
HARMONIZING IRAQI LOCAL AUDIT MANUALS WITH INTERNATIONAL STANDARDS AND THEIR IMPACT ON ENHANCING THE QUALITY OF EXTERNAL AUDITING

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Abstract

International auditing standards are gaining wide global acceptance to keep pace with economic transformations and bridge the gap of variation in professional practices. The research problem arises in the urgent need to develop Iraqi local audit manuals (2, 6, 7) and harmonize them with international standards (IFAC & INTOSAI) to ensure the quality of audit performance. The research adopted the descriptive analytical approach to conduct a comparative study between international standards and local evidence, leading to the formulation of a proposed framework or fundamental amendments that enhance the efficiency and reliability of financial reports in the Iraqi control environment. The most prominent conclusions were that there were a time and technical gap between the Iraqi local audit manuals (2, 6, 7) and the fundamental updates that occurred in the international auditing standards (ISAs) and INTOSAI standards, and that the stagnation in the texts of the local manuals limits the ability of the external auditor to exercise his duties in accordance with international quality standards.

Keywords: International Federation of Accountants (IFAC) - Quality of audit performance - Standard gap - Development of the profession in Iraq - Reliability of financial reports.

Introduction

The Accounting and Oversight Standards Board in Iraq seeks to align local audit evidence with international developments. This study aims to evaluate and develop local audit guides Nos. (2, 6, 7) related to (auditor's report, planning, and quality control), by conducting a comparative analytical study with international auditing standards and INTOSAI standards. The research aims to provide proposals and recommendations that contribute to bridging the standard gap and raising the quality of professional performance in the Iraqi environment.

1- Research methodology

First: The research problem:

The problem is represented in the gap between the local audit manuals applicable in the Iraqi control environment and the rapid developments in international auditing standards issued

by (IFAC) and INTOSAI. Failure to update these manuals limits the ability of the external auditor to keep pace with international practices, which negatively affects the quality of oversight work and the effectiveness of audit reports.

Second: The importance of the research:

Second: The importance of the research emerges from the necessity of developing the professional environment in Iraq through:

1- The professional dimension: Drawing the attention of regulatory bodies (such as the Financial Supervision Bureau) to the need to update local manuals, especially manuals No. (2, 6, 7).

2- The academic dimension: Enriching the accounting library with an analytical study comparing local and international practices to reduce the professional performance gap.

Third: Research objectives:

The research seeks to achieve the following objectives:

1- Analyzing the differences between international auditing standards and local auditing guides (research sample).

2- Determining the impact of compatibility with international standards in enhancing the dimensions of audit quality.

3- Providing a proposed framework for amending or issuing developed local auditing guides that are consistent with international requirements.

Fifth: Research methodology and data collection methods:

The research adopted the comparative descriptive analytical method through:

1-The theoretical aspect: reviewing literature, books and research related to the (IFAC) and (INTOSAI) standards and local evidence.

2-The analytical aspect: conducting a technical comparison between the international standards (700, 705, 300, 220) and their corresponding INTOSAI standards, and between the Iraqi evidence (2, 6, 7) to deduce shortcomings. And submit the proposed amendments.

2-Theoretical framework

First: External audit:

Definition of external audit: It is a process of critical and organized examination of records and internal control, based on specific criteria, to express an impartial technical opinion about the fairness of the financial statements and the truthfulness of their representation of the financial position and business results (Al-Quraishi, 2011: 51)

1- Strategic objectives of external audit:

The objectives of auditing moved from the traditional approach based on detailed inventory to “risk-based auditing” (Whittington & Pany, 2022, p. 14) These objectives are classified into:

A - Traditional objectives: aiming to verify the validity of data and express a neutral technical opinion, while revealing errors and fundamental errors (Louwers et al., 2021, p. 7).

B - Modern objectives: include evaluating the efficiency of administrative performance, verifying the optimal use of resources, and enhancing the value of the organization through oversight of strategic plans (Arens et al., 2020, p. 42).

