

**Republic of Iraq**  
**Federal Board of Supreme Audit**

**Role of SAIs in diversifying and developing sources of  
evidence to enhance audit work quality**

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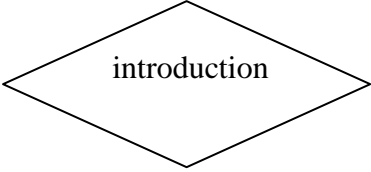
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## **Role of SAIs in diversifying and developing sources of evidence to enhance audit quality**



introduction

Auditors make many efforts to express a neutral technical opinion on the financial statements, which is accompanied by processes of collecting assurances in the financial statements and obtaining and evaluating evidence. This process requires a measurement to verify evidence correctness, objectivity, method and timing of obtaining such evidence, which is based often on the auditor's personal judgment.

Audit evidence in nature represent facts submitted to a person that makes him able to separate on specific subject, while the evidence from a legal point of view governs rigidity, the evidence in audit are subject to the auditor's question in each statement of the financial statements. Thus, these represent facts in which the auditor seeks to judge the validity or incorrectness of the financial statements.

The SAI must diversify and develop evidence sources which are used in proving the validity of financial settlements and the extent to which it achieve assertive audit goals, in order to ensure the requirement of audit work quality in an environment characterized by instability and constant change accompanied by risk.

Building on the previous, and to fulfill its goal, the research included the following sections:

1. **Section 1. Research methodology** includes, research problem, importance of research, research goals, research hypotheses, methods of data collections, timeline and location/research sample, as well as research diagram.
2. **Section 2. Theoretical aspect** includes, evidence in the audit and how it reflects on the implementation of assertive audit goals, risks and quality control on assigning audit observations and SAIs and their role in determining evidence.

3. **Section 3. Practical aspect** includes, reviewing and analyzing some of the diagnosed audit observations on entities( research sample), using evidence by audit teams of FBSA, and their reflection on the audit work quality, in addition to employing evidence by auditing procedures for some accounts by linking them to the assertive goals of audit.
4. **Section 4. Co nclusions and recommendations.**

## **Abstract**

The research aims at highlighting audit role of FBSA in Iraq through the role of audit teams in diversifying and developing sources of evidence used by FBSA to enhance its audit observations. The research will discuss the presentation of audit procedures for some accounts and through connecting them with the assurance goals by conducting analytical study for a sample audit reality of audit teams and diagnosing the strengths and weaknesses of these audit reports.

The research is based on a hypotheses which provides for adopting the systematic practical and scientific method that depend on diversifying and developing evidence sources and connecting them to audit assurance goals in a way that contributing in supporting diagnosed audit observations and reflecting on the quality of audit work as well as developing the quality of audit reports from time to time.

In discussing the theoretical framework, the researchers depended on the available Arabic and foreign books and letters and essays in the related fields, in addition to laws, legislations and formal documents of the research topic and making use of published researches and study on the internet. The practical aspect is dealing with three axis, the first one represents analytical study to use evidence for a sample from the audit team of FBSA through the notes in the audit report for the research sample committees, as for the second axis, its referring to the reflection extent of the appropriate evidence on the quality of the audit work and drawing conclusions in this regard and potential risks raised by the researchers with discussing the corrective measures required in subsequent periods, while the third axis included providing audit procedures for some accounts and linking them with assertive objectives of the audit.

**The researchers reached to a number of conclusions, the most prominent of them:**

- Weak diversification sources of obtaining an appropriate evidence by the audit staffs in the light of changing economic environment characterized by risks.

- Lack of clear link between evidence that are used by audit teams and the assertive goals to be achieved and this weakens the diagnosed audit observations within the audit reports.

**The researchers also reviewed a number of recommendations as follows:**

- engaging audit staffs of SAIs in training courses and workshops to work on developing the basic skills for obtaining and studying appropriate evidence and selecting the most appropriate evidence when writing down audit observations in a manner that guarantees the quality of audit work.
- encouraging SAIs on their main role in adopting more than a method or approach that supports audit notes, because adopting one type of evidence and continuously leads to fixing repeated and identified observations from year to another.
- Rationalizing auditors of FBSA to make required professional diligence to plan for gathering an appropriate evidence and in a way that ensures effectiveness in their audit work.

## **Section one**

### **Research methodology**

This section dealing with review for research approach that are based on scientific research framework included problem, importance , goals , hypotheses of the research and methods of gathering related data, as well as research diagram, and as follows.

#### **1.1 research problem**

The research problem is embodied in the dependence of the audit staffs of FBSA in Iraq on some specific types of evidence to fix audit notes without linking them to assertive audit goals as well as not to diversify and develop sources for obtaining evidence in identifying the risks that come with audit work.

## **1.2 research importance:**

The importance of this study is highlighted by:

- Identify the evidence in the audit and their achievement for the assertive goals of the elements under examination.
- Identify the most prominent evidence adopted by SAIs.
- Explaining the extent of the contribution of the audit teams working in the FBSA in Iraq in identifying and selecting the appropriate evidence and its reflection in documenting the audit notes and the tasks assigned to the auditor.
- Studying the role of quality control in evaluating evidence used in assigning audit notes and the appropriateness and adequacy of the used evidence.

## **1.3 research goals:**

Most of the auditors rely on inherited personal experiences from previous periods in writing down the diagnostic audit observations, although the professional judgment of the auditor is an important factor and has no option in implementing the audit work, but the study of the data submitted by the auditee and ascertaining the management's claims and diagnosing the audit observations requires setting Plans to implement the audit work, and among these plans is to determine the types of appropriate evidence, according to the element under examination. The research goals are summarized in identifying:

- Developing some of the required audit procedures for a set of accounts and connecting them to the assertive goals of audit, through conducting analytical study for a sample from the audit teams of FBSA, identifying the strengths and weaknesses of these audit reports.
- Reviewing and evaluating audit role of FBSA in Iraq and its effectiveness on the audit teams diversifying and developing evidence sources contained in its reports.
- Identifying if the evidence, as approved by the audit teams, is appropriate for the type and size of risks faced by the audit work environment.

- Learning about the evidence and its basic components, and identifying the relationship between the audit procedures and evidence and the goals of audit, and the statement of the external auditor for obtaining the evidence.
- Providing recommendations that the researchers consider necessary to contribute to the rationalization of FBSA auditors to make the required professional diligence and planning to collect appropriate evidence to ensure effectiveness in their audit work.

#### **1.4 research hypotheses:**

Adopting the scientific and practical methodology that relies on diversifying and developing the sources of evidence and linking them to the assertive goals of the audit contributes to enhancing the diagnostic audit observations and its reflection on the quality of the audit work, as well as contributing to develop of the quality of audit reports.

#### **1.5 data collection methods:**

**1.5.1: the theoretical aspect:** The researchers relied on enriching this aspect on what are available from Arab and foreign books, brochures, letters and articles in the relevant fields (published and unpublished), as well as the laws, legislations and official documents that are the subject of the research, with the assistance of research and studies published on the Internet.

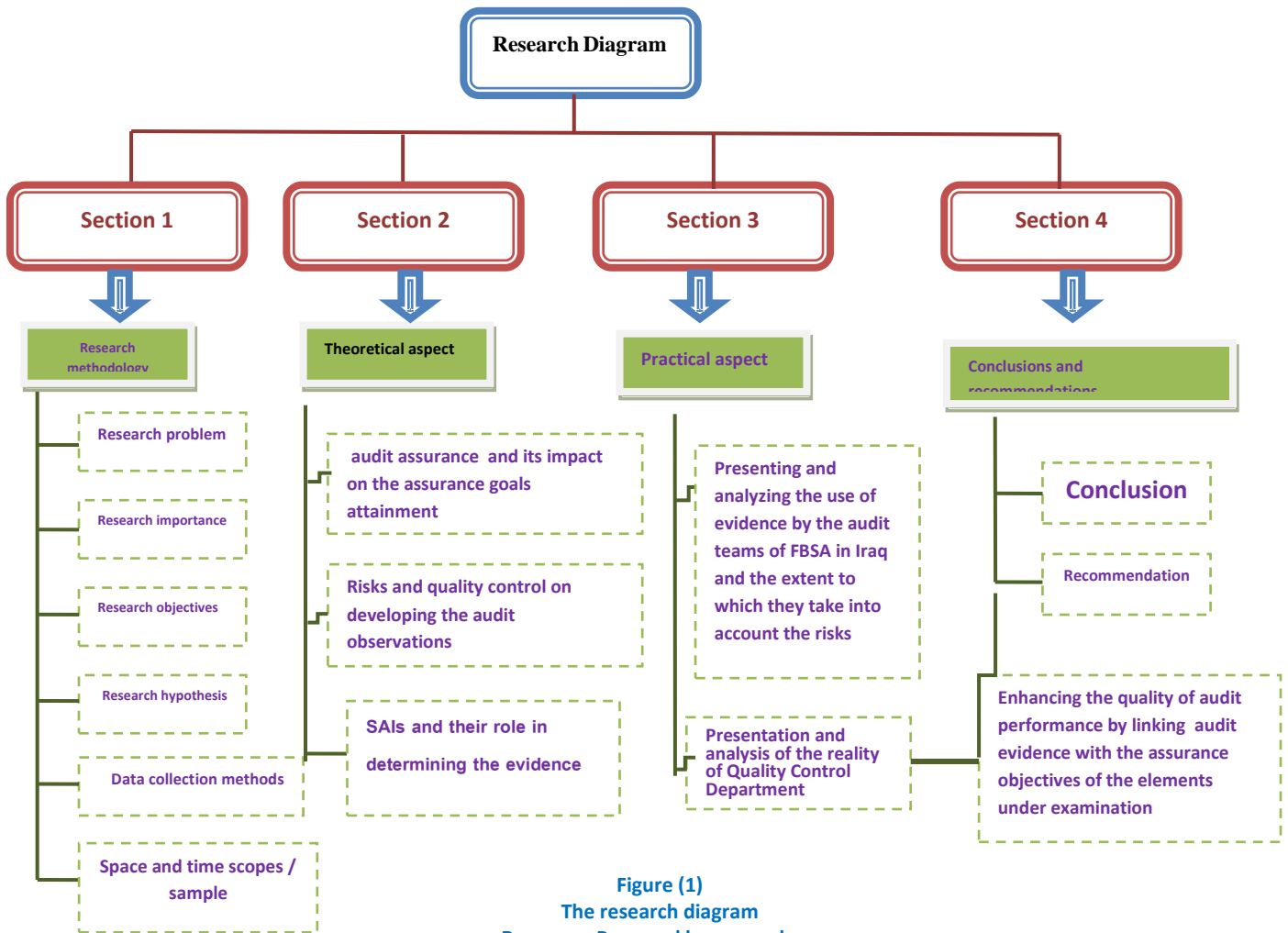
**1.5.2 the practical aspect:** In this aspect, the researchers relied on conducting an analytical study of the reality of the diagnosed observations in FBSA reports issued for a sample of the audit teams working in it, as well as highlighting the most important observations diagnosed by the Quality Control Department towards the written down observations and developing a set of accurate procedures that the researchers consider suitable for some accounts and connecting them with evidence and assertive goals of audit in order to raise the efficient use of this evidence.

#### **1.6 place and time scope / Research sample:**

- Place: a sample of audit teams from the FBSA was selected namely (the audit teams of the Traffic directorate, the agricultural cooperative bank and Al-Salam public company) as well as the reports of the quality control team regarding the work of those teams.
- Time scope: the reports related to the quality department control, the audit reports and the current files of the auditee mentioned above for (2014 and 2015) that were issued during 2016 and 2017 were selected.

### 1.7 The Research Structure :

For studying the research problem and achieving its goal, figure (1) below depicts the research scheme:



## Section 2



## **Audit Assurance and its impact on assurance goals attainment**

To have a sufficient conviction in terms of assurance goals attainment, the auditor is required to perform a systemic process through which evidence is collected, evaluated and linked. Reliance should be on professional judgment and experience to deduct appropriate judgment on the efficiency and adequacy of this evidence and expressing a clear and explicit opinion to be written down in the report. Therefore, the report is the summary of the auditor's work. Whenever the appropriate and sufficient evidence is available to the auditor, he can judge matters clearly. The third standard of field work standards stresses that the auditor should obtain sufficient evidence and information by performing the audits work so that he can rely on to express an opinion on the financial statements. The evidence or information is essential in the audit process and supports the field work standards (Al-Matarna, 2006: 43).

For the purposes of attaining the research goals, the following topics will be covered in this section:

- The concept of audit evidence and information
- Types of evidence and information and the methods to obtain it.
- Sources of obtaining evidence and information.
- Characteristics of evidence.
- The relationship between evidence and auditing tests.
- The relationship between materiality, audit risk, and evidence.
- The elements affecting the number of audit evidence or information .
- Authenticity of evidence and information.
- Determinants of evidence.

## **2.1 The concept of evidence and information in the audit**

What is language definition of assurance ? assurance is to establish and confirm the truth of something based on evidence (Ibn Manzur – the verb –assure , 364). In terms of law, it is establishing evidence on an alleged fact being of legal effect (Morcos, 11: 1987).

The form or method of proven fact or the effect derived from this method, in terms of its authority and conviction is called evidence. (Ibrahim, 1985: 242).

(The Iraqi Evidence Law, Article: 102) defined it as: "judicial evidence is when a judge elicits an indecisive matter from a decisive one in a case before him".

In the field of auditing, the information is defined as "eliciting an unknown fact by a known fact related to the first one" and the auditor uses the information when he lacks direct evidence or when he needs to complete or reinforce an incomplete evidence "(Mohammed, 2011: 259).

The evidence is also defined in the audit as "the means or the physical form that conviction takes to establish the actual or accounting fact", this definition has two aspects: (Mohammed, 2011: 2

Aspect1: the physical i.e. the method or the form it takes

Aspect 2 : The actual or accounting fact ,subject of assurance i.e. all physical facts or economic actions conducted by the economic entity for services provision or goods production and selling .The accounting fact means assuring all the events in the records after breaking them down to and attaching the accounting entries to the consolidated accounts, then summarizing them in the financial statements. In Arabic, a piece of information is called “Qareena”- it is taken from the word “ muqarana “ (association )and may be significant or insignificant depending on the degree of association .Yet ,it could be either decisive or very unlikely and such judgment depends on discretion,diligence and wittiness .

Evidence is considered a fact by itself. As for the information, it is used to replace evidence. The auditor uses the largest possible number of information in the difficult cases to replace conclusive evidence. Most of the auditor's work consists of collecting evidence and information to form

his neutral technical opinion about the audited data (Abdullah, 2014: 139).

The point of difference between the information and evidence is that the latter goes directly to the fact under audit, while the information goes indirectly through the related fact. Examples of audit information are: (Mohammed, 2011: 259)

- a. The internal control system and its soundness .
- b. Operations following the date of preparing the financial statements and their implication on the statement items correctness.
- c. Information that can be reached by linking data and comparisons.

Information is considered as evidence when they reach to the degree of evidence in establishing a certain fact or reaching an opinion on a specific subject. Thus, evidence in audit means that an auditor obtains evidence and information that enable him to conclude a neutral technical opinion on the financial statements under audit (Jerboa, 2009 : 175).

The researchers define the evidence as (the proof that supports the validity of the economic event that is directly or indirectly related to the provision of a service or production of goods that occurred with the aim of showing the audit observation with the required supporting evidence and enhancing the audit report quality and ensuring the audit objectives achievement).

## **2.2 Types of evidence and information and methods of obtaining them:**

ISSAI 500 (the audit evidence) identifies many types of evidence and its information in auditing, such as:

1. The actual existence (the physical): This method is used to verify the physical existence of the tangible asset such as equipment and buildings. The actual inventory is a significant evidence for the existence of the asset and it is in the possession of the entity, but it is not considered evidence for the ownership of the original. The auditor should obtain documents supporting the ownership. In some activities, the auditor does not have experience with the nature of the activity that the entity engages in. Thus, the auditor should consult experts to carry out the inventory, such as (gold

stores, gemstones, chemical materials ... etc.) (Al Muntarana, 2006: 180).

2. Documents: they are the most important types of evidence and information on which the auditor relies in his work. They fall into three types: (Abdullah, 140: 2014).
  - a. Documents prepared outside the entity and used inside it, such as purchase invoices.
  - b. Documents prepared inside the entity and used outside it, such as sales invoices and receipts from others.
  - c. Documents prepared inside the entity and used inside it, such as accounting books of all kinds.

The degree of dependence on documents is rated in descending order according to the order mentioned above. The documents prepared from an external source are more effective than those prepared inside the entity. The work of the auditor in auditing the documents is focused on examining them from the formal, legal and objective aspects to determine their authenticity and the extent of dependence on them in enhancing the accounting recording.

