential for legal action against external auditors is widely recognized as a significant business risk, particularly owing to the financial implications and reputational harm that may result from legal claims, These risks can be severe enough to jeopardize a company's financial stability and potentially lead to bankruptcy, Decision-making technologies may be utilized by external auditors in order to improve the overall quality of auditing procedures and mitigate the risks associated with potential litigation. These tools have an impact on the intricacy, duration, and extent of the auditor's responsibilities inside the auditing procedure. Certain auditors have a preference for relying on their own judgments as a means to enhance the quality of auditing and mitigate the potential risks associated with litigation, as opposed to utilizing decision-making tools, The heightened probability of specific events contributes to an amplification of litigation risks. For example, in situations when the likelihood of identifying errors during the auditing of financial data is elevated, it serves to verify the presence of significant inaccuracies within the financial data. Consequently, this can lead to financial losses and reputational harm for both auditors and firms (Arena, Julio, 2022:148).

#### **Firstly: the relationship between litigation risks and the tasks of the external auditor**

is an important topic that has been studied extensively to understand its determinants and implications on the tasks of auditors. Auditors face various litigation risks, such as potential financial losses (from investors or creditors), damage to their reputation, increased audit costs, and bankruptcy

announcements. Litigation risks related to auditing have attracted significant attention in several studies because they pose concerns for auditing firms and their clients. Auditors are responsible for issuing opinions on financial data based on evidence and judgments, exposing them to various risks, including damage to their reputation and potential financial penalties. Litigation risks in auditing have been a subject of interest in several studies, as they can lead to concerns for auditing firms and their clients. Auditors face different types of risks, such as risks to their reputation and financial penalties (Giordani et al., 2020:429).

Using decision-making tools as a defense mechanism, auditors can provide unbiased, objective, consistent, and accurate suggestions when facing various legal risks (Wong et al., 2018,8).

There are two main sources of litigation risks: the audit client served by auditing firms and the auditing firms themselves. The audit client can contribute to increased litigation risks if it faces a decrease in stock prices or is involved in legal actions. It's also known that litigation risks impact audit fees. Understanding the reflection of litigation risks on the tasks of auditors involves considering the various forms of risks and damages associated with business risks related to the client-auditor relationship. Some of these risks include penalties, lawsuits, and loss of professional reputation for auditors (Abdo, 2018:18).

The reflections of litigation risks are categorized into two levels (Mande, Vivek et al., 2017:17).

**1- Overall Level:** The increase in litigation risks has led to fundamental changes in the tasks of auditors and auditing firms. However, these changes are not sufficient to prevent and reduce risks. The auditing profession has faced widespread criticism, and several negative aspects have emerged concerning the opportunities and fundamental principles of auditing. There is a need to develop auditing tasks to achieve competence and effectiveness.

**2- Partial Level:** The reflection of litigation risks on the tasks of auditors results in a loss of trust among individuals, affecting their professional reputation. Auditors bear more damage than the litigation risks, experiencing significant losses due to the erosion of public confidence in their abilities and integrity.

In general, it can be said that the tasks of the external auditor play an effective role in detecting fraudulent and manipulative activities that may occur in financial statements during the performance of their duties, as indicated by (Popoola, 2014:121).

- The role of the auditor's tasks in detecting errors, fraud, and manipulation in financial statements involves dealing with each issue and delving into its financial details.
- The role of the auditor's tasks in assisting management in preventing fraud and manipulation by utilizing fraud prevention programs, thereby reducing the risk of litigation.
- The tasks of the auditor play a role in uncovering collusion that occurs within the organization. Usually, the auditor is not responsible for discovering corrupt practices involving collusion among employees within the organization. Instead, their responsibility lies in expressing an opinion on the financial statements and confirming their freedom from distortions and material misstatements.

(Bressler, 2010:4) mentioned that among the most significant motivations for auditors to perform their tasks with precision and reliability is the fear of facing the risk of legal claims. These motivations include globalization of trade, an increase in fraud and corruption, the presence of a litigious environment, new and complex legislation, and the growth and utilization of technological advancements in business.