2- Economic motivations for requesting audit services

A- The need for independent auditing is attributed to several structural factors in the modern economic environment, including the complexity of financial operations and the emergence of the “agency problem” that imposes the presence of a third party to resolve conflicts of interest between management and owners ((Louwers et al., 2021, p. 18).

B- Auditing also works to reduce “information risks,” allowing investors to make decisions based on highly reliable reports(Whittingto & Pany, 2022, p. 9).

C- Due to the magnitude of financial transactions, the possibility of error or intentional manipulation increases, which makes unaudited information unsuitable for decision-making (Al-Tohamy, 2006: 23).

Second: External audit quality

1 - The concept of audit quality and its professional determinants

Researchers and professional organizations have faced difficulty in establishing a unified definition of audit quality, due to the intangible nature of the audit service that cannot be tested in advance, as well as the varying perspective of quality between the concerned parties (auditor, client, and regulatory bodies) (Al-Lahibi and Khalaf, 2013, :264), and some believe that quality is represented by the “transparent face” of financial reports and their predictive ability (Sami, 2009, 27).

2- Factors affecting audit quality

Audit quality is affected by several fundamental variables, the most prominent of which are:

A- Audit fees: where a sharp decrease in fees threatens professional competence.

B- Auditor independence: It is the most important pillar for ensuring an impartial technical opinion.

C- Industry experience: The auditor’s knowledge of the nature of the client’s activity increases the probability of detecting fundamental errors (Jomaa, 2012: 34) (Jarbou, 2003: 51) (Al-Mutarna, 2009: 23).

3- Quality of performance and rules of professional conduct

Auditing quality emerges from the correlation between professional ethics and standard commitment, as rules of conduct form the foundation for enhancing the confidence of beneficiaries and preserving the dignity of the profession (Abdullah, 2000: 74). The quality of operations is determined across three levels:

A- The international level (IAASB) The ISA 220 standard focuses on controlling the quality of the “audit engagement” and documentation as a legal guarantee, while the standard (ISQC 1) requires companies to establish internal control systems to ensure professional compliance (International Federation of Accountants, 2009).

B- The public sector level (INTOSAI): The standard (ISSAI 40) works to adapt international quality principles to suit The government environment, through a structure that responds to risks and adopts a system of monitoring and continuous improvement to raise the efficiency of professional judgments (ISSAI 40).

C- Local level (Iraq): Local Audit Guide No. (7) of 2016 specified quality procedures to ensure consistency of reports with evidentiary evidence, placing responsibility on the “leadership” in the Financial Supervision Bureau and offices to establish a culture of ethical compliance and document policies (Iraqi Audit Guide No. 7, 2016).

Third: Regulatory reference for audit manuals in Iraq

The normative work was established in Iraq with the establishment of the “Accounting and Oversight Standards Board” in 1988, which issued (7) auditing manuals aimed at regulating the profession, and despite the recession that followed the 1990s, the year 2016 witnessed a qualitative transformation with the adoption of quality manuals to keep pace with international standards (ISA) (Federal Financial Supervision Office, 2021: 12)

Fourth: International Auditing Standards (ISA)

The standards issued by the Practices Committee are considered International Auditing is the primary global reference, and is organized into (13) thematic groups that cover the entire audit cycle. It begins with principles and responsibilities (200 series), risk assessment (300-400 series), all the way to reporting (700 series) and assurance services (2000-4699 series). Hammad, Tariq Abdel-Al, 2022: 88).

Fifth: INTOSAI standards

specialize in controlling oversight in the public sector and are classified into (International Organization of Supreme Audit Institutions, 2023: 4-7):

1- Founding principles (P-Series) such as independence, transparency and professional ethics.

2- Basic principles (ISSAI) which include financial oversight, performance and commitment.

3- Guidances (GUIDs) for specialized fields such as the environment and sustainable development.

It is clear that the Iraqi regulatory environment It seeks gradual alignment with international standards, as Local Auditing Guide No. (7) of 2016 represents the basic communication bridge with standards (ISQC 1) and (ISSAI 40), moving the profession from procedural control to an integrated quality system (Al-Obaidi, 2021: 56).

