

## RESEARCH ARTICLE

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# The role of analytical review in supporting the professional judgment of the external auditor - Theoretical study -

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## 1. Introduction:

Auditing is considered a branch of accounting. The need for it arose to ensure the proper use of accounting principles and procedures and the accuracy of financial statements. The industrial revolution led to the emergence of large-scale projects, especially joint-stock companies, which resulted in the separation of ownership from management. Consequently, owners sought the services of an independent, neutral, and professionally qualified third party to examine accounts and financial statements and provide them with a report to protect their interests, safeguard their rights, and ensure the proper management of tasks by the administration.

The audit process fundamentally relies on issuing professional judgments when forming an impartial opinion on the fairness and accuracy of financial statements. Professional judgment is one of the main pillars on which the auditor relies when making decisions during planning, performing the audit, and preparing the final report, as it represents the basis for arriving at an objective opinion regarding the financial statements.

When traditional auditing methods became insufficient to gather evidence regarding the accuracy of financial statements, several modern approaches emerged to streamline the external auditor's work, including analytical review procedures. These are among the most important modern tools

used by external auditors, allowing them to identify areas of potential misstatement or errors when auditing financial statements, thus facilitating the exercise of professional judgment. International auditing standards stipulate the necessity of using analytical procedures at all audit stages, with methods ranging from traditional to more advanced techniques.

### 1.1 Study Problem

Due to global changes in political, economic, social, scientific, and technological fields, which impacted the world, there was a need to advance the auditing profession and improve its performance. This was accompanied by an increased responsibility of the external auditor towards third parties, leading to the necessity for procedures ensuring the quality of external audits. The aim is to provide reasonable assurance to the auditor and stakeholders that audit work has been executed to a high-quality standard, requiring the auditor to adhere to procedures that guarantee this quality in the final report.

Hence, there is an urgent need to improve the final judgments of the external auditor due to their impact on audit quality. Analytical review is a key modern approach that the external auditor must use to support professional judgments. It enables the detection of errors and irregularities and the collection of audit evidence related to financial statement elements by using

analytical procedures to evaluate financial information through studying reasonable relationships between financial and non-financial data.

Therefore, the study problem is formulated as follows: How can analytical review support the professional judgment of the external auditor?

This main question branches into the following sub-questions:

- How can analytical review support the professional judgment of the external auditor during audit planning?
- How can analytical review support the professional judgment of the external auditor during audit execution?
- How can analytical review support the professional judgment of the external auditor in the final stage of the audit?

To answer the study problem, the study is divided into the following sections:

- First Section: Conceptual framework of analytical review.
- Second Section: Conceptual framework of the professional judgment of the external auditor.
- Third Section: Analytical review as a mechanism to support the professional judgment of the external auditor.

## 1.2 Study Importance

The importance of this study stems from the significance of professional judgment for the external auditor, especially amid increasing pressures to improve audit quality. This necessitates that auditors achieve the highest level of quality in their professional judgment, as issuing incorrect professional judgments can increase criticism of auditors. Additionally, analytical review is a key substantive examination performed by the auditor to obtain evidence supporting professional judgments.

## 1.3 Study Objectives

- Review the theoretical foundation of analytical review and clarify its

concept, importance, stages, and methods.

- Review the theoretical foundation of the professional judgment of the external auditor and clarify its concept, characteristics, steps, importance, and influencing factors.
- Highlight the contribution of analytical review in supporting the professional judgments of the external auditor.

## 1.4 Study Methodology

To cover all aspects of the topic, the descriptive method was adopted by addressing the basic and theoretical concepts of analytical review and the professional judgment of the external auditor, collecting relevant information, classifying it, and describing and diagnosing the research phenomenon to understand the theoretical framework of both concepts.

### First Section: Conceptual Framework of Analytical Review

Analytical review is one of the tools the auditor uses to study and analyze financial data and trends to identify strengths and weaknesses in the audited entity through a set of traditional and modern analytical procedures.

