The implications of activating external audit activities regarding examining exchange rate volatility on the audit quality: A proposed methodological framework and an experimental study.

Prepared by
Salma Ahmed Sayed Khalil

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Section One: General Framework

Introduction

Financial firms represent an important aspect in achieving economic development, because of their role as financial intermediaries between facilities with a surplus and those with a deficit. Due to the significant and direct impact of the financial sector on the economy as a whole, the safety and strength of it must be ensured. Therefore, countries develop some policies and regulations for the financial sector to ensure continuity of activity. (Ernstberger, 2019)

On one hand, the exchange rate is an important determinant of economic activity and prices in open economies. The volatility of domestic currency increases (reduces) the cost of imports expressed in domestic currency which affects the domestic prices. Moreover, the volatility may stimulate (depress) net exports by lowering (increasing) the cost of domestic products for foreign consumers, stimulating (depressing) the demand for domestically produced goods and hence their domestic prices.

Exchange rate is defined is the value at which one currency can be exchanged for another. It indicates how much of one currency is needed to purchase a unit of another currency. Exchange rates are determined by the foreign exchange market and can fluctuate based on factors such as interest rates, economic stability, inflation, and geopolitical events. In international trade, a country's exchange rate could be used as the barometer of its international competitiveness. Consequently, volatility in exchange rates has serious far-reaching consequences for policymakers, investors, firms and consumers. For instance, exchange rate volatility negatively affects investment decision making because it makes return on investment uncertain. (Adu et al., 2015)

On the other hand, audit quality is vital for maintaining the integrity of financial reporting, ensuring transparency, and fostering trust in the financial markets. The audit profession has given a 'great' attention to the audit quality through the professional auditing standards, and has focused on the audit outputs, which are represented by the auditor's report (opinion) on the financial statements and reports (Smits et. al, 2019). Achieving quality audits involves a combination of factors, including strong regulatory frameworks, rigorous audit processes, competent auditors, and effective oversight. Quality audits enhance investor confidence in the financial markets. When investors trust that the financial statements are accurate, they are more likely to invest, which can lead to increased capital formation and economic growth.

An external audit is an accounting audit performed by an outsourced professional, designated specifically for this task. This process is done to verify the reliability of financial statements. Auditing seeks to express an independent opinion on the reliability of a firm's financial statements, and throughout the audit work, errors or fraud may be detected and communicated to the firm's management. Auditors can also identify unproductive processes, which helps improving the operations performed within the firm. (Kassem, R., & Higson, 2016).

The application of external audit activities specifically tailored to examine exchange rate volatility is a promising area of study that can significantly influence audit quality. By focusing on implications of activating external audit activities regarding examining exchange rate volatility on the audit quality, this research aims to develop a methodological framework.

Furthermore, this research will include an experimental study to evaluate the implications of activating external audit activities regarding examining exchange rate volatility on the audit quality in real-world scenarios. By doing so, it aims to provide empirical evidence on the implications of incorporating specialized audit activities for exchange rate volatility on overall audit quality. The findings from this study are expected to offer valuable insights for auditors, regulatory bodies, and organizations, contributing to the enhancement of auditing standards and practices in the context of global financial volatility.

Research problem:

Audit quality in financial firms is critical to ensuring the reliability and accuracy of financial reporting. However, several issues can undermine the quality of audits in this sector. Financial firms often deal with complex financial instruments like derivatives, structured products, and securitized assets, which are difficult to value accurately. Therefore, assessing the risks associated with these instruments requires specialized knowledge and expertise, which auditors may lack. In addition, the regulatory environment for financial firms is constantly evolving, and staying current with these changes is challenging for auditors. Financial firms operating in multiple jurisdictions must comply with different regulatory requirements, complicating the audit process. Moreover, Long-term relationships between audit firms and financial institutions can lead to conflicts of interest, compromising auditor independence, and providing non-audit services to audit clients can impair auditor objectivity. Variability in audit quality across different audit teams and offices can result in inconsistent audit outcomes.

Additionally, weaknesses in internal quality control mechanisms within audit firms can lead to inadequate audit activities. Financial firms are also increasingly exposed to cyber security risks, which auditors must evaluate; lack of expertise in this area can impact audit quality, and while data analytics can enhance audit quality, auditors need the skills to effectively use these tools. Furthermore, financial firms often engage in complex transactions that can obscure fraudulent activities, in addition to the Pressures on management to meet financial targets that can lead to manipulation of financial statements, challenging auditors to detect such fraud, and auditors may fail to exercise sufficient professional skepticism, particularly when dealing with long-term clients or complex financial instruments. Cognitive biases and lack of skepticism can lead to oversight in identifying and assessing risks, Hence, audit firms may face challenges in allocating sufficient, experienced staff to audits of financial firms, impacting audit quality. Tight deadlines and budget constraints also can lead to insufficient audit activities and reduced audit quality.

Besides the above, poor communication between auditors and financial firm management can lead to misunderstandings and incomplete information gathering. Ineffective communication with audit committees can result in important audit issues not being addressed adequately. Another issue is that auditing financial firms with global operations involves coordinating with multiple audit teams across different countries, leading to potential inconsistencies and challenges in audit execution. Finally, Auditors must accurately assess currency exchange and translation risks, which can be complex and require specialized knowledge.

Addressing these challenges requires continuous education and training for auditors, enhanced regulatory frameworks, and robust internal quality control systems within audit firms. By tackling these issues, the audit profession can improve the quality and reliability of audits in financial firms, thereby contributing to greater financial stability and investor confidence.

Different measures were used as proxies for the audit quality in the literature and this can be shown by; Carey and Simnett (2006) who provided that evidence that long audit tenure can negatively affect the auditor's tendency to issue a going concern audit opinion, which can ruin the audit quality and reduce the financial reporting quality. Moreover, Choi, et.al. (2010) used the abnormal audit fees which is the difference between actual audit fees and the expected normal level of audit fees, as a measure of the effect of audit quality on earnings management. In addition, Gerayli, et.al, (2011) used auditor size, auditor industry specialization, and auditor independence as three different measures for audit quality and studied their effect on earnings management. (Rusman et al., 2018). There has been an increased interest in studying the extent to which auditor is aware of the importance of using external auditing, and in measuring the impact of using it on enhancing the effectiveness in the areas of the profession and on the society as a whole, which helps in improving the audit quality. (Gana, & Krichen, 2013).

Applying external audit activities regarding examining exchange rate volatility and affects financial statements, and hence audit quality. One of the basic problems in accounting for foreign currency transactions and foreign operations is determining the exchange rate to be used and how to recognize it in financial statements. Due to the impact of volatility of exchange rates on audit quality, **the research problem can be formulated in the following set of questions:**

1. What are the determinants of examining exchange rate volatility?
2. What are the features and requirements for applying external audit activities regarding examining exchange rate volatility?
3. To what extent does applying external audit activities regarding examining exchange rate volatility affect audit quality?