3. Representations: They are the representations required by the auditor, whether from inside or outside the entity. With regard to the internal representations, the auditor should take the necessary steps to be convinced of the validity of material under audit. The auditor may find it more appropriate to obtain a representation from the officials that the specific operation was properly conducted and recorded. Among the most important representations are the inventory soundness representation, the management's representation that it shoulders its social responsibility. (Mohammed, 2011: 264)
4. The audits also require obtaining the representations from outside the entity, which are called third-party certificates that the auditor obtains from clients regarding account approvals and statements to verify the validity of the confirmation from another external party (Abdullah, 140:2014).
5. 4- Arithmetic precision: The arithmetic accuracy and validity in the books and records of the entity is a evidence and information upon which the auditor relies upon when examining the books and

records and verifying the addition, subtraction and division operations for the journal and the ledger, as well as the expenses, revenues and preparation of the final accounts. Verification of that gives the auditor evidence of the validity of what the books and records contain. (Al-Matarna, 181:2006)

6. 5- The existence of a sound internal control system: The presence of a good and solid internal control system gives the auditor a vision of a clear indication of the registration regularity in books and records and the ability to rely on them, and vice versa, the solid monitoring system does not mean good written regulations and instructions. It means the extent of efficiency in the application of these regulations and instructions and its reflection on the correctness of accounting books and records and its free of intended and unintended accounting errors.
7. 6- Subsequent events of balance preparation: After the auditor has finished the audit work and prepared his final report, events may occur that may be evidence or information of the correctness of some of the elements in the financial statements.
8. 7- Expert opinions: The auditor is not a scientist in all sciences and arts. He is specialized in accounting and auditing. There are some fields of knowledge that the auditor cannot obtain sufficient and appropriate evidence such as (gold, petroleum, diamonds, etc.). Therefore, the professional custom of the audit permitted the use of the opinion of a specialized expert to obtain evidence of the matters that need this kind of opinion. Provided that the expert is independent, impartial and scientifically qualified by obtaining a certificate that qualifies him for that, in addition to having sufficient experience in his field of work (Jarbou ', 182:2000).
9. The ISSAI (500) defines a set of procedures that enable the auditor to obtain evidence by one or more of the procedures represented in (examination, observation, inquiry, approval or calculation and analytical procedures). In general, we can indicate the most important means and methods that receive general acceptance and the most important procedures that the auditor adopts in order to express his technical opinion as shown in the table below:

**Table (1)**

**Means and procedures used to obtain evidence**

<b>Evidence</b>	<b>Method</b>	<b>Intend</b>	<b>The most important procedures followed in it</b>
<b>Documents</b>	<b>Documentary review</b>	<b>Auditing the documents supporting the operations as they meet the conditions and requirements related to their authenticity</b>	<b>Ensure that the document meets the following objective and formal requirements: 1. The document is in the name of the entity being audited 2. There is no conflict between documents 3. The document includes the required signatures 4. The document is sufficiently supportive to the operations 5. The document must be original, not a copy</b>
<b>Arithmetic precision</b>	<b>Mathematical audit</b>	<b>Auditing operations mathematically and ensuring the numbers are correct</b>	<b>Track the numbers from the beginning of registration in the documents until they appear in the final financial statements and ensure the correctness of its calculations</b>
	<b>Accounting audit</b>	<b>Reviewing operations from accounting aspect (technically) and the extent of commitment to the accepted accounting principles and following sound accounting treatments in bookkeeping</b>	<b>Track operations and ensure the correctness of accounting treatment, accounting guidance and the extent of commitment to the accepted accounting principles</b>
<b>Actual presence (Physically)</b>	<b>Actual inventory</b>	<b>Verify the integrity of the substantive procedures for the inventory</b>	<b>1. Verify the implementation of the procedures 2. Carry out the necessary tests and check on the integrity of the inventory 3. Linking between sales and inventory 4. Comparison between sales and inventory 5. Linking between purchases and inventory</b>
<b>Representations and experts opinions</b>	<b>Approvals</b>	<b>Representations and certificate obtained by the auditor from the parties dealing with the entity are:</b>	<b>1. The auditor shall prepare it by himself or by two assistants and be in the name of the entity 2. It should be sent to the parties whose testimony is requested</b>

		<p><b>1. Positive approvals, in which the customer's balance is mentioned and asking for approval</b></p> <p><b>2. Passive approvals, in which the customer's balance is mentioned and the response is requested in case of objection</b></p> <p><b>3. Blind approvals, in which the balance is not mentioned, and the customer is required to mention his balance with the entity, and it is considered one of the best types of approvals.</b></p>	<p><b>3. The response should be sent to the auditor's address</b></p> <p><b>4. It should be examined very carefully</b></p>
	<b>Request for management certificate</b>	<p><b>It is a certificate the auditor requests from the management to verify a specific matter and it indicates:</b></p> <p><b>1. Management's awareness of its responsibilities, duties and knowledge of all operations</b></p> <p><b>2. It is considered an evidence submitted to the courts to deny any shortening or negligence attributed to it</b></p> <p><b>3. It is considered an evidence for the auditor in case of absence of an effective internal control system</b></p>	<p><b>1. The auditor requests the information and representations it deems necessary</b></p> <p><b>2. The management responds to the auditor in written and according to the formal procedures</b></p>
<b>Subsequent balance preparation events</b>	<b>Study the following events of the final statements dates</b>	<b>The auditor examines the events subsequent to the closing date of financial statements to identify whether the information he reached are correct or not.</b>	<b>Ensuring the operations that are carried out at the beginning of the year and linking it to the previous year, such as (the presence of sales returns at the beginning of the year equivalent to the same value of sales at the end of the last year, which reflects the fake of these sales)</b>
	<b>Critical analytical</b>	<b>It is the matching of the amounts included</b>	<b>1. Preparing and prefacing the analytical procedures</b>

	<b>procedures</b>	<b>in the final statements of the entity subject to audit with amounts expected by the auditor in light of his experience and other prevailing circumstances, which provides useful evidence in the audit</b>	<b>2. Obtaining evidence and information using the methods of analytical procedures, including:</b> <ul style="list-style-type: none"> <li>• Trend analysis method</li> <li>• Relative distribution of the statements</li> <li>• Use of indicators</li> </ul> <b>3. Evidence evaluation</b>
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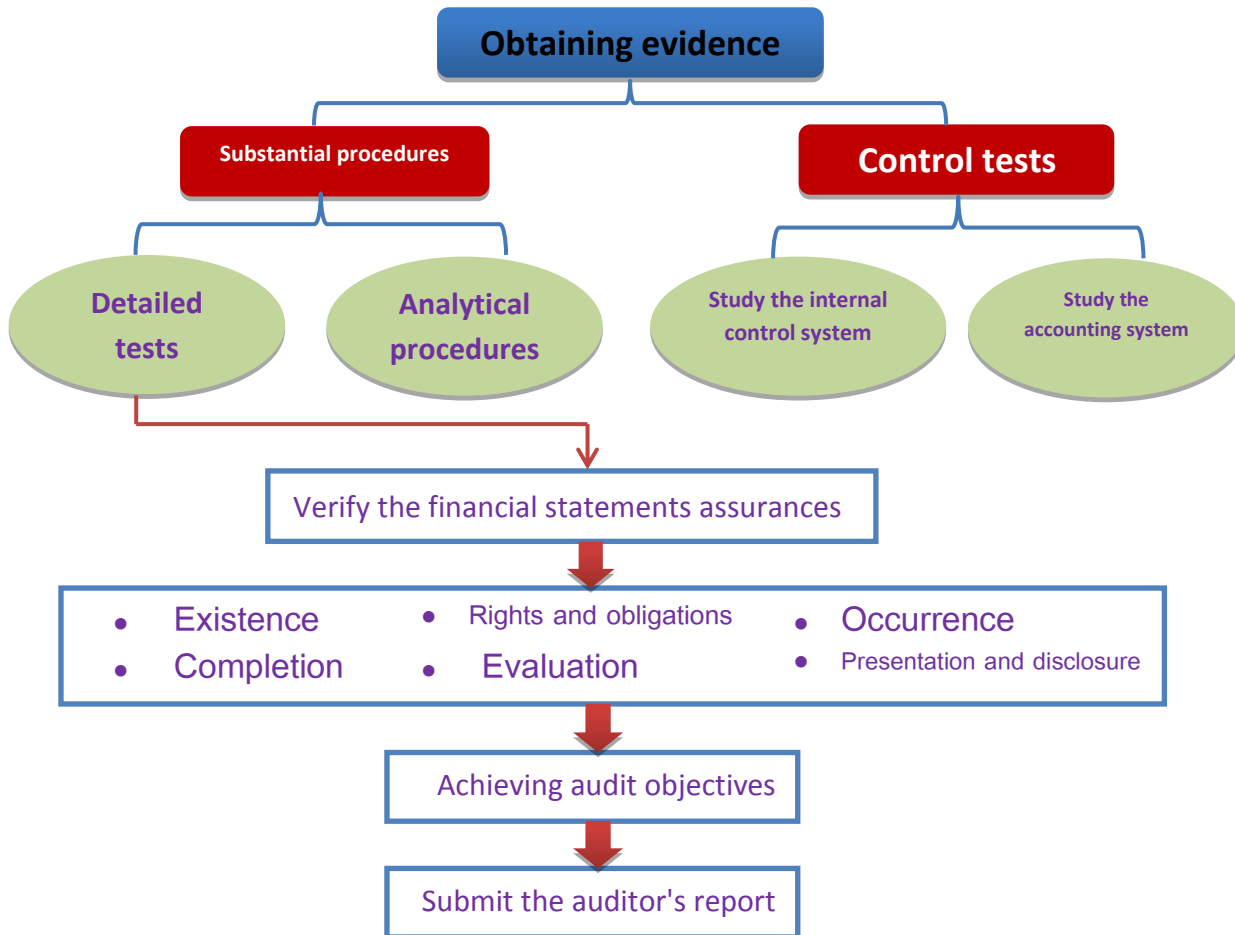
### **2.3 Sources of obtaining evidence and information:**

The ISSAI 500 has indicated that evidence is obtained from an appropriate mixture of control tests and substantive procedures, and in some cases the evidence is obtained from substantive procedures only. (International Federation of Accountants, ISSAI 500:2010, p. 137). Control tests means the tests performed to obtain evidence relating to the appropriateness of the effective design and operation of the accounting system and the internal control system, while substantive procedures are concerned with the tests performed to obtain evidence that detect the substantive errors in the financial statements and they are two types:

1. Detailed tests of transactions and balances: constitute the largest part of the substantive procedures and acquire the largest part of the time the auditors take to obtain evidence, and the nature of the detailed tests varies from one account to another, but all of them aim to convince the auditor of the reliability of assurances and representations (explicit and implicit) issued from the management and included in the financial statements. (Al-Alusi, 32:2006)
2. Substantive Analytical Procedures: A set of comparisons and relationships that the auditor undertakes to assess whether the account balances or certain data appear reasonable and the substantive procedures can give the auditor a sufficient evidence and thus the auditor will reduce the search for other evidence. (Ali, 160:2009).

The relationship of the substantive procedures with the evidence can be clarified through the following form: (Al-Alousi, 31:2006)





**Figure (2) relationship of substantive procedures with evidence**  
**10.Source: (Al-Alousi, 31, 2006)**

The substantive procedures differ in their appropriateness according to the type of the financial statements assurances and the relationship of these procedures to the type of assurance objectives of the audit. As the main objective of the financial statements audit is to express a neutral technical opinion in accordance with the generally accepted accounting principles. A set of sub-goals is linked to the main objective of the auditing in order to achieve the main objectives above, which can be illustrated as follows: (Guide of the audit methodology according to risk method, 2014)

- 1- Existence: Assets and liabilities exist at a certain date.
- 2- Rights and obligations: The assets and liabilities relate to economic unit on a certain date.

3. Occurrence: The transaction or event that occurred in relation to the economic unit on a particular date.
4. Completion: There are no assets, liabilities, transactions or events that were not recorded and items not disclosed during the period.
5. Evaluation: Assets or liabilities are recorded at their historical value.
6. Measurement: The transaction or economic event is recorded at an appropriate amount, the revenue and expenses are carried forward to the accounting period.
7. Presentation and Disclosure: The audited item has been disclosed, classified and explained in accordance with appropriate framework for financial reports.

As mentioned in Article (4) of FBSAs' law No. (31) for 2011 (amended), it seeks to achieve the following goals:

- Safeguarding public money from waste, spendthrift, or misconduct and ensuring its efficient use.
- Developing the performance efficiency of auditees.
- Contributing to the independence of economy and supporting its growth.

It is worth noting that the audit objectives represent a link between the recognized auditing standards and the procedures that must be followed to achieve and fulfill these standards. Therefore, the identification of objectives must be made first, so that it is possible to define the procedures for collecting evidence to be performed (Thomas Hanky, 2009: 317).

The table below shows the type of material procedures and relationship with assurance objectives:

**Table (2)**

**The relationship of material procedures with assurances of financial statement**

- Material procedures	Assurances of financial statement						
	Existence	Rights and obligations	Occurrence	Completion	Evaluation	Measurement	presentation and Disclosure
* Analytical procedures	*	*	*	*	*	*	*
- Detailed procedures							
* Third party authentication	*	*	*	*	*	*	
*Actual inventory	*	*	*	*	*		
*Reconciliation test				*		*	
* Accounts Analysis	*		*	*		*	
* Documentary examination	*	*	*	*		*	
* Arithmetic Accuracy							*
* Exceptions test	*		*		*	*	
* Separation dates between years	*	*	*				
*Inquires	*	*	*	*	*	*	*
* Reading Financial Statements							*

Source: (Al-Alousi, 2006: 34)

From the above table, it is noted that the analytical procedures and inquiries are related to all seven assurances, while arithmetic accuracy and reading financial statements are related to one assurance. As for the rest of material procedures, they relate to some, but not all, of financial statement assurances. The importance of analytical review is highlighted in its positive role for all audit stages by reducing the volume of procedures and audited sample to a minimum in order to obtain the necessary evidence that satisfy the auditor when expressing his neutral technical opinion to achieve audit objectives efficiently and effectively.

Analytical auditing procedures are defined as (a set of tests that are applied to the financial statements through studying and comparing the

relationship between them and determining the extent of the auditor's reliance on the basic tests, through testing transaction details, balances or the collection. Hence, it represents a process of examining and testing information of an auditee through its books and accounts, and comparing the information to determine its consistency with institutions' procedures and activities. These procedures aim to reduce the risk of disclosure and thereby enable the auditor to express a sound opinion on financial information (Qurait 2009: 436).

Based on this, the ISSAI 520 specifies the main objective of applying the analytical procedures as analyzing the relationships between financial statements data and identifying unexpected relationships to focus on examination which helps in planning the audit process, designing the appropriate audit plan and program. The auditor can use different methods to achieve this objective through simple comparisons and sophisticated analyzes that require advanced statistical techniques.

### **Analytical procedures**

The process of auditing using financial analysis is called the analytical review. It is considered one of audit methods that the auditor uses to identify project indicators compared with previous periods or other similar facilities. (Al-Jarbu, 2001: 11-12).

An analytical review is defined as "one of auditing means that the auditor uses to identify project indicators compared to previous periods or similar sectors at the activity level" (Al-Sahn, Darwish, 2007: 139). These procedures are represented by analyzing the relationships between financial and non-financial statement items to determine homogeneity and the presence of any illogical or unexpected relationships. This requires a highly skilled auditor to perform an analytical review that enables him to invest time, cost and individuals; and achieve a set of benefits, including: (International Federation of Accountants, 2007: 459-464)

First - Helping to understand the client's activity compared to others.

Second - directing attention to some problems to focus on.

Third - Helping to assess the entity's ability to continue.

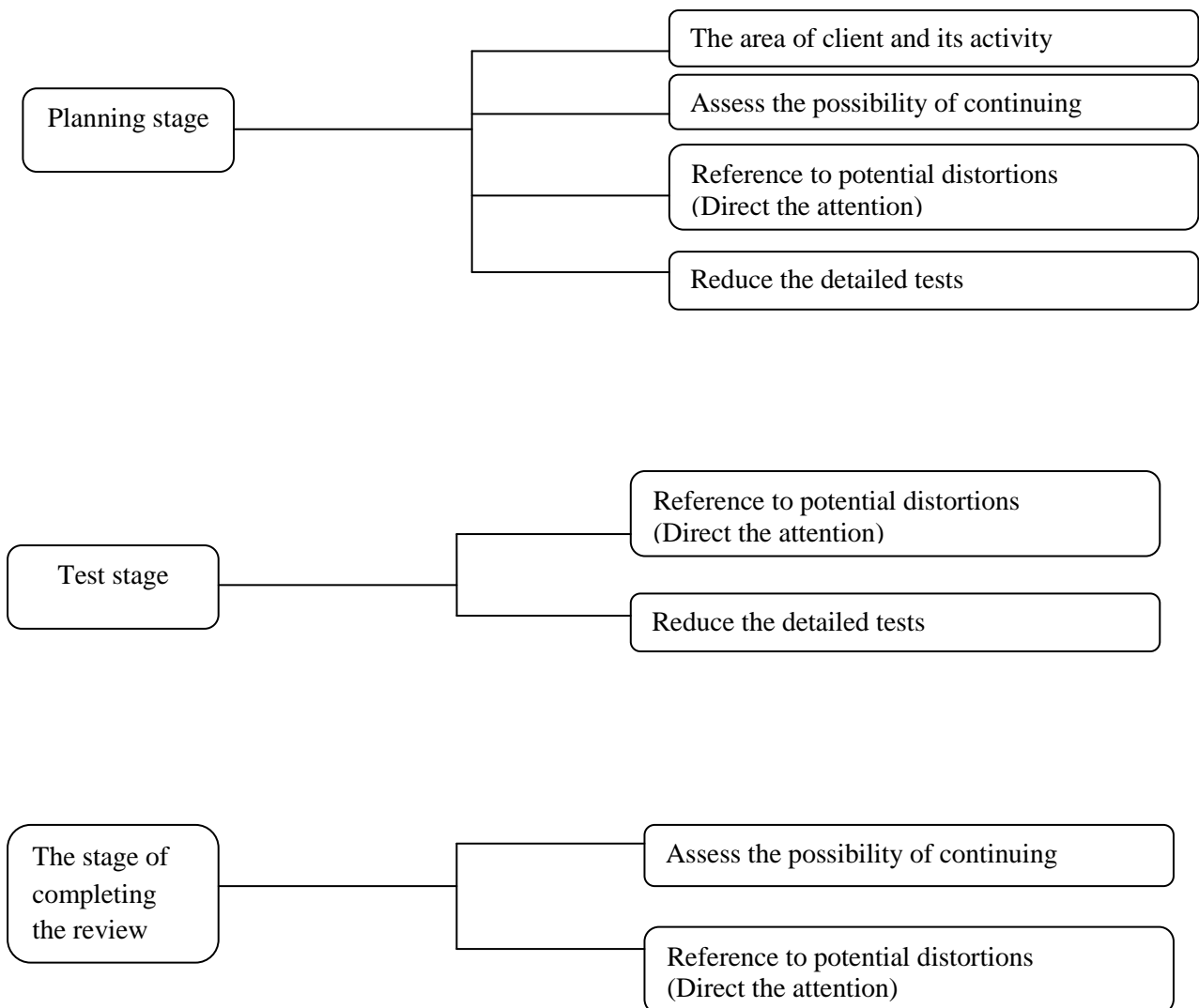
Fourth - Alerting about deviations that may exist in the accounts.

Fifth: May lead to a reduction in detailed tests.

The auditor can use analytical procedures as an evidence for all audit stages, starting with planning, testing, and ending with audit completion and issuance the final report.

Figure 3 shows timing and purposes of analytical procedures throughout the audit process:

**Timing and purpose**



**Figure 3: The timing and purposes of the analytical procedures (Arens, Lubeck, 2000: 257)**

The auditor can apply the analytical procedures in three different stages:

**The first stage: the use of analytical procedures in the planning stage of audit.**

The auditor applies analytical procedures at this stage to determine the nature and timing of conducting the audit work. At this stage, the auditor gives importance to financial information and interrelated relationships. The study of these relationships and balances benefits the auditor in planning the auditing, where he identifies the weaknesses of analysis results that help him to determine the nature procedures that can be used to obtain the necessary evidence.

**The second stage: the use of analytical procedures during the auditing.**

The auditor uses the analytical procedures at this stage to study and compare some of items included in financial statements to ensure their authenticity. Examples include :( Nassar and Bahrami, 2008: 14)

- The auditor calculates the direct wages on the basis of working hours. The test of employees' number, working hours, and the average wage show wages value for a specific period, therefore the auditor can compare them with calculated value of wages recorded in the books.
- Comparing the recorded value of depreciation with the depreciation value calculated by the auditor, through applying the rates used for cost of fixed assets that are subject to depreciation at the beginning of the period, plus or deducted additions and exclusions that occurred on those assets.