#### First: Nature of Analytical Review

##### 1. Definition of Analytical Review

According to International Standard on Auditing No. 520 issued by the International Federation of Accountants (IFAC), analytical review is defined as:

*"The analysis of significant ratios and indicators, including research results, for fluctuations and relationships that conflict with other relevant information or deviate from expected amounts. Analytical review also includes studying relationships between financial and related non-financial information."* (Othman & Kolala, 2020, p. 199)

This definition focuses on analyzing relationships between financial statement data, comparing balances and financial and non-financial data, and identifying unexpected relationships for further

examination. This aids in planning the audit, detecting strengths and weaknesses in balances, and designing an appropriate audit program.

Muhammad Al-Nawaiseh also stated: *"Analytical review procedures are additional procedures undertaken by the auditor to obtain a level of confidence by providing supporting evidence complementary to the evidence obtained from other procedures."* (Al-Nawaiseh, 2008, p. 89)

This definition views analytical procedures as supplementary steps used by the auditor to obtain sufficient evidence to achieve specific objectives that serve the audit process.

## 2. Stages of the Analytical Review Process

### 2.1 Planning Stage:

Analytical procedures at the beginning of the audit are mandatory to gather information about the entity, its environment, management style, and internal control system. These procedures help determine the nature, extent, and timing of audit procedures, highlighting areas that require special attention later, e.g., calculating inventory turnover before testing inventory prices may indicate the need for careful attention during such tests.

### 2.2 Examination Stage:

During the audit examination stage, the auditor often performs analytical procedures. Examples include:

- Comparing the policy for prepaid insurance with the previous year when examining prepaid insurance accounts. (Mashid, 2007, pp. 5–6)
- Inspecting direct wages calculated based on work hours; testing the number of employees in each department, work hours, and wage rates allows comparison with recorded payroll amounts.
- Verifying fixed expense amounts by comparing past years, current estimates, and actual recorded amounts.

- Analyzing relationships between various financial operations, e.g., sales as an independent variable and value-added tax and transport expenses as dependent variables, allowing precise prediction of dependent variables. (Bashi, 2020/2021, pp. 95–96)

### 2.3 Completion Stage:

Auditors should perform analytical procedures near or at the end of the audit to assess the fairness of financial statements based on knowledge of the entity. Analytical procedures may reveal items differing from expectations, requiring adjustments or reclassification to ensure other errors do not arise. (Mashid, 2007, p. 6)

## Second: Analytical Review Methods and Objectives

### 1. Analytical Review Methods

Analytical procedures use various methods to detect errors and fraud, divided into traditional and modern methods. (Samroud, 2024, pp. 6–7)

#### 1.1 Traditional Methods:

- **Non-quantitative descriptive procedures:** Using the auditor's judgment and non-quantitative information to understand and analyze financial data. Examples: prior-year results, external information review, internal non-quantitative data review.
- **Simple analytical procedures:** Quantitative analysis using horizontal and vertical analysis, predictive tests, and budget variance analysis.
- **Financial ratios:** Used in planning and final review to understand financial status and identify potential problem areas.

#### 1.2 Modern Methods:

- **Regression analysis:** Predicting financial and operational results using relationships between variables.
- **Time series analysis:** Comparing actual and expected financial

balances to detect deviations and trends.

- **Artificial neural networks:** Parallel processing systems inspired by the human brain to analyze and predict financial patterns.

## 2. Objectives of Analytical Procedures:

- Identify key elements of the entity by nature or development.
- Examine consistency and reliability of significant account elements.
- Assess relationships among financial statements, especially during reclassifications or adjustments.
- According to US Standard No. 56, analytical procedures aim to determine the nature, timing, and extent of audit procedures, identify risks, and assist in gathering evidence.

## Third: Problems in Using Analytical Review

Barriers include: (Moussa, 2022, pp. 9–10)

1. Auditor-related problems: Lack of conviction about analytical methods and insufficient mathematical/statistical background.
2. Procedure-related problems: Diversity of methods and no single method applicable to all financial statements.
3. Data-related problems: Lack of sufficient comparison data, especially in new companies or when changes occur in operations or product lines.

## Second Section: Conceptual Framework of the Professional Judgment of the External Auditor

### First: Nature of Professional Judgment of the External Auditor

#### 1. Concept of Professional Judgment of the External Auditor

Although there is agreement among professional organizations and researchers in accounting and auditing on the importance of the role played by the

professional judgment of the external auditor in many auditing tasks, there is a divergence of views regarding the definition of a precise and specific concept for this term.