Literature review

Previous studies can be presented and analyzed in terms of their relationship to the research variables and their role in emphasizing its importance, as follows:

1. The first axis: Studies on audit quality

Several studies have addressed this topic, including the study of (Sun Liu’s, 2011) that aimed to test the impact of customer litigation risks on the quality of an audit, and the sample of the study was represented by a group of firms listed on the U.S. Stock Exchange; the study found that audit qualityis higher in the audit firms than with the firms’ small-scale audit when auditing the financial statements of high-risk clients with audit risks.

The study of (Ahmed et al., 2010) aimed to evaluate the procedures for assessing the risk of auditing when auditing the accounts of the Bangladeshi firm BEXTEX. The study found that the Bangladeshi firm has a good control system, and that it follows some special rules which in turn mitigate material errors resulting from fraud or error in the firm's financial statements.

The study (Gul, 2013) aimed to identify the importance of individual auditors in determining the quality of the audit, and the sample of the study was represented by a number of 800 individual auditors. The study found a significant difference in the quality of the audit through individual auditors, and the effects of the auditors are considered individuals by the quality of audit reports and the quality of customer profits.

The (Che et al., 2019) study aimed to identify the availability of the four big-4 audit firms with higher quality audits than other firms, and the study found that the impact of the big-4 audit firms is present in the private sector, and the increased quality of auditing can be attributed to the strengthening of incentives.

The study of (Pittman et al., 2019) aimed to identify the extent to which U.S. audit firms are aware of the risks of auditing and the impact of those risks on audit quality, and found that auditing firms that engage in risk-inherent behavior are of lower quality, and audit firm clients who take audit risks are paid less for audits.

The study of (Hashem, 2020) aimed to identify the impact of the use of information technology (IT) on audit qualityin Lebanon. One of the main findings of the study was the awareness of the auditors in Lebanon concerning the positive impact of the use of IT on audit quality. The main obstacles facing the use of IT are the lack of sufficient experience of the auditor to use information technology in audits.

2. The Second axis: Studies on the Exchange rate:

Many studies have dealt with this axis like the study of (Muntaz and Sunder-Plasmann, 2013) that aimed to use time-varying structural vector autoregression (SVAR) reported substantial evidence that real exchange rate dynamics have changed over time in the UK, Euro Area and Canada. Results from their paper suggest strong response of real exchange rate to nominal shocks after the mid-1980s compared to the 1970s and early 1980s. This evidence of time-varying real exchange dynamics appears to be consistent with a fall in exchange rate pass-through effect.

The study of (Mensah et., 2015) investigated the exchange rate dynamics in Ghana via identifying the sources of the exchange rate movements and their implications for price stability. Using a battery of tests, the results revealed a high but incomplete pass-through effect of exchange rate movements on domestic prices.

The (Wali, 2021) study also targeted "the effect of disclosing the risk of fluctuations in foreign exchange rates on profit quality as an application study. This study dealt with the measurement and analysis of the impact of disclosure of the risk of fluctuations in foreign exchange rates on the quality of accounting profits, in the framework of an application study that includes Eleven firms registered on the Egyptian Stock Exchange and track the pharmaceutical industries sector, and the study concluded that there is no moral impact to disclose the risk of exchange rates on the quality of profits, and the researcher recommended more detailed offer for the components of exchange rate risk, whether at the heart of financial statements or complementary clarifications.

3. The Third axis: Studies on the External audit:

Several studies have examined this axis, such as the study of (Niemi et al, 2018) that aimed to identify the impact of audit risks on the auditing processes in Europe, and the study was conducted in Finland for the period 1996-2010. The study found that the four audit firms became more interested in audit risks, and it allocated the largest number of audit hours to firms' clients managed by their owners in 2010, compared to the year 1996, and fewer audit hours were allocated to low-risk clients in 2010 than in 1996.

In addition, the aim of (Nawaiseh, 2015) exploratory research was to test whether the prediction that external audit quality is positively associated with earnings management. Whilst the main significance it can help stakeholders predict earning management based on some proxies that are not publicly available in annual reports. The paper found that; Audit tenure, Audit fees, and the international big auditing firms have significant relations with earning management. It means, future earning management forecast is predictable based on audit quality leading indicators (Audit tenure, and international big auditing firms).

The study (Carvalho, 2019) intended to measure and analyze the influence of external auditing on the UK firms' valuation, which was modeled through a multiple linear regression that has as explanatory variables: Tenure, Fees, Scope and Materiality; and as dependent variables: Tobin's Q and PB. The research suggests that size has a relevant influence in the study and that some regression's specifications are valuable insights for interpretation purposes.

While the study (Hazami, 2019) aimed to examine responses of 2,160 internal auditors to a global survey of the internal auditing profession carried out by the Institute of Internal Auditors Research

Foundation from 2009 to 2013. The study found that when the internal audit function's (IAF's) quality is high, the external audit fees will be low. This result confirms the substitution effect.

A study of (Salih and Flayyih, 2020) also focused on the measurement of the impact of audit quality on reducing the risks of the external audit profession in the Iraqi environment, considering the risks faced by auditors, represented by the rise in cases of administrative and financial corruption and the absence of laws that govern the work of the audit profession. Research has provided a knowledge framework for the concept of audit quality and the risks of external auditing based on the descriptive analytical approach, by preparing a questionnaire prepared for this matter.

General comment on the literature:

The researcher has benefited from the literature in formulating the general framework of research and developing the research plan. Some studies were concerned with audit quality such as the study of (Gul, 2013), (Che et al., 2019), (Pittman et al., 2019). Where these studies focused on how to affect the audit quality enhance it, some studies have been interested in the role of references in achieving high quality audits , through the application on a sample of the labor market such as firms and banks such as the study of (Hashem, 2020), and the study (Wali, 2021) that was interested in appreciating the effect of the fluctuations of the exchange rate and the effects on monitoring financial performance of some firms, Moreover, the study of (Salih and Flayyih, 2020), which concentrated on external auditing, and the importance of the auditing profession by organizing conferences, lectures, seminars, and training courses, which concluded that First, there is a need to keep abreast of the development and the prosecution of modern systems, especially in the areas of auditing and internal control systems and the training of personnel and employees. Second, it is necessary to focus on holding specialized training courses for auditors on auditing process and on the latest developments.

