



## RESEARCH ARTICLE

**A Systematic Literature Review of the External Audit Reliance Issues**

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ARTICLE INFO	ABSTRACT
Received: Aug 9, 2024	External audit reliance issues on the internal audit function (IAF) are increasingly important in financial auditing, yet its application in audit engagements lags behind. Despite the belief that audit reliance will shape auditing in the future, limited and intervalley publications explore this transformative potential. This paper investigates the increasing importance of external audit reliance issues in financial auditing. It investigates the use of the IAF in external audit reliance decisions and its potential to enhance audit quality, process transparency, and stakeholders' credibility. Through a systematic literature review of 68 scientific articles from 1984 to 2022, factors influencing external auditors' dependence on the IAF are analyzed, including IAF work quality, assistance type, organizational factors, customer pressure, and business risk. The review highlights the IAF's crucial role in improving financial reporting integrity and external audit effectiveness. However, the challenges that allowed external auditors to decide whether to rely on the works of IAF like limited disclosures and accessible data hinder assessing IAF reliance effects, leading to information asymmetry that may impact stakeholder confidence. The paper discusses implications, limitations, and future research directions to explore technology adoption and optimize audit practices, promoting transparency in the audit process.
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**INTRODUCTION**

Audits' reliance has been debated for decades. The competence of the IAF is critical for stakeholders' decision-making. Evaluating the efficiency of the IAF is necessary due to its consultative responsibility (Alzeban & Gwilliam, 2014). Internal auditing is vital for an institution's accounting system and protects against hazards. However, it hasn't received as much attention in the literature as external audits and the audit committee (Christ et al., 2021). Whereas, external auditors (EAs) and internal auditors (IAs) share common interests and can mutually benefit from effective cooperation (Brody, 2012; Morrill & Morrill, 2003; Suwaidan & Qasim, 2010). As can enhance their efficiency by utilizing the work of IAs, reducing the extent of their own audit tasks. A competent and objective IAF can significantly contribute to an efficient external audit process (Al-Twaijry et al., 2004).

Cooperation between EAs and IAs is a double-edged sword. EAs can enhance efficiency by using IAs' work, reducing redundancy and costs (Chen et al., 2017; Morrill & Morrill, 2003; Suwaidan & Qasim, 2010). However, if IAs are deemed unprofessional and lacking independence by Eas (Al-Twaijry et al., 2004), it hinders cooperation and risks external audit quality. EAs must balance the pressure to cooperate with the IAF while fulfilling their core purpose of providing accurate and timely information to stakeholders and society (Duska, 2005; TAGESSON & ERIKSSON, 2006). The external auditor's reliance on internal auditors has received increased attention (R. Desai et al., 2017; Pike et

al., 2016). Collaboration opportunities have grown due to the involvement of internal audits (Mihret, 2014). Relying on internal auditors' work has financial and performance implications for external audits (Pizzini et al., 2011).

External auditors can rely on internal auditors' work as per ISA 610, reducing duplication. Factors like competency, independence, and due care impact the quality of internal audit work (ISA 610; SAS No. 65). IAFs' shift towards advisory services enhances their importance in corporate governance (Chen et al., 2017; Ismael & Roberts, 2018; Soh & Martinov-Bennie, 2015; Speklé et al., 2007).

As regards the judgment of outside auditors to trust others, the present research brings to a head both the strengths and limitations on work in this field. This them should be studied more deeply if we are to break the current situation of empirical paradoxes. (Swanger & Chewning Jr., 2001) At the same time, external auditors are relying more on internal auditors to do their jobs (probably having done some of it themselves) (N. K. Desai et al., 2011). However, there are no publication so far on external auditor reliance analysis to data audit quality (Bame-Aldred et al., 2013). On the one hand, by examining the perceptions of EAs towards their reliance decision on IAs, this paper wishes to fill this gap. In particular, it looks at EAs' perspective because this they need to deal with formally (International Federation of Accountants (IFAC), 2013). This study extends beyond accounting to include various aspects of external auditor reliance and in so doing furthers the existing literature. The uniqueness of this paper is that although previous literature reviews have been accomplished, no attempt has yet been made to bring together all existing knowledge about the external auditor reliance decision and see where there is still something wanting (Christ et al., 2021; Roussy & Perron, 2018).

To our knowledge, this review offers a unique perspective on external auditor reliance, adopting the renowned PRISMA method for a systematic analysis of existing scholarship. The research examines a wide range of outcomes to identify factors impacting how external auditors depend on internal auditing functions (Page et al., 2021). These influences incorporate work quality, assistance type provided, organizational dynamics, customer pressures, and business risks. Through comprehensive evaluation of past works, we explore how IAF performance, roles like advisory services, firm characteristics, stakeholder demands, and risk environment mold reliance. The review aims to build understanding of influence on financial reporting integrity.

In conclusion, this systematic inquiry contributes significantly to current learning by providing deep insight into IAF reliance and consequences for statement quality. Challenges recognized and implications detailed guide practitioners, organizations, and interests in optimizing practices and fostering transparency. This foundation invites future studies exploring technology, policy shifts, and interplay of auditors' views and decisions to advance knowledge in a field of constant change.

The remainder of this paper is organized as follows: the methodology section provides the detailed plan of SLR procedures, then the key involvements regarding the external auditor reliance issues with detailed analysis, and after that the summary of results. Finally, the conclusion provides an overview of our achievements and outlines future research directions.

## **2. METHODOLOGY**

This study embraced a systematic strategy to carry out a literature review to reduce prejudice and provide its findings with scientific validity (Sharabati, 2022). To reduce bias and ensure scientific validity, this study used a methodological strategy to conduct a literature review. We drew from previous literature on auditing (Bellucci et al., 2022; Denyer & Tranfield, 2009; Massaro et al., 2016) obvious, comprehensive, informative, and intuitive essentials to maintain the integrity of our approach. We use the Ms. Office suite to perform our analytic procedures. The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) uses a clear, structured format to help authors improve documentation quality in preparing systematic reviews. PRISMA, a systematic

review reporting method developed by the life sciences sector specifically for improving the clarity and precision of literature reviews. It consists of a flowchart and checklist (Page et al., 2021). According to (Pahlevan-Sharif et al., 2019), PRISMA was selected over other current protocols because it is so widely applicable, widely used in a variety of fields (including health and medicine), and has the promise of making reviews more uniform.