One author defines and links professional judgment to decision-making stages, stating that professional judgment is: *“a state of decision-making in auditing, requiring the auditor to receive information about the task for which a professional judgment is to be issued, process this information mentally, weigh the alternatives, and choose the judgment alternative characterized necessarily by consistency, accuracy, stability, and consensus, which will positively reflect on the quality of the external audit from the perspective of users of the auditor’s report and the financial statements.”* (Ghaydan, 2025, p. 297)

Professional judgment of the external auditor is described as: *“an objective evaluation process that carries sufficient skills, abilities, and knowledge enabling the auditor to make an appropriate decision in the presence of alternative procedures, in accordance with the circumstances surrounding the engagement.”* (Al-Ashoul, 2024, p. 1192)

It is also defined as: *“an insightful perception by the auditor based on diligence, precedent, academic qualification, and distinguished professional experience, applied to problems, tasks, or matters related to estimates or judgments encountered by the auditor.”* (Al-Juaid, 2024, p. 6)

Some view professional judgment as: *“the auditor’s effort based on their knowledge and experience in situations of ambiguity, aimed at decision-making that helps form an impartial opinion on the fairness and accuracy of the audited company’s financial statements.”* (Mousa A., 2013, p. 323)

Professional judgment is further defined as: *“the application of appropriate training, knowledge, and experience within the context provided by accounting and ethical auditing standards when making*

*considered decisions about actions suitable under the circumstances surrounding the audit engagement.”* (Al-Hafidhi & Al-Halimi, 2024, p. 89)

It refers to: “*a particular situation or situations encountered by the external auditor during audit stages, requiring a professional judgment to address or manage that situation, where no standard or guideline exists for handling it.”* (Ghaydan, 2025, p. 298)

From the above definitions, it can be said that professional judgment is the use by the auditor of intellectual abilities and scientific and practical experience in auditing to make a decision regarding a particular situation encountered during the audit, characterized by ambiguity or the absence of a specific standard.

## **2. Characteristics of Professional Judgment of the External Auditor**

Based on previous definitions, the characteristics of professional judgment are as follows: (Al-Juaid, 2024, p. 7)

- The auditor's diligence and exertion in issuing professional judgment.
- Professional judgment is based on scientific knowledge and practical experience, consistent with the standard of academic and practical qualification.
- The need for professional judgment arises when no specific guidance or recommendation suits the audit situation.
- Professional judgment aims to assist the auditor in making decisions most appropriate for the audit situation, contributing to the formation of the technical opinion.

## **Second: Importance and Components of Professional Judgment of the External Auditor**

### **1. Importance of Professional Judgment of the External Auditor**

Professional judgment is a fundamental component of any professional work and plays a crucial, indispensable role in many auditing areas. Some auditors believe professional judgment is linked to the

materiality of the element, which determines the judgment, while others see it as critical due to the absence of precise rules governing decision-making.

The American Institute of Certified Public Accountants (AICPA) in Recommendation No. 1 regarding auditor training stated that auditors should give great care to training assistants so they can think objectively and exercise professional judgment correctly. The Institute also noted that some accounting data are not measurable, requiring professional judgment. In assessing internal control systems, the auditor must use professional judgment to evaluate their adequacy.

The International Federation of Accountants (IFAC) in Standard No. 510 on audit evidence stated that auditors must obtain sufficient and appropriate evidence to assist in forming an opinion, with the type and extent of evidence determined by professional judgment and assessment of the circumstances.

IFAC Standard No. 530 emphasizes that auditors should use professional judgment when determining sample size, tolerable error, and confidence levels. Some researchers note that auditors usually rely on their judgment regarding the reasonableness and accuracy of estimates, particularly concerning provisions and reserves. (Mousa A., 2013, p. 323)

## **2. Components of Professional Judgment of the External Auditor**

For the external auditor to perform effectively and reach appropriate professional judgment, the following elements must be present: (Ghaydan, 2025, pp. 298–300)

### **2.1 Maintaining Auditor Independence:**

Independence means the ability to act with integrity and objectivity. The auditor must be impartial in all matters and fair to all parties relying on the audit results. Independence requires the auditor to avoid pressures or interference in selecting areas, policies, or activities under audit. This includes:

- Avoiding personal relationships or conflicts of interest affecting audit procedures or opinions.
- Preventing management from attempting to dictate audit areas or force acceptance of unreviewed documents.
- Full access to all records, offices, ledgers, and branches, and the right to collect information from any source.
- Effective cooperation with company staff during audit procedures.