During this stage, the auditor, when applying analytical procedures, aims to detect violations in financial statements. He identifies the balances which include deviations, and the necessary audit procedures and evidence to find out the cause of these deviations. The auditor works to reduce the detailed tests required to examine these balances, uses analytical procedures at this stage to reduce the detection risks related to specific assurances of financial statements. The auditor may base on detailed tests or analytical procedures, or both.

### **The third stage: the use of analytical procedures at the end of auditing.**

The auditor uses the analytical procedures at the end of auditing to evaluate conclusions integrity and to be satisfied with fairness and objectivity of financial statements, given the fact that the overall audit results may indicate the need for additional audit evidence. As the auditor, when he creates an opinion whether the financial statements are identical with records and conclusions were prepared individually during auditing or when auditing the elements of financial statements, aims to reach a general result of reasonableness and identify areas that require additional audit procedures (Al-Fadl, 2012 42), quoting (Lutfi, 2006: 548-547).

Finally, the auditor will form a final objective view of the financial statements he audited when applying the analytical procedures at the end of the audit process. The analytical procedures in the last stage of the auditor's work are to read the financial statements, attached notes, and data for the purpose of:

- Studying the adequacy of the collected evidence which is related to the balances that the auditor considers unusual in the audit planning stage.
- Identifying unusual account balances, relationships, and irregularities in the financial statements that he has not previously identified.
- Judging on the integrity of the financial statements as a whole and the adequacy of disclosing the status of the entity's activity and its results during the financial period under auditing as well as judging the status of its financial position at the end of the period and ensuring that the entity can be a going concern.

#### **2.4 Characteristics of audit evidence**

When the auditor obtains evidence, he must also determine the availability of conviction concerning that evidence in light of the objectives and standards of the audit. For the evidence to be convincing, it must have a set of characteristics in order to support the opinion reached by the auditor.

IAS 500 (Evidence) states that the auditor must obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions so that it can constitute the basis upon which his professional opinion is based (International Association of Certified Public Accountants, Standard 500, 2010: 293)

The figure 4 pinpoints the qualitative qualities of evidence:

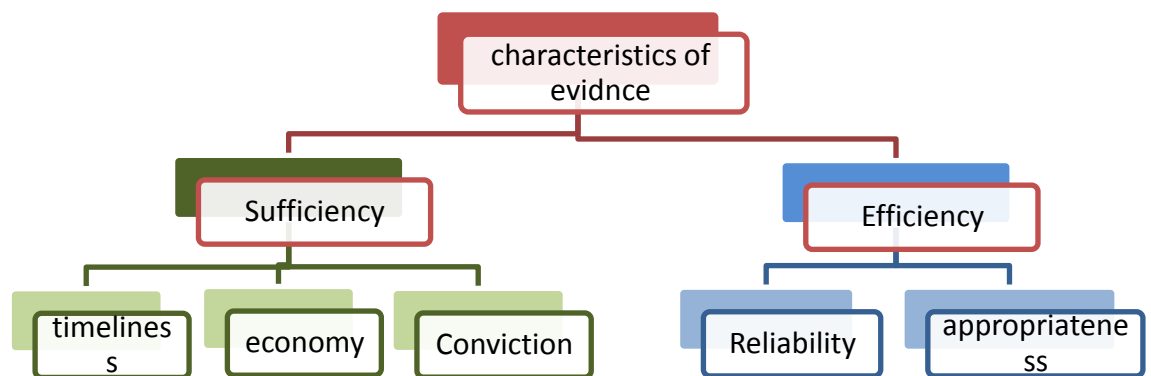


Figure 4: Qualitative qualities of evidence (Al-Qaisi, 1998: 91)

Below is an explanation of these qualities:

**A. Efficiency of evidence:**

The Evidence efficiency is divided into :

**First: Appropriateness**

appropriateness means the validity of the evidence and its ability to assist the auditor in deducing a logical opinion on the item to be proved. The appropriateness of the evidence is determined by the extent of reliance on it to judge the fairness of the financial statements as this feature means that the evidence is appropriate i.e. it is closely related to the objectives of the audit (Al-Alusi, 2003: 259).



## **Second : Reliability:**

The reliability of the evidence is its dependability and removal of doubt about the validity of this evidence. The auditor can rely on the evidence he obtains if it actually represents what it is intended to represent, when considering a set of factors: (Al-Qaisi, 1998: 89):

- 1) Integration of the evidence, that is, obtaining evidence from different sources, so that any of them complements the other.
- 2) The evidence that the auditor obtains from an external source directly, such as authentications, is more reliable for audit purposes than the one prepared inside the client's entity.
- 3) Documentary evidence is usually more reliable than oral evidence.
- 4) The original documents are more reliable than their photocopies.
- 5) Evidence obtained directly by the auditor is more reliable than the one obtained indirectly.
- 6) The information that is being prepared within the entity under a strong and strict internal control system is more reliable than the one prepared under a weak defected control system .

### **B. The sufficiency of evidence**

It is the number of evidence gathered to verify the reliability of the management's assurances related to the financial statements. The sufficiency of the evidence is divided into three sub-qualities that affect the auditor's conviction about the sufficiency of the evidence he obtains or is provided with through the auditing procedures and checks performed by him. They are as follows:

#### **1. Conviction:**

It represents the degree of conviction that the evidence provides regarding the aspects of the financial statements he is examining, given that the audit evidence is often convincing and not conclusive, that is, it provides a certain degree of assurance and does not provide conclusive confirmation. It is therefore uncommon to have one type of evidence to verify information. "(Arens, Lubeck, 2000: 244)

## **2. Economy:**

The auditor has before him a set of alternatives of the evidence that are valid to prove a specific piece of information. Therefore, he must choose one or more of these alternatives according to the based on the cost of obtaining and evaluating the evidence, and the benefit realized out of it namely the credibility the evidence adds to the auditor's findings.

## **3. Timeliness:**

Timeliness reflects the period in which the evidence is collected or the period covered by the audit. Evidence must be available to the auditor before it loses its ability to influence his decisions. (Cam, 2000: 703). Timeliness of obtaining evidence plays an important role in raising the degree of confidence in the results reached by the auditor. For example, the evidence is more convincing for budget accounts when it is obtained on a date that is as close as possible to the budget preparation . As for the income statement calculations, it will be more convincing if the test sample is withdrawn from the whole accounting period under audit and not from one part of this period. Thus, delayed evidence, however correct, appropriate and sufficient, should not be accepted because the time factor is important in reaching the results of the review. Australian Accounting Research Foundation, 1992: 10). The efficiency and sufficiency of evidence is affected by the auditor's evaluation and professional judgment, which in turn is influenced by a set of factors, including: (Lutfi, 2007: 372).

1. Auditor's expectation concerning distortions in the financial statements: These expectations are formed as a result of preliminary tests before and during the planning process.

2. The strength and robustness of the internal control system of the client: The inverse relationship between the strength and robustness of the internal control system and the size of evidence gathered by the auditor in the detailed tests. The same relationship applies for control system and the size of detailed tests.
3. Materiality: Materiality is related to the relative importance of the element. The element of materiality needs more evidence, so the relationship between them is direct. The higher the level of materiality (relative importance), the more evidence the auditor needs and vice versa.
4. The acquired auditor's experience: The auditor's experience gained from previous reviews of the client's entity provides him with a suitable basis for determining whether the evidence is appropriate and sufficient.
5. Size and characteristics of society: A large community usually needs more evidence than a small one, because the sample that will be chosen will be larger so that it constitutes true representation of the community.

In addition, the evidence must be objective i.e. the evidence is not affected by the auditor, that is, if the same evidence is presented to more than one auditor, each will reach the same result. For the evidence to be rationally assured so that it provides a valid link between the causes and effects and between the available evidence and the purpose required to be established, the evidence must be established on a systematic basis to raise and increase the objectivity of the evidence. The evidence methodology includes the following steps: (Muhammad, 2011: 275).

1. Determining the goal of auditing each item , describing this goal and determining the percentage or criteria required whenever possible.
2. Determining the size of the context subject to audit.

3. Determining the degree or extent each consideration of evidence needs in order to reach the required opinion regarding substantiating or refuting this consideration.
4. Choosing the types of evidence and determining the quantities that are required in terms of degree of accuracy and the level of confidence required.
5. Defining the audit procedures necessary to provide the types and quantities of evidence required.
6. Applying the audit procedures and collecting evidence.
7. Evaluating, comparing and linking the collected evidence to reach a conviction about its adequacy and relevance for substantiation .
8. If a conviction is not reached, the substantiation process is reviewed through obtaining new evidence.

## **2.5 The relationship between the evidence and the audit tests**

After the auditor obtains an adequate and appropriate understanding of the client's activity, in the preliminary stage, he will “be able to estimate the efficiency of the internal control and decide whether he can rely on it or not.” (Al-Qaisi, 1998: 141). If the result of his preliminary evaluation is that The internal control is excellent, good or appropriate, he will perform two types of tests (procedures):

First - Tests of the internal control system compliance :

Compliance tests are defined as “review procedures designed to check whether internal control procedures and their basic rules set by management are applied in the manner specified in the system description and in the internal control survey. Compliance tests relate to internal control procedures and rules, quality of compliance, powers, and responsibilities of the person entrusted with execution.” (Al-Sakka, Abu Al-Khair, 2002: 15-16)

In practice , the information extracted from various sources may be incorrect due to reasons including the failure to provide information or providing misleading information or the auditor misunderstood the information. Thus, these tests are designed by the auditor to

provide evidence of audit work and obtain assurance that controls are functioning effectively during the period under audit ( SAI Sweden 1997: 32-33)

Compliance tests include two main aspects:

- 1) Determining whether the internal control system is functioning as planned.
- 2) verifying whether there are certain operating errors affecting the financial statements, which is called transaction tests.

Second, the basic tests (verification tests):

The purpose of these tests is to validate and detect errors and reach conclusions about the comprehensiveness and accuracy of the items under review and the level of misrepresentation in the accounts. There are three types of basic tests are basic tests of operations, basic tests of balances and analytical tests.

If the result of the assessment of internal control is that it is not sufficient, then in this case the auditor will go directly to implementing the basic tests and expanding them.

The relationship between the evidence and the types of tests needed to collect them is that audit objectives may be achieved through policy compliance tests, basic testing of balances and operations, or both.

3- The relationship between the efficiency of the internal control system and evidence

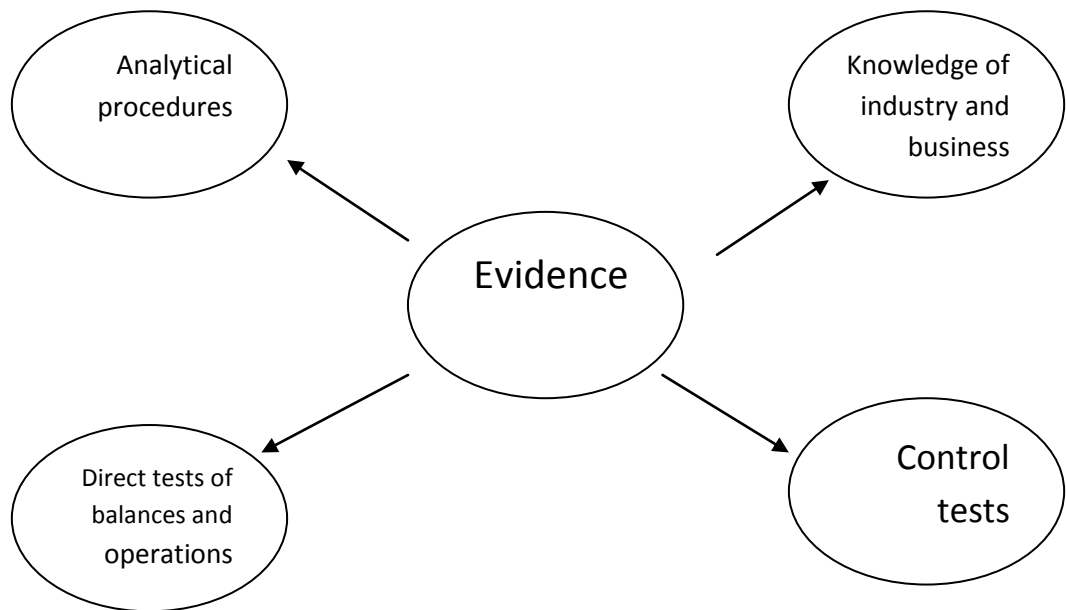
After the evidence is gathered from its four main sources, as in Figure (5), the stage of evaluating the evidence begins to ensure its adequacy and efficiency. This stage includes:

A- logical link between the information obtained from the tests.

B- Comparison with the principles and standards as well as the statistical measures developed in advance, and with the objectives and assumptions of the audit.

C- Classification of errors discovered in terms of material or non-material, and in terms of their types to (violations, or cases of uncertainty).

D- Selective review of the work done, and weightings of evidence



The study and assessment of the internal control system used by the firm is considered the starting point from which the auditor works. It is also the anchor on which he relies on when preparing the audit program and in determining the percentages of tests and samples. Whenever the system of internal control is strong and coherent, the more the references depend on the sample style for obtaining evidence and evidence, and the weaker it is. The more the auditor resorts to increasing the size of the selected sample, the presence of a sound internal control system is evidence of the presence of regular books and records, sound policies and administrative procedures as well as effective internal control and review procedures, which can be relied upon by the auditor to determine the degree of robustness of the internal control applied in the company and thus determine the scope and timing of the tests necessary to collect evidence. Whenever the applied systems are sound and accurate, the level of the risks of material errors will decrease and consequently lead to decreased size of the tests and the amount of evidence that must be obtained. If the risks of material errors are low, the auditor will need evidence of an average amount or a few and vice versa.

## 2-6 The relationship between relative importance, audit risk, and evidence

Materiality of the International Accounting Standards Committee was defined under ISA320, in the context of preparing and presenting the financial statements (The information is material if its omission or erroneous presentation affects the economic decisions of the users of the information obtained from the financial statements). Materiality depends on the size of the item or the estimated error in special circumstances, or presented it in a wrong way. Therefore, materiality provides critical aspects and is not merely a qualitative characteristic that is required in the information in order to be useful. The auditor must take materiality into account when:

- determines the nature, timing and extent of the audit procedures.
- evaluates the effect of material errors.

When designing the audit plan, the auditor sets an acceptable level of relative materiality, in order to discover the amount of material misstatements. However, the study of both the quantity and quality of misrepresentations in the information should be taken into account, in the case of errors in relatively small amounts, then when they accumulate it can It has a material impact on the financial statements.

As for the relationship between audit risks and the required evidence, it is associated with a relationship that is directly proportional to the inherent and control risks. When these risks are low, the amount of evidence required will decrease accordingly because the risk of detection will be high in such a case, and this means, of course, that there is an inverse relationship between the risk of detection and the amount of evidence, so the lower the acceptable level of discovery risks identified by the auditor, the greater the amount of evidence required to restrict detection risks to this level ( Mohammed, 2011: 284)

The figures below show the inverse relationship between the risks of detection and the level of implied risks and control.



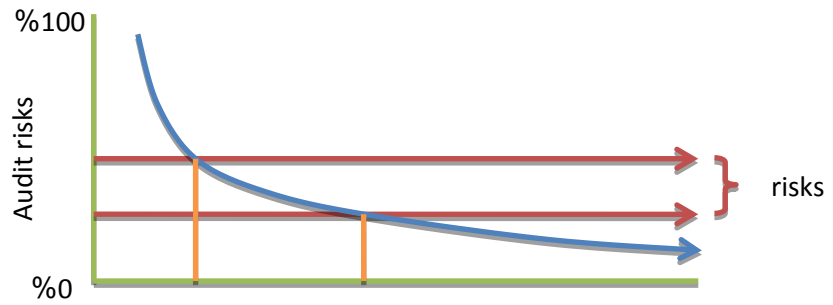


Figure 6

Quality and quantity of evidence

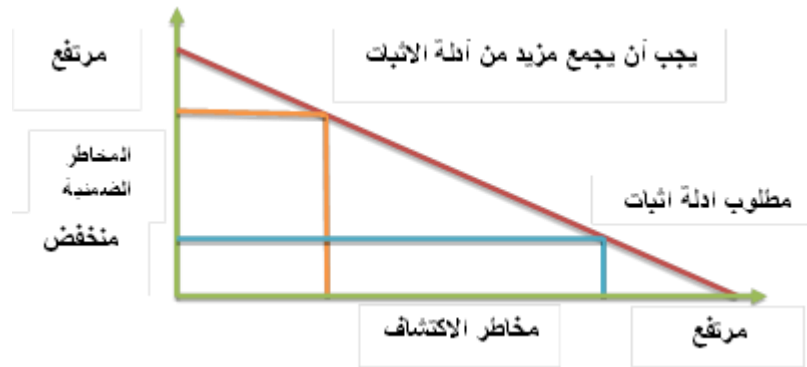


Figure 7

Role of evidence in reducing the audit risk

Source: Lotfy 2007:244

## 2.7 Factors affecting the amount of evidence or facts in audit

The auditor should collect the largest possible number of evidence and relevant facts to justify the opinion included in the report, and determine the amount of this evidence related to several factors. The most important of which are shown in the table below.

Table 3

Factors affecting the amount of evidence and relevant facts

factor	description
1. materiality of the element under audit	The amount of evidence and relevant facts is directly proportional to the materiality of the element being audited. The greater the materiality of a particular element, the more evidence the auditor collects to support his or her opinion on the validity of the item or element.
2. The degree of risk to the item being audited	Whenever the element under audit is at risk, the auditor needs additional assurances that this element has not been tampered with or misappropriated and therefore the need to obtain stronger evidence to support this element increases.
3. The cost of obtaining evidence	The collection of evidence in the audit absorbs a lot of effort, time and money, which requires the auditor to balance between his effort and money in order to obtain the desired evidence from it, so if it turns out that the desired benefit outweighs the effort, time and money, then he should not relent in obtaining such evidence and facts.
4. The relevance of the evidence and evidence for the element examined	The evidence and relevant facts differ according to the different elements that the auditor performs by examining them, as the actual existence is valid for verifying the tangible assets. As for external declarations, they are valid to verify some of the balances of others, such as customers and suppliers. Therefore, the auditor must collect evidence and evidence appropriate to the circumstances of the case and the nature of the item being audited.
5. The adequacy of the internal control system	The presence of a sound internal control system is evidence of the regularity of the books and records and hence the scope of the tests was determined based on the degree of robustness of the internal control system.
6. Adequacy of evidence to achieve the objectives of the audit	The auditor must collect evidence to achieve specific goals, as there may be one sufficient evidence to achieve all the goals, and it may suffice with it, and the evidence may be limited to achieving all the goals. Of existence but must be reinforced by other evidence to achieve the goal of ownership and validity of the evaluation

Source: Preparing the two researchers using (Jarbua ‘ 2000: 184) and (Abdulla 2014: 143)

## 2-8 probative value of Evidence

The probative value of evidence refers to the extent of their reliability and credibility. It depends on a number of considerations, including: (Muhammad, 2011: 268)

1. Source of evidence or relevant facts. It is the evidence obtained by the auditor from external sources, which is more powerful than the evidence obtained from inside the company.
- 2- The nature of evidence or information: the evidence or information that based on the personal interpretation is more authority than these based on the reviewer discretion
- 3- How to obtain evidence or information: The evidence obtained by the reviewer himself or through his assistants is more authority than that obtained by others.
- 4- The extent to which the evidence or information is related to the element subject to review: the more closely the evidence relates to the element subject to review, the more authority and reliable it is.
- 5- The method that is used to obtain the evidence: each method has its provisions and rules, and if it is not observed, the evidence has lost its authority, for example, the actual presence necessitates the actual inventory and external proposals require approvals...etc.
- 6- The appropriate time to obtain the evidence: Time is very important for evidence, the earlier the reviewer obtains the evidence, the more authoritative evidence is.
- 7- The extent of availability of confidence and knowledge of external sources from which evidence draws: the more trust of reviewer in the external sources is, the more these authoritative sources are.