### Design of the Plan

The criteria in (Jesson et al., 2011) suggestions were followed during the entirety of this research project. The following steps are incorporated in these guidelines: The ensuing research questions of Making up strategy; checking what has been published already This forms part of our standard section on “Searching the Literature” Ensuring to specify the parameters for inclusion and exclusion Carrying out responsibilities in quality assessments In addition to carrying out responsibilities in quality assessments, further Discussion.

Accordingly, to gather pertinent literature from multiple sources, a thorough study was conducted with the following aims and objectives.

- To assess the extent and nature of external audit reliance on the IAF in organizations.
- To recognize the role of IAF in enhancing financial reporting integrity and EA effectiveness.
- To identify and analyze the challenges and impact faced by EA through their reliance on IAF.
- To evaluate the impact of IAF on EA fees and quality.
- To explore the impact of IAF on EAs' reliance and financial statement quality.

### 2.2 Defining the Research Questions

Research questions that specify the title, aim, and context of the paper guide the systematic review process (Booth et al., 2021). Consequently, we determined the subsequent research inquiries:

- Q1. What is the extent of external audit reliance on the IAF in organizations?
- Q2. What is the role of IAF in enhancing financial reporting integrity and EA effectiveness?
- Q3. What are the challenges and impacts faced by EA through their reliance on IAF?
- Q4. What is the impact of IAF on EA fees and quality?
- Q5. What is the Impact of IAF on EAs' reliance and financial statement quality?

These questions make clear our aim to look into practical and academic aspects and the primary objectives of the systematic review procedures connected to the article.

### 2.3 Doing a Literature Search

After defining the research questions, the systematic literature review went through sequential procedures used to guide the conduct of research, as shown in Table 1.

**Table 1. SLR Procedures using PRISMA schedule**

No.	Procedure	Papers regarding “External Auditing Reliance and IAF” published between 1984 and 2022
1.	Searching criteria with “keywords”	External auditing reliance, reliance decision, internal audit function.
2.	Choose databases and conduct searches	Google Scholar, Scopus, and Web of Science.
3.	Selected documents	English-language publications, in trustworthy sources, and included big data analysis and financial auditing.
4.	Combine resources	Evaluation of the listed publications thoughtfully.

No.	Procedure	Papers regarding "External Auditing Reliance and IAF" published between 1984 and 2022
5.	Advertise review outcomes	Results are based on the compilation of information or the most recent evidence from the results of multiple independent studies, which can help with practices based on proof.

## 2.4 Using the Criteria of Exclusion and Inclusion

The three components of the search approach are keyword identification, screening, and eligibility. The research topic served as the foundation for the selection of keywords: External auditing reliance, reliance decision, and IAF, which were the keywords chosen for this review. The study drew articles from multiple databases, primarily Scopus and Web of Science, supplemented by Google Scholar. This study searched Google Scholar, Scopus, and Web of Science for studies on the external audit reliance decision. The databases were chosen based on access rights, availability, and references listed in papers published during the specified interval that dealt with external audit reliance and IAF. Additionally, the chosen databases made a significant number of peer-reviewed articles available in the research field. The search criteria are listed in Table 1. The inclusion criteria were as follows.

Research regarding external audit reliance on the IAF.

Research released in 1984 and 2022.

Research released in English.

This research has been reported in one of the most reputable and referenced publications.

Further documents that did not fulfill these requirements were disqualified. Table 1 and Figure 1 provide an overview of the systematic literature review method utilizing PRISMA.

## 2.5 Undertaking the Quality Estimation

In a systematic literature review, the initial abstract of each study was investigated, and the details of each study were analyzed to acquire a greater understanding of the review's goal. The major findings from each research were then documented and utilized in the creation of a systematic literature review (Page et al., 2021). Since external audit reliance is a relatively contemporary research issue, we decided to include conference proceedings and book chapters in addition to the publications. The exploration and mining of the study data were performed in one of the four stages:

Publications can be found by researching online databases for the terms "external auditing reliance", "reliance decision", and "internal audit function", additionally, duplicate entries were deleted.

We carefully examined the headlines, abstracts, keywords, and, if needed, the content of the publications to identify those that should be deleted due to irrelevance (Booth et al., 2021).

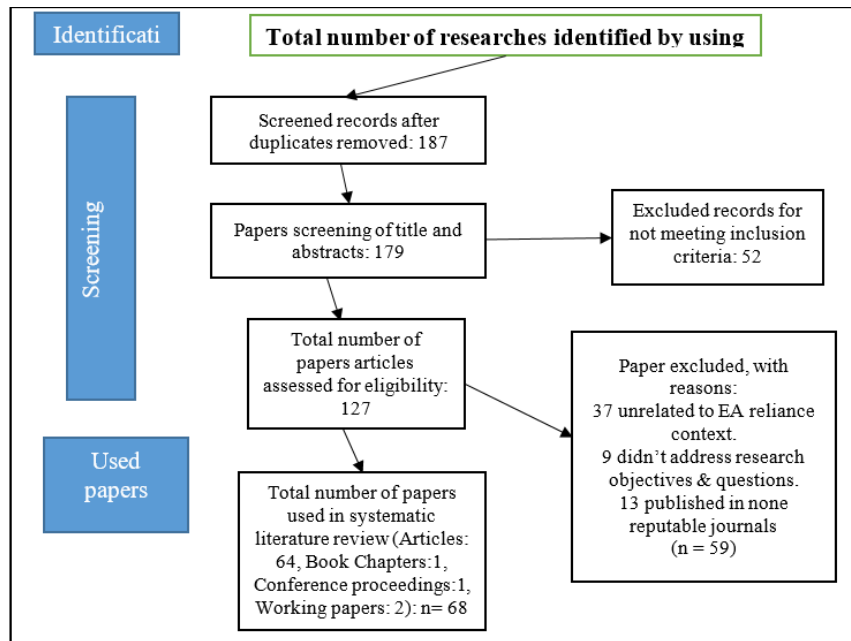
Exclusions were made with good justification after eligibility was determined by a full-text evaluation of the papers.

For a thorough analysis, publications with cross-references were screened, and the ultimate choice of publications to be considered for the systematic review was determined.

The redundant publications were excluded from the analysis. The abstracts and titles of the study papers were carefully examined for their appropriateness. Additionally, the reference lists of publications that had already been chosen were searched for additional pertinent research. The selected publications were investigated. According to the justifications and conclusions employed in each study, the selected publications are categorized into five groups according to the research objectives.