To effectively mitigate the potential risks associated with litigation, it is imperative for external auditors to implement rigorous auditing and internal control systems, while upholding a consistently high standard of work performance. Furthermore, it is advisable for external auditors to contemplate the engagement of specialist legal teams to aid them in the resolution of any legal

matters and the provision of suitable legal counsel. In order to mitigate the potential risks of litigation, auditors should employ specific tactics, These strategies encompass getting legal counsel, maintaining accurate and trustworthy documentation, following to established professional standards, and identifying, evaluating, contracting, and obtaining professional liability insurance.

**Secondly: The reasons leading to the risks of litigation against external auditors' tasks are as follows: (Roshan, 112:2019)**

1. Reasons related to the tasks of auditors, including gross negligence by the auditor due to lack of academic and practical qualifications, Auditors may also engage in non-traditional services, such as profit forecasting, assessing project continuity, and failing to detect fraud and errors affecting the fairness of financial statements.

2. Reasons related to clients include the collapse of the company's stock market value after the auditor has certified the integrity of its financial statements.

3. Reasons related to shareholders involve significant losses for shareholders due to their reliance on financial statements prepared by auditors. This may lead shareholders to file lawsuits against auditors, citing negligence and fraud, and making incorrect investment decisions based on auditors' reports, causing harm to shareholders.

4. Reasons related to the legal environment of the auditing process are crucial factors leading to lawsuits against auditors. The legal framework provides necessary legislation and procedures. In this legal environment, shareholders are encouraged to file lawsuits against auditors, challenging their tasks. This trend often results in auditors paying significant financial compensations due to a general inclination towards judgments favoring shareholders.

Furthermore, there are several secondary reasons that contribute to an increased risk of litigation against the tasks of auditors, These include negligence, fraud, violations of laws and regulations, disclosure of client secrets, failure to deliver audit reports on time. The failure of the auditing process is often linked to the issuance of inaccurate financial statements. However, the mere presence of an error in the financial statements is not a sufficient condition for the failure of the audit process. There are other causes that lead to the failure of the auditing process, including those related to clients and those related to auditors (Mohd-Sanusi et al., 2018:13).

### **Thirdly: Mechanisms Used by Auditors to Reduce Litigation Risks**

To deal with these risks, external auditors must follow certain mechanisms and carry out their work with precision and high professionalism. They should establish contracts and conditions that clarify potential mechanisms in the event of litigation, including:

#### **1. Mechanisms to Reduce Lawsuit Risks Against Audit Firms and Offices:**

a. Adherence to Professional Auditing Standards: Auditors commit to recognized professional auditing standards and the rules of professional conduct.

b. Appointment of Legal Advisors: A permanent legal advisor is appointed in the audit office to provide sound legal advice in all legal matters and situations.

c. Thorough Examination of Prospective Clients: Conducting a detailed examination of prospective clients and their management.

d. Accurate Information Gathering: Obtaining accurate information about the client's activities and business operations.

e. Use of Contract Letters: The necessity of using engagement letters in all professional services agreed to be provided to the client.

#### **2. Enhancing Governance Mechanisms to Avoid Litigation Risks Against Audit Firms:**

Governance authorities emphasize the responsibility of ensuring the company's operations comply with laws, resting on management and supervised by governance bodies.



The International Auditing Standard No. 250 establishes two-way communication between auditors and governance officials to support the auditor's independence and provide relevant information.

This communication aids auditors in understanding the company's operations and environment, identifying suitable sources for audit evidence, and helps governance officials supervise the financial reporting process, reducing the risk of litigation against auditors. ( Al-Najjar,2018:8).

### 3. Role of Enhancing Creative Thinking to Avoid Litigation Risks Against Audit Firms:

The audit process requires a brainstorming session, where the audit team discusses possibilities of fraud or manipulation in client accounts, how the team can respond, and identifies fraud risks.

Brainstorming has become a crucial part of the audit process, contributing to more accurate assessments of fraud risks, avoiding and reducing litigation risks against audit firms. (Koref,2021:8).