Research objectives

The research mainly seeks to study and analyze the implications of applying external audit activities related to the examination of the exchange rate volatility on the audit quality, with a proposed methodological framework and an experimental study. This can be achieved through the following sub-goals:

1. Analyzing the impact of the use of external audit methods on audit quality of audit firms operating in Egypt, from the point of view of the auditors.
2. Identifying the effect of external audit characteristics regarding examining exchange rate volatility on audit quality.
3. Measuring the impact of the accounting evaluation of the exchange rate volatility on the audit quality.

Research hypotheses

In the light of the results of the literature, the research problem and the its objectives, the following assumptions were formulated:

1. There is a significant effect of external audit methods on the audit quality of auditing firms operating in Egypt.
2. There is a significant effect of external auditor level of experience regarding examining exchange rate volatility on the audit quality.

Research Importance

The importance of the research can be presented from both scientific and practical perspectives as follows:

1. **Scientific importance: The scientific importance of the research is represented by the following:**

1/1- Highlighting the efforts made by international and Arabic bodies to use recent methods in the external audit stages regarding examining exchange rate volatility on the audit quality.

1/2- Exploring the implications of applying external audit activities regarding examining exchange rate volatility on the audit quality.

1/3- Enriching the accounting literature regarding the external audit activities regarding examining exchange rate volatility (quantitative and descriptive) on the audit quality.

2. **Practical importance: The practical importance of the research is represented by the following:**

2/1- Maximizing the benefit of improving the audit quality due to its importance in communicating governance, environmental, social, strategic, and sustainability information, along with financial information, which leads to reducing information risk and rationalizing decisions.

2/2- Enabling Private and public financial firms to take an advantage of this study as it identified the gaps between external audit activities regarding examining exchange rate volatility and the audit quality.

2/3- The importance of the research stems from the global importance that external auditing enjoys internationally, the interest of financial firms in the importance of audit quality process on an ongoing basis to study its various economic and social impacts, and the interest of regulatory authorities in world markets to oblige firms registered in those markets to ensure the audit quality.

Limitations and scope of the research:

The limits of the search can be presented as follows:

1. Spatial limitations: The research was applied on firms; Listed on the Egyptian Stock Exchange and operating in various sectors.
2. Time limitations: The research was limited to the actual data of the firms registered on the Egyptian Stock Exchange in question, which relate to external audit activities regarding examining exchange rate volatility on the audit quality, during a time series consisting of five consecutive years starting from the year 2019 until the year 2023.
3. Methodological limitations: The research was limited to studying and analyzing the implications of applying external audit activities regarding examining exchange rate volatility on the audit quality.

Research Methodology:

The researcher relied on the contemporary approach that combines the inductive and deductive approaches to achieve the research objectives and test its hypotheses. The deductive approach was used in studying and analyzing what was stated in accounting thought and literature, international and Egyptian accounting initiatives and standards, as well as professional publications related to external audit activities regarding examining exchange rate volatility, in order to demonstrate the implications on the audit quality in the Egyptian joint stock firms. The researcher also relied on the inductive approach in collecting and analyzing data related to the information included in external audit activities regarding examining exchange rate volatility and the audit quality.

Research plan:

In an effort to achieve the research objectives, test its hypotheses, and extract the most important results and recommendations, the research was divided as follows:

- Section One: The general framework of the research
- Section Two: The implications of activating external audit activities regarding examining exchange rate volatility on the audit quality.
- Section Three: The proposed methodological framework and an experimental study.

- Section Four: Results and recommendations.
- References

Section Two

The implications of applying external audit activities regarding examining exchange rate volatility on the audit quality

First: The implications of applying external audit activities:

1. External Audit Risk Concept:

The 1983 Audit and Materiality Statement of the American Institute of Chartered Accountants focused on the risk of auditing and identified it as the risk of the auditor inadvertently failure to give a positive opinion on financial statements with material misstatements. The International Federation of Accountants defined risk of an audit as those risks that lead to an auditor's inappropriate opinion when the financial statements are fundamentally wrong (Niemi et al, 2018).

In addition, Cindori (2018) defined the audit risks as “the possibility of expressing an incorrect opinion on the financial statements examined, due to the auditor's failure to discover the material errors that may exist in those statements where he expresses his opinion”. The audit risks were defined also as the external auditor's expression of an unqualified audit opinion on the financial statements of the firm, and that these financial statements are materially distorted, or giving an a qualified audit opinion when the financial statements are free of material misstatements. (Kesimli, 2019) indicates that the audit risk is that 'the auditor gives an incorrect opinion' when the financial statements contain significant misstatements, and therefore, the audit risk may be viewed from two different perspectives:

- The first is the risk of a qualified audit opinion when the financial statements are fairly presented.
- The second is the risk of misapprehension in the sense of accepting the client's financial statements by issuing an unqualified audit opinion, where these financial statements involve material misstatements.

Furthermore, Cohen Wright, 2017 believed that the audit risk is “the risk that an auditor gives an incorrect opinion on the client's financial statements, so that the financial statements may not be a 'fair' presentation of the firm's financial position, because the auditor failed to find this out and then issues an 'unqualified (clean)' audit report. Finally, The American Institute of Certified Public Accountants (AICPA) has identified the audit risk as that “the risk that the auditor fails unintentionally to issue the appropriate audit report when there is a material misstatement in the financial statements" (Fiolleau et al, 2018).

2. External Audit Risk Components:

International Standard No. (47) issued by the American Institute of Certified Public Accountants clarified that there are three types of the audit risk: inherent risks, control risks, and detection risks and these may be as follows (Bunjaku, 2019):

- **Inherent Risk:**

Inherent risk is one of the most important components of the audit risk because it affects the efficiency and effectiveness of the audit process, they are related to the nature of the firm being audited and its environment before the start of the audit process; therefore, these risks do not depend on the external auditor but rather depend on the audit client (Van et al, 2017).

Politis, 2018 defined inherent risks as "the susceptibility of an account balance or transaction categories to material misstatements individually or when combined with misrepresentations in balances or other categories, regardless of the relevant internal control".

As for Krishnan Peytcheva, (2019), he defined this type of risk as "those risks that arise from the possibility of a physical deviation in a particular item or activity or the sum of deviations in certain items, so that if these deviations are combined with each other, they become material". (Singh et al, 2019) believe that the size and number of financial operations affect inherent risks, as the higher the value of financial operations and balances, the greater the risk of collateral, and the complexity of the calculations that affect account balances or group of financial operations increases inherent risks.

- **Control Risks:**

Control risk is related to the possibility of an error in the recognition of a financial event that could be material, either individually or when combined with errors and has not been prevented from being discovered and corrected in a timely manner by the client firm's internal control. The control risk is based on the function and the effectiveness of internal control procedures, therefore, the more effective the internal control system, the more likely it is that there will be no errors or if any, will be detected by the internal control system (Appelbaum et al., 2017).