### 2.6 The Diagram of PRISMA

The importance of external audit reliance in the audit process was highlighted by the systematic review. Figure 1 illustrates the procedures we took when utilizing a PRISMA diagram that we modified to better match a qualitative systematic review (Page et al., 2021). The movement of information via the multiple phases for a systematic review is pictorial in the PRISMA diagram. It is pictorial the quantity of documents that were found, included, excluded, and the explanations for exclusions.



**FIGURE 1. PRISMA chart of systematic review procedure**

### 2.7 Details of the Presented Publications

Lastly, chosen publications were evaluated in light of the systematic review's scope. A sum of 68 publications was chosen and used to gain a better understanding of the goals. There were 64 publication research reports, 1 book chapter, 1 conference proceeding, and 2 working papers. In a systematic literature review, the initial abstract of each study is investigated, and then the details of each research are analyzed to acquire an in-depth understanding of the review's objectives. The major findings from each research are then documented and utilized in the creation of a systematic literature review (Page et al., 2021). The overall number of pertinent articles is presented according to the sources in Table 2.

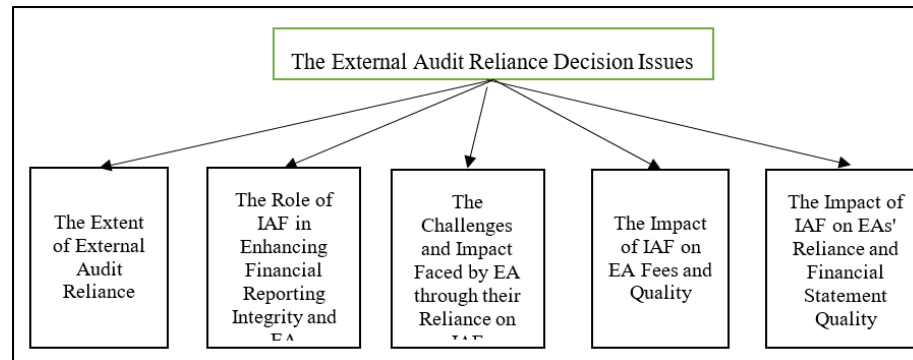
**Table 2. Articles illustrated in the systematic review**

Source	A number of concerning studies
Scopus and Web of Science	56
Google Scholar	12
Total publications	68

The search resulted in a total of 193 publications (from 1984 to 2022) from March 2022 to July 2023 as a work period. Scopus and Web of Science findings included fifty-six articles and the rest of the twelve articles were from Google Scholar.

### 3. ANALYSIS OF LITERATURE REVIEW

This paper's focus is evolving the external audit reliance issues. Furthermore, five main audit reliance issues: the extent of external audit reliance, the role of IAF in enhancing financial reporting integrity and EA Effectiveness, the challenges and impact faced by EA through their reliance on IAF, the impact of IAF on EA fees and quality, and the impact of IAF on EAs' reliance and financial statement quality, which represented in figure 2 given framework, also key themes, gaps, and suggestion for future research which identified from the review were presented in Table 3.



**FIGURE 2. Conceptual framework**

Source: The author adapted the framework from the literature.

#### 3.1 External Audit Reliance Decision Issues

External auditors follow three standards PCAOB, ASB, and IAASB when relying on internal auditing. To address the internal audit task for public corporations, the PCAOB introduced AS 2605 (Bame-Aldred et al., 2013). This research is anchored in ISA 610, which guides external auditors in utilizing the work of internal auditors for evidence collection and support (International Federation of Accountants (IFAC), 2013). According to the international standard ISA 315 and 610 in 2016, external auditors can boost their own performance by making use of internal audit methods. As (Lee & Park, 2016) state, simply having more internal auditors on hand will correlate with greater dedication to auditing the financial statements, which in turn improves performance of audits. Also, we look at studies into the dependence of External Auditors (EAs) on Internal Audit Functions (IAFs), paying attention to such factors as risk of legal action, efficiency and beneficial results of audits, Dollar cost services Price of audit, accuracy financial statements, and quality internal controls (Bame-Aldred et al., 2013).

##### 3.1.1 The Extent of External Audit Reliance

The section explores ways in which external auditors decision-making is affected by their dependence on internal audit functions. This particular choice needs detailed consideration of both the individual achievement of IAFs and also their overall mission. Indeed the analysis commences by considering how a particular demand from consumers, a factor which has never been fully studied in other research projects, makes dependence upon IAF more likely (Gramling et al., 2004). Organisational factors such as board ties, business risk and client needs all play major roles in determining how enterprise architects embed internal audit processes (IAFs). Our research shows that addressing concerns about the IAF's inferior performance and low usage can be achieved through less frequent, more targeted remediation operations which have been shown to produce better results than continual methods. With a self-service method of remediation, although it is somewhat effectual, this is not as good as that just described (Farkas & Hirsch, 2016). The qualitative study of (Munro & Stewart, 2011), equally, adduces evidence from empirical research upon which the business environment and board reporting links influence external auditors to depend upon IAF

for their work and to use internal audit staff. Linking up the results of their independent assessment of business risk with reporting from line management, audit committee more properly: the governing body in which the audit person is a member or even internal auditor is also significant. (Abbott et al., 2007) research supports our knowledge base through its investigation of the audit committee's efficacy in ensuring independence and the characteristics of outsourced services as perceived by chief internal auditors. Again, this study shows the importance of the well-functioning audit committee in overseeing internal audit operations under conditions which lend credence to independence External Auditors, there being a considerable literature on this topic that testifies to the efficacy of auditor committees and their rational governance. The incorporating of IAF work by external auditors puts their independence and knowledge at risk, causing worry about unthoughtful judgments forming a point of contact for heated exchange (Argento et al., 2018). ISA510 and ISA620 provide different perspectives on auditors relying on third-party work, with ISA620 being particularly valuable in convincing internal reviewers and regulators about the evidence for complex items (Kok & Maroun, 2021). The adoption of data analytics in external auditing emerges as a key theme influenced by factors such as the audit profession, technology, organization, quality control, and audit clients. Our analysis reveals that employing IT professionals, auditor skills, data storage, and quality controls significantly impacts the use of data analytics in audit practice (Jacky & Sulaiman, 2022).