The study by (Metwally, Ali, 48:2020) addressed the analysis of the concept of litigation risks, including the auditor bearing the costs of legal claims, potential damage to their professional reputation, and disciplinary actions that regulatory bodies may take, such as stock exchange committees or the American Institute of Certified Public Accountants. The study focused on identifying a set of factors that influence litigation risks against auditors and reduce their fees, including:

- Nature of Company Ownership
- Reputation and Experience of Management
- Management Turnover Rate
- History of Amendments in the Audit Process and the Industry Type to Which the Client Belongs

The meticulous procedures employed by auditors to assess all components of financial statements, as well as the minimum audit procedures mandated by professional standards, are taken into account. Despite the implementation of controls and precautions to mitigate litigation risks, such risks have been on the rise in recent times. Consequently, the utilization of insurance as a means of safeguarding practitioners against substantial financial losses is worth considering. The escalation of litigation risks has had a profound impact on the complexity of auditing tasks, necessitating reliance on the concept of borrowing. This concept posits that each party involved in an economic transaction seeks to maximize the anticipated benefits derived from said transaction. As a result, auditing tasks have become significantly more intricate (Abdallh, Gomaa, 2022:7).

Furthermore, the external auditor may be exposed to legal and financial liabilities as a result of inaccuracies or negligence in the execution of their duties. The aforementioned risks have the potential to result in substantial financial losses for the external auditor, thereby impacting their financial independence. The external auditor's reputation may be affected if they encounter frequent litigation or are obligated to make significant compensatory payments. The potential consequences of this situation include a potential erosion of trust from both persons and companies, which could have a detrimental impact on the workflow and the auditor's capacity to secure future assignments.

The rising potential for legal action places heightened demands on the external auditor to conform with greater rigor to auditing and quality standards. The external auditor may be required to enhance their efforts in auditing methods and thorough documentation in order to mitigate potential legal concerns.

## Section Five

### (Field Study to Test the Impact of Litigation Risks on the Tasks of the External Auditor)

#### Research Methodology:

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|     | <p>Copyright (c) 2023 Author (s). This is an open-access article distributed under the terms of<br/> Creative Commons Attribution License (CC BY).To view a copy of this license,<br/> visit <a href="https://creativecommons.org/licenses/by/4.0/">https://creativecommons.org/licenses/by/4.0/</a></p> |

The study utilizes the descriptive analytical methodology, which is widely employed in social and human research, The objective is to obtain coherent outcomes that substantiate the study hypothesis. The study made use of secondary sources, specifically literature that comprises published research and scientific theses pertaining to the research issue, Furthermore, the researcher employed the collection of primary data as a means to examine the analytical components of the research subject, This was accomplished by utilizing a questionnaire as the primary instrument for data collection, The questionnaire data was analyzed and the study hypotheses were tested using the statistical program SPSS.

#### Firstly: Research Population and Sample:

The research population consists of external auditors working in auditing offices in Iraq. Questionnaires were distributed, and (52) valid questionnaires were received for analysis.

#### Secondly: Description of the Research Tool and Measurement of Variables:

The questionnaire included a set of statements to measure the two research variables. This questionnaire was formulated with the aim of measuring these variables, specifically the independent variable, which is litigation risks, Five statements were specified for this variable in the questionnaire, and the statements were formulated based on the study by (Rashwan, 2019) and (Gomaa, 2022).As for the dependent variable, representing the tasks of the external auditor, five statements were specified, and these statements were formulated based on the study by (Nabil, 2017) and (Rashid, Fatah, 2022), Table (1) shows the sequence of questionnaire statements for each variable of the research variables.

**Table (1): Research Variables and Statement Numbers in the Questionnaire Form**

| Research Variables |       | Number | Sequence |
|--------------------|-------|--------|----------|
| Independent        | (LR)  | 5      | 5-1      |
| Dependent          | (TEA) | 5      | 10-6     |
| Total              |       | 10     | 10-1     |

*Source: Prepared by the researcher.*

#### Fourthly: Demographic Analysis of the Researched Individuals:

Regarding the distribution of the sample according to demographic variables, Table (2) illustrates the distribution of the sample individuals based on demographic characteristics.