Sixth: Fundamental differences between local guides and international standards (ISAs/ISSAIs)

Auditing quality is the basic pillar of preventing financial collapses; In the Iraqi environment, there is a need to harmonize the local audit guide No. (7) with the international standard for quality control (SQC 1) and the standard (ISA 220) in addition to the “INTOSAI 40” standards.

The most prominent points of difference and analysis:

1- In terms of the standard and basis: The international standard (ISSAI 40) is based on a comprehensive framework that integrates supervisory principles with application guidelines, while the local guide No. (7) lacks expansion of those guidelines. Adopting the INTOSAI standard gives the Iraqi regulatory bodies a depth in quality control that goes beyond traditional requirements (Hussein, 2022: 114).

2- In terms of scope and application: The international standard (ISSAI 40) is distinguished by a broader scope that includes oversight of performance and commitment, in While the Iraqi local guide focuses on limited procedural aspects, harmonization here requires simplifying international guidelines to suit the local environment to ensure ease of understanding and implementation (Al-Khafaji, 2021: 82).

3- Procedures and human resources: The auditing environment in Iraq (especially the Financial Supervision Bureau) suffers from a lack of work teams dedicated to quality control

and weak financial capabilities for training, which makes the application of the local guide fall short of keeping pace with international standards that require continuous qualification (Abbas, 2023: 201).

3- The practical aspect

First: The Federal Financial Supervision Bureau (independence and tasks)

1- The concept of independent financial oversight

Financial oversight is defined as an integrated system that aims to ensure that actual performance proceeds in accordance with established plans and legal principles, while detecting deviations and addressing them (Al-Hadidi, 2008: 26). It acquires its “independent” status when it is exercised by a body that is not subject to executive authority and enjoys legal immunity that prevents interference in its affairs (Al-Khatib and Shamia, 2003: 322).

2- The independence and powers of the Bureau under Law (31) of 2011

The Bureau enjoys financial and administrative independence (Article 5 of the Federal Financial Supervision Bureau Law No. 31 of 2011, as amended), Its powers are defined in:

A - Technical powers: access to all records, conduct field inventory, and audit secret programs related to national security.

B - Legal powers: request investigation of violators, file civil lawsuits to recover state rights, and conduct direct administrative investigation in the absence of the offices of Inspectors General (formerly).

C - Qualitative jurisdiction: includes legality oversight (adherence to laws) and performance oversight (efficiency and effectiveness) of all entities that use public funds.

3- Enhancing the quality of performance (Audit and Follow-up Department)

The Audit and Follow-up Department is the main focus of quality assurance, as it undertakes, in accordance with the Internal Regulations of the Financial Supervision Bureau No. 1 of 2012, the following tasks:

A- Quality Control Department: Examining regulatory reports technically and formally at a rate of no less than (5%) to ensure that they are free of errors and comply with standards.

B- Standards Department: Coordinating with the “Accounting and Regulatory Standards Board” to ensure adherence to local manuals And international and diagnosing obstacles to implementation.

C- Follow-up and transparency: Issuing the annual report within 120 days from the end of the fiscal year and submitting it to the House of Representatives to ensure accountability.

Second: The practical aspect of the planning process in external audit

1- The essential requirements of the planning process:

The effective planning process for external audit is based on a set of basic requirements, the most prominent of which are:

A- Teamwork and professional competence: Involving experienced members of the audit team to ensure good distribution of tasks and raising the efficiency of performance.

B- Professionalism: Commitment to exercising professional skepticism and exercising professional judgment when making fundamental decisions.

C- Assuming continuity: assessing the ability of the economic unit to continue in the foreseeable future, as this has a direct impact on the presentation of Financial statements.

2- Initial activities (pre-planning):

The external auditor performs a set of activities before accepting or continuing the audit mission, with the aim of reducing risks, including:

A- Assessing the integrity of management and owners.