## **2.2 Specialization in Client Industry:**

The auditor's specialization in the client's activities or industry enhances audit effectiveness, as value cannot be added without full understanding of the sector.

## **2.3 Use of a Legal Examiner within the Audit Team:**

A legal examiner is licensed in multiple areas such as fraud risk assessment, IT system audits, internal audit services, and internal control system evaluation.

## **2.4 Participation in Specific Training Programs:**

Auditors and assistants must attend training provided by academics and professional auditing organizations for licensing, and keep up with developments in accounting and auditing.

## **2.5 Integration of Internal and External Audit:**

A good internal audit system reduces the external auditor's tests, saving time and effort, but does not replace external audit, emphasizing the complementarity between internal and external audits.

## **2.6 Use of Analytical Procedures:**

Analytical procedures analyze trends and significant deviations between financial statement values, expected values, and benchmarks to prepare an effective audit program and obtain sufficient and appropriate evidence to support audit conclusions.

## **Third: Steps of Professional Judgment**

Professional judgment is applied throughout all audit stages, from planning to final examination of financial statements,

to assess the reasonableness of conclusions. Steps include: (Al-Juaid, 2024, pp. 7–8)

### **1. Identify the Problem or Judgment Area:**

**Area:** Determine the audit matter requiring professional judgment, considering:

- Has the problem been adequately formulated?
- Are there related issues to consider?

### **2. Collect Facts and Information:**

Obtain a comprehensive understanding of relevant facts and information regarding the transaction, event, or situation:

- Were source documents, other materials, client interviews, and other available sources reviewed?
- Were assumptions and data evaluated for relevance and reliability?

### **3. Identify and Analyze Alternatives:**

**Alternatives:** Consult auditing literature or other relevant standards, considering reliable statements in the hierarchy of generally accepted accounting principles, professional auditing sources, and certification statements.

### **4. Decision-Making on the Judgment Matter:**

Apply auditing literature to relevant facts and other information, evaluating the accounting treatment or audit approach under the circumstances:

- Do those addressing the issue have sufficient knowledge, experience, and objectivity?
- Are additional resources needed? Have reasonable alternatives been identified?
- Were pros and cons of each alternative analyzed?
- Were audit risks and potential responses analyzed?

**5. Conclusion and Documentation:** Document the conclusion, specific discussion of the issue, collect applicable evidence, literature, policies, guidance, consulted individuals, considered alternatives, and final decision, ensuring:

- Documentation of the rationale for the chosen alternative and reasons for not selecting others.
- Evaluation of whether effort and documentation align with the importance and complexity of the professional judgment reached.

**Fourth: Factors Affecting Professional Judgment of the External Auditor**

Factors are classified based on relevance to the auditor or the audit client and can generally be divided into auditor-related factors and audit environment factors. (Al-Hafidhi & Al-Halimi, 2024, pp. 90–92)

**1. Auditor-Related Factors**

These relate to the auditor's academic and practical qualification, specialization, independence, and professional diligence, including all audit team members. Key factors include:

**1.1 Independence and Objectivity:**

Independence is a fundamental audit assumption, confirming credibility and guiding professional judgment. It means freedom from influences affecting the auditor's ability to form unbiased opinions, supported by personal and objective standards such as integrity, honesty, truthfulness, and impartiality.

**1.2 Professional Competence:**

Refers to the individual's ability to perform tasks to the required standard. Auditors must have sufficient accounting and auditing knowledge and continue learning and training to remain up-to-date, gaining competence through adequate learning and practice.

**1.3 Professional Experience:**

Experience significantly affects the auditor's judgment. A more knowledgeable

and experienced auditor can solve problems, issue appropriate judgments, and make decisions more accurately and objectively. Experience includes the ability to identify or obtain relevant information for the issue requiring judgment and applying appropriate standards. Learning from experience depends on comprehension, perception, inclinations, values, and expectations.