## **2-9 Determinants of evidence**

There are a set of determinants and reasons that made the evidence convincing and not decisive (i.e. provide reasonable but not conclusive confirmation) in judging the results and information reached by the auditor. Among the most important of determinants are the following:

- A. Constraints inherent to the accounting system and the internal control system: as a result of the large number of financial operations, especially in the case of joint-stock companies, and the accountant registers financial operations, posts it to the journal and from there to the auxiliary records, conducts balancing and the trial balances and financial statements at the end of the fiscal year, misstatements may occur whether intentionally or unintentionally to influence the accounts. Accordingly, there is no review process can provide complete assurances that the financial statements are free of errors, because errors may occur as a result of the application and implementation of the company's financial operations, improper performance from the financial department and errors in the selection and application of accepted accounting principles and methods. In addition, "the accuracy and objectivity of the evidence may be at the expense of the objectivity and accuracy of the accounting measurement, such as adopting the historical cost in assessing the fixed assets instead of the current value for the difficulty of providing objective evidence of the present value." (Al Hassoun, Al Qaisi, 1991: 38)

Also, the auditor cannot rely entirely on the internal control systems, but he must do some tests (compliance tests) to ensure the strength and effectiveness of this system, knowing that the strength of the internal control system does not prevent misstatements in the financial statements, but it works to reduce them to the lowest possible level. There are restrictions on internal control systems, part of them has been identified in the first section of this chapter, which must be recognized and taken into consideration when assessing the extent of reliance on available evidence.

- B. The reasonableness of accounting estimates: The auditor should obtain sufficient and appropriate evidence for accounting

estimates. The accounting estimate means the approximate estimate of one of the items` value in the absence of accurate methods of measurement, including assign allocations of doubtful debts, depreciation allocations of fixed asset, and allocation of expected loss from a lawsuit. The management of the company is responsible for assigning the accounting estimates included in the financial statements based on the precautionary principle to face any potential liabilities. Also, the auditor is responsible for material deviations if he does not adopt one or more of the following methods of reviewing accounting estimates: (Al-Jarbu, 2005: 5)

First - Examining and testing the processes used by the management to prepare estimates, and usually the examination steps include the following:

- 1) Evaluate the financial statements and understand the assumptions upon which the estimate is based.
- 2) Test the calculations included in the estimate.
- 3) Compare the estimates prepared in previous periods with the actual results of these periods

Second - Using an independent estimate to compare it with the estimate prepared by the entity management.

Third- Examining subsequent events that support the assessment.

Often, these estimates are made in circumstances of uncertainty about the results of events that occurred or are likely to occur, which need to use discretion. As a result, the risk of material misstatement is greater if accounting estimates exist.

The researcher believes that the risks arising from the accounting estimates are related to the probability that management will seek to influence the financial position and the business outcome of the entity depending on the increase or decrease of these estimates (allocations of doubtful debts, for example). The evidence available to support the accounting estimate is often difficult to obtain and less decisive than evidence available to support other items in the financial statements.

- C. The use of the statistical sample method in the review process: the auditor should note that there are risks associated with the use of the statistical sample method that makes the conclusions related to financial operations vulnerable to error risk when items of less than 100% of financial operations is examined. Whereas, the auditor determines a certain percentage of the financial operations to be examined according to his conviction of the internal control system's strength. These risks are represented by material misstatements when preparing the financial statements, and the inadequacy and appropriateness of the review sample in discovering these misstatements. (Georgiades, 2001: 197-198)
- D. The use of financial analysis in the review process: The use of financial analysis is considered a necessity that the external auditor must do at the beginning of the review process and during the checks and at the end of the review process in order to identify the indicators for the project compared to previous periods or other similar entities. Despite the advantages achieved for the auditor by using this method, the financial analysis suffers from some aspects of shortcomings that may limit its effectiveness, and among the most important aspects of shortcomings: (Shaker and others ., 2005: 85-87)

First- Choosing the right basis for comparison: Choosing the right basis for comparison means analyzing and interpreting the meaning of the extracted values to determine the financial position of the entity and its ability to continue. For example, the high level of circulation is not at all an evidence of the financial position's improvement of the entity. The increase in the percentage of circulation may indicate a defect in the entity situation such as stock accumulation or non-exploitation and investment of cash surplus, as the analysis using financial ratios has faced several criticisms that we can summarize in the following points: (Al-Jarboo, 2005: 275)

- 1) The financial ratios are a relationship between items and balances on a particular day, which is the closing date of the balance sheet, and therefore the changes do not appear over a year.
- 2) Some financial ratios handle totals and are often misleading.

3) The different classification of balance sheet items makes it possible to reach different results in analysis, what some specialists consider current assets may be considered by others to be semi-fixed and vice versa.

4) Financial ratios are not of interest unless they are compared to industry benchmarks.

5) The analysis of financial ratios usually neglects the problem of inflation.

Second - Difference in comparison conditions: The use of financial analysis in carrying out the analytical review and achieving its goals requires conducting the comparison under similar conditions. There are social, economic and political factors affect the entity activity, the impact of which varies in quantity and quality from year to year and this makes it difficult to rely on comparison results completely without analyzing the effect of the different comparison conditions.

Third - Change in the purchasing power of the monetary unit: The financial ratios are calculated from the actual elements of prepared financial statements based on the assumption of the stability of the monetary measurement unit and the historical cost principle. This calculation will affect the accuracy of the extracted values, their true representation of the financial situation, the result of the entity's activity and then its continuity as a result of the change in purchasing power for monetary unit.

Fourth - the difference in accounting applications: The accounting applications may differ from one entity to another, and in some cases the impact of different accounting methods is significant, which leads to the impact on the comparison process, its true results and the accuracy of judgments that the auditor will reach (Al-Naimi and Al-Tamimi 2008: 110- 111)

These determinants affect the conviction of analytical evidence, which requires the auditor to obtain other evidence that integrates with the analytical evidence and enhances its reliability.

E - The effect of subsequent events to prepare the financial statements before the report is issued: The auditor must obtain sufficient and appropriate evidence to support all events up to the date of the review

report, which may require the amendment and settlement of records and accounts such as large payments from debtors and making settlements with others, which reducing the provision for doubtful debts, or disclosing them in financial statements such as the company issuing shares or bonds in large quantities, buying a new company ( FBSA , Republic of Iraq: Accounting Rule No.9)

F- Appropriateness consideration of continuity: The concept of continuity assumes that the entity will continue in its normal business during the coming period, so consideration of continuity in business is one of the basic considerations on which the financial statements are prepared.

The auditor must consider the following factors to estimate the entity's exposure to non-continuity: (Al-Jarbu, Hilles, 2001: 83-85)

First - Liquidity difficulties.

Second - the trend of profits to rapid decline and increase losses.

Third - Filing cases against the entity before the courts.

Fourth – Refraining banks from providing facilities to the entity.

Fifth - Employees and workers left their jobs.

Sixth: Loss of a major market, concession or license.

G- The effect of electronic data operation: Despite the multiple characteristics of using the computer to operate and process data, the use of it in the audit process by auditors may result in some difficulties, the most important of which are: (Friday, 1999: 163-20)

First - The difficulty of tracing the audit in the electronic data processing stage by computers

Second - Reducing paperwork, subsequently weak objectivity and documentation.

Third - The need for scientific and practical experience of the auditor in using computer to preserve and process data.

Fourth - The ability to modify data and information stored without leaving tangible effects.



Fifth. Ignoring means of control over the processing of data designed to test some cases, such as the similarity of employee names.

Sixth. The limited scope of electronic information upon examination, as the examination does not include all possible cases when processing data electronically.

The researchers believe that the degree of influence of these seven determinants on the accuracy of the evidence varies from company to company according to several factors, including.

- 1) size of the company and nature of its activity.
- 2) Management philosophy.
- 3) The effects of the environment in which the company operates.
- 4) Mainstream economic thinking and style.

In view of the above, evidence is all the information that the auditor obtains to reach conclusions on which to base his professional opinion and that the conviction of the evidence is depending on how convinced it is as well as its type and quality, the evidence first must be sufficient and sufficient here means that the amount of reasonable evidence which is available to support and confirm the auditor's opinion, and because the sampling methods are often used to determine the size of the evidence, the sample must be appropriate and sufficiently to provide a reasonable basis to express the auditor's opinion, but we must note that the concept of verification and reasonable confirmation states that the auditing costs should not exceed expected benefits from it, on the other hand, the fact that the sample size is too small to support and confirm the auditor's opinion. also the risks of an incorrect or justified opinion, which carries potential litigation costs as a result of negligence that was indispensable.

Evidence have the characteristic of quality and validity, meaning that the evidence must be of appropriate quality and validity, and in order to provide the evidence of this characteristic, it must be appropriate and effective, the effectiveness of the evidence depends on its objectivity as

well as it must be free of personal preference and its ability to quantify, Thus, the evidence with all these characteristics provides the auditor with reasonable assurance and not conclusive of what he needs to make his judgments and estimates regarding the fairness and honesty of financial information, because there are a number of determinants of the degree of conviction provided by the evidence

There are four important decisions that the external auditor must take, and any mistake in it affects the number and authorativeness of evidence that he gets, and therefore the degree of conviction that he reaches, which is choosing the appropriate audit procedures, choosing the right size for the economic sample, choosing the vocabulary that will be subject to review, and the appropriate time to perform review.

### **Risks and quality control on assigning audit notes**

#### **Quality of audit, concept and characteristics**

The concept of audit quality is considered a relatively recent concept, as it is also an important and renewed subject, and its importance is in the consequence of its non-application of serious and misleading results for those familiar with audit reports, especially with decision makers, policy makers and investors, because what distinguishes any profession is that it bears its responsibilities to society in all the services that it provides, and in the auditing profession, achieving the best quality of auditing and maintaining the quality of professional performance is the common goal of the practitioners of the profession, as well as improving the auditor's performance and protecting it in a way that leads to increasing confidence in the result of his work. In this regard, a distinction can be made between three Trends: (Ahmed, 2009: 16).

The first direction: it represents in the financial trend or direction of professional organizations involved in auditing, as the quality of audit for these organizations depends on the extent to which auditors adhere to the professional standards issued by these organizations. The audit quality programs of these organizations are usually focused on the extent to which audit offices adhere to professional standards when performing audits, and this trend is adopted by the American Institute of Certified Public Accountants (AICPA).

The second direction: it represents in focusing on the team work. The audit process is carried out by a team of professionals, generally by the partner responsible for the audit process, then by a director who undertakes planning, by a chief auditors who supervises assistants in carrying out the work and collecting evidence, and by reflecting the quality of the audit process by complying with the plans and programs established.

Third direction: it focuses on the results of the audit process, as the quality of the audit is that the auditor detects the errors and gaps in the customer's accounting system and minimizes the risk of misstatements in light of the agreed fees that is the more likely to discover the material of misstatement, the more the quality of the audit and vice versa. also the quality of the audit in terms of the time dimension has been classified into two types (long,2012:35):

**pre audit quality:**

This type of quality is determined when contracting with the customer and is defined as the possibility that the auditor's report will disclose misstatements in the financial statements.

**post audit quality:**

This type of quality is determined after the auditor has issued his report. It is defined as the possibility that statements will be free from misstatements other than those reported, and this depends mainly on the independence of the auditor and his ability to stand the pressures from the client or the management, which in turn depends on economic factors specific to the contract and the customer such as the size and condition of the facility.

Based on the previous, the two researchers show that there are many opinions on the concept of quality auditing, each focuses on one aspect of quality, but the quality of auditing should be related to the following matters and privileges (return, 2011:14):

The auditor's ability to detect external irregularities and misstatement

1. The degree of trust that the auditor provides to users of statements through the accuracy of the information provided and the statements is free from any misrepresentations and misstatements.
2. Reduce the detection risk to the extent that the acceptable audit risk level is as low as possible.

3. The extent to which the external auditor complies with professional standards .
4. The external audit service contains all the features and characteristics that expected by all parties of the external audit environment.

The quality of the audit has many definitions, defined as "the means used to ensure that the facility is meeting its professional responsibilities against customers" (Arens and Lubeck, 2005, 44). Willingham & Jacobson also suggested that the best way to define audit quality is by linking it to the risk of audit process and therefore when the chartered accountant reduces detection risk to the extent that the Acceptable Audit Risk level is as low as possible (Abu Hin, 2005: 47).

Researchers can define the quality of the audit as "the means and procedures adopted by the audit office to ensure that the various professional responsibilities are met as well as the codes of professional ethics issued by professional organizations and quality controls by reducing detection risk as far as possible by designing procedures and setting standards to overcome Problems associated with the audit.

The quality of the audit is considered a difficult matter, due to the different nature of the audit services from other services and the multiplicity of parties benefiting from this service, and despite this, the quality of the audit is a basic requirement for all parties and beneficiaries of the audit service for several reasons (Al-Tawil, 2012: 24) (Mujahid , 2011: 252):

1. The auditor shall consider completing the audit process with the highest possible quality so that he can give the greatest credibility possible to his report.
2. The management of the facility likes to add confidence to the statements of the audit subject, so it needs to complete the audit process with the highest possible quality.
3. Professional organizations believe that the quality of performing audits ensures that the auditing profession fulfills its responsibilities to all concerned parties.
4. Due to the competition between auditing offices, attention of both auditors and

clients to the quality of the audit process as a weighting factor in which the auditor is distinguished from other competitors (practitioners of the profession).

In view of the above, it is clear to the two researchers that in order to achieve quality in the audit process, the work must be performed at a high level, efficiently and effectively, according to the professional standards of auditing and ethical requirements as well as code of ethics issued by professional organizations and quality controls, which achieves to the beneficiaries the objectives in the implementation of audit task.

### **Risk of not achieving audit quality:**

The implementation of the audit process faces two main types of risk: Tamimi and Saadi, 2014:99

#### 1. Risks related to audit bureaus or firms:

- low reputation of audit bureaus or firms .
- Decrease in revenues that audit bureaus or firms can obtain.
- Audit bureaus or firms may be subject to legal accountability.
- The possibility of losing the independence of audit bureaus or firms from the subject of the audit.

#### 2. Risks related to users of financial data:

These are the risks or losses that customers, investors, and other users may be exposed to financial data as a result of making decisions based on low-quality audit reports.

#### a. The concept of quality control of audit works

The term of (Quality Control of Audit works) refers to a “set of policies and procedures that the audit institution should implement, whether in relation to the institution in general and to the specific auditing tasks which is at the enterprise as a whole and at the level of each audit, in order to ensure that the audit institution serves Relevant parties appropriately and in line with the auditing standards, ”(Al-Thunaibat, 2009: 85) it also indicates that it is “ a set of policies and procedures designed to achieve quality control in bureaus that perform audit services for historical financial information, other assurance processes, related

services and procedures to achieve and follow up compliance with these policies" (Friday, 2009 : 31) the nature and extent of quality control policies and procedures may vary depending on the size of the audit facility, the nature of the business they practice, the geographic location, and the extent of the branches of the business and they also affected by costs and benefits expected to be achieved.

#### B. objectives of Quality control

First- Ensuring that audit bureaus adhere to generally accepted audit standards.

Second- audit bureaus should oblige to local laws, contracts with clients and the professional standards set by the bureau to regulate its work.

Third- Reducing the possibility of exposure to legal problems and obligations and avoiding issues of professional failure.

Fourth- seeking to help the profession to maintain its reputation.

Fifth- developing efficiency of practical work.

Sixth- providing guidelines for the procedures that the auditor should adhere to comply with the basic principles of delegating his work to his assistants in the audit task.

ISSAI 220 ( IFAC,2012:43-44 ) indicated that SAI should implement policies and procedures of quality control which are designed to ensure that audits have been conducted according to ISSAIs or appropriate national practices, so its is placed on two levels:

First- level of audit bureau.

Second- level of each audit process separately.

For the individual audits, the audit bureau should select policies and procedures of quality control that are appropriate to the nature of the

individual audits. The auditor and his assistants should take into account the skills and ability of assistants to perform the work assigned to them when deciding on the scope of guidance, supervision and appropriate auditing for each of them.

From the previous presentation, the researchers believe that the concept of quality control relates to the necessity of the audit bureaus to have the necessary supervision that enables them to be convinced of their commitment to their responsibilities towards clients, society and the profession in general.

### **Dealing with risks... means and procedures**

A good auditor has to deal with risks appropriately because risks exist and most of them are difficult to measure, which requires good thinking to respond appropriately, for example, if we assume that the auditor knows that the activity in which the client is operating has significant technological changes that will affect the client and consumers, this change can affect on inventory obsolescence, the collection possibility from debtors, and may perhaps in the customer's ability to continue, and proper handling of these risks is vital to achieve high quality audit ( Lutfi , 2007:179). The auditor should mitigate risks by planning the audit process and obtaining sufficient evidence to identify, focus and reduce risk areas.

In order to conduct risks analysis, the auditor should identify main risks by using the following methods ( al kadhly and dahdooh , 2009:42):

- a. Checking the strategies and goals of the auditee.
- b. The extensive discussion with individuals within the auditee.
- c. Prepare comprehensive list of risks.
- d. Classifying risks according to its importance.

#### **1- Means of controlling audit risks**

The auditor must reduce the risks of the audit and its impact, so he must plan for the tests that he will conduct after a preliminary study on the auditee, collect the appropriate evidence and also identify and focus on risks in order to reduce them to acceptable minimum. The auditor should help the management to reduce risks, especially (inherent and audit), by highlighting them, identifying

weaknesses in the internal control system, and identifying risks – specific problems.

The Iraqi audit manual No. (4), titled the study and evaluation of the internal control system, issued by the Accounting and Auditing Standards Board, confirmed within paragraph (26) that states (the auditor must inform the unit's management in writing by a report or a letter of weaknesses that he discovered during his study and evaluation of Internal Control System) (Accounting and Auditing Standards Board, 2000: 10).