The regulatory landscape, especially since the Sarbanes–Oxley Act (2002) (Jacky & Sulaiman, 2022), has elevated the significance of the internal audit role (Desai et al., 2011). However, the extent to which external auditors rely on the quality of internal audit tasks remains a subject of mixed and inconclusive results, necessitating further exploration (Bame-Aldred et al., 2013; Weisner & Sutton, 2015). Internal audit's inverse impact on organizations' willingness to consent to audit judgments about ongoing concerns introduces another layer of complexity (Dzikrullah et al., 2020).

Various aspects of internal auditing competence, work done, objectivity, and non-internal audit factors intricately influence the decision-making process of internal auditing reliance (Schneider, 2010). (R. Desai et al., 2017) shed light on the measurement of power for external auditors, revealing their susceptibility to negative evidence and struggles with consistent integration of data on three variables in their overall assessment of strength. The research delves deeply into the subtle impact of internal auditors' participation in ancillary duties on external auditors' critical assessment and dependence on their performance. According to Brandon (2010), the furnishing of non-audit services by externally recruited internal auditors diminishes their believability. However, the diverse array of individuals contracted for consultative roles has a restricted sway on perceptions of neutrality and does little to fundamentally change conceptions of expertise.

Our exhaustive survey of academic literature (SLR) provides a comprehensive comprehension of the multifaceted facets influencing Enterprise Architecture's (EA) reliance on Information Assurance Framework (IAF), considering both the quality of labor and the character of assistance delivered. The statement underscored the intricate interplay between organizational traits, consumer demands, and commercial hazards. The ineffectual automation of remediative steps necessitates a nuanced evaluation of remediation processes and strategies. The organization would be well-served to reconsider standardized approaches to remediation and instead embrace a more customized method attuned to both technical and organizational factors.

Insights into data analytics adoption and the evolving regulatory landscape contribute to the richness of our analysis. Despite advances, the literature highlights the need for continued exploration, particularly in understanding the complex relationship between external and internal auditors. This collection not only enriches the knowledge reserve of auditor and the corporation, moreover it provides guidance for efficient practice when carrying out audits.

This section is an exploration of the key themes in reliance on the IAF for external audits; such as the factors that influence it, variants of it and its benefits. As the sub-title suggest, factors influencing this reliance state customer pressure as well as organizational factors. The efficiency of automated remediation, reporting lines and business risks in influencing EA's reliance on IAF work are discussed. The section raises questions about both audit committee effectiveness and the risks to objectivity and professionalism of external auditors. This is set in the context of stricter regulation as well post Sarbanes- Oxley Act, particular focus showing how these now construct an overall regulatory environment. The quality of internal audit missions; their impact on audit decision-making; and the struggles of external auditors in the area of evidence integration.

Despite these insights, research gaps emerge, including the need for more exploration of EAs' use of internal auditors and their previous work, understanding the impact of internal auditor performance on external auditor reliance, and resolving mixed results on external auditors' dependence on internal auditor performance. Future research suggestions encompass investigating the impact of customer pressure, exploring strategies for addressing subpar internal audit performance, assessing the role of reporting relationships and business risks, and delving into innovative approaches to safeguard external auditor independence and address risks to objectivity and professionalism. Furthermore, there's a call for in-depth studies on the impact of stricter regulations on the internal audit role, exploring new methods to enhance the quality of internal audit tasks, investigating factors influencing external auditors' struggle with evidence integration, and assessing the impact of internal auditors' involvement in non-audit functions on external auditor assessment and reliance.

### **3.1.2 The Role of IAF in Enhancing Financial Reporting Integrity and EA Effectiveness**

The interplay between IAFs and external auditors is pivotal in shaping financial reporting integrity and enhancing the effectiveness of external audits. Internal control deficiencies have far-reaching implications, affecting financial estimates and the extent of reliance external auditors place on IAFs, thereby influencing audit efficacy and fiscal outcomes.

Audit practitioners operating in a comprehensive-audit environment prefer to rely on internal-audit findings, provided previous reports confirm control effectiveness. This inclination follows from the PCAOB's encouragement that increased reliance be placed on internal-audit results to improve auditor quality (Mălăescu & Sutton, 2013). The fine results of IC audits depend on cooperation between external auditors, the authority of senior management, and the independence of EA (Alqudah et al., 2019). However, effectiveness drops significantly when an auditor whose source is others holds close relationships with those who make errors. On the other hand, it is the primary audit only that this trend decreases when the auditors are employees of major accounting firms such as the Big Four, or a specialist company like (Noh et al., 2017). posit. A study of whether the accuracy and reliability of External Audit (EA) Reports can be affected by the Internal Audit Function (IAF) has revealed interesting results. . (Abbott et al., 2012b) indicate that if IAF staff can provide assistance, audits are less delayed. This is particularly the case when control reliance is low. Additionally, better IAF quality and collaboration with external auditors can enhance audit effectiveness when IAFs play the role of assistants. However, pursuant to (Pizzini et al., 2011), the better the quality of the Internal Audit Function (IAF), the worse its delays in conducting audits. But in contrast to those of (Abbott et al., 2012b), only delay in performing audits can be reduced when External Auditors (EAs) use IAFs to aid in their work. (Lin et al., 2011) say that strong collaboration between Internal Audit Functions (IAFs) and External Auditors (EAs) predicts the discovery of substantial level problems. This implies that joint efforts tend to lift the overall quality of External Audits. Taken as a whole, the data indicates that taking on IAFs heightens audit efficiency and lowers audit delays.

The results of (Gray & Hunton, 2011) reveal some of the intricate elements that affect the degree to which EAs depend on IAFs. Notably, the reporting structure, where the IAF reports to the CFO instead of the audit committee, could impact auditors' reliance due to variations in how they evaluate the



IAF's competence and objectivity. Early studies underscore the importance of IAF quality parameters, emphasizing that compliance with Internal Auditors (IIA) standards and a lack of conflicting tasks enhance the perception of IAF competence and objectivity (Breger et al., 2020; Margheim, 1986; MESSIER & SCHNEIDER, 1988; Schneider, 1984, 1985). Auditing Standard No. 5's recommendation for external auditors to rely on internal auditors' work emerges as a guiding principle for enhancing audit efficiency and effectiveness (Stefaniak & Cornell, 2011; Mousa, 2024).