**2. Factors Related to the Audit Environment**

The external auditor exercises professional judgment when auditing a client company's financial statements within a certain environment characterized by multiple factors affecting their professional performance, including:

**2.1 Professional Standards:**

Professional standards issued by professional organizations are among the most important tools that help the auditor issue high-quality professional judgments, serving as guidance and reference. Therefore, these standards must be clear and mandatory. Professional standards assist auditors in practicing professional judgment efficiently and effectively, enhancing the quality of auditors' professional judgment.

**2.2 Complexity of the Audit Task:**

The complexity of an audit task can be considered from two aspects:

- **First aspect:** Related to the number of information cues processed and the steps required to complete the task. The more cues and steps, the more complex the audit task.
- **Second aspect:** Related to the level of coordination required to complete the task. Complexity increases when certain steps of a task depend on previous steps, when multiple steps must be completed simultaneously, and when reasoning and inference are required.

**2.3 Audit Risks:**

Audit risk refers to the event whereby the auditor fails to issue an audit report when the financial statements contain material misstatements, which may result in auditors

giving an inappropriate opinion. Audit risks are represented as follows:

- **A Risk:** The risk that the auditor expresses a qualified opinion on financial statements that are not materially misstated.
- **B Risk:** The risk that the auditor expresses an unqualified opinion on materially misstated financial statements.

### **Third Section: Analytical Audit as a Mechanism to Support the Final Judgment of the External Auditor**

#### **First: Importance of Analytical Audit Procedures in Guiding the External Auditor's Professional Judgment**

The external auditor exercises professional judgment at all stages of the audit process, from planning, execution, to completion and report issuance, in accordance with accounting principles, professional auditing performance standards, and codes of professional conduct (p. 323).

The auditor relies on their personal judgment based on academic qualification and practical experience to issue an impartial technical opinion on the fairness and accuracy of the financial statements and their representation of the financial position and business results.

Professional judgment is crucial at all audit stages and is determined by the audit's objective, which is issuing a technical opinion. The auditor is required to give an opinion that is relative, not absolute, necessitating the use of professional judgment and assessment.

Despite its importance and wide reliance in auditing, due to benefits such as flexibility and the opportunity for auditors to demonstrate their knowledge and skills in areas not specifically addressed by professional organizations, there arose a need to rationalize professional judgment in auditing due to significant variations in auditors' judgments. This has caused major issues, including loss of trust in the profession by financial statement users, reduced audit efficiency, and difficulty in determining auditor responsibility in case of

professional accountability toward company owners or users relying on the auditor's report. Therefore, analytical auditing is used within a single audit office to reduce substantial differences between auditors (Mousa A., 2013, pp. 323–324).

Efficient and effective application of analytical procedures is a powerful tool to achieve audit effectiveness, allowing the auditor to identify material deviations in financial statements more quickly. Analytical auditing enhances audit efficiency, performing audits in less time and with less effort (Al-Abdali, 2011, p. 45).

It is evident that analytical audit procedures are indispensable for issuing a more efficient and credible opinion and judgment, as they support and confirm other evidence and provide a comprehensive view of the objectivity of financial statements to reach an impartial technical opinion based on strong evidence (Ibrahim, 2018, p. 637).

#### **Second: Stages of Analytical Audit and Their Relation to the External Auditor's Professional Judgment**

The U.S. Auditing Standards Board considers analytical procedures essential during the audit process. They are required during the planning stage (risk assessment) and throughout audit execution to provide evaluations and conclusions. Analytical procedures can serve as substantive tests to obtain evidence on assertions about account balances or transaction types, and may be more effective than detailed substantive tests. The larger and more diverse the data, the more effective analytical procedures are, especially where error risk is minimal, resulting in greater efficiency and lower cost (Appelfaum, Kogan, & Vasarhelyi, 2018, pp. 3–4).

This means analytical audit procedures are applied at all audit stages, depending on the auditor's objective. Analytical auditing assists the external auditor in the following:

##### **1. Analytical Audit Procedures During the Planning Stage:**

By determining the nature, timing, and extent of analytical procedures, auditors can identify account balances requiring extensive substantive testing, reduce time, determine qualified personnel, and identify significant material elements (Mousa A., 2013).