Reducing and managing the audit risks is the responsibility of the auditor, and the most important means that can be used to reduce and manage the risks can be identified, especially with regard to the risks of detection, as they contribute to reducing the negative effects of the implicit risks and the audit risks (al rubae'e , 2002: 61):

- a- Using statistical sampling methods
- b- .Using analytical procedures as a risk control tool.
- c- Adequate and efficient evidence as a risk control tool.
- d- Using policies and procedures to control the performance quality of the auditing process as a tool to control risks.

## **2- Procedures to reduce audit risks**

When the auditor accepts a low level of audit risks, this means that he wishes to achieve a high degree of certainty that the financial statements or the transactions, account balances and their associated assurances do not contain material misstatements, and reassurance that the opinion issued is correct. The procedures, that can the auditor approve it if he decides to accept a low level of audit risk, are: (Faraj: 2006: 47):

First: using adequate and efficient evidence.

Second: using an efficient and qualified audit team, scientifically and practically.

Third: reviewing the results of the audit carefully by independent persons from the audit program.



### **3- The audit requirements in accordance with the risk method**

The requirements of a risk-based audit approach depend on (the size, nature and complexity of financial processes) and consist of the following (Comptrollers, 2000: 18-20):

a. **Risk evaluations:** The auditors update the risk assessments at least annually or repeatedly, or whenever the need arises by analyzing the inherent risks.

B. **developing the audit plan:** that includes the details of the planned operations, and the audit objectives should describe a summary of the assessments and arrangement of risks for each activity and the resources required to complete the work (for example planned work hours and the human resources needed to perform the tasks (number, professional adequacy) and approving the annual audit plan.

C. **developing audit programs for each task.**

D. **Sudden audit,** examining the selected records for audit, reviewing laws and instructions, risk assessment, methods of testing the sample and results, verifying deals and balances chosen through the main and sub accounting records, evidence, endorsements, audit, documenting audit work papers, follow-up processes, professional development programs for audit staffs, quality assurance programs.

### **4- The auditor's procedures in response to the evaluated risks according to the ISSAI No. 330**

The auditor should consider the estimated levels of inherent risks and audit risks (risks of material misstatements) when determining the nature, timing and extent of the required material measures, to reduce the risk of not detecting material misinformation in the financial statements to an acceptable level.

In particular, the above standard referred to the following (Juma'a, 2009: 65):

The auditor should determine the nature and extent of the audit evidence that will be obtained from the performance of substantial procedures in response to the assessment of the risks of material misstatements, regardless of the evaluated risks of material

misstatements, the auditor should design and perform material procedures for each important category of transactions, account balances and disclosures, and these material procedures may include the use of external endorsement of certain assurances, and the standard also included a reference to the following (Mazen, 2011: 117):

(The higher the risk assessment of the auditor, the evidence that the auditor seeks to obtain from the material procedures should be more reliable and appropriate, and accordingly, when the evaluated risk of the material misstatements increase, the auditor should design material procedures to obtain more reliable and appropriate audit evidence or more convincing audit evidence at the level of evidence. In this case, the use of certification procedures may be effective in providing adequate and appropriate audit evidence, the lower the estimated level of inherent and audit risks. The lower the evaluated level of inherent and audit risks, the lower the level of assurance that the auditor needs from verification procedures to form a conclusion on confirmation of a financial statement. The standard indicates that when the method for significant risks consists of material procedures only, appropriate audit procedures to address these significant risks consist of examining details only or combining examination of details and material analytical procedures.

### **Role of SAIs in determining evidence**

#### **Auditor responsibility for evaluating and selecting evidence**

It was stated in Article (136) of the Companies Law No. (21) of 1997 (amended) that the auditor must give his opinion on the final accounts of the corporation in front of its general assembly, and this may be done in other companies. In all cases the auditor's opinion should address the following issues:

A- The integrity of the company's accounts, the correctness of the data included in the final accounts, and the extent to which the auditor is permitted to view the information he requested about the company's activity, with a statement of his opinion in the report of the governing council.

B - The duration of the company's application of the accounting rules due to bookkeeping and accounting records, the inventory of assets and the company's obligations.

C - The extent to which the final accounts express the reality of the financial position of the company at the end of the year and the result of its business.

D - The extent to which the accounts comply with the provisions of this law and the company contract.

E - Violations of this law provisions or the company contract in a manner that affects its activity or financial position, with a statement whether these violations exist when auditing the final accounts.

For this purpose, the auditor must "obtain sufficient and appropriate evidence to produce reasonable conclusions that form the basis on which his professional opinion is based." (International Federation of Accountants, 2007: 426). "The auditor can at all times view all the company's books, records and other documents, and request data and clarifications that he deems necessary to obtain." (Yemen association for chartered accountants, 2009: 15).

The Audit Guide no. (3), issued by the Accounting and Auditing Standards Board in the Republic of Iraq, regarding field work standards is stated that "the auditor must be accurate in his work and no opinion will be adopted except after conducting the examination and obtaining sufficient evidence." (Accounting and Auditing Standards Board in the Republic of Iraq, Guide 3: 3)

The auditor is required to be rationalized in his professional judgment on evidence. Among the most important factors that help him in this are: - (Ali, 2009: 174)

- 1- Taking into consideration the balance between the cost of evidence collection and the two characteristics of appropriate and adequacy.
- 2- To improve the selection of appropriate procedures to collect the appropriate evidence
- 3- Taking into consideration the consistency between the extent and nature of evidence collection procedures and the risk level of the required deduction.

- 4- Taking into consideration the effect of the variables in the auditing environment especially that the entity is depending on information technology to operate its accounting system, the type of evidence and the procedures for obtaining this evidence.
- 5- Relying on assistants with experience in judging the adequacy and relevance of the evidence

The standards for expressing an opinion refer to three levels of operations and types of related conclusions, which are (Levin A. Arns, 1266, 2013):

**Test:** it results positive conclusions and this type of report provides the auditor a direct opinion on whether the presentation of the allegations as a unit conforms to the applicable standards.

**Examination:** the practitioner presents his conclusion in the form of a negative assertion and in this light the practitioner states in his report whether there is any information available to him in a way that shows that the allegations were not presented in light of all materiality aspects, in a manner consistent with the applicable standards.

**Agreed procedures:** All procedures that the accountant will perform have been agreed upon between the accountant (the party responsible for making the allegations) and specific persons who are the users of the accountant's report. The degree of assurance that is transmitted in such a report varies according to the specific procedures that are agreed upon and implemented, and therefore the distribution of such reports is restricted to the parties concerned only and to those who have basic knowledge about these procedures, and the table below summarizes the types of operations, the amount of evidence, and the level of assurance thereof:

**Table (4)**

Types of processes and related reports

Type of process	Evidence quantity	Assurance Level	Conclusion profile	Distribution
test	In-depth	High	High	General
examination	Titled	Average	Average	High
Agreed Procedures	Varied	Varied	Varied	Useful

Source (Arins, 2013: 1267)

The auditor should, during the audit process, obtain adequate knowledge of the facility's work, and part of the work is the necessity of the comptroller's attention to the information that should be taken into account to identify the risk points for corruption. The following procedures assist the comptroller in this. (Mahdi, 2010: 58)

- a. Inquire from management and others within the same facility to learn about their views on fraud and corruption risks and how they are treated.
- b. Take into account any unusual or unexpected relationships that appear during the application of analytical procedures to numbers and financial performance in planning the audit process.
- c. Examining the possibility of factors that encourage fraud and corruption.
- d. Take into account all other information that helps in identifying issues of risk and corruption.

**Evaluating the combined effect of evidence and proofs: (Al-Zayegh, 2006: 52)**

The auditor should evaluate the cumulative effect of the evidence and proofs obtained to support each result reached in light of studying the accounting system and the internal control system, and its evaluation must be linked to the following:

1. Consistency between the different terms of evidence and proofs appropriate for the outcome the auditor reached.

2. The extent of the conviction provided by each item of the evidence and the adoptions that is obtained from independent sources, and the auditor should give attention to all evidence that is obtained, regardless if it is supporting or contrary to the financial statements.

When assessing the cumulative effect of the evidence and adoptions obtained, it must take into account the consistency of evidence and the degree of certainty, probative value, that each of item of evidence that he reached. Therefore, when the auditor's evidence obtained from a particular source appears to be inconsistent with that obtained from another source, reliance on both of them is in doubt until additional work is done to clear the existing inconsistency. However, when all items of evidence and adoptions related to a specific subject are consistent with each other. The auditor may obtain a higher degree of accumulated confidence than that obtained from the items.

## **The practical side**

### **Section three**

#### **Presentation and analysis of the use of evidence by the audit teams operating in the FBSA in Iraq and their risk consideration**

In order to state the extent to which the achievement of the audit objectives relates to the final product of the auditor (the audit report), a sample consisting of the work of three supervisory teams operating in three different economic sectors has been chosen to study current and permanent files and review the audit reports issued to the economic units of the research sample as shown in below:

1. The first research sample included the financing and distribution sector (the financial statements of the Agricultural Cooperative Bank for the year 2014).
2. The second sample of research was the central governing sector (General Traffic Directorate Business Results Report for the year 2015).
3. The third sample of research was the agriculture and construction sector (the financial statements of Al Salam General Company for the year 2015).

The aforementioned entities have been chosen for the reasons stated below.

- 1- Studying the audit observations mentioned by the FBSA in Iraq and for more than one party working in different sectors and activities, which gives a clear picture of the nature of the audit observations adopted by the audit entities operating in this firm.
- 2- The above-mentioned reports are subject to a quality control department test before issuance, as the aforementioned department has diagnosed some points regarding the report, which will be covered later in this aspect.
- 3- The different accounting systems used in establishing financial operations, as the agricultural cooperative bank relies on the accounting system in banks and insurance companies, while the General Traffic Directorate relies on the government accounting system for centrally

funded units, while Al Salam company relies on the unified accounting system.

4- The purpose of the activities of these entities is different, as both the Agricultural Cooperative Bank and Al Salam Company aim to provide services to obtain revenues with the aim of achieving profits, while the General Traffic Directorate aims to provide services regardless of the revenues and expenses that are associated with achieving these services.

The table below shows the most prominent audit observations mentioned in the reports of the audit teams of the research sample entities, the evidence used by those audit teams, and the observations of the researchers in this regard, which they consider appropriate to adopt it to ensure the audit reports quality of the research sample:-



**Table (5)**

**The most important audit observations for the research sample entities reports and the researchers' opinion**

identified observation	method applied in detecting observation	Researchers Notes
<b>The financial statements of the Agricultural Cooperative Bank for the year 2014</b>		
<p>1- The bank keeps failing to prepare a cash flow statement for the year that was the subject of the report and previous years, in contrary to Accounting Rule No. (7) issued by the Accounting and Control Standards Board in the Republic of Iraq. We recommend that this statement should be prepared in accordance with the accounting rule above.</p>	<p>Preliminary examination of the financial statements</p>	<p>a. Lack of linking this evidence to checking the presence of cash on 31/12/2014, especially that the financial statements were submitted on 31/3/2015 and the Quality Department Control Report was issued on 30/5/2016 which lost the appropriate timing feature.</p> <p>b. The preparation of the cash flow statement according to the local accounting rule No. (7) does not represent physical evidence of the correctness of the cash balance, moreover, the report did not address the matching of the actual cash balance with what is proven in the records of the entity that is the subject of the report, as it can stand on the cash balance by conducting bank reconciliations while reinforcing them with the necessary approvals.</p> <p>c. The observation did not explain the reasons for not preparing the cash flow statement in the required form and what are the justifications of the auditee administration in this regard, as there is a relatively long period of time between receiving data and preparing the report, which allows the audit team to diagnose defects in preparing the cash flow statement in the required form and request from the entity subject of</p>

		the report, after verifying that the actual cash balance is compatible with the records by makes adjustments to the aforementioned statement, and in this way the audit entity did not use the inquiries evidence regarding the above subject.
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		d. insufficient audit program adopted by the audit team. It did not include any clause to verify preparation of cash flow disclosure, according to what was mentioned in the National Accounting Rule number (7).
<p>2. Revenues:</p> <p>First: Investment revenues have decreased during the year / 2014, as they reach (50) million dinars (fifty million dinars) compared to (2370) million dinars <u>(two billion three hundred and seventy million dinars)</u> for the previous year, and the percentage of decline amounted to (98%). It is worth mentioning that the rate of decline was mainly in Calculating the interests of treasury transfers, interest on cash deposits with third parties , and internal contributions revenue with a percentage of (100%). The bank's administration has indicated in its response to our inquiry no. (25) on 30/04/ 2015 that the reason of decrease is the lack of sufficient financial revenues for investment. we</p>	Analytical procedures and inquiries	<p>1. The decrease in investment revenues compared to previous years does not represent a special audit observation, since the auditee justified the reasons for this as being the decrease in the amount of cash revenues sufficient for the investment, the audit literature states that the audit observation elements can be identified in general:</p> <ol style="list-style-type: none"> <li>a. Identifying infringement or defects.</li> <li>b. Determination of infringement according to laws, regulations, instructions, administrative policies, customs and standards of the internal control system .</li> <li>c. Identifying the negative effect that occurred due to the infringements or determining the possible negative impact.</li> </ol>

<p>recommend to exert efforts to avoid the decline in bank's revenues.</p>		<p>d. Recommendations to avoid the infringement or requesting the administration to take the corrective or deterrent actions to prevent this infringement from happening again.</p> <p>2. What was mentioned as an observation represents a clarification not an observation due to the lack of its determination according to the following :</p> <p>a. Verification: to verify that the investments are feasible compared to the alternative opportunity available to the auditee</p> <p>b. Studying the investment movement during the fiscal year. End of period investments balance may not represent the size of investments during the year, which may be reflected in the size of achieved revenues.</p> <p>Accordingly ,we must make sure of the movement of the deposits during the year, the amount of interest that the bank borne for these deposits and the benefits that the bank realized during the year to achieve the goal of completeness and the absence of unusual</p>
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		<p>movements as well as the optimal use of the deposited funds. This requires the use of other evidence, such as drawing a comparison with other banks of similar activity and comparing developed plans against the actual outlet.</p>
<p>Second-the revenues of banking operations decreased during 2014 , as the decrease rate was (48%). It is worth mentioning that this rate was mainly in the account of granted loans interests which was (16%) , we recommend following up loans interest collection continuously .</p>	<p>Analytical procedures</p>	<p>the decrease in banking operations revenue is a clarification and not an observation. The observation did not explain the reason for the decline. The researchers noted the following:</p> <ul style="list-style-type: none"> <li>A. The absence of a relationship between the observation and the recommendation. The latter states the need for continuous follow-up to collect the interest of the loans while the observation does not mention collection, instead, it mentions a decrease in the amount of revenues</li> <li>B. a comparison should be drawn and correlation should exist between the size of granted loans and interest rates on these loans and the size of revenues supposed to be achieved. In addition the financial impact of the decrease in these revenues and the extent of its impact on the continuity of the bank's business, should be identified .</li> </ul>
<p>3. A decrease of the banking operations</p>	<p>Analytical procedures</p>	<p>The low paid bank interest is an indicator of</p>

<p>expenses that was less than those of the previous year by (49%) .They represent paid bank interest. The percentage of decline was mainly in internal borrowing interest account .It was (98%); we recommend developing a well set plan to reduce the decrease.</p>		<p>the bank's delay in carrying out its business given the fact that the most important source of the bank's money that can be invested in various lending and credit operations is borrowing and this source is related to the amount of interest paid in return for borrowings .Accordingly, the following is required :</p> <ol style="list-style-type: none"> <li>a. Studying the size of liquidity available to the bank and the amount of required funds in return for required loans and lending operations to determine the extent of the bank's success in achieving the required goals.</li> <li>b. Studying and identifying the waste and bank's mismanagement in the event when the needs of the market and the beneficiaries are not met.(losing alternative opportunities to invest available funds).</li> <li>c. Attaching the audit observation to the bank's response to clarify decrease justifications and to identify the amount of available lending requests with the amount of funds that can be lent and the state of market ...etc, to see the whole picture in this regard.</li> </ol>
<p>4. The administrative expenses increased</p>	<p>Analytical procedures</p>	<p>This item does not represent an observation</p>

<p>to (9%) compared to the last year 2013 which represented in the increase of salaries and wages during the reporting year with rate of (23%) compared to the previous year and this is due to filling (560) vacant jobs in the bank's staff by fixing contracts according to paragraph (6- C of Article / 12) of the Federal General Budget Law of the Republic of Iraq No. (7) for the year 2013 and according to the letter of the Ministry of Finance ,Administrative office / Human Resources Department no. (53906), on 11/7/2013, we recommend that efforts be made to reduce administrative expenses.</p>		<p>but a clarification because the employment is based on the Federal Budget Law that obliges the employment of contracted employees . As for the employment based on the desire of the bank's management, the actual need must be examined. Based on a study of the size of the required and occupied grades, the bank's management is judged (waste is reported in case over employment, or delay in carrying out the required works in the event of employment without the required need ). Accordingly, in depth checking is required to ensure the realization of identifying waste</p>
<p>5. (26) out of 42 bank branches, other than the general administration, realized a profit of <u>(15145) million dinars (fifteen million, one hundred and forty five million dinars)</u>. As for the remaining (16) branches and the general administration, <u>they incurred a loss of (12544) million dinars (twelve million five hundred and forty four million dinars)</u>, given that some branches have repeatedly lost from year to year, such as (Diwaniyah, Mosul, Mandali).</p>	<p>Observation</p>	<p>Elements of audit observation are not available on these two items because they are not in violation of laws, regulations, instructions and administrative policies. etc. in addition , the negative impact that has occurred or is likely to occur ,has not been determine. The recommendation was not specific. Accordingly, this paragraph is a clarification and not an observation due to lack of elements what is needed to determine the causes of losses and what are the bank's procedures towards those cases and ways to remedy them,</p>

		otherwise the matter falls within cases of waste and loss of alternative opportunities
<p>6. (7) of the bank's 40 offices have achieved a profit of <u>(298) million dinar ( two hundred and ninety eight million dinar)</u>, other 33 offices have <u>incurred a loss of (2046) million dinar ( two billion and forty six million dinar)</u>, given that some offices suffered recurring loss from year to year, such as offices of ( Alexandria, Taji , Haydria). Based on what is stated in paragraphs(fifth, sixth), we recommend identifying the reasons behind the loss incurred by some branches and offices especially those which lose frequently and for more than a year and developing appropriate solutions to improve their performance.</p>		
<p>7. The bank did not form a credit review committee that is directly attached to the governing council contrary to the guideline issued by Central Bank no. (9/2/2007 as in 5/7/2005 that stipulate form credit review committee related directly to the governing council as well as internal control committee which is also related to the bank's</p>	inquiry	<p>This observation is considered one of the very important observations, as it is related to the granted credit by the bank to determine the size, terms, guarantees and beneficiaries of the credit, because failure to apply laws or regulations or delay in applying them is an indication of the existence of inappropriate practices in granting credit processes. In addition, the recommendation is weak and</p>