B- Verifying the efficiency and resources of the audit team in terms of time and experience.

C- Compliance with ethical requirements, especially independence, while taking preventive measures when there is a threat to it or withdrawing when necessary.

D- Privacy of the Iraqi public sector: In the event of a legal appointment (such as an assignment from the Financial Supervision Bureau), obstacles to independence are disclosed in the report instead of withdrawal.

e- Assignment Agreement: Documenting the terms of the assignment and updating them in cases of frequent auditing.

3- Planning procedures (practical application)

The planning process is a continuous process that begins after the end of the previous audit, and includes the following:

A- Risk assessment:

- Applying analytical procedures to understand the client's activity, identifying unusual fluctuations, and evaluating the assumption of continuity.

- Understanding the legal and regulatory framework, especially in Iraqi public companies.

B- Elements of the audit plan:

- Studying the accounting system.

- Evaluating the internal control system.

- Determining relative importance.

- Coordinating with internal auditors or experts when Need.

C- Sources of information:

- Annual reports, minutes of meetings, previous working papers, and discussions with management.

4- Relative importance (Materiality)

Relative importance depends on the professional judgment of the auditor, and is determined:

A- At the level of the financial statements as a whole or at the level of specific items.

B- Using indicative ratios such as:

- (5%) of the profit before tax for for-profit establishments.

- (1%) of the total revenues or expenses for non-profit or governmental establishments.

5- Involving experts and documentation

A- Seeking help from experts: in areas that require technical knowledge or estimates Complex.

B- Planning documentation: Preparing an audit strategy memorandum and updating it when fundamental changes occur.

C- Audit program: Preparing a written program that includes objectives, procedures, and timing of implementation, taking into account flexibility.

6- Supervision and guidance

A- Continuous supervision: Following up on the performance of assistants and experts to ensure the quality of work and building professional capabilities.

B- Work review: Documenting the review of work papers and evaluating the adequacy of evidence to support the professional opinion.

Third: The comparative analytical study and the proposed framework for harmonization. In this aspect, the researcher relied on conducting a comparative analytical study between three Iraqi local audit guides (2, 6, 7) and similar International Auditing Standards (ISA) and the International Organization of Supreme Audit Institutions (INTOSAI) standards with the aim of monitoring the gaps and providing amended evidence.

1- Analysis of the local audit guide No. (2) “The Auditor’s Report”

A- Analytical gaps:

- Deficiencies in naming: Lacks The local guide includes the word “opinion” in its title, unlike the international standards (700, 705) and the INTOSAI standards (1700, 1705).

- Delay in international updates: The guide is based on outdated versions, and has not kept pace with the fundamental amendments of 2016 (International Standard 701) that introduced the “Key Audit Matters - KAMs” paragraph and increased the report’s paragraphs from (5) to (7) paragraphs.

- Structure Report: Modern standards gave priority to the “opinion” paragraph by placing it in first place, followed by the “basis of opinion” to enhance media value and transparency, which is what the current local guide lacks.

B- Proposals to amend Guide No. (2):

- Amending the name of the guide to be “The Auditor’s Report and Opinion” to be consistent with the content and international standards.

- Rearranging the report’s paragraphs to begin with the opinion paragraph, and including the “Important Auditing Issues” paragraph to increase reliability.

- Strengthening the role of “professional skepticism” and evaluating the “continuity assumption” as essential requirements in drafting the report.

2- Analysis of the Local Audit Guide No. (6) “Planning the Audit and Supervision Process”

A- Analytical Gaps:

- Terminology and Objectives: The Local Guide focuses on procedural aspects, while the INTOSAI Standard (1300) expands the planning objectives to include oversight of performance and commitment to public sector privacy.

- Primary Activities: The Local Guide lacks a clear definition of “preliminary activities” (such as accepting the assignment and verifying independence) before the actual start of planning, as stated in the International Standard (300).

- Omission of qualitative aspects: The local guide did not clearly indicate (professional skepticism, professional judgment, and analytical procedures) as essential elements in the planning stage.