The auditor's assessment of the control risk depends on his understanding of the client's business environment, and tests of controls of the internal control system of the audited firm, and in the absence of such an evaluation, the auditor should assume that the control risk is high. The international auditing standards defined the control risks as those risks that errors may occur in the process of confirmation of a category of transactions or an account balance or a disclosure, which may be material, and will not be prevented, detected or corrected at the time specified by the internal control system of the firm. (Askar, et al., 2018)

The American Institute of Certified Public Accountants defined the control risk as that risk resulting from auditing procedures that lead to an auditor's finding that there was no misstatements in any of the account balances, or a specific type of transaction at the time this misstatement is present and is material, if it is combined with another misstatement in other balances or another type of transaction; thus this risk results from the failure of the control activities to prevent or detect and correct errors or misstatements as they occur through internal control procedures (Schafer, 2019).

- **Detection Risk:**

Detection Risk arises as a result of the auditor's possible failure to detect a material misstatement due to the use of a method of or incorrect application of audit sampling, or even when conducting a reasonable audit. International Auditing Standards define a detection risk as “the failure of the primary auditing procedures by the auditor to detect misstatements and fraud in a balance or a group of transactions which can be individually material or when combined with fraud and counterfeiting in balances or other set of transactions” (Alkilani et al, 2019).

Second: Exchange Rate Volatility:

1. The Concept of Exchange Rate:

The exchange rate is considered one of the most important economic variables that affect international economic transactions, as it reflects the interconnected relationships between international economies and expresses the economic status of countries. The exchange rate is determined like any commodity according to market forces (supply and demand) in the exchange market in terms of the exchange system approved by the regulations. There are many theories explaining the volatility in the exchange rate depending on the multiplicity of its systems, without being able to give an accurate and specific explanation for this volatility, because the exchange rate is correlated to many factors such as inflation and interest rates that may cause large losses to the exchange rate, which lead to the use of a set of techniques to avoid this volatility risks and their effects on commercial exchanges between firms.

2. Determinants of exchange rates volatility:

- Inflation: Inflation is the continuous increase in the general level of prices in a period of time. This increase affects the local demand for goods and services, which leads to an increase in their local prices, and also affects the exported goods prices, which reduces their ability to compete externally. At the same time, the demand for imported goods is increasing, and this negatively affects the movement of the current account. It also affects the balance of payments and thus destabilizes the exchange rate (Adil, 2023).
- Exchange rate interest rates: Local interest rates must be equal to international interest rates in addition to the expected exchange rate. The demand for a currency, a dollar for example, is of two types: the desire to buy American products, and the desire to buy bonds with a dollar value such as American government bonds, and bonds issued by American firms. When US bonds become more attractive, the demand for the dollar increases and thus the dollar exchange rate rises. The relative attractiveness of American and foreign bonds depends on the difference in the interest exchange rate, which is the average interest rates in the United States minus the average interest rates. When the interest rate rises in America while it remains stable in other countries, the difference between interest rates increases, and thus the dollar exchange rate rises (Pablo, 2023).
- The exchange rate and monetary and financial policy: The increase in the money supply in a country affects the determination of the

exchange rate, through the increase in the level of prices of local goods and services, which results in an increase in the costs of exports, which makes it unable to compete with its counterpart in other countries, and thus the demand for it decreases. When residents tend to buy from abroad, the local currency demand decreases as a result of the increased demand for foreign currencies. The relationship between the interest rate and the exchange rate creates a relationship between financial policy and the value of the currency abroad. When the central bank stabilizes the real supply of money, the expansionary financial policy will cause an increase in government spending, in other words, it will increase both real income and the interest rate, which results in a raise in foreign demand for bonds and thus the value of that country's currency increases. There is also another factor that leads to an increase in the value of the currency, which is the adoption of a monetary policy of reducing the amount of real money supplied by the central bank (Alipanah, 2023).

3. The risks of exchange rate volatility:

Exchange rate fluctuations affect domestic prices through three channels: The first is through the imported consumer goods prices, and exchange rate volatility affects local prices directly. The second is through the imported intermediate goods prices, and exchange rate volatility affects the cost of production of local goods, and the third is through the prices of local goods priced in foreign currency. Fluctuations in currency exchange rates can generate significant gains or losses, and the recognition of them in the income statement may produce a distorted impression of the results of operations of the financial institution in question (Watkins, 2014).

Moreover, the more a firm engages in international trade, the greater its accounting exposure to the risks of exchange rate volatility, and unless the firm hedges these risks, it faces financial gains and/or losses from foreign transactions and translation activities. Another unique dimension of exchange rate exposure to risks is projects financed by foreign donors where unrealized foreign exchange gains/losses, according to Gatobu (2013) they affected the net income of MNEs as reported in the income statement or equity reserves. Foreign exchange rate fluctuations also affect firms' imports, accounts payable, export sales and receivables; with the net effect on the net income of multinational corporations through income statement or shareholders' equity reserves.

In addition, exchange rate movements affect both the prices of imported finished goods and the costs of imported inputs, indirectly affecting commercial banks and the firms with which they compete. Exchange rates may affect Firms through a variety of business operations models: Firms that produce at home for stocks, Firms that deal with imported and local components, and Firms that issue the same or a different service at home.

With regard to foreign currency exposures to risks of exchange rate volatility, they not only arise when firms have income, expenses, an asset or a liability in a currency other than the balance sheet currency, but in fact exposures also can arise even for firms that do not have income, expenses, assets or liabilities in a currency different from the balance sheet currency, when there is a prevailing condition where foreign exchange risk arises when the Firm has income, expenses or asset liabilities in a currency other than the balance sheet currency. In case of a prevailing situation where exchange rates become highly volatile, exchange rate movements destabilize the Firm's cash flows significantly. The destabilization of cash flows that affects business profitability is the risk arising from foreign exchange exposure. (Grambovas and McLeay, 2006)

Addressing exchange rate volatility risks requires a comprehensive approach that involves both financial and operational strategies. The following are some effective ways to manage and mitigate these risks:

Adopting Hedging as a Financial Strategy

a- Forward Contracts: Entering into forward contracts to lock in exchange rates for future transactions.

b- Options: Purchasing currency options to protect against unfavorable movements while still allowing for beneficial changes.

c- Swaps: Using currency swaps to exchange cash flows in different currencies and manage exposure.

Futures: Engaging in futures contracts to buy or sell currency at a predetermined price and date.

Applying Natural Hedging

By Aligning revenues and costs in the same currency to naturally offset the impact of exchange rate movements. In addition to Maintaining bank accounts in foreign currencies to match the currency of receipts and payments.

Diversification

Firms can spread operations across multiple countries to reduce the impact of currency volatility in any one region. As well as investing in a diverse portfolio of assets denominated in different currencies.