<p>governing council, and the bank's management indicated that it has responded to our inquiry no. (30) dated 09/06/2015 that it will contact CBI for forming a credit monitoring committee, we recommend to form this committee.</p>		<p>does not correspond to type of risk facing credit operations, which requires recommendation to study work of credit management for the reporting year and find out the reasons for not forming credit monitoring committee and work to form that committee as soon as possible, and it is suggested that there should be a report on credit evaluation to identify the achieved results given the fact that the applicable law of the FBSA requires that the auditor to audit the performance of auditees.</p>
<p>8. Total amounts granted for the year (2014) according to the specialized lending funds based on the statistical tables sent by the bank's branches to the general management/ planning and banking operations department for the reporting year were (169,804,309) thousand dinars (one hundred sixty-nine billion, eight hundred and four million three hundred and nine thousand Dinars) and for number of transactions amounted to (4839) transaction and total amounts due for the reporting year (128448651) thousand dinars (one hundred and twenty eight billion and four hundred and forty eight million six hundred and</p>		<p>the bank's justifications is indicated in this regard and the administrative and legal procedures related to it, which requires the audit team to ensure that:</p> <ol style="list-style-type: none"> <li>1. Are the bank's procedures for these receivables identified, and this requires the assistance of an inquiry guide?</li> <li>2. Are the interests imposed on arrears and what is the size of those benefits in both cases, which requires disclosure. This requires the use of a documentary review guide regarding the calculation of arrears of interest?</li> <li>3. Does the bank use hedge against</li> </ol>



<p>fifty one thousand dinars) and the number of transactions amounted to (7588) transaction while the amounts paid from them reached (47279159) Thousand dinars (Forty-seven billion two hundred and seventy-nine million one hundred and fifty-nine thousand dinars) and for a number of transactions of (2480) transaction, i.e. the rate of collection (37%), indicating the delay in payment compared to the amounts due despite the existence of an annual program to follow up the bank's projects in terms of implementation during the year</p>		<p>cases of inability to collect all or some of these amounts through adopting an allocation for those arrears, and this requires the use of a guide on inquiries and accounting and documentary review regarding formation of allocations in the accounting records.</p> <p>Accordingly, the audit team must refer to all of these points referred to above within the required observation, with an indication to volume of waste that is expected to occur in the bank's funds in the event that these points are not approved.</p>
<p>9. Through our audit of a sample of the bank's loan transactions from its own resources in the Audit and Control Department before transferring them to the branches for disbursement, we have noticed that the Agricultural / Bank, (Diyala and Najah) branches has passed fake and non-original transactions, numbering (11) transactions amounting to (220) million dinars (Two hundred and twenty million dinars) Through our inquiry no. (18) on 12/12/2015 the response of Director of Internal</p>	<p>Documentary review and inquiry</p>	<p>This observation is considered one of the most important observations, as it is directly related to the goal of preserving public money, which represents one clear and explicit of goals referred to in the applicable Law of FBSA, but the observation was not reinforced by:</p> <p>a. The bank's measures taken in this regard, and have the defaulters been brought to justice?</p> <p>B. The audit team's procedures for those loans or loans disbursed previously during the year of the audit. Was an in depth examination made?</p> <p>C. we recommend to refer the matter to the</p>

<p>Control was that after the inquiry from the branches it was found that they did not have any detailed data of the lenders names, which constitutes a clear violation of the internal control system by not studying the controls and instructions extensively, to avoid cases of manipulation and Counterfeiting by branch and offices workers</p>		<p>relevant investigation authorities to identify responsibility for the aforementioned case</p>
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<p>10. The Agricultural Bank / Fallujah branch disbursed loans on 2/2/2014 for a number of beneficiaries of different dates and for the purposes of the irrigation system, through cheques organized and edited in the Fallujah branch, contrary to the instructions issued by the Agricultural Bank / Financial Department (6379) on 19/6/2014, which stipulates (suspension of the accounting cycle of the branches and offices (Anbar, Ninawa, Salah Al-Din, Kirkuk) because most of the staff were unable to work due to the current security conditions. These cheques were bought by Bank of Baghdad / Fallujah branch. The total of bought cheques amounted to (11947510) dinars (Eleven billion nine hundred and forty seven million five hundred and ten thousand dinars). The bank's response to our inquiry numbered (41) was on 29/9/2015 that the Bank of Baghdad / Fallujah branch and the Agricultural Bank / Fallujah branch intentionally did not mediate the main branch in the process of buying remittances despite knowing that the documentary cycle of the hotspots was suspended.</p>	<p>The inquiry</p>	<p>The observation lacked the linking and logical analysis to track events, since the date of the suspension of work with the accounting cycle in the Fallujah branch was 19/6/2014 while the date of disbursing the loans is 2/2/2014. Furthermore, the date of buying cheques by the Bank of Baghdad is unknown. The reasons for deliberate failure to make the main branch the intermediary in buying remittances are as follows.</p> <ol style="list-style-type: none"> <li>1- The audit team did not use the linkage and analysis guide regarding the linking between the suspension dates of the branches 'accounting cycle and the disbursement dates.</li> <li>2- The audit observation was not supported by a recommendation to hold the malfasant accountable in case their negligence is proved after verifying that the cheques were bought without mediating the main branch.</li> </ol>
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<p>11. There is an increase in the balance of debtors account with arrears for the bank's branches in Baghdad and the provinces, reaching (120388514721) dinars (one hundred and twenty billion, three hundred and eighty-eight million, five hundred and fourteen thousand seven hundred and twenty one dinars) as of 31/12/2014, an increase of (91581974070) dinars (Ninety one billion five hundred and eighty one million nine hundred and seventy four thousand seven thousand dinars) for the previous year, which indicates the weakness of the bank's procedures for collecting its money. The bank explained according to his answer on our inquiry no. (21) on 21/04/2015 "The collection section continues to follow the procedures for collecting debts with all branches and through the committees existed to collect the amounts due and to take the necessary legal measures regarding the collection of the amounts due.</p> <p>We recommend to intensify efforts and working to collect the amounts, especially those that rounded from previous years, with directing all branches to take fundamental legal measures to urge customers to pay and collect the bank's debts and hold accountable officials who negligent to collect the debts.</p>	<p>Analytical procedures and inquiry</p>	<p>The audit team is required to ensure that:</p> <ol style="list-style-type: none"> <li>1. The bank has developed the appropriate procedures for those debt.</li> <li>2. whether the interests imposed on the arrears and the size of those interests in both cases, which requires disclosure.</li> <li>3. whether the bank has adopted the hedge against cases of inability to collect all or some of these amounts through provision for those arrears.</li> <li>4. Did the bank study the credit of bank customers before lending?</li> <li>5. The names and amounts of the debtors from one year to the next. Are loans repeatedly grant to specific names without payment of interest?</li> <li>6. whether there are special decisions about deferral on repayment of debts of some borrowers, and what are the reasons for these decisions?</li> <li>7. What is the effect of losses arising from or expected from those debts?</li> </ol> <p>Accordingly, the audit team should refer to all of these points referred to above within the required observation, noting the volume of actual waste or expected to occur in the bank's funds in case that these points are not approved.</p>
<p>12. Profit distribution creditors The balance of the profit distribution creditors account was / 268 as on 31/12/2014 an amount of (1609796348) dinars (billion, six hundred and nine million seven hundred and ninety six thousand three hundred and forty-eight dinars) unless the transfer revenues</p>	<p>Documentary and accounting review</p>	<p>In case of an error or defect in the dividends, and it is identified by the audit team, the matter requires returning the financial statements to the entity subject to the amendment to make the necessary adjustments instead of recommending that taking the necessary action and</p>

<p>are not excluded from the profit for the purposes of the employees' share contrary to article (11) from the Public Companies Law no. (22) for 1997 (amended). Since revenues are greater than profit, this means that employees do not deserve their share of the distributable surplus which is (242270642) dinars (two hundred and forty two million two hundred and seventy thousand six hundred and forty two dinars). We recommend take thing the necessary action and reconciling entries.</p>		<p>conducting the entry reconciliations.</p>
<p>13. By auditing the treasury department and the cash assets of the main branch (the bunker), we noted the following: -  First - Lack of administrative orders for the authorized persons (the branch manager and the treasurer) to keep the keys of the bunker, safes and secret numbers. The branch answered our inquiry numbered (37) dated 13/8/2015 that the bank instructions stipulate that the branch manager is the key holder of the bunker as well as the treasurer. There is no administrative order related to this. we recommend drafting administrative orders for authorized persons.  Second - The branch does not keep additional copies of the keys of the safes with authorized personnel, but those copies are kept with the Rafidain Bank. Noting that the bank doesn't have instructions regarding keeping the keys at the Rafidain Bank. We recommend that the branch keep the additional copies of the keys.  Third – There is a balance within the financial statement with amount of (9593287244) dinars (nine billion five hundred and ninety three million two hundred and eighty thousand two hundred and forty-four dinars), under the offset account 189 as the account is not included in the accounting system of banks. We recommend strict adherence to the banks accounting system .</p>	<p>Checking the internal control procedures</p>	<ol style="list-style-type: none"> <li>1- the objectives of existence, ownership and the robust of the internal control system. There is no connection between and this observation and the following one: the bank continues not to prepare the cash flow statement.</li> <li>2- The backup copies of the treasury keys are not kept in the branches. They are kept with the general management of the bank or with another party. The person keeping the key copies may misuse it, so it becomes difficult to determine responsibility for embezzlement or shortage.</li> <li>3- The observation of audit did not show the nature of the balance that listed under account 189, which requires determining the nature of the account. If there is a misnomer, the report can be issued after the amendment is made. If the account nature is different from the monetary items, The audit team should issue a negative opinion, which requires further care in this regard.</li> </ol>
<p>14. The bank recorded the amounts of fines imposed by the Central</p>	<p>Documentary</p>	<p>This bank procedure gives indications regarding the</p>

<p>Bank of Iraq on h / interest of internal borrowing, which are (61064980) dinars (sixty-one million and sixty-four thousand nine hundred and eighty dinars) instead of the account / compensation and fines (3832); we recommend adhering to the correct classification.</p>	<p>review</p>	<p>ignorance of correct accounting registration or improper accounting practices that lead to results contrary to the nature of the work. The team should consider the following:: -</p> <ol style="list-style-type: none"> <li>1- Fines imposed by the central bank on the bank are considered a negative case and a deficiency in the banking work. As for the interests of internal borrowing, it is an account that results from the bank's regular transactions.</li> <li>2- The recommendation to adhere to the correct classification is not sufficient. This requires the reasons for fines and the reasons for not being included in the correct classification and the effect of that on the validity of the distributable profit for bank's employees.</li> <li>3- It requires inquiries about this case and conduct an in-depth audit regarding compliance with laws and regulations.</li> </ol>
<p><b>Report on the work results of the General Traffic Directorate for 2014</b></p>		
<p>1. The Directorate did not provide us with the consolidation record of the investment accounts for the reporting year, due to being sent to the Ministry of Finance / Accounting Department, according to the letter of the Directorate / Accounts Division No. (35043) on 3/6/2015, which requires serious follow-up by the Directorate and coordination with the Ministry of Finance, for the purpose of expediting the certification of the above record.</p>	<p>Preliminary audit of the financial statements</p>	<p>The absence of the consolidation record does not mean that no matches are made for this record.</p>
<p>2. The current account of the accounting department: -</p>	<p>Matching and</p>	<p>The mentioned observation concerns the non-recording</p>

<p>The total funds for investment accounts during the reporting year amounted to (56101) million dinars (fifty-six billion, one hundred and one million dinars) according to the financial records of the directorate, while the total funds according to the confirmation of the Ministry of Finance / Accounting Department with its letter numbered (17/53/9192) On 11/5/2015, amounted (10,000) million dinars (ten billion dinars), i.e. with a difference of (46101) million dinars (forty-six billion, one hundred and one million dinars). After sending our inquiry to the Directorate, we found that the difference represents the amounts transferred from a DFI to the Iraqi Trade Bank as per the Ministry of Finance's letters no. (27722) and (9178) in 26/12/2013 and 4/5/2014, respectively, for the purpose of opening a letter of credit for the contract of providing the second phase requirements of the national project for the registration of vehicles and driving licenses. We recommend coordinating with the Ministry of Finance for addressing it.</p>	<p>inquiry</p>	<p>amounts funded by DFI. However, what is stated in the records of the Directorate is correct and the defect is within the records of the Ministry of Finance due to the amounts transferred from DFI are not recorded as a financing. Thus, the audit team should verify the contract implementation of these funds taking into account the following: -</p> <ol style="list-style-type: none"> <li>1- Ensure that the optimal use of these funds is made in accordance with the contracts concluded in order to achieve the goal of existence.</li> <li>2- Requesting confirmations from TPI to follow up the implementation of the documentary credit for obtaining third-party ratifications.</li> <li>3- Informing the audit team at the Ministry of Finance to verify the matter as part of protecting public funds and cross-auditing among the auditees.</li> </ol>
<p>3. A significant increase in the number of traffic violations during the reporting year by (84%) compared to the previous year. This refer to a significant improvement in the level of performance of the directorate in this field, which requires the establishment of deterrent measures to reduce traffic violations.</p>	<p>Analytical procedures</p>	<p>The increase in the number of traffic violations is not an indication of the directorate performance improvement. The improvement of directorate performance is reflected by the compliance with traffic laws and regulations, thereby reducing traffic violations.</p>
<p>4. The total annual allocations for the investment budget accounts of the Directorate amounted to (69750) million dinars (sixty nine billion seven hundred and fifty million dinars) for the reporting year. While the total actual expenditures reached (12859) million dinars (twelve billion</p>	<p>Analytical procedures</p>	<p>The decrease in total expenditures from the allocations does not necessarily mean a decrease in the percentage of financial implementation. The financial implementation of any project is related to the extent of providing cash flow (funds) and the stages of project completion, so the audit</p>

<p>eight hundred and fifty nine million dinars) during the mentioned year. Thus, the percentage of financial implementation has reached (18%), which indicates a clear delay in implementing projects and not using the allocated allocations. We recommend following-up by the Directorate in implementing the investment budget projects and using the allocations allocated for these projects to achieve the their objectives.</p>		<p>team required to verify:</p> <ol style="list-style-type: none"> <li>1- Conducting the process of linking and comparing the size of the funds (the project's cash flow) with the actual project completion, to reach the goal of verification, completion, and existence.</li> <li>2- measuring the stages of implementing any project, the level of financial implementation must be linked to the level of progress in implementing the contract, as well as the appropriateness of these levels and the requirements of the terms of the contract for any project, thereby losing an important goal which is the appropriate evaluation.</li> </ol>
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<p>5- Despite allocating (100) million dinars (one hundred million dinars) in its investment budget, the directorate did not spend on the studies and designs project of its building during the year subject of the report. We recommend investigating and addressing the reasons.</p>	<p>Make a comparison between sums allocated and disbursed</p>	<p>The non-disbursement of amounts allocated to any item of budget is not related to the amount of earmarked allocations, but related to the finances on a account to which the disbursed amount is allocated. Therefore, the audit team is required to observe the following:</p> <ol style="list-style-type: none"> <li>1. The existence of adequate finances for disbursement should be verified, especially as the financing is linked to the Ministry of Finance</li> <li>2. Verifying that there are no other obstacles preventing preparation the studies of the directorate`s building</li> </ol> <p>So we miss important evidence concerning logical comparison between accounts and linking process.</p>
<p>6-Upon our audit of matching the current account statement that was opened in the Al-Rashid Bank / Al-Malaab branch numbered (20020), amounted (11453767458) dinars (eleven billion, four hundred fifty three million, seven hundred sixty seven thousand, four</p>	<p>Review the records</p>	<p>Approvals are one of the efficient evidence and the aforementioned observation supports its absence from this evidence. FBSA has audit teams in various government units and obtain external evidence, but the following is noted regarding the aforementioned observation:</p>

<p>hundred fifty eight dinars) as on 31/12/2014 according to financial records, we have noticed the following: -</p> <ol style="list-style-type: none"> <li>1. The Directorate did not provide us with bank support of the current account balance as of 31/12/2014. We recommend providing us with bank support of the current account balance.</li> <li>2. The suspended checks account balance is (416107200) dinars (four hundreds sixteen million, one hundred seven thousand, two hundred dinars) until 31/12/2014, which represents the amount disbursed to Al Salam Public Company. We recommend settling the mentioned balance according to the rules.</li> </ol>		<ol style="list-style-type: none"> <li>1. The audit teams in Al-Rasheed Bank and Al Salam State Company were not required to provide approvals of directorate's balances, thus we lack the goal of existence and verifying ownership.</li> <li>2. The inquiry about the reasons for the existence of suspended checks which belong to Al Salam State Company and the cross-checking procedure between audit teams in the Directorate and the company was not implemented.</li> </ol>
<p>7-When auditing the balances of credit and debit accounts, advances and deposits shown in the statement of investment budget as on 21/12/2014, we have noticed the following: -</p> <ol style="list-style-type: none"> <li>1. The Directorate has not provided us with the analytical statements of (other temporary advances, documentary credit advances, deposits, the creditors). We recommend providing us with the aforementioned analytical statements.</li> <li>2. The Directorate did not submit a statement of documentary credits ownership open in its favor, which amounted to (60479202306) IQD (sixty billion, four hundred seventy nine million, two hundred two thousand, three hundred six IQD) as on 31/12/2014 and it did not tally it with Trade Bank of Iraq (TBI). We recommend conducting</li> </ol>	<p>Initial examination</p>	<p>The audit team has not been provided with information referred to in the note. Thus, the audit team is not excused from conducting the audit. Concerning that, we have the following:</p> <ol style="list-style-type: none"> <li>1. There was no inquiry about the reasons why the audit team was not provided with required information.</li> <li>2. By referring to their records and not relying solely on analytical statements, the audit team can verify from other values of temporary advances, documentary credit advances, deposits, creditors. Thus, the evidence for auditing the records was overlooked and the auditing objectives for existence, correctness, and completeness were not obtained.</li> <li>3. The lack of the statement of opened documentary credits ownership to tally with the Trade Bank of Iraq does not eliminate the audit team responsibility in</li> </ol>



periodic tallying with aforementioned bank, identifying the differences and addressing accordingly.		verifying the work team to determine the documentary credits amount, thus verification goal and existence was lost.
8- The audit team has not been provided with work progress reports and technical completion rates of implemented projects, in order to compare with the financial completion rates and identify areas of failure and shortcomings. We recommend providing us with reports and technical completion rates for the project.	Initial examination	Failure to provide the audit team with work progress reports and technical completion rates for implemented projects does not mean that no information is obtained in order to form an opinion on the subject in question. As the audit team could review the files of each project to determine the technical completion rates and obtain the appropriate information in this regard. Hence, the team neglected to use important evidence, which is review the records.
9- The Directorate delayed in providing FBSA with financial statements, where it was presented in its initial form according to directorate's letter (25096) on 20/4/2015 then it was returned for the first time according to FBSA's letter (5/7/4/9429) on 28/5/2015, because there are some material deficiencies. The statements have been submitted after completion and finalization according to directorate's letter (44393) on 13/7/2015; and it was returned at the request of directorate's letter (63309) on 6/9/2016 for the purpose of making amendments in light of Ministry of Finance's letter (14206) on 24/7/2016, contrary to the circulate of General Secretariat of the Council of Ministers no. (2/5/1214) on 23/1/2014, which set the date of 31/1/2015 as the deadline for submitting the financial statements. We recommend committing the applicable instructions and submitting the financial statements on time.	Initial examination of financial statements	The audit team is required to, in light of delay of providing the financial statements for the year 2015, which ranges between one and a half years, clarify the subsequent events during the delay period and their reflection on financial statements. However, it is clear that the audit team did not pay attention to this issue and thus the goal to trace subsequent events is lost.
10- <u>Cash on hand:</u>	Review the	The process of receiving payments is made through receipt