In addition, the nature of internal audit tasks in non-family organizations, serving as a managerial training base, influences the degree of reliance on external audits due to perceived impartiality. The perception of impartiality and external auditor reliance on internal auditing in family businesses has remained largely unchanged within management training paradigms focused on continuous improvement (Čular et al., 2020; Suh et al., 2021). However, the level of confidence external auditors place in the internal audit department depends on various factors, including assurances provided, strength of the audit committee, and delivery of risk advisory services (Čular et al., 2020; Leong et al., 2024).

Jordanian auditors emphasize the importance of collaboration between internal and external auditors to enhance financial reporting quality, where objectivity is paramount. Furthermore, one element contributing to effective financial reporting, according to (Azzam et al., 2020), is the technical proficiency of internal auditors demonstrated through competent practice. The Jordanian auditing teams recognize the value of both independent oversight and an integrated assurance model, cultivating cooperation across audit functions to benefit stakeholders while maintaining high standards of integrity, accountability and transparency.

SLR analysis suggested that the key is for enhancing financial reporting integrity and EA effectiveness an important option to stress the contribution that IAF makes. Weaknesses in internal control directly affect financial reporting and the extent of external auditors' trust in these numbers, causing poor Audit performance Dai suggested less reliance on internal audit results by external auditors. When IAF staff is appointed as auditor assistants, time to complete an audit: The more help they give, the faster collaboration with external auditors. The more they work with audits and preparations for them themselves! Auditors' reliance on the IAF becomes much greater if they report to the CFO, taking into account both objectivity and competence evaluations. Operational internal audit responsibilities in non-family firms also provide a lower reliance on external auditors Collaborating increases the quality of financial disclosure between internal and external auditors, impartiality playing a key role. For auditors, organizations and stakeholders, the study offers significant and practical gains, calling for possible future areas of research into methods enhancing audit effectiveness.

This section focuses on the various themes pertinent to the collaboration between IAFs and external auditors. These themes offer an essential role in both the validity of financial reporting and the enhancement of the effectiveness of external audit. The themes include influential factors such as internal control deficiencies, which have the most extensive and lasting influence on financial estimates and determine the degree of reliance by external auditors on IAFs. There is increased reliance, noting "advocacy by the PCAOB to raise the quality of auditing generally has manifested itself in more reliance upon the outcomes of the internal audit". These themes include the variables of collaboration, reporting structure and the quality of IAF all characterized by nuanced influence on auditors which justifies the need for further research. These nuances include, the reporting structure, the appropriate level of IAF quality dimension, an in-depth review of the intimate influence of internal control deficiencies, and examination of the task nature variables in instances of non-family firms which act as incubators for managerial training. Areas for Future Research are diversified ranging from qualitative research into the comprehensive aspects of reporting structures in diverse organizational structures, the longitudinal analysis of intimate influence, and intimates effects,

quantitatively appliance of IAF quality dimension variables, and examination of cross-culture collaborations as well investigation of the influence of technology trends on audit.

### **3.1.3 The Challenges and Impact Faced by EA Through Their Reliance on IAF**

The landscape of external auditors (EAs) relying on IAFs is complex and influenced by a multitude of factors. This section delves into the challenges faced and the ensuing impact on audit practices and outcomes.

Audit standards (ISA 610, SAS 65, Auditing Standard No. 5 - PCAOB 2007) provide leeway for EAs to rely on IAF work, but this permission is underscored by the necessity to ensure its effectiveness. Auditors engage expert judgment during planning, evaluating the reliability of internal auditors' tasks, and emphasizing the critical assessment of the internal audit division's competency and integrity (AICPA Annual Reports, 1991).

The intricacies of reliance decisions involve simultaneous evaluations of multiple aspects. Changing audit standards introduces intermediary judgments, and (Bame-Aldred et al., 2013) highlight the need for a deeper understanding of how EAs assess the quality of internal audit activities. (Lee & Park, 2016) discovery of a positive connection between the number of internal auditors and external audit hours suggests a tangible contribution to financial statement audits and enhanced audit efficiency.

EAs' reliance on internal audit in clients receiving non-audit services is more influenced by client demands than internal audit competence (Felix et al., 2005). Interaction challenges, encompassing internal audit engagement, fiscal challenges, and perceived risk, influence reliance decisions and are notable considerations (Brody, 2012).

EAs encounter obstacles to their professional independence, but adopting internal control features helps mitigate challenges, particularly in the context of bank audits ((Kamil & Ahmed, 2020). Impact of Outsourcing: Outsourcing internal auditors correlates with increased reliance, particularly when intrinsic risk is high (Glover et al., 2011). EAs are urged to assess the qualifications of outsourced internal auditors to ensure competency in evaluating risks and controls within the user organization.

Liability judgments, as explored by (Arel et al., 2012; Munro & Stewart, 2011) unveil nuanced patterns where EAs relying on internal IAF face more liability. While auditors do not heavily depend on non-financial measures, a nuanced approach is observed, with an increased reliance on these measures when assessing revenue estimates and challenging client balances, especially in high fraud-risk scenarios (Brazel et al., 2014).

The credibility of management experts is rooted in accounting competency, reputation, and validated credentials. Concerns around documentation and transitioning to a checklist approach are highlighted (Agrawal et al., 2020). Heavy reliance on private auditing by banks poses challenges, particularly when government loans are scarce, impacting collateral and societal welfare (Tuluk, 2021).

Notably, dissatisfaction surfaces among external auditors concerning internal audit personnel, education services, and organizational conditions (Alktani & Ghareebi, 2014). Surprisingly, a PCAOB examination's impact on reliance remains limited, with efficiency-focused testing showing a paradoxical result—greater dependence when engagement risk is low (Petherbridge & Messier, 2016). In navigating deficiencies in company management, auditors turn to the compensatory power of robust internal control, a strategic move that contributes to enhancing auditors' overall credibility in the audit process. Audit method type and intrinsic risk emerge as pivotal influencers shaping auditors' preferences for relying on internal auditing. Moreover, auditors' reliance decisions are significantly swayed by their prior professional experiences (Quick & Henrizi, 2019).