Using Currency Clauses in Contracts

Management can use adjustable Contracts that include clauses in contracts that allow prices to be adjusted based on exchange rate fluctuations. Also, it can offer pricing in multiple currencies to mitigate exchange rate risk for customers.

Adopting Operational Strategies

a- Operational Flexibility

Management can develop supply chains that can adapt to currency changes, such as sourcing from different countries based on exchange rates. Shifting production also to locations with favorable currency conditions if feasible.

b-Centralized Treasury Management

Firms can establish centralized treasury centers to manage currency risks and hedging strategies more effectively. As well as the use of cash pooling techniques to optimize the use of cash in different currencies across the organization.

Risk Assessment and Management

a- Regular Monitoring

Exchange Rate Monitoring enable firms to continuously monitor exchange rate movements and trends to anticipate and respond to volatility. Management should also keep an eye on economic indicators and geopolitical events that could impact currency values.

b- Scenario Analysis and Stress Testing

Management should conduct scenario analysis to understand the potential impact of different exchange rate movements on the business, and perform stress tests to evaluate the resilience of the firm's financial position under extreme currency fluctuations.

c- Policy Development

Risk Management Policies should develop and implement comprehensive currency risk management policies. It is important also to ensure compliance with accounting standards and regulatory requirements related to foreign currency transactions and hedging activities.

d- Technology and Tools

Firms can implement financial software that includes capabilities for managing foreign exchange exposure and automating hedging transactions, in addition to utilizing data analytics to gain insights into currency trends and their potential impact on the business.

e- Communication and Training

Management has to maintain transparency in financial reporting regarding the impact of exchange rate movements and the measures taken to manage these risks. It should provide regular updates to stakeholders on the firm's currency risk management strategies and their effectiveness.

With regard to training programs, financial firms should conduct training programs for employees to understand currency risks and the company's strategies to manage them. They can also engage with financial experts and consultants to stay informed about best practices in currency risk management.

By combining these financial and operational strategies, businesses can effectively manage and mitigate the risks associated with exchange rate volatility

Third: Auditing Quality

1. The Concept and Importance of Audit Quality:

The concept of audit quality has received a wide attention from professional societies and researchers, and yet the concept was not clearly and specifically defined either in the standards issued by professional organizations or in studies conducted by researchers, and both the American Institute of Certified Public Accountants (AICPA) and the General Accounting Office (GAO). In 1987 audit quality was an important and ongoing issue in the profession given its importance to all parties to the audit services market (Roussy & Mayer, 2018).

There is a need to determine the factors affecting audit quality because it leads to a difference in the quality levels between the audit offices, and the auditing profession does not interact continuously with rapid changes in the environment, so the factors that affect audit quality must be constantly reviewed and taken into account when conducting Audits (Almasani, 2019).

Although the American Institute of Certified Accountants (AICPA) has, in the past few years, established three specialized audit quality centers that aim to develop the quality of audit services; the difficulty of developing a specific concept of audit quality is due to several reasons, including the following (Haak, 2018):

1. Services provided by the audit firms cannot be tested in advance, as is the case with tangible goods.

2. There is a difficulty in measuring audit quality after completing the audit process, due to the lack of specific standards for it.
3. The lack of experience for the beneficiaries of this service.

The concept of audit quality is defined as 'adherence to professional auditing standards, professional codes and ethics, audit guidelines, as well as rules and procedures issued by professional bodies to regulate the auditing profession, and to maintain the independence and integrity of the auditor (Menezes, 2018).

Reid et al., (2018) have defined audit quality as 'all metrics used by the audit firm designed to assist in conducting audits of a high degree of quality and goodness, therefore, audit quality is 'the conduct of the audit process efficiently and effectively in accordance with the audit criteria, with disclosure of misstatements and irregularities detected, and work to meet the expectations and needs of the users of the financial statements'.

2. Elements of audit quality:

Audit quality includes the policies and procedures that the auditor should implement, whether in relation to private audit firms or audit firms in general, in order to ensure that the audit firms serve the related parties appropriately and in accordance with the auditing standards (Trotman, 2018).

The nature and extent of audit quality policies and procedures may vary according to the size of the audit firm, the nature of the business audit client, the geographical location, and the extent of the branching of the business, and are also affected by the expected costs and benefits, and include the following elements (Pinello et al, 2019):

- Independence, Integrity and objectivity of all individuals who conduct the audit process, with real independence and in-appearance, when conducting the audit and impartiality of any party; they must perform all responsibilities with all objectivity and dignity where the extent of its availability is confirmed by answering the auditor or any member of the audit team to the Annual Survey List, and this list includes several questions including the ownership of the auditor shares in the audit client's firm, or the auditor is a member of the firm's board of directors (Houston, 2018).
- Personnel management including the policies and procedures that must be put in place to provide an appropriate confirmation of the availability of appropriate qualification for each auditor to exercise professional due care , allocate work to individuals who have appropriate technical skill and have received the appropriate

training; involving continuing education programs and the development activities of professionals to upgrade individuals' skills based on the qualification and competence required for their work, in addition to the evaluation using the evaluation report for each audit (Aguolu et al, 2018).

- Acceptance and continuation of audit client relationships and specific operations should be through establishing specific policies and procedures for this decision, designed to accept or continue only in their relationship and operations in terms of client integrity, and the ability to comply with the requirements of professional ethics; also auditors must be competent to conduct the audit process, and have necessary capabilities ,time and resources to do so, and finally audit firms must obtain the relevant information needed in case of acceptance of a new audit engagement, or continuance with an audit client.
- Establishing policies and procedures to ensure that the work done by the auditors is in accordance with the professional standards, regulatory requirements and quality standards in audit firms.
- Follow-up or monitoring, and setting policies and procedures to ensure that all elements of audit quality are taken into account.
- Use of expert to get consultations outside the audit firms by professionals possessing practical experience related to the subject of the consultation (Hundal, 2019).

3. Audit quality indicators:

In contemplating an AQ framework, the (PCAOB, 2015) suggested several AQIs to measure each element of the framework:

- Audit professionals: staffing leverage; partner workload; manager and staff workload; technical accounting and auditing resources; persons with specialized skill and knowledge; experience of audit personnel; industry expertise of audit personnel; turnover of audit personnel; amount of audit work centralized at service centers; training hours per audit professional; audit hours and risk areas; and allocation of audit hours to phases of the audit.
- Audit process: results of independent survey of firm personnel; quality ratings and compensation; audit fees, effort, and client risk; compliance with independent requirements; investment in infrastructure supporting quality auditing; audit firm’s internal quality review results; PCAOB inspection results; and technical competency testing.