<p>First-The fund's daily record (Accounting / 66) did not include the data of amounts deposited in the current account with the bank during the year subject to the report. It has been sufficient only to include the amounts received, which made it difficult to conduct an inventory, match the amounts received and deposited. We recommend that the amounts received and deposited should be recorded in the above record.</p> <p>Second-There are scratching, omission and adjustment in amounts of some receipt vouchers (accounting /37 a) without strengthening by authorized signatures.</p>	<p>records</p>	<p>vouchers. The data of receiving amounts is not indicated, only the amount received is mentioned, thus the amount received can be verified. The reasons for receiving this amount cannot be determined, and the audit team is required to:</p> <ol style="list-style-type: none"> <li>1. Determine the differences, if any, between the amount actually received and what was deposited in the bank to achieve the objective of existence and ownership</li> <li>2. Contrary to what is stated in the note, it is possible to conduct the inventory because it is carried out by relying on the amounts actually received and cash on hand, and explaining the reasons for difference, if any.</li> <li>3. With regard to existence of scratching and omission in the amounts of some receipt vouchers, the audit team should support this evidence with another, namely, the existence. In other words, did the mentioned cases lead to loss the cash or it is merely unintended errors of ignorance of auditing and internal control systems.</li> </ol>
<p>11- <u>Cash at banks:</u>  When we audited the matching of current accounts statement of the directorate and its affiliated departments that open with banks, we have noticed the following: -  First- Al-Karkh Traffic Directorate has not settled the 17 suspended checks, amounted 10762 thousand IQD (ten million, seven hundred sixty two thousand IQD), despite the legal period has expired (six months and ten days). We recommend taking the necessary measures to reconcile them duly.  Second-The General Directorate has not performed monthly matching of current account salaries that opened</p>	<p>Observation</p>	<ol style="list-style-type: none"> <li>1. The aforementioned note was not supported by an inquiry clarifying the reasons of not reconciliation the suspended checks, despite the expiry of legal period, so that the appropriate recommendation can be made after determining the justifications mentioned in the inquiry.</li> <li>2. Failure to perform a monthly matching of the salaries current account does not necessarily imply a note. As the salaries are funded by the Ministry of Finance through feeding the current account of salaries on a monthly basis. The audit team can obtain external evidence from the bank in which the current account</li> </ol>

<p>at Al-Rashid Bank / Al- Malaab Branch (20010) since 2010 and beyond, despite our continuous confirmation in our reports concerning data of previous years, contrary to instructions of the decentralized government accounting system. We recommend performing the monthly matches for this account according to the instructions in effect.</p>		<p>was opened. This is one of strong evidence that strengthens validity of what included in this account and tallying with records to determine the reasons of difference and put necessary recommendations thereon.</p>
<p>12- The balance of the trusts account amounted to (1241504) thousand IQD (one billion, two hundred forty one million, five hundred four thousand dinars) as on 31/12/2014, we have on that the following:  First- The Directorate did not open a bank account for trusts amounts despite the amount exceeding (one billion) IQD, contrary to what was stated in letter of the Ministry of Finance / Accounting Department No. (19346) on 4/12/2011. We recommend complying with the instructions in force.  Second - The Directorate did not follow up and reconcile the suspended and recycled trusts from previous years, contrary to General Secretariat for Council of Ministers' circular and Ministry of Finance / Accounting Department's letter referred to above. We recommend complying with the instructions in force.</p>	<p>Observation</p>	<p>The audit team did not specify the real reasons that led to not opening a current account for trusts, as well as the reasons for not following the reconciliation of suspended and recycled trusts from previous years. This requires supporting the audit observation with an inquiry concerned it as well as stating the existence of any actions regarding trusts unlike the purposes for which they were set. This reinforces the important goal of ensuring the rights of directorate and others that trusts are recorded in their favor.</p>
<p>13- <u>The receivable and payable accounts:-</u>  First- The directorate does not obtain confirmation from the relevant authorities concerning receivable and payable balances, for the purpose of validating, we recommend obtaining balances confirmation from the concerned authorities.  Second-Contrary to General Secretariat for Council of</p>	<p>Observation</p>	<p>From the notes that were identified, we can see the following:-  1. The audit team does not obtain confirmation of receivable and payable balances. This is external evidence that has a stronger authority and under the control authority of the FBSA, it can obtain this evidence and perform tallying with what is recorded in the directorate records.</p>

<p>Ministries' circular and Ministry of Finance / Accounting Department's letter referred to above, the Directorate did not take the necessary measures to reconcile the returned wages and salaries debtor account balance amounted (809067) thousand IQD (eight hundred nine million, seven hundred sixty thousand dinars) as of 31/12/2014, including an amount of (691327) thousand IQD (six hundred ninety one million, three hundred twenty seven thousand dinars), suspended and recycled from previous years. We recommend studying and reconciling the said account balance.</p> <p>Third - In contrast to General Secretariat for Council of Ministers' circular and Ministry of Finance / Accounting Department's letter referred to above, the Directorate did not reconcile the balance of undisbursed checks of (46534) thousand IQD (forty six million, five hundred thirty four thousand dinars) as on 31/12/ 2014, including the amount of (27584) thousand IQD (twenty seven million, five hundred eighty four thousand dinars) from previous years. We recommend studying and treating them dully.</p>		<ol style="list-style-type: none"> <li>2. There was no inquiry about the reasons that led not to reconcile the returned wages and salaries debtor account balance, what these reasons are and finding the necessary recommendation in this regard.</li> <li>3. There was no inquiry about the reasons that led not to reconcile the balance of undisbursed checks, what these reasons are and finding the necessary recommendation in this regard.</li> </ol>
<p>14- The Directorate did not take the necessary measures to return the fixed assets loaned to external parties until the date of preparing this report, besides the Directorate did not obtain confirmation from the parties loaned to these assets. We recommend that the Directorate should seriously follow up and expedite the return of loaned assets.</p>	<p>Observation</p>	<p>The audit team did not obtain confirmations from entities which the fixed assets were loaned to, thus an important goal, namely existence, was lost. Moreover, the Directorate did not expressly disclose the ownership of these assets; the observation was not supported by inquiry about the reasons leading to returning these assets, and can the Directorate control these reasons, or not in order to put the appropriate recommendation in this regard.</p>
<p>15- Corresponding regulatory entries for the assets in the</p>	<p>Review the</p>	<p>The absence of corresponding regulatory entries to control the</p>

<p>year subject to the report were not included with the value of the stock assets purchased during the aforementioned year and previous years. Although we requested this in accordance with our audit report numbered (5/7/4/16952) on 14/9/2014, related to (the financial statements of General Traffic Directorate for the year ended December 31, 2013) contrary to the instructions of the governmental / decentralized accounting system. We recommend complying with the applicable regulations and including corresponding regulatory entries with the value of the stock assets.</p>	<p>records</p>	<p>assets gives indications regarding a set of problems related to ownership of these assets. Failure to organize such entries requires the audit team to:</p> <ol style="list-style-type: none"> <li>1. Obtain records of inventory assets, especially those that have not been organized by regulatory entries, and conduct matching with supporting documents, such as title deeds, purchase receipts, incoming and outgoing stock receipts, custody stock,(under the stock keeper in charge), this achieves the goal of existence and ownership.</li> <li>2. Carry out analytical and quantitative procedures for a group of assets obtained during the period in which regulatory entries were not regulated, and compare its materiality with rest of assets and this gives an indication there is a waste of public money.</li> </ol>
<p>16- The most exchange documents were not supported with receipts from relevant government departments and entities, which confirm their receipt of approved checks amounts during the year subject to report. We recommend that all exchange documents should be supported with receipts from the relevant government departments and entities.</p>	<p>Documentary review</p>	<p>The table shows that the only party that did not obtain conformation to collect its dues is the Oil Products Distribution Company. This requires the audit team to inquire about the reasons for not obtaining these receipts. In addition to that, the audit team working in Oil Products Distribution Company has obtained evidence that these sums have been received to put the appropriate recommendation in this regard.</p>

<p>17. The Directorate did not inform the Federal Board Of Supreme Audit about the cases of embezzlement, theft and forgery that occurred during the years (2011-2014), contrary to the provisions of Article (18)</p>	<p>Observation</p>	<p>1. It has not been confirmed that there have been cases of embezzlement, forgery, or theft until the violation is</p>
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<p>of the Federal Board Of Supreme Audit Law No. (31) of 2011 (amended), which states: the entities subject to the audit of the FBSA, shall report to FBSA about the financial violations that take place upon their discovery. We recommend adhering to the laws in force and report to FBSA on all financial violations once occur.</p> <p>18. The number of legal cases filed by others against the Directorate during the year of the report amounted to (97) cases, of which (43) cases were resolved, and the remainder (54) cases are still in process, according to the response of the Directorate / Legal section with its letter number (10657) on 22 / 2/2015. We recommend expediting the remaining claims.</p>		<p>substantiated with non-informing the SAI of this case, which requires reinforcing this observation with a question. Also, the existence of several unresolved observations, such as the lack of regulatory restrictions facing the assets and the lack of conformity with the bank account mentioned previously.`</p> <p>2. It was not verified that the subject in the case was decided in favor of the Directorate or for the benefit of others. In the case of this case, the decision was made in favor of others, so that it could be held responsible as a result of that, as well as not knowing what this lawsuit is and its impact on public money.</p>
<p><b>The financial statements of Al-Salam General Company 2015</b></p>		
<p>1. The company did not prepare the cash flow statement contrary to the accounting rule No. (7) issued by the Accounting and Control Standards Council in the Republic of Iraq, although it is one of the statements that must be prepared. We mentioned this issue in our previous reports. We recommend that the cash flow statement should be prepared in accordance with the accounting rule above.</p>	<p><b>Preliminary examination of the financial statements</b></p>	<p>1- This evidence is not linked with verifying whether cash is available or not on 12/31/2015</p> <p>2- The observation did not explain the reasons for not preparing the cash flow statement in the required form and the justifications of the management subject to the audit in this regard. Thus, the audit team did not use the evidence of the inquiries regarding the above</p>
<p>2- The company did not prepare the profit and loss account for the accomplished undertakings and contracts, statement a summary of the</p>	<p><b>Preliminary examination</b></p>	<p>Failure to link the results that this account can produce on the final result of the</p>

<p>unfulfilled undertakings, and statement a comparison of the main numbers mentioned in the final accounts for the five years ending on 31/12/2015 contrary to the standard accounting system. We recommend that the above statements should be prepared according to the forms mentioned in the uniform accounting system.</p>	<p><b>of the financial statements</b></p>	<p>activity, especially since the net results of the company's business were a loss, which requires the audit team to verify the contribution amount of calculating result the profits and losses of the pledges and contracts accomplished with the result of the final activity, thereby losing the verification goal</p>
<p>3- The company has prepared the matching between the actual inventories of the fixed assets and the records of the fixed assets, where the results of the matching report showed that there are differences without specifying their causes and ways of dealing with them.</p>	<p>Matching</p>	<p>It requires the audit team to know reasons for differences between the actual inventories and records of fixed assets through inquiries in this regard and to achieve the goal of preserving public money and to bear responsibility for that to the authorities causing these differences</p>
<p>4- The company wrote off some fixed assets during the year of 2015 from the asset register without obtaining original approvals and without making restrictions for write-off, resulting in a difference of (832) thousand dinars (eight hundred thirty two thousand dinars) between the balance of the tools and molds (ح / 115) appeared in the record of fixed assets amounting to (3577) thousand dinars (three million five hundred seventy seven thousand dinars) and the above account balance shown in the trial balance of (4409) thousand dinars (four million four hundred nine thousand dinars). It affected the validity of the annual depreciation amount credited to the tools and molds of (689) thousand dinars (six hundred eighty-nine thousand dinars)</p>	<p>Matching</p>	<p>Although the audit team has diagnosed the effect of writing off the assets on the total value of the depreciation, the value of this effect and the change in the result of the company's business as a result of the write-off has not been clarified, which has lost the goal of accuracy and completeness</p>
<p>5- We were not provided with the company's ownership confirmations issued by the competent authorities, contrary to the</p>	<p>Inquiry</p>	<p>The audit team did not obtain confirmations from the real estate laundering authorities</p>

<p>requirements for the completion of the financial statements for the year ended 31/12/2015 with the number (2/5/5/20015) on 1/12/2015 despite our request to it according to our memo No. (س / 2) on 7/2/2016, which made it impossible for us to verify and match the company's ownership of the buildings and facilities constructed on Al-Madain and Al-Tajyat sites. We recommend that ownership of buildings issued by the competent authorities should be obtained.</p>		<p>regarding the ownership of the buildings, especially the presence of a audit team in the aforementioned entity that can provide them with what supports the ownership of the buildings under observation, thereby losing an important goal which is ownership as well as not strengthening the observation with a inquiry on the reasons leading to the lack of title deeds.</p>
<p>6- The balance of the raw materials inventory account (ح / 131) in the financial records amounted to (191948) thousand dinars (one hundred and ninety one million nine hundred and forty thousand dinars) as of 31/12/2015, except that there are no materials and raw materials corresponding to the above balance In the store, and accordingly, no inventory lists were prepared or hold of stock cards, which indicates the invalidity of the said balance and thus its effect on the accuracy of the company's financial position</p>	<p>Inventory and matching</p>	<p>Despite the importance of the aforementioned observation and its impact on the offer, the audit team did not recommend determining responsibility as a result of this, especially in light of the loss of stored raw materials, thus losing the goal of preserving public money as well as the poor internal control procedures in this regard.</p>
<p>7- Failure of the company to request assurances of accounts receivable and payables from the relevant authorities as on 31/12/2015, as we have not confirmed the validity of these balances, bearing in mind that we have indicated this in our previous reports</p>	<p>Matching</p>	<p>From the diagnosed observation aside, it becomes clear to us that the audit team does not obtain support for the debts and credits of the creditor, and this is an external proof of evidence that has a stronger argument. In light of the audit authority that the FBS enjoys, it can obtain this evidence and perform conformity with what is recorded in the company records.</p>
<p>8- The company did not process the deposits and withdrawals that appear in the bank statements and did not exist in the register for the</p>	<p>Matching</p>	<p>The reasons for the existence of these deposits and withdrawals have not been</p>



<p>years (2008-2015), as they were not recorded in the records until 31-12-2015, where the total of deposits (736702) thousand dinars (seven hundred thirty six million seven hundred two thousand dinars) and payments (783999) thousand dinars (seven hundred and eighty three million nine hundred and ninety nine thousand dinars)</p>		<p>identified in the bank's statement without the corresponding in the records, especially since such a observation is a very important observation as it is one of the indicators that leads to achieving the goal of preserving public finances, presence and ownership, so it requires greater efforts from the audit team to make sure from this case</p>
<p>9- The company recorded an amount of (14105) thousand dinars (fourteen million one hundred five thousand dinars), which is the sum of the amounts of fees for letters of guarantee that did not appear in the bank statement</p>	<p>Matching</p>	<p>The audit team is required to verify the record of the letter of guarantee and obtain confirmation of the correctness of the deposits, as it is possible that they are fake deposits, which lead to their appearance in the records and not appearing in the bank statement, thus losing the goal of ownership and preserving public money</p>

**Through an analysis of the process of collecting evidence and how to obtain and use the evidence against the selected audit observations shown in the above table, the following appears to the researchers: -**

1. Despite the use of audit teams for evidence, it was noted that the worksheets did not contain the quality of the evidence used, as some auditors lack sufficient knowledge of the quality of the evidence, its source, the method of its use and its use in the audit observation.
2. The observations confirmed in the reports did not explain the reasons for not preparing the cash flow statement in the required form (as in the Agricultural Cooperative Bank and the Traffic Directorate) and what are the justifications for the administration subject to audit in this regard, and whether there was deliberate failure to prepare the cash flow statement in the required form or for reasons due to insufficient familiarity with the preparation requirements this disclosure, with the presentation that one of the most important tasks of the FBS is to provide technical advice to the staff of the departments subject to its control and to develop accounting work for these entities, which leads to avoiding some diagnostic observations and avoiding their repetition, in addition to that there is a relatively long period of time between receiving data and the preparation of the report, which allows the audit team diagnose the defect monitoring points in the preparation of cash flow statement as required and demand from the subject of the report after making sure to match the actual cash balance with records make adjustments to the aforementioned statement.
3. Some of the clarifications shown in the audit reports are classified as observations without relying on the elements of the auditing observations that must be observed and that include in general (identifying the aspects of the violation or the defect, attributing the violation or the defect to the laws, regulations, instructions, administrative policies, customs and standards of the internal control system, determining the negative impact that occurred as a result violation or defect, or indicating the possible negative impact that may occur, recommendations to avoid the violation, defect, or request the administration to take corrective or deterrent measures to prevent the recurrence of this violation).

4. Dealing with the audit observations as a case independent of other audit observations, which affects the visibility of some audit observations as appropriate and weakens their impact on the audit report in many cases, as in the case of the General Traffic Directorate and Al Salam General Company in the presence of a observation of not preparing a cash flow statement and not delaying matches between cash balance in the records and bank statement, and in the diagnosed observation in Al Salam General Company that there are differences between the inventory records of the fixed assets and the existence of write-offs for some fixed assets without making accounting entries for write-offs.
5. Most of the recommendations contained in the reports do not correspond to the type of risks facing the activities of the economic unit, with the procedures of the entities subject to auditing not being defined regarding the specific observations as the unit's policies that are subject to auditing towards the cases of the inability to collect the receivables through the adoption of a provision.
6. Audit observations are established regardless of the nature of the violation. In the event of an imbalance in the distribution of profits, it is sufficient to install a audit observation instead of returning the financial statements to the audited entity and making the necessary adjustments to it as in the observation confirmed in the agricultural cooperative bank's report, as well that the recommendation to adhere to the correct procedure is sometimes insufficient (such as asking to writ the correct tab), but requires researching the causes and effects of those actions.
7. The lack of some audit observation to specify the default liability as part of the preservation of the public money of the state, as some regulatory observations have shown, as in Al Salam General Company, the loss of stored raw materials despite the presence of balances in the records, that the determination of such responsibility represents a deterrent to others in order to preserve public money in addition to strengthening the internal control procedures, which requires legal procedures for the entities subject to audit, such as referring the negligent to the judiciary or recommending referring some issues to the relevant investigation authorities to indicate the tort liability.