B- Features of the proposed framework for the amended Guide No. (6): The researcher developed a proposed framework that aims to harmonize the local guide with international standards and its most prominent features:

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- The developed goal: Planning the audit to reach an impartial technical opinion with a focus on cases of non-compliance and the effectiveness of internal control.
 - Scope and importance: Including initial and recurring audits, with the obligation to review the work papers of the previous auditor.
 - Updating terminology: Introducing precise definitions of (audit risks, materiality, professional uncertainty, and financial statements) within the body of the guide.
 - Strengthening supervision: linking The level of supervision and guidance at the level of the assessed risks (the greater the risks, the greater the scope of supervision).

3- Analysis of the Local Audit Guide No. (7) “Quality Control”:

A- Analytical gaps:

- Comprehensiveness of the system: The Local Guide (7) focuses on quality control procedures for each audit process separately, while the international standards (ISQM 1 & 2) adopt a “comprehensive quality management system” approach that extends to include the culture of the entire office/institution and not just the audit task.
- Leadership responsibility: The local guide lacks a clear detail of the responsibility of leadership (the partner or responsible manager) for quality within the task, This is emphasized by INTOSAI Standard (40) regarding Supreme Audit Institutions.
- Monitoring and Evaluation: International standards require the existence of an “Engagement Quality Review” (EQMR) before issuing the report on high-risk assignments, a procedure that was not adequately framed in Local Guide No. (7).

B- Proposals to amend the amended Guide No. (7):

- Adopting a risk approach: The researcher proposes amending the guide to be based on identifying risks that threaten audit quality and developing appropriate responses to them.
- Defining responsibilities: Establishing explicit paragraphs obligating the head of the audit team to bear full responsibility for guidance, supervision, and professional performance.
- Ethical requirements: Integrating the requirements of independence and integrity as an integral part of the quality control system in the proposed guide.

4- Conclusions and Recommendations

First: Conclusions

After the comparative analytical study of the local guides (2, 6, 7) with the international standards (ISAs) and INTOSAI standards, the research reached a set of conclusions as follows:

- 1- The comparative study revealed the existence of a time and technical gap between the Iraqi local audit guides (2, 6, 7) and the fundamental updates that occurred in the international auditing standards (ISAs) and INTOSAI standards, especially with regard to the requirements of the auditor’s report and planning methodology. Risk-based.
- 2- The research concluded that stagnation in local evidence texts limits the external auditor’s ability to perform his duties in accordance with international quality standards, and that adopting international standards reduces cases of misuse of economic resources.
- 3- The conclusion that international control standards (INTOSAI) provide fertile ground for developing local manuals in Iraq in a way that is consistent with the specificity of the Federal Financial Supervision Bureau, with the need to preserve local legislative specificity.

4- That the current quality control manual needs a comprehensive review to include modern quality management concepts recently approved by international standards (such as ISQM 1 standard).

5- Deficiencies in the terminology and nomenclature used locally, which may lead to misunderstanding by international users of Iraqi financial reports.

6- Increasing need To control the quality of professional work in Iraq as a necessity to confront the risks of financial failure and reduce the expectations gap.

7- Achieving quality does not depend on evidence texts, but rather requires building human capabilities through specialized workshops to understand international control mechanisms.

Second: The proposed recommendations (as an appendix to the conclusions)

To complete the benefit, below are the most important recommendations that we see:

1- Recommending the formation of a specialized technical committee in the Accounting and Regulatory Standards Board whose mission is to periodically review the local evidence and update it immediately upon the issuance of international amendments.

2- Call on the regulatory authorities to adopt the framework that the research will present as an initial draft for amending the evidence (2, 6, 7).

3- The necessity of establishing intensive training programs for auditors on international standards (700, 705, 300, 220) to ensure proper application when updating local manuals.

4- Commitment to direct and continuous supervision of team members, and linking the level of supervision to the level of assessed risks and the competence of assistants.

5- Documenting the review of the team's work in working papers to ensure that professional quality requirements are met and to support the results contained in the final report.

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