- Audit results: frequency and impact of financial statement restatement for errors; fraud and other financial reporting misconduct; inferring AQ from measures of financial reporting quality; timely reporting of internal control weaknesses; timely reporting of going concern issues; results of independent surveys of audit committee members; trends in PCAOB and SEC enforcement proceedings; and trends in private litigation.

4. procedures of auditing the exchange rate volatility

Auditing exchange rate volatility involves a series of steps to ensure that the processes and controls related to the management and reporting of exchange rate fluctuations are accurate and effective, a general outline of the procedures of auditing the exchange rate volatility is as follows:

i. Planning and Risk Assessment

a. Understanding the Entity and Environment: Auditors gain an understanding of the entity's operations, industry, and external environment, particularly focusing on how exchange rate volatility impacts the business. They also identify the financial instruments and transactions subject to exchange rate risk (e.g., foreign currency transactions, derivatives).

b. Identifying Risks of Material Misstatement: Auditors assess the risks related to exchange rate volatility that could lead to material misstatement in the financial statements, and consider both inherent risks (e.g., natural market volatility) and control risks (e.g., weaknesses in the entity's processes).

c. Developing an Audit Plan: Auditors design audit procedures tailored to address the identified risks, including substantive procedures and tests of controls.

ii. Understanding and Evaluating Internal Controls

a. Evaluating Internal Controls Over Financial Reporting (ICFR): Auditors review the entity's policies and procedures for managing exchange rate risk, and evaluate the design and implementation of internal controls over exchange rate volatility, including:

- Hedge accounting policies.
- Controls over the valuation of foreign currency transactions.
- Monitoring and reporting mechanisms.

b. Testing Controls: Auditors perform tests of controls to determine their operating effectiveness, and use a combination of inquiry, observation, inspection, and re-performance techniques.

iii. Substantive Procedures

a. Analytical Procedures: Auditors perform analytical procedures to identify unusual or unexpected relationships related to exchange rate fluctuations, and compare historical data and trends in exchange rates with current period data to identify significant changes.

b. Test of Details: Auditors verify the accuracy and completeness of foreign currency transactions and balances, and review contracts and agreements to understand the terms and conditions that impact exchange rate exposure. In addition to the confirmation of foreign currency balances with counterparties (e.g., banks, customers).

c. Fair Value Measurement: Auditors assess the valuation methods and assumptions used for fair value measurement of foreign currency transactions and hedging instruments, and evaluate the appropriateness of models and inputs used for fair value estimation.

iv. Disclosure and Presentation

a. Reviewing Financial Statement Disclosures: Auditors ensure that disclosures related to exchange rate risk, financial instruments, and hedging activities comply with relevant accounting standards (e.g., IFRS, GAAP). They also verify the completeness and accuracy of the disclosed information.

b. Assessing Presentation: Auditors evaluate the overall presentation of exchange rate-related information in the financial statements to ensure it is clear and understandable.

v. Concluding the Audit

a. Evaluating Audit Evidence: Auditors assess whether the obtained audit evidence is sufficient and appropriate to support the conclusions related to exchange rate volatility, taking into consideration the implications of identified misstatements and control deficiencies.

b. Communication of Findings: Auditors communicate any significant findings, misstatements, or control deficiencies to management and those charged with governance, and provide recommendations for improving controls and processes related to exchange rate risk management.

c. Documentation: Auditors document the audit procedures performed, evidence obtained, and conclusions reached in accordance with auditing standards.

vi. Post-Audit Activities

Auditors monitor the implementation of recommendations and corrective actions taken by the entity in response to audit findings.

5. The impact of auditing exchange rate volatility on audit quality:

For the exchange rate sensitivity, earlier empirical studies generally assumed that firms' equity returns only depend on contemporaneous changes in exchange rates. However, empirical evidence by Amihud (1994) and Bartov & Bodnar (1994) suggested that there is a lagged relation between changes in exchange rates and audit quality due to mispricing. Bartov & Bodnar (1994) formulated this lagged response hypothesis and the conjecture that investors may have difficulties to characterize the relation between changes in exchange rates and audit quality, and thus equity values, if times eries data are limited.

The impact of exchange rate volatility on audit quality is a multifaceted issue that involves understanding how fluctuations in currency values can affect various aspects of the audit process. The following are some of the affected auditing aspects to consider:

A- Financial Reporting and Audit Complexity : For multinational corporations, exchange rate volatility affects the translation of foreign subsidiaries' financial statements into the parent company's reporting currency. This adds complexity to financial reporting and consolidation, requiring auditors to ensure accurate translation and compliance with relevant accounting standards. Exchange rate volatility also can significantly impact the valuation of foreign-denominated assets and liabilities. Auditors must scrutinize the methodologies and assumptions used in these valuations, which can be more challenging in volatile currency environments.

B- Risk Assessment and Materiality : Exchange rate fluctuations can increase the financial risks faced by a firm, such as currency risk, which may lead to greater scrutiny by auditors. Auditors need to assess how well the firm manages and hedges these risks and whether these strategies are appropriately reflected in the financial statements. Furthermore, volatility in exchange rates can affect materiality judgments, therefore, auditors must consider the potential impact of exchange rate movements on financial statement items when determining materiality thresholds and evaluating misstatements.

C- Audit Procedures and Evidence : Auditors might need to perform additional substantive testing on foreign currency transactions, balances, and hedging activities. This includes verifying the accuracy of foreign currency translations and the effectiveness of hedging instruments. Besides that, gathering sufficient and appropriate audit evidence can be more challenging in the presence of exchange rate volatility. Auditors may need to obtain more extensive evidence to corroborate management's assertions related to foreign currency items.

D- Professional Judgment and Skepticism : Exchange rate volatility necessitates greater professional judgment from auditors, especially in areas like impairment testing, fair value measurements, and assessing the going concern status of entities with significant foreign operations. Auditors therefore must exercise heightened professional skepticism, particularly in evaluating management's assumptions and estimates related to foreign currency transactions and balances.

E-Regulatory and Standards Compliance : Auditors need to ensure that the financial statements comply with relevant accounting standards, such as IFRS or GAAP, which have specific requirements for foreign currency translation and reporting. In volatile currency environments, regulatory bodies might increase their scrutiny of firms' financial reporting and the corresponding audit work. As a result, auditors need to be prepared for potential regulatory reviews and ensure their audit work meets the required standards.

F- Technology and Tools: Advanced auditing tools and technologies, such as data analytics and blockchain, can help auditors manage the complexities arising from exchange rate volatility by providing more accurate and timely data analysis.

G- Practical Considerations for Auditors: Auditors should consider exchange rate volatility during the engagement planning phase, adjusting their audit strategy, scope, and resources accordingly. Maintaining open and effective communication with the client about the impacts of exchange rate volatility on financial reporting and audit processes is crucial for a smooth audit as well.