**Table (2) illustrates the distribution of the research sample individuals according to demographic variables.**

| Characteristics           | The Data                 | Repetition | The ratio% |
|---------------------------|--------------------------|------------|------------|
| Educational Qualification | Bachelor's Degree        | 18         | 35%        |
|                           | Master's Degree          | 22         | 42%        |
|                           | Doctorate (Ph.D).        | 12         | 23%        |
|                           | Total                    | 52         | 100%       |
| Job Title                 | Audit Department Manager | 10         | 19%        |
|                           | Auditor                  | 20         | 39%        |
|                           | Assistant Auditor        | 12         | 23%        |

|                            |                    |    |      |
|----------------------------|--------------------|----|------|
| <b>Years of Experience</b> | Other              | 10 | 19%  |
|                            | Total              | 52 | 100% |
|                            | Less than 5 years  | 20 | 39%  |
|                            | 5 to 10 years      | 22 | 42%  |
|                            | More than 10 years | 10 | 19%  |
|                            | Total              | 52 | 100% |

**Source: Prepared by the researcher based on the outputs of the SPSS program.**

The following can be inferred from Table (2):

1. Educational Qualification: The respondents include 18 individuals with a Bachelor's degree, 22 with a Master's degree, and 12 with a Ph.D. out of a total sample size of 52.
2. Job Title: The respondents include 10 Audit Department Managers (19%), 20 Auditors (39%), 12 Assistant Auditors (23%), and 10 with other titles (19%) out of the total sample size.
3. Years of Experience: The respondents include 20 individuals with less than 5 years of experience (39%), 22 with 5-10 years of experience (42%), and 10 with more than 10 years of experience (19%) out of the total sample size.

#### **Thirdly: Testing the Validity and Reliability of the Research Tool**

The term "validity of the questionnaire" refers to the questionnaire's comprehensiveness, including all the elements required for analysis. This involves clarity in its paragraphs and items, ensuring that it is acceptable and understandable. In other words, it confirms that it measures what it was designed to measure. The researcher confirmed the reliability of the questionnaire through the Cronbach's alpha coefficient, as illustrated in Table (3).

**Table (3): Cronbach's Alpha Coefficient Values for Research Variables**

| <b>Cronbach's Alpha Coefficients</b> |                                |                                     |
|--------------------------------------|--------------------------------|-------------------------------------|
| <b>The Variables</b>                 | <b>Reliability Coefficient</b> | <b>Cronbach's Alpha Coefficient</b> |
| <b>(LR)</b>                          | 0.558                          | 0.395                               |
| <b>(TEA)</b>                         | 0.53                           | 0.39                                |
| <b>Total</b>                         | 0.273                          | 0.766                               |

*Source: Compiled by the researcher based on SPSS outputs.*

The table above shows that the values of Cronbach's Alpha ranged between (0.395-0.39), while the reliability coefficient ranged between (0.53-0.558). This indicates a moderate level of reliability in the questionnaire items, confirming its suitability for statistical analysis.

#### **Fourthly: Descriptive Analysis**

Table number (4) shows the mean, standard deviation, relative importance, and coefficient of variation for the statements and variables of the research, which reflects the extent of variation around the research variables.

**Table (4) Descriptive Analysis of Research Statements and Variables**

| <b>S</b> | <b>The Statements and Variables</b> | <b>Sample Total</b> | <b>Arithmetic mean</b> | <b>The standard</b> | <b>The relative</b> | <b>The coefficient</b> |
|----------|-------------------------------------|---------------------|------------------------|---------------------|---------------------|------------------------|
|----------|-------------------------------------|---------------------|------------------------|---------------------|---------------------|------------------------|