The limited interactions between internal and external auditors pose a challenge, hindering the comprehensive utilization of the internal audit role (Mubako & Muzorewa, 2019). Strained interactions and inadequate management activities further compound the challenge, impacting positive engagement in the audit process. Trust in internal audit findings is nuanced, with a distinct preference for factual over subjective information, particularly when risks are involved. This trust dynamic plays a crucial role in shaping auditors' reliance decisions on internal audit outputs. The externalization or co-sourcing of IAFs becomes a factor that has a bearing on the final determination of dependence (N. K. Desai et al., 2011; Lowe et al., 1999). Roles played by external auditors and the IAF increasingly enjoy a complementary relationship, as witness the many collaborative synergies springing up in audit activities. Unlike that this has never happened before when external auditors were asked for their views ((Linda, 2019). Foreign internal auditors from the "Big Four" interact significantly with external audits (Baatwah et al., 2019). Then there's the service auditor assessment phase (Mustapha & Lee, 2020). Here external auditors are advised "to carefully check the credentials of any outsourced internal auditor they hope to use, making sure that he has the capacity for evaluating risks and controls inside user firm". Yet this phase of evaluation often gives insufficient attention to service auditor qualities. Advised although the use of the IA for management development can indeed contribute to improved operational efficiency, it brings with it a new concern - accounting risk (Rabóczy, 2018). Thus, due consideration is required (Bierstaker et al., 2013) of these complementary roles between external auditors and the IAF, on the other hand, have brought some opportunities for synergies. However, it may have also created new problems and challenges for audit.

To conclude, the analysis reveals the complexity of challenges and affects for EAs in reliance on IAF use. From audit standard interpretation and client challenge to IAF quality assurance and reliance-balance, auditors are constrained in multi-fold decisions. Improved collaborative communication between auditors and EAs is essential to successful reliance, practice optimization, and, eventually, audit integrity. The classification presented identifies the themes crossing the complexity of reliance decisions and professional judgment: client challenges, impact of outsourcing, trust-building dynamics, collaboration practices, and liability-based judgment.

Gaps in the literature include a limited understanding of how external auditors assess internal audit quality, the predominant influence of client demands on reliance decisions, and the need for comprehensive insights into the impact of outsourcing, trust dynamics, and auditors' preference for factual information. Future research should focus on a deeper internal audit quality assessment, the examination of client-centric reliance or interaction perspective, the development of a full understanding of the influence of outsourcing, trust implications or information preferences, the enhancement of interaction for a better collaboration, the elaboration of the regulatory framework or the global perspective, the examination of qualification assessment or risk factors, and tentative adoption of IAF in management training.

#### **3.1.4 The Impact of IAF on EA Fees and Quality**

Previous research highlights multifaceted connections between the IAF and External Audit (EA) fees and quality, unveiling nuances in their interactions. (Carcello et al., 2018) reveal a negative impact on external audit fees, financial reporting quality, and internal auditing effectiveness when the IAF is utilized for management training. In contrast, (Abbott et al., 2012a) suggest that a stronger influence of the audit committee on the IAF results in lower external audit fees. This reflects heightened external auditor reliance on the IAF, translating to improved audit effectiveness.

Conversely, the mere presence of an IAF is linked to higher external audit charges. Larger internal audit departments exhibit positive correlations with elevated external auditor fees, improved audit quality, and an increased likelihood of engaging Big Four firms (Axén, 2018). Surprisingly, while reliance on internal audits does not necessarily reduce external audit charges or tasks for local

governments in Great Britain, higher external audit fees can lead to a decrease in reliance on internal audits (Saidin, 2014). Meta-analyses, such as those conducted by (Hay, 2013), underscore a connection between investments in both external and internal audits in financial audit contexts.

There is an underlying assumption in many studies that audit fees are representative of EA efforts. Using completed IAF work or relying on the IAF is expected to yield cost savings. (Prawitt et al., 2011) find that IAF hours supporting EAs result in lower audit fees, yet there is no conclusive evidence that the time spent on such activities impacts fees or reliance, nor does it determine IAF quality.

Echoing these findings, (Abbott et al., 2012a) report similar results, emphasizing that IAF hours supporting EAs can lead to reduced audit fees. However, this reduction is particularly prominent with increased IAF funding and audit committee control. Intriguingly, utilizing the IAF as a training ground for management is associated with increased audit fees (Messier et al., 2011), potentially due to elevated accounting risk. Notably, relying on previously completed IAF work, rather than seeking direct assistance, results in more substantial reductions in audit fees (Albawwat, 2022).

The study by (Abdul Wahab et al., 2021) introduces the concept that high audit quality achieved through outsourced IAFs may prompt auditors to accept lower fees for providing non-audit services to clients. (Mat Zain et al., 2015) The degree of the association between internal audit function quality and audit fees, coupled with an increasing reliance on the external auditing work, implies that higher quality internal audit divisions encourage more confidence in areas under review by external auditors. Thus, they reduce expenses for external audits. In summary, this study plunges into the intricate dynamic of how the internal audit function influences external auditor charges and quality. Using expertise does lower fees. Audit committee communication does make rates and quality better. Your proficient internal audit section may hike charges but at the same time it is improving quality, which attracts famous firms. Direct reliance on internal audits may not directly affect fees, but increasing their cost helps debt relief. The combination of internal and external audit can become a way to improve output and so save costs. Effective cooperation with the internal audit department will have a positive impact on fees and as there is a need for further research, we need to be more creative in exploring new ways of working together with them.

This section examines the nuanced impact of IAF on EA fees and quality, showcasing both positive and negative influences. Noteworthy findings reveal contrasting effects, with internal audit department size emerging as a pivotal factor influencing external auditor fees and audit quality. The assumption that audit fees reflect EA efforts is acknowledged, with studies exploring the relationship between IAF hours and resulting audit fees. The association between using IAF for management training and increased audit fees is indicated. Outsourcing IAF functions is linked to high audit quality and reduced external audit costs. The potential benefits of integrating internal and external audits for improved efficiency are implied but not explicitly outlined. Research gaps include the need for a more profound quantitative exploration of the impact of IAF utilization for management training on audit fees, elucidation of the causal relationship between IAF funding and fee reduction, and a comprehensive exploration of IAF outsourcing. Future research suggestions involve conducting quantitative analyses on the training impact of IAF, in-depth investigation of IAF funding impact, nuanced exploration of IAF outsourcing, validation of integration strategies, and comprehensive exploration of collaboration strategies with the IAF to reduce costs.