In conclusion, exchange rate volatility can significantly impact audit quality by introducing complexities and risks that auditors must address through meticulous planning, execution, and the application of professional judgment and skepticism.

Section Three

The proposed methodological framework and an experimental study.

1. Research Methodology:

- **Objectives of the proposed study:**

The proposed study aims primarily to test the research hypothesis; with a study and analysis of whether there is an impact of the use of audit activities in relation to the study of exchange rate volatility on the audit quality, with a study and analysis of the effect of the auditor's experience as a modifying variable on the interactive relationship between the audit of exchange rate volatility and the audit quality.

- **Study population and sample:**

The study population consists of auditing the financial statements of Egyptian firms by auditors working in audit firms. Exchange rate volatility in the Egyptian firms sampled for the study will be audited, and the two experimental cases are accompanied by a set of questions representing the first traditional case without auditing exchange rate volatility and the second experimental case with auditing exchange rate volatility. To obtain the response of the experiment participants to the variables of the study, and then to test the effect of the experiment on the decision to audit exchange rate volatility on the audit units operating in the audit firms, using the single group sample pattern.

- **Research model:**

The study variables consist of a dependent variable, which is the audit quality, which is the main variable under study, an independent variable, which is the audit of exchange rate volatility, and a variable modifying the main relationship under study between the audit of exchange rate volatility and the audit quality, which is: the experience of the auditor.

- **Study tools and procedures:**

The experimental study tools are represented in the two experimental cases on the data collection tool, which the researcher used as a primary means of collecting study data from the sample members. The first case is concerned with the current situation of the stages and procedures of the audit work, resorting to activities of auditing the exchange rate volatility, meaning that the first case represents the traditional practice of auditing. Without the need to audit the exchange rate volatility, while the second case represents the proposed situation for activating the audit of the exchange rate volatility, that is, the second case represents the practice using activities to audit the exchange rate volatility.

It was taken into account that the acfirming questions be the same for these two cases, in order to make it feasible to compare the changes in the auditors' perception of the effects of development in the stages and procedures of the audit from the current approach based on traditional auditing without the need to audit the exchange rate volatility, and the shift towards using activities to audit the exchange rate volatility. This is in accordance with best relevant international practices and experiences.

2. Statistical methods:

The researcher used the following statistical methods:

a) Reliability scale: To calculate the reliability and statistical validity of the study tool, through the Cronbach's Alpha scale for the questions acfirming the case, in order to know and test the extent of reliability of the responses of the sample members to the questions, and the suitability of the study data for statistical analysis to determine the extent to which the results can be generalized. Obtained from the sample on the study population, the value of this scale ranges between zero and one. If there is no consistency in the data, the value of this coefficient is equal to zero. Conversely, if there is complete consistency in the data, the value of this coefficient is equal to the correct one. If this measure exceeds 0.60, it is possible to rely on the results of the study and circulate them to society, and the result of the test is as follows:

1) The first experimental case - without auditing exchange rate volatility:

Scale: all variables

Case Processing Summary

		N	%
Cases	Valid	23	100
	Excluded[a]	0	0
	Total	23	100

a. Listwise deletion based on all variables in the procedure

Reliability Statistics

Cronbach's Alpha	N of Items
.741	4

It is clear from the previous table that the alpha value reached 0.741 for the list of questions acfirming the first case, as a whole, which indicates that it has high validity, which enables the results to be relied upon and generalized to the study population.

2) The second experimental case - activating external audit activities in auditing exchange rate volatility:

Case Processing Summary

		N	%
Cases	Valid	23	100
	Excluded[a]	0	0
	Total	23	100

a. Listwise deletion based on all variables in the procedure

Reliability Statistics

Cronbach's Alpha	N of Items
.741	4

It is clear from the previous table that the alpha value reached 0.712 for the list of questions acfirming the second case, as a whole, which indicates that it has high validity, which enables the results to be relied upon and generalized to the study population.

b) Moderation test: Kolmogorov – Smirnov: to determine whether the study population from which the sample was taken is normally or abnormally distributed, and to determine the type of test used. The statistical hypothesis for this test can be formulated as follows:

The null hypothesis: Sample data are drawn from a population with a moderate distribution.

The alternative hypothesis: The sample data is drawn from a population that does not have a moderate distribution.

The rule of judgment is applied at the confidence level (1-α) of 95% and the degree of error (a) of 5%. If the critical value is less than (5), the null hypothesis is rejected, and then the alternative hypothesis is accepted (meaning the study population from which the sample was taken, distributed evenly abnormal).

Table (1)

Test of normal distribution (moderation) for the first experimental case

One-Sample Kolmogorov-Smirnov Test

		V1	V2	V3	V4
N		23	23	23	23
Normal Parameters[a,b]	Mean	2.21	2.34	2.47	2.51
	Std. Deviation	1.201	1.411	1.304	1.220
	Absolute	.221	.271	.215	.236

		V1	V2	V3	V4
Most Extreme Differences	Positive	.221	.271	.215	.236
	Negative	-.124	-.147	-.171	-.155
Kolmogorov-Smirnov Z		1.247	1.364	1.258	2.379
Asymp. Sig. (2-tailed)		.001	.000	. 005	.000

a. Test distribution is Normal.
b. Calculated from data.

Table (2)
Normal (moderate) distribution test, the second experimental case
One-Sample Kolmogorov-Smirnov Test

		V5	V6	V7	V8
N		23	23	23	23
Normal Parameters[a,b]	Mean	4.38	4.87	4.14	4.53
	Std. Deviation	.421	.527	.634	.717
Most Extreme Differences	Absolute	.241	.254	.336	.354
	Positive	.287	.267	.311	.279
	Negative	-.257	-.371	-.344	-.219
Kolmogorov-Smirnov Z		2.298	2.364	2.118	2.771
Asymp. Sig. (2-tailed)		. 000	.000	.000	.000

a. Test distribution is Normal.
b. Calculated from data.

The results of the One-Sample Kolmogorov-Smirnov Test for the results of the statistical analysis for the first and second cases appear in Table No. (1) and Table No. (2), where the probability value for this test was (0.000), and then the null hypothesis is rejected and the alternative hypothesis is accepted. That is, it is not possible to use parametric statistical methods on study data, and for this reason one should move towards non-parametric methods, such as the Whitney: Mann and Wilcoxon Signed Rank Test.