|          |   |                     |                        | deviation                     | importance                     | of<br>variation                     |
|----------|---|---------------------|------------------------|-------------------------------|--------------------------------|-------------------------------------|
| 1        | Litigation risks lead to increased reliance on lawyers and higher costs for legal consultations.  | 52                  | 4.23                   | 0.614                         | %84.6                          | 0.15                                |
| 2        | Litigation risks lead to the distraction of individuals and companies from other important activities.  | 52                  | 4.21                   | 0.605                         | %84.2                          | 0.14                                |
| 3        | Litigation risks have an impact on the reputation of companies and their ability to attract investors.  | 52                  | 4.19                   | 0.595                         | %83.8                          | 0.14                                |
| 4        | Litigation risks lead to additional costs for the state to pursue legal cases.  | 52                  | 4.08                   | 0.652                         | %81.6                          | 0.16                                |
| 5        | Litigation risks impact the level of trust and credibility in the judicial system.  | 52                  | 4.31                   | 0.579                         | %86.2                          | 0.13                                |
|          | The mean.   | 52                  | 4.204                  | 0.609                         | %84.08                         | 0.14                                |
| <b>S</b> | <b>The Statements and Variables</b>   | <b>Sample Total</b> | <b>Arithmetic mean</b> | <b>The standard deviation</b> | <b>The relative importance</b> | <b>The coefficient of variation</b> |
| 1        | The external auditor faces legal and financial risks as a result of errors or shortcomings in performing their duties.  | 52                  | 4.31                   | 0.755                         | %86.2                          | 0.18                                |
| 2        | The external auditor may face claims for financial compensation due to potential errors in carrying out their work. These claims could result in significant financial losses for the external auditor and impact their financial independence. | 52                  | 4.25                   | 0.653                         | %85.0                          | 0.15                                |
| 3        | The reputation of the external  | 52                  | 4.46                   | 0.641                         | %89.2                          | 0.14                                |

|   |   |    |       |       |        |      |
|---|---|----|-------|-------|--------|------|
|   | auditor is affected if they are frequently involved in litigation or face large compensation claims. This may lead to a loss of trust from clients and companies, potentially impacting the flow of work and the external auditor's ability to secure new projects.                         |    |       |       |        |      |
| 4 | The risk of litigation may increase the pressure on the external auditor to comply with audit and quality requirements to a greater extent. The external auditor may need to intensify their efforts in audit procedures and comprehensive documentation to mitigate potential legal risks. | 52 | 4.44  | 0.639 | %88.8  | 0.14 |
| 5 | The independence of the external auditor may be affected due to the risk of litigation. The external auditor should avoid situations that could create conflicts of interest with clients or companies being audited to prevent further legal issues.                                       | 52 | 4.31  | 0.755 | %86.2  | 0.18 |
|   | The mean.   | 52 | 4.408 | 0.689 | %87.05 | 0.16 |

*The source: Prepared by the researcher based on the outputs of the SPSS program.*

Based on the findings presented in Table 4, which pertains to the descriptive analysis of the statements and variables under investigation, it is apparent that the average value of all items within the lawsuit risks variable is 4.204, whereas the average value of the external auditor's tasks variable is 4.408. This finding suggests a consensus among the participants in the sample regarding the claims pertaining to these variables. The variable of litigation risks revealed that the statement "The impact of legal risks on the level of trust and credibility in the judicial system" garnered the highest level of agreement and consistency, as shown by its highest relative value. The variability index indicated that this statement exhibited the lowest level of variability in comparison to other statements.



Regarding the variable pertaining to the tasks of the external auditor, it can be posited that the reputation of the auditor may be subject to influence in instances when they face frequent lawsuits or encounter substantial claims for compensation. The statement "This may result in a decline in trust from clients and companies, thereby potentially impacting workflow and the external auditor's ability to secure new projects" exhibited the highest level of consensus and coherence, along with the greatest relative significance. The variability index indicated that this statement exhibited the lowest level of variability in comparison to other statements.

In relation to the variables under investigation, it was found that litigation risks (LR) exhibited the highest level of agreement and consistency, with the variable pertaining to the tasks of the external auditor (TEA) following closely after.

#### **Fifthly: Testing the Research Hypotheses**

One main hypothesis was formulated to test the relationship between the variables as follows:

Primary Hypothesis: There is a statistically significant relationship between litigation risks and the tasks of the external auditor.

To test this hypothesis, the Pearson correlation coefficient was calculated between the research variables, as shown in Table (5).

**Table (5) Correlation Coefficient between Research Variables**

| The Variables | Pearson Correlation Coefficient                              | TEA          |
|---------------|--|--------------|
| LR            | The significance value of the correlation coefficient (sig). | 0,65<br>0.00 |

*Source: The table was prepared by the researcher based on the outputs of the SPSS program.*

The presented table (5) demonstrates a notable and favorable association between lawsuit risks and the responsibilities assigned to the external auditor. The findings align with the research conducted by Gomaa (2022), which substantiated a positive association between lawsuit risks and the responsibilities of the external auditor. The observed findings suggest a correlation between the variables under investigation, and in light of the aforementioned outcomes, the primary hypothesis is supported.