The external auditor applies analytical procedures during planning and preparation of audit programs to determine the nature, timing, and scope of optional procedures. Analytical procedures help identify items requiring special attention during verification, which affect the nature and timing of work. Using analytical procedures on financial and non-financial information during audit program preparation helps understand the organization's activities, assess potential risk areas through balances and aggregate data, and determine the nature and duration of work required. The use of analytical procedures at this stage is mandatory, with objectives:

- Enable account custodians to understand the organization's activities and assess the risk of material misstatements.
- Verify whether initial figures match the auditor's expectations based on the organization and industry context.
- Identify unusual or abnormal values and trends affecting financial statements.
- Detect potential weaknesses in processes or financial aspects.
- Direct auditor resources to the most important matters (Boulhbal, 2018, pp. 71–72).

Thus, the external auditor uses analytical procedures in planning to identify accounts needing special attention, aiming to rationalize professional judgment, reduce time, and consequently reduce cost.

## **2. Analytical Audit Procedures During the Execution Stage:**

The external auditor uses analytical procedures while examining and verifying transactions and balances to reduce

detection risk. Detailed tests and analytical procedures may be applied together, based on professional judgment to achieve expected efficiency and reduce detection risk (Mousa A., 2013, p. 329).

When applying analytical procedures as substantive procedures, factors to consider include: (Boulhbal, 2018, p. 73)

- Appropriateness of analytical procedures for verification based on material misstatement risk.
- Credibility of data used, based on source evaluation and comparability.
- Accuracy of expectations derived from analytical procedures, including data granularity and availability of financial and non-financial information.
- Acceptable differences between recorded amounts and expected values.

Analytical procedures are important for increasing audit efficiency, effectiveness, and reducing costs through narrower examination scope and obtaining additional evidence.

## **3. Analytical Audit Procedures in the Final Stage of the Audit:**

After completing fieldwork and gathering evidence, the auditor conducts analytical procedures as a final review for material misstatements and financial issues, aiding in evaluating disclosure adequacy and forming a general opinion on whether financial statements overall reflect the auditor's understanding of the organization's operations.

Analytical procedures are used during report preparation to evaluate different evidence, mandatory to enable the auditor to assess the overall fairness and accuracy of financial statements, including judgments on the company's going concern (Boulhbal, 2018, p. 74).

Objectives of analytical procedures at this stage include:

- Evaluate overall reasonableness of account balances through unusual or

unexpected relationships not previously identified.

- Assess adequacy of evidence collected for accounts considered unusual or unexpected during planning.
- Compare actual risk level with predetermined risk.
- Judge the accuracy of financial statements and adequacy of disclosure regarding operations, results, financial position, and compliance with laws and regulations.

Analytical procedures in the final stage serve as a final review of material misstatements or financial issues, helping form a comprehensive and objective opinion on whether financial statements as a whole align with the auditor's understanding of the organization (Mousa A., 2013, p. 331).

Analytical audit procedures represent a modern tool to guide the auditor in judging the reasonableness of relationships between financial and non-financial information, serving as evidence to verify results and recorded values, and identifying significant unusual changes requiring further investigation.

### **Conclusion:**

Analytical auditing in its various methods is an important tool to guide the audit process by supporting professional judgments made by the auditor at all stages, from planning to final report preparation on the fairness of financial statements. Professional judgment is a form of decision-making requiring necessary information to reach the correct judgment. Analytical auditing is a powerful tool for understanding the company's financial and operational position and helps provide recommendations that improve performance and ensure continuity.

### **Recommendations:**

- Raise awareness among external auditors and their teams about the importance of analytical auditing for its positive impact on improving

professional performance and audit quality.

- Apply modern analytical auditing methods for their positive effects on information accuracy, objectivity, and reduction of effort, cost, and time in decision-making, supporting the external auditor's professional judgment.
- Conduct seminars and training courses on the use of analytical auditing methods to enhance auditors' scientific and practical skills.
- In addition to accounting and auditing knowledge, external auditors should be proficient in mathematical and statistical methods as well as technological systems, especially in the transition to a digital economy.

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