### **3.1.5 The Impact of IAF on EAs' Reliance and Financial Statement Quality**

(Kaplan, S. E., & Schultz, 2006) survey revealed that 88 percent of Chief Audit Executives (CAEs) reported External Auditor (EA) reliance on their IAF, signifies a pivotal relationship. While the impact of IAF reliance on audit effectiveness is acknowledged, its varied effects on the value of external audits are recognized. However, challenges arise due to limited public disclosures in standard audit reports, challenging assessing IAF reliance effects. This lack of accessible open data further

complicates the measurement of IAF performance. (Archambeault et al., 2008) highlight a critical issue – external stakeholders lack detailed IAF information, leading to information asymmetry that may reduce stakeholder confidence. Governance disclosures typically concentrate on management, the audit committee, and the External Auditor (EA), neglecting essential IAF details for external stakeholders.

Despite the acknowledged challenges of limited disclosure (Archambeault et al., 2008) our investigation into the impact of EAs' reliance on IAFs on audit quality follows two key avenues: (1) extrapolating indirect effects from IAF's influence on financial reporting and (2) reviewing limited research on the direct influence of IAF reliance on audit quality. (Prawitt et al., 2009) posit that IAFs contribute to enhancing financial reporting quality by addressing incentive system flaws, as evidenced by confidential archive data. (Lin et al., 2011) uncovered negative correlations between material weakness disclosures and IAF attributes such as staff education, the use of quality assurance techniques, auditing activities related to financial reporting, and monitoring remediation, based on archived data from 214 firms.

(Stefaniak & Cornell, 2011) add a nuanced layer by revealing that internal auditors identify more strongly with their employers than EAs do with clients. This heightened internal auditor employer identification leads to stricter control deficiency evaluations, while greater EAs' client identification results in more lenient evaluations. This dynamic suggests that increased reliance on the IAF by EAs may improve audit quality with less lenient internal control deficiency judgments, influenced by employer and client identities. However, the study of (Bedard & Graham, 2011) presents different results that show that EAs override IAF's assessments of control flaws frequently and that IAF thinks these flaws are less severe. Also, the author notes that IAF has low abilities to identify severe or extensive participants' control deficiencies compared to EAs (Bedard & Graham, 2011). This highlights the importance of Section 404 control testing by EAs to identify weaknesses and suggest not being overly reliant on IAF since it might affect audit quality. More research is needed to determine whether IAF can offer an impartial assessment of internal control difficulties as suggested by (Bame-Aldred et al., 2013). Besides, cooperation is crucial, and improved cooperation between internal and external auditors is identified as a key factor contributing to improving the timeliness of financial reporting (Oussii & Boulila Taktak, 2018).

In summary, EAs have shown that relatively high importance should be attached to the IAF, given its various effects on effectiveness and value. Yet despite these insights, data and disclosures are often insufficient and difficult to quantify IAF reliance has an all round effect on audit quality. Far has China come in resizing the public accounting profession asnoth Supplementary inter firm comparisons can sometimes compensate for omittinginter overall comparisons,but only rarely and not at ways entirely. Additionally, auditors can join forces to help ensure timely financial reporting. Despite such findings though, more research still needs to be done in adjusting the apparently contradictory findings of EAs about IAF reliance and how this affects audit quality.

This analysis shows the relationship between enterprise auditors and internal audit functions truly is close, and it is centrally important in ensuring the effectiveness of auditing. However, given that we can't expect IAFs to publish much public information, relying on them poses a problem for auditing quality assessment. The absence of available open data also complicates the evaluation of IAF efficiency. Information asymmetry means that external stakeholders lack access to detailed IAF data, which will reduce their confidence and mainstream governance transparency in practice often overlooks key IAF facts. Research on EAs' dependence and effect on IAFs found that the effects on audit quality vary; Moreover, indirect results impact financial reporting directly. Nuanced findings on internal auditors' identification with employers suggest potential improvements in audit quality with increased EA reliance on the IAF, but caution is needed due to conflicting results. The role of collaboration between internal and external auditors is recognized as significant for enhancing

financial reporting timeliness. Research gaps include limited disclosures, data accessibility issues, the need for clarity on identity dynamics, and the impartiality of IAF assessments of internal control problems. Suggestions for future research involve encouraging enhanced disclosure practices, further exploration of identity dynamics, a comprehensive understanding of IAF impacts on financial reporting and audit quality, and continued exploration of collaboration strategies between internal and external auditors for improved financial reporting.

**Table 3. Key themes, gaps, and suggestions for future research demonstrated in the systematic review**

Section	Key themes	Gaps	Suggestions for future research
3.1.1	Factors Influencing External Auditor Reliance. Automated Remediation vs. Human Efforts. Reporting Relationships and Business Risks. Audit Committee Effectiveness. Risk to Objectivity and Professionalism. Regulations and Internal Audit Role. Quality of Internal Audit Task. Impact of Internal Audit on Audit Judgments. Internal Auditing Competence and Objectivity. And, external Auditors' Struggle with Evidence Integration.	<ul style="list-style-type: none"> <li>- Inadequate Understanding of EAs' Utilization of Internal Auditors.</li> <li>- Uncertainty Surrounding External Auditor Dependence on Internal Auditor Performance.</li> </ul>	<ul style="list-style-type: none"> <li>- Holistic Framework for External Auditor Decision-Making.</li> <li>- Strategies for Preserving Auditor Independence.</li> <li>- Adaptive Practices in Response to Regulatory Changes.</li> </ul>
3.1.2	Interplay Between IAFs and External Auditors. Impact of Internal Control Deficiencies. Advocacy for Increased Reliance. Collaboration Dynamics. Reporting Structure Impact. And the impact of IAF Quality Parameters.	<ul style="list-style-type: none"> <li>- Nuances in Reporting Structure.</li> <li>- Comprehensive Understanding of IAF Impact.</li> <li>- Effects of Internal Control Deficiencies.</li> <li>- Nature of Internal Audit Tasks.</li> </ul>	<ul style="list-style-type: none"> <li>- Integrated Approach to Reporting Structures and Collaboration Dynamics.</li> <li>- Technology Integration and Cross-Cultural Perspectives.</li> <li>- Quantifying the Impact of IAF Quality Parameters.</li> </ul>
3.1.3	Decision-making complexity and Professional Judgment. Influential Factors and Interaction Dynamics. Client Demands and Interaction Challenges. Outsourcing and Intrinsic Risk. Trust Dynamics and Information Preference. Collaborative Practices and Regulatory Considerations. Liability Judgments and Nuanced Patterns. Limited Interactions and Strained Dynamics. Globalization, Compliance, and Collaboration. Qualification Assessment and Risk Evaluation. And, cautious Adoption of IAF for Management Training.	<ul style="list-style-type: none"> <li>- Comprehensive Evaluation of Internal Audit Dynamics.</li> <li>- Trust Dynamics and Information Preferences.</li> <li>- Navigating Regulatory Challenges.</li> </ul>	<ul style="list-style-type: none"> <li>- Holistic Quality Assessment Framework.</li> <li>- Client-Centric Reliance and Interaction Challenges.</li> <li>- Outsourcing Dynamics and Intrinsic Risk.</li> <li>- Trust Dynamics, Information Preferences, and Collaboration Strategies.</li> </ul>
3.1.4	The multifaceted duality of IAF impact. Both its contribution to EA fees and quality took center stage, exposing the upside and downside effects. The Size of Internal Audit Department and the Nature of Audit Work. The size of internal audit departments has been highlighted as a key factor influencing external auditor fees, audit quality and whether it will engage representative audit firms.	<ul style="list-style-type: none"> <li>- Holistic Understanding of IAF Impact.</li> <li>- Causal Mechanisms in IAF Funding and Fee Reduction.</li> <li>- Nuanced Exploration of IAF Outsourcing.</li> </ul>	<ul style="list-style-type: none"> <li>- Quantitative Impact Assessment of IAF Training.</li> <li>- Causal Links Between IAF Funding and Fees.</li> <li>- Detailed Examination of IAF Outsourcing Nuances.</li> <li>- Validation of Integrated Audit Strategies.</li> </ul>