#### **Testing the Impact Hypotheses**

One main hypothesis was formulated to test the impact of the independent variable on the dependent variable as follows:

Primary Hypothesis 2: There is a statistically significant impact of litigation risks on the tasks of the external auditor.

To test this hypothesis, a simple linear regression equation was developed to estimate the level of tasks performed by the external auditor based on litigation risks, The purpose is to determine the extent of the impact of the latter on the tasks of the external auditor, and Table (6) illustrates this impact.

**Table (6): Regression Equation for the Impact (TEA) on (LR)**

| Variables | Regression Coefficient (B) | Value (t) (sig) | Value (F) (sig) | )R2( | )R2المعدل ( |
|-----------|----------------------------|-----------------|-----------------|------|-------------|
| TEA       | 0.76                       | 6.03<br>0.00    | 36.46<br>0.00   | 0,42 | 0,41        |

*The source: The table was prepared by the researcher based on the outputs of the SPSS program.*

**The table (6) above indicates the following:**

1. Significant confirmation of the regression model, with an F-value of 36.46, which is significant at the 0.05 significance level.
2. Significant confirmation of the regression coefficients for the variable of litigation risks and the constant, with a T-value for litigation risks of 6.03 at the 0.05 significance level. This significance indicates the presence of an effect.
3. The positive Beta ( $\beta$ ) value of 0.76 indicates that the effect of litigation risks on the tasks of the external auditor is positive. This means that as the scope of adopting litigation risks widens, it leads to an increase in the level of tasks performed by the external auditor.
4. The determination coefficient ( $R^2$ ) is 0.42, indicating that the litigation risks variable explains 42% of the variations in the levels of tasks performed by the external auditor.

The obtained findings provide support for the soundness of the second sub-hypothesis, which posits a substantial influence of litigation risks on the responsibilities of the external auditor. The aforementioned observation aligns with the conclusions drawn in the research conducted by Rashwan (2019) and Gomaa (2022), which emphasize the influence of litigation risks on the responsibilities of external auditors. This finding suggests that the presence of lawsuit risks has a notable and valuable influence on the responsibilities of the external auditor.

**Conclusions and Recommendations**

**First: Conclusions:**

- 1- Auditors working in some Iraqi universities (the research sample) strive to perform their auditing tasks with precision and credibility to maintain their reputation and reduce the risk of litigation during the auditing process.
- 2- Auditors are not held responsible for preventing errors and fraud in financial statements; however, they are required to exercise sufficient professional care in completing the auditing process and producing a high-quality professional report.
- 3- The limited time allocated for conducting the audit negatively contributes to the professional performance of auditors, increasing the likelihood of not detecting errors, fraud, and substantial misstatements in financial statements. This also raises the chances of audit failure, exposing auditors to the risk of lawsuits.
- 4- Conducting brainstorming sessions among auditors to exchange ideas and opinions regarding the auditing process helps anticipate and implement appropriate solutions in case of errors, fraud, or manipulation.
- 5- Maintaining continuous communication between auditors and management officials supports the auditor's independence and provides relevant information. The auditor's understanding of management's activities and environment (auditing department) helps reduce material misstatements in financial statements and minimizes the risk of litigation arising from the lack of credibility in statements and reports prepared by the auditor.

**Second: Recommendations:**

- 1- It is essential for auditors to exercise the necessary professional care when entering into contracts with individuals.
- 2- Auditors should not accept an audit engagement if there is insufficient time to perform it adequately or if they are subjected to pressure from individuals or management to expedite the audit process. This negatively impacts the auditor's ability to detect errors or fraud in financial statements, exposing them to the risk of litigation on grounds of negligence and neglect.
- 3- Auditing teams should consider appointing a legal advisor or seeking legal consultation to obtain advice on legal matters they may encounter during their audit tasks. This is done to avoid getting involved in legal issues that could lead to lawsuits against them.

4- The auditing profession should be elevated by developing the skills of auditors through professional training and the necessary experience provided in training programs for the practice of auditing.

5- Researchers must focus on writing and researching the topic of the risks of litigation against auditors and the related concepts.

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