3. Analyzing the results and testing the research hypotheses:

a) Statistical tests used to analyze the results:

The researcher relied on the following statistical tests:

– **Mann Whitney test:**

To test the extent of a difference or discrepancy between two independent groups of individuals or observations, as a non-parametric test, if the study population from which the sample was drawn is non-normally distributed. It is the nonparametric test that is an alternative to the parametric test for two independent samples in the event that the conditions for a parametric test are not met. It is used to test the extent of a difference or discrepancy between the means of two groups of individuals or independent observations. This is if the study population from which the sample was taken was non-normally distributed, when making paired comparisons between the two study samples represented by external auditors with high experience and those with low experience, for both the professional practice of external auditing before auditing exchange rate volatility, and the professional practice of activating the activities of external audit to audit exchange rate volatility, as two independent, unrelated samples.

– **Wilcoxon Signed Rank Test:**

When statistically testing the extent of acceptance of the items of the two study samples, participants in the professional situation of external auditing before auditing exchange rate volatility, and the professional practice of activating external audit activities to audit exchange rate volatility. It is considered one of the nonparametric tests, which is used when the data is not normally distributed. This test is based on calculating the expected median of sample responses, and this test can be used in the case of a single sample or in the case of two non-independent samples.

b) The result of testing the first hypothesis of the research experimentally:

The first hypothesis aimed to test the significant effect of external audit methods on the audit quality of auditing firms operating in Egypt. In this regard, the researcher used the Wilcoxon test for two non-independent samples, in order to determine the extent of the sample members' agreement with the questions directed to them and thus their familiarity with the requirements for adopting information technology.

Table 3: Result of the Wilcoxon statistical test for the first hypothesis

	Experiment 1 - Experiment 2
Z	-4.247[b]
Asymp. Sig. (2-tailed	.000

From the table above, the first hypothesis is accepted if the P value is less than (5%) at the 95% confidence level. Referring to the results of the statistical analysis, according to the Wilcoxon test, the value of (0.000) was less than (5%) and therefore the first hypothesis is accepted. The researcher believes that there is a significant effect of external audit methods on the audit quality of auditing firms operating in Egypt, because this is of great importance in saving the time necessary to issue the external audit report, in completing the external audit plan, and implementing the stages and procedures of the external audit on time.

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c) The result of testing the second hypothesis of the research experimentally:

This hypothesis aimed to test the significant effect of external auditor level of experience regarding examining exchange rate changes on the audit quality. In this regard, the researcher used the Mann-Whitney test for two independent samples.

Mann-Whitney test results

– **First comparison:**

Between treatment No. (1) with a low level of experience for auditors represented by the number of years of service represented by less than 5 years and from 5 years to less than 10 years in the first experiment, and between treatment No. (3) with those with low experience for auditors represented by less from 5 years and from more than 10 years to less than 10 years in the second experiment.

Table (4)

Mann-Whitney test results for low auditor experience for the first comparison

Mann-Whitney Test

V	Level of experience	N	Mean Rank	Sum of Ranks
V1	Low experience level state 1	9	13.57	303.00
	Low experience level state 2	5	18.36	247.00
	Total	14		
V2	Low experience level state 1	8	14.12	313.00
	Low experience level state 2	6	17.81	237.00
	Total	14		
V3	Low experience level state 1	7	15.64	324.00
	Low experience level state 2	7	16.29	176.00
	Total	14		
V4	Low experience level state 1	5	14.24	217.00
	Low experience level state 2	9	17.69	283.00
	Total	14		

Test Statisticsa

	V1	V2	V3	V4
Mann-Whitney U	112.000	119.000	125.000	105.000
Wilcoxon W	303.00	313.00	324.00	217.00
Z	-1.102	-1.351	-.924	-.997
Asymp. Sig. (2-tailed)	.114	.241	.024	.211
Exact Sig. [2*(1-tailed Sig.)]	.099[b]	.148[b]	.421[b]	.311[b]

– **Second comparison:**

Between treatment No. (2) with high experience of auditors represented by the number of years of service from 10 years - less than 15 years and from 15 years or more in the first experimental case, and treatment No. (4) with those with high experience of auditors represented by (from 10 years). - Under 15 years of age and 15 years of age or older in the second experimental condition.

Table (5)

Mann-Whitney test results for high auditor experience for the second comparison

Mann-Whitney Test

V	Level of experience	N	Mean Rank	Sum of Ranks
V5	Low experience level state 1	5	11.07	110
	Low experience level state 2	4	8.91	85
	Total	9		
V6	Low experience level state 1	3	10.51	125
	Low experience level state 2	6	9.47	70
	Total	9		
V7	Low experience level state 1	6	9.33	100
	Low experience level state 2	3	10.65	95
	Total	9		
V8	Low experience level state 1	7	11.12	115
	Low experience level state 2	3	8.86	80
	Total	9		

Test Statisticsa

	V1	V2	V3	V4
Mann-Whitney U	21.000	24.000	19.000	22.000
Wilcoxon W	110	125	100	115
Z	-2.124	-2.143	-2.075	-2.271
Asymp. Sig. (2-tailed)	.071	.022	.002	.007
Exact Sig. [2*(1-tailed Sig.)]	.031[b]	.071[b]	.011[b]	.016[b]

Through the results of the first and second comparisons and from Tables No. (4) and Table No. (5), the second hypothesis aimed to test the effect of external auditor level of experience regarding examining exchange rate changes on the audit quality. In this regard, the researcher used the Mann Whitey test - for two independent samples, and the second hypothesis was reformulated in the form of a null hypothesis and an alternative hypothesis as follows:

H0: The positive effect of the level of experience of the external auditor with regard to examining exchange rate volatility on audit quality does not differ.

H1: The positive effect of the external auditor's level of experience with regard to examining exchange rate volatility on audit quality varies.

Section Four
Results and Recommendations

Results

In the theoretical aspect, the study concluded that activating external audit activities in relation to auditing exchange rate volatility on the audit quality has gained a good position by providing scientific guidance and practical practices to determine the role of external audit activities in auditing exchange rate volatility. Activating external audit activities regarding auditing exchange rate volatility, and a group of people with scientific and practical experience, policies, procedures and processes that govern the external audit environment.

The study concluded, in its experimental part, with the importance of using external audit activities on the quality of the auditor's professional performance. This result can be interpreted that the use of external audit activities in relation to auditing exchange rate volatility has a positive and significant impact on the audit quality, as professional performance is characterized by efficiency, and therefore auditors will not suffer from the time problem in completing the audit plan and in issuing the external audit report in a timely manner. Saving time in completing external audit work and procedures.

Recommendations:

In light of the research objectives, problem, and limits, and the results achieved in both its theoretical and experimental parts, the researcher recommends the following:

1. The auditor should maintain a certain level of quality and effectiveness in using external audit activities with regard to studying exchange rate fluctuations.
2. Care must be taken to provide an appropriate environment for external auditing, whether for the auditor or the institution being audited.
3. It is necessary to keep up with the changes taking place and to use external audit activities to review exchange rate fluctuations and indicate the impact of this in financial reports.

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