Section	Key themes	Gaps	Suggestions for future research
	Meanwhile, externalizing IAF functions goes with increased levels of inspected qualities and induces auditors to offer diminishing fees for non-audit services		- Strategies for Comprehensive Collaboration with IAF.
3.1.5	Significance of EA-IAF Relationship. Challenges in Assessing IAF Reliance. Information Asymmetry and Governance Disclosures. Diverse Effects on Audit Quality. Identity Dynamics and Control Deficiency Evaluations. Role of Collaboration in Reporting Timeliness.	- Comprehensive Understanding of Disclosure Challenges and Data Accessibility. - Identity Dynamics and Impartiality Assessment of IAF.	- Advancing Disclosure Practices and Identity Dynamics. - Holistic Examination of IAF Impacts and Collaborative Strategies.

In closing, integrating the insights gleaned from the comprehensive literature assessment presents a thorough understanding of the intricate relationship between External Auditors and Internal Audit Functions. Addressing the pinpointed gaps and applying the recommendations for additional examination would notably contribute to advancing this comprehension. The multifaceted ties probed, such as the impact on fiscal declaration integrity, audit costs, and audit effectiveness, underscore the sophisticated dynamics in play. Greater disclosure, further examination of the components of identity, and an exhaustive review of the effects of IAFs are critical for promising areas of additional examination. Through thorough examination of these three elements, researchers can help close gaps expand clarity and develop a more informed grasp of the dynamic interplay between EAs and IAFs in the areas of audit quality and financial reporting practice.

#### 4. SUMMARY OF FINDINGS

The article substantially considered the complex pressures that drive external auditors' judgments to rely on the internal audit. The most important measures such as customer scrutiny, board linkages, and the level of commercial terror were responsible for placing high reliance on the internal audit. Moreover, alternatives that were actions of automations played a minor role, subjugating to taking corrective action less frequently and less narrowly. The study outlined parameters bringing positive changes on collaborative activities between the external and internal auditors to generate asset accounting quality and audit efficiency. The researcher vividly justified the deep challenges of dependence decisions though those measures affecting audit benchmarks, customer interest, and potential benefits of professional independence. The contribution of the comprehensive scheme was that fee and quality relations results uncovered a graphic impression depended numerous preferences by the external auditors can significantly decrease outlays. Although the internal audit was useful component factory in audit value, additional study is required to show the whole picture of the aggregate impressions of dependence on the internal audit and its discrete impressions on audit established.

#### 5. CONCLUSION

The multifaceted relationships between external audit reliance on internal audit functions and organizational departments were distinctly intertwined with the study's objectives which provided findings through systemic analysis. Firstly, in accordance with the first goal, the analysis accurately measured the scope and orient of external audit dependency in internal functions, outlining that consumer pressures, institutional links and financial hazards powerfully shape the judgements based upon these considerations. The data thus delivers a comprehensive understanding of the interconnectedness of circulation proprieties. Secondly, the evidence supports the second objective by confirming the importance of recognizing internal function's overriding presence in upholding

financial disclosures integrity and external audit efficacy. From this perspective, collaborative efforts boost both financial disclosures proprieties and audit efficiency. Thirdly, the conclusions regarding the third objective pertaining to the challenges and contexts external auditors face in relying on the internal functions adequately addressed the need, unveiling various challenges, such as client demands, evolving audit standards and professional independence concerns. Fourthly, with regard to evaluating impact of reliance on external audit costs and quality goal four – the paper similarly reveals intricate towns, underlining that some drivers may elevate charges while simultaneously increasing audit quality. Finally, regarding aim five and reliance and fiscal statement quality fifth objective, highlight the paramount role played by internal functions in shaping audit quality through both direct and participatory spectra. In conclusion, the analysis highlights the need for further exploration which would greatly aid in understanding the complex relationship between external and internal auditors and the significance of effective utilization of mutual cooperation and collaboration to improve audit process and quality. The results were supported with ample evidence and demonstrated value to auditors and other relevant parties.

However, the study also offers some suggestions for further research. The mixed findings concerning reliance on internal auditor execution seemed to call for more detailed exploration of this factor. Similarly, further exploration is likely warranted into the impact of automated remediation on internal function performance and reliance, as well as the influence of data analytics adoption on external auditing. Also, a final realization to make is that understanding the implication of increased stricter rules the internal audit function could provide much-needed insight into internal audit practices. In sum, this review has significantly contributed to the external audit reliance on internal function literature compared to its existing literature. It showed influencing factors and highlighted internal and external auditors' effective use for audit quality and public reporting. This research indicates constraints and loopholes requiring further investigations. Desired are to explore whether technology adoption, regulatory changes, and auditors' perceptions and decision-making correlate. The impact of this research is on auditors, organizations, and other relevant parties, guiding them to employ best practices.

## INTEREST CONFLICTS STATEMENT

There are no potential conflicts of interest for the authors to disclose.

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