8. Insufficient audit programs approved by the audit teams to study cases and manifestations of the actual or expected risks of the elements under examination, in addition to not taking the necessary care to achieve the special confirmatory goals (presence, ownership, and strength of the internal control system, etc.), in addition to the lack of reference to the goals achieved in the work papers of auditors.
9. Regulatory reports indicate that there is no administration or committee for granting credit that works to study the size and terms of guarantees and the beneficiaries of credit, in addition to that the lack of application of laws and instructions or delay in their application is an indication of the existence of inappropriate practices in the processes of granting credit.
10. Most of the supervisory observations included the non-disbursement of the amounts allocated to any item of the budget, as the disbursement process is not related to the amount of allocations allocated, but rather to the amount of funds on the allocated account, which requires ensuring that there are sufficient funds for disbursement, especially since the financing client is linked to the Ministry of Finance, with no contraindications others prevent exchange
11. It was observed that a audit observation indicates that the oversight team is not provided with the required priorities, bearing in mind that this procedure does not exempt the audit team from the audit procedure, which requires the supervisory teams to inquire about the reasons for not providing the regulatory team the required priorities, while adopting other methods to obtain the required data such as resorting to a method Cross-checking through requesting from other audit teams working in auditing other parties by providing them with the required data and according to the approved contexts such as requesting from the creditor agencies of the subject of the audit to provide the FBS with an analytical statement of financial claims, for example
12. Relying on the analytical procedures and observation significantly without conducting the process of logical linking and comparison, as conducting the analysis process without linking the vocabulary of the item to be analyzed and the

other related items loses the value of the analytical procedure. In addition to not supporting these two guides with fact and evidence, as the analytical procedures differ their interpretation from one auditor to another, the observation is based on the auditor's experience, thus it affects the strength of the audit observation.

13. Relying on substantiation with specific evidence but not others, such as not using the external evidence, such as external approvals, despite its easy to access by FBSA, as it is the legally authorized entity to audit all economic units in the public sector. For example, the cash account is considered one of the most important accounts, as it is more vulnerable to embezzlement, theft and loss, but it was observed that available internal evidence is relied on, without obtaining external confirmations related to this account, as in auditing the cash account of the General Traffic Directorate and Al-Salam State Company, as well as the lack of obtaining the approvals of debit and credit balances confirmation of the government entities subject to the audit of FBSA, and this was indicated by the diagnostic notes of the research samples.

Presentation and analysis of the reality of the Quality Control Department work  
The quality control department was formed in the FBSA in 2009 and it is linked to the Audit and Follow-up Office.

The department audits all reports and investigations prepared by its audit teams. As a result of the large volume of audit reports compared to the department`s staff, a study of the quality control team was adopted at least 5% of the total prepared reports, the reports that are discussed within the Control Council in FBSA are not subject to this department`s audit, because the Control Council includes the highest control experiences in FBSA.

Through reviewing the reports of the Quality Control Department regarding the research sample, we noticed that most of the reports of this department share specific axes such as spelling errors, lack of information and arithmetic review. Some of the diagnostic notes of this department for the entities (the research sample) are as below

Identified notes from the Quality Control Department regarding the audit reports of the concerned entities, sample of research

Report of the auditee	The note from the Quality Control Department regarding reports by type				
	Lack of information	Matters require modification	Matters require addition	Errors in the balance	Failure to disclose facts that are known during the audit
General Traffic Directorate / the report of the work results of 2015	<p>The audit .1 program was not attached, contrary to the instructions of quality and control of the Iraqi audit reports for 2017</p> <p>The report's .2 examination form was not attached for the expert and the assistant of director general</p> <p>Lack of official .3 approvals to make adjustments to the balance sheet of investment budget</p> <p>The movement .4 balance of advances</p>	<p>Submit the letter of transmittal, as there are notes regarding advances that are .not settled</p> <p>Issuing a work results report on activities without appendices until the suspended balances are settled.</p> <p>(Arabic linguistic revision)</p> <p>Modifying the contract implementation delay periods to be (34) days instead of (4)</p>	<p>It is required to disclose the approved mechanism for verifying the correctness of the balances submitted by the formation according to the consolidation record</p> <p>Add a phrase (contrary to the Ministry of Finance / Current Budget letter no. (74171) on 19/2/2015, which includes the mechanism of settling advances.</p> <p>Add the number and date of the original</p>	<p>The recorded total revenues of the branches for 2015 was (62849762259) dinars, and after calculation it will be (62849762591) dinars, which requires verification and adjustment that the recorded balance of the service requirements for 2015 is (10271590) dinars,</p> <p>While the balance after calculation will be (1027159070), which requires verification and adjustment.</p>	<p>The approved mechanism has not been identified to verify the correctness of the amounts recorded in the issued checks (by relying on the bank statement, for example), and the procedures of the audit team have not been disclosed regarding what mentioned in the report.</p>

	<p>was recorded and the advances were not recorded as at 31/12/2015  Failure to record .5 any note regarding the management report, despite the fact that the report did not match the form approved by FBSA.</p>	<p>days.  (Arabic linguistic revision)  Modifying the date of the Ministry of Finance letter to 2012 / 5/be 6 /5/instead of 6 2015.  (Arabic linguistic revision)  Coordinating the figures typing of the accounting guide with figures in accounts</p>	<p>approvals to withdraw the sums related to the investment budget and to determine the entities to be spent to within these .withdrawals  Add (contrary to the Ministers Council Resolution No. 440 and 157 for 2008 and 2009, respectively, regarding the evacuation of violators within the audit notes.  Add an amount of (2940000) dinars to the account of communication machines for 2014 and it has not been recorded in the financial statements for this year</p>	<p>The balance of goods requirements after calculation is (45106710075) dinars, which requires verification and adjustment.  The other recorded expenditures for 2014 are (1102541500) dinars, while the balance after calculation will be (1073141500) dinars.  The recorded total costs for 2014 is (132073879984) dinars, while the balance after the calculation is (132028389484) dinars.  The recorded carried forward cash balance is (11453767458) dinars  Expenses for the year 2014 (132073879984)</p>	
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				<p>dinars, while the balance after calculation is (1320283889484) dinars</p> <p>The revolving cash balance has been fixed (11453767458) dinars as on 1/1/2014 and it is not matching to the balance as on 31/12/2014, while the balance of the other supplies account for 2014 is recorded at the amount of (52405000) dinars, while the balance is (36314500)</p>	
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Report of the auditee	The note from the Quality Control Department regarding reports by type				
	Lack of information	Matters require modification	Matters require addition	Errors in the balance	Failure to disclose facts that are known during the audit
Agricultural Cooperative Bank / 2014 financial statements	The actual and -1 likely time for the audit team is not specified Failure to add -2 the statement of cash flow to the paragraph of report scope according to the Financial Control Council's decision, paragraph (Fifth) of the minutes of the seventy-second session for 2014 on 22/12/204. It is required to mention the exception related	Add the phrase (which indicates the weakness of the bank's policy to obtain its rights) Add recommendations for some notes specified in the report Add the manager name of any branch regarding the lawsuit against the branch Specify the accounting guide for a bank credit account Add the phrase(	Add the phrase (which indicates the weakness of the bank's policy to obtain its rights) Add recommendations for some notes specified in the report Add the manager name of any branch regarding the lawsuit against the branch Specify the accounting guide for a bank credit account Add the phrase(	There is an error in the total of added and transferred fixed assets, where it is (799343946, 2976750) dinars, respectively, instead of the recorded (802043946, 276750) dinars. The total book value of the fixed assets is (4594538855) dinars instead of (4722457131) dinars. The total book value of the buildings account	

	<p>to the statement of cash flow in the scope of the report</p> <p>Failure to -3 mention the name of the violator on a property in the Baghdad governorate, and were the competent authorities approached with regard to lifting the abuse?</p> <p>Failure to fix -4 the legal basis for violating the instructions issued by the Agricultural Bank / Public Administration</p>	<p>transfer and other revenues) after (added below the operations deficit in profits and losses account</p>	<p>transfer and other revenues) after (added below the operations deficit in profits and losses account</p>	<p>is (3369118093) dinars instead of (3369118095) dinars.</p> <p>The total of other credit accounts for 2013 is (1536401861445) dinars instead of (1536401861446) dinars</p>	
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	<p>Failure to fix -5 the total diversified transfer revenues for the year 2013 as in the year 2014</p> <p>Has the -1 Ministry of Finance been approached for the purpose of obtaining the amounts of suspended transfers because the Ministry has previously frozen and withdrawn the financial balances of the dissolved districts? This is required in the note</p>				
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<p>Alsalam public company /financial statement (2015)</p>	<ol style="list-style-type: none"> <li>1. actual and expected time for auditors was not set</li> <li>2. The reports examination form was not attached</li> <li>3. The audit program has not been approved by the head of team and the Director General</li> </ol>	<ol style="list-style-type: none"> <li>1. Modifying the numbering of observation according to the that stated in the statement report.</li> <li>2. This modification applies to the Arabic text .(Arabic wording )</li> <li>3. Amending the phrase (under budget execution regulations to be (under Article (6-b) of the second section of the regulation.)</li> <li>4. Amending the recommendation because the self financing</li> </ol>	<ol style="list-style-type: none"> <li>1. The phrase (increase / decrease) is written in the difference field, instead of placing the sign of increase or decrease</li> <li>2. The legal basis for the remark is added, contrary to Cabinet Resolutio</li> </ol>	<ol style="list-style-type: none"> <li>1. The total recorded costs are (1196166960) dinars, while the correct amount after calculation is (1196076960) dinars</li> <li>2. A mistake in calculating the horizontal column for service requirements requires validation</li> <li>3. The loan balance fixed in the schedule that was incorrect to (307,255,218,</li> </ol>	<ol style="list-style-type: none"> <li>1. Under the debtors item, the account of (cash and inventory differences) whose balance is (2811274793) dinars was not mentioned .this should be verified and an analysis of the amounts should be requested, given the fact that the account dates back to previous years.</li> </ol>
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		company has no relation with the Ministry of Finance to conduct virements .	n No. (21) for 2010	36) dinars, after calculation, becomes (361255713515) dinars.	
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## **Analysis of the audit report quality control department, sample of research, reality**

In spite of the importance of the audit observations diagnosed by the Quality Control Department ,sample of research, the most significant one is the lack of focus when conducting the quality checking of its objectives namely , to achieve the audit goals for expressing an appropriate opinion of the statements subject of the report as well as the extent to which other assurance goals are achieved and through inquiries and reviewing Quality Control Department reports issued thereon, we have noted the following:

1. The Quality Control Department has no standard on which its quality test is based .Rather, the department relies upon instructions that are determined to have the work accomplished.
2. In most cases experiences of the quality controllers are relied upon without being linked to the applicable accounting and auditing standards for the items examined.
3. The lack of circulated instructions from the Quality Control Department on the supervisory bodies operating in the FBSA clarifying what are the requirements that must be met in the report and that the regulatory bodies should fulfill to achieve the quality requirements.
4. Most of the current files and their contents of documents and evidence that support the observation documented in the audit report have not been examined.
5. Despite the diagnosis of some important observations in the report, especially the reports of the Agricultural Cooperative Bank and the report of the General Traffic Directorate, the impact of this on the neutral technical opinion was not indicated. The reports of the Quality Control Department did not specify the effect of the observations identified by the department on the opinion.
6. Paying no Attention to clarifying the extent of achieving the other assurance audit goals in the department's reports. These reports did not state whether the said goals were achieved or not and their impact on the main audit objective of expressing a neutral technical opinion regarding the financial statements.

7. The large number of transfers for the department's employees. Thus, preventing the accumulation of experiences regarding quality testing.
8. Despite the importance of the aforementioned section and the necessity of its attachment to the highest authority in the FBSA (the head of the FBSA), we noticed that it is attached to the audit and follow-up office .In addition, follow-up work to settle the FBSA diagnosed observation for previous periods was not examined .So is the case for the quality observation settlement and its effect on the audit of subsequent work of the departments whose observation were not settled .

It should be noted that the Quality Control Department must ensure that the audit team adopted the stages of audit planning and implementation, as stated under item 6 (ISO 19011: 2002), which includes eight main items: (Al-Qazzaz, 2010: 129) (ISO 19011: 2002)

1. Introduction: It represents the approach to planning, the implementation and definitions.
2. Initial preparation of audit: This includes selecting the head of the audit team and the team members, determining the objectives, scope and standard of the audit, determining the needs of the audit process and contacting the auditee to specify the starting time of the audit and the documents and records required .
3. Review of audit documents: a close review of documents related to the audit process and audit of the approved management system records and previous audit reports.
4. Preparation of audit activities: preparing the work plan and scheduling it, distributing the work to the audit team and preparing work documents.
5. Carrying out audit activities: This includes gathering and verifying information, documenting audit findings, reaching final conclusions from the audit , and conducting a final interview for the purpose of discussing audit findings and conclusions.
6. Preparation, validation and distribution of the audit report: the report is prepared by the head of the audit team. The audit report includes the goals of the audit and its scope, date , location ,

findings , conclusions, and reference to the audit plan and those in charge of the work.

7. Audit completion : At this stage, the report is prepared after the end of all the audit activities mentioned in the audit plan, and it is approved after reviewing it, fixing its date and distributing the report to the beneficiaries.
8. Follow-up the audit results : represented by following up the suggestions and recommendations presented in the report and the measures taken by the unit to implement it within an agreed time frame.

The researchers believe that the adoption of the steps and stages mentioned above, by the audit team represents the appropriate ground for judging the quality of the performance of the audit work because those stages meet all required specification of audit field work and report preparation standards .



## **Enhancing the quality of audit performance by linking the audit evidence with the assurance goals of the elements under examination**

In reference to what was discussed in sections 1 and 2 of this chapter and in order to enhance the quality of audit work, SAI Iraq -FBSA- is required to do the following:

1. Developing standards for the quality control teams namely the requirements concerning evidence and information that can be resorted to. In addition, audit assurance and other goals must be identified while directing audit teams to adopt a mechanism to link appropriate evidence to assurance audit goals by following clear and specific audit procedures and programs that show how to implement the required audit objectives and what means are required to be adopted.
2. Establish and develop auditing procedures and programs for preserving public money from waste, or misuse, and ensuring its efficient use.
3. Designing two forms for quality control work, as shown below:
  - a. The first form is approved by the direct senior management of the audit team represented by (the expert, the assistant director general , the director general) specifying the general requirements for the audit engagement (studying the internal control system, the materiality of the accounts under examination , the risks associated with the accounts under examination , the size of the audit staff, time available for auditing, identifying the specific audit goals and at the level of each account etc.)
  - b. The second form is approved by the Quality Control Team. The form determines the compliance of the audit team with the requirements set out in the second form. The opinion of the direct senior management concerning the achievement of these requirements is also identified.

To direct the attention of the audit team towards the use of the appropriate evidence in order to achieve the goal of appropriate auditing and linking this with the audit procedures, below is a table clarifying some of the audit procedures and the audit assurance goals that can be achieved for some accounts in order to form an opinion on the account

under scrutiny. It is worth mentioning that the audit departments must prepare and develop audit procedures of all accounts, and at the level of each sector to ensure the identification of assurance goals , and required evidence and information , the means required to be implemented to achieve the audit objectives :

Table (7)

Proposed audit procedures to link audit procedures with audit assurance goals for selected accounts

Required audit procedures	Assurance goals						
	Validity and accuracy of the amounts values	Proper presentation and disclosure	All amounts are recorded in the books	The actual existence of amounts and support them by documents	The funds belong to the company and approved by the management	The basis adopted for estimated amounts is sound one	Preserving public money from waste or misuse
In order to make an opinion on fixed assets: obtaining an analysis of fixed assets and their depreciation, explaining the balance of the first period of the cost and depreciation of each item, the movement of additions and exclusions on both cost and depreciation and the balance of the last period for both cost and depreciations.							
a. Tallying cost and accumulated depreciation allowance at the beginning of the period based on the analysis, with the financial statements and worksheets of the previous year.	X						
b. Tallying of cost and accumulated depreciation allowance at the end of the period from the analysis, with the trial balance and books	X						

in the date of preparing the financial statements .							
c. Verifying that the entity applies the same rates of depreciation for the previous year.	X	X					
d. Verifying that no fixed assets are purchased if not needed .							
e. excessive use of fixed assets is only justified when there is a return that matches such use.							
f. non using of fixed assets for							

purpose s other than those designa ted							
g. Ensurin g that regular mainten ance of fixed assets is carried out in a manner consiste nt with the actual use of them.							
1. verifying the validity of the depreciation calculation for the financial period by:							
either using analytical procedures to verify the reasonable ness of the depreciatio n installment fixed in books							

Required audit procedures	The assurance goals						
	Validity and accuracy of the values of amounts	Proper presentation and disclosure	All amounts are recorded in the books	The actual existence of the sums and supporting them with documents	The money belongs to the company and is approved by the administration	The basis of the Assessment of the estimated amounts is a valid basis	Maintain public money from waste, waste, or misuse
• Or by obtaining a fixed assets register and	x		x	x	x	x	

matching the depreciation calculated based on the record with the depreciation record fixed in the books and studying the reasons for any differences, if any.							
A-Documentary examination of a sample of additions and do the following:							
• Conformity with the inspection record and receipt of the fixed asset	x						
• Making sure that the additions are confirmed with the fixed asset register	x						x
• See the supporting documentation for your purchase	x			x	x		x
• Validity of the date of adding to the financial record and books	x					x	
• Validity of the cost recorded in the fixed asset register and the financial books	x					x	
• The validity of the classification for these additions and the absence of non-capital items ( income expenses)		x					
B- Documentary examination of a sample of exclusions to making sure that all necessary	x			x		x	x

procedures are met to take the decision to sell and follow the applicable procedures in this regard. As well as review the documents supporting these transactions							
C- making sure that the asset is excluded from the fixed assets register	x						x
D- making sure that capital gains and losses are correct	x	x	x	x	x		
E- Obtain an enterprise-approved inventory of fixed assets							
F- Matching the inventory records of the fixed assets with those fixed in the books	x			x			x
G- Examination of expenses, especially maintenance expenses to making sure that there is no capital expense charged to the revenue expense			x				x
<b><u>2- In order to make an opinion on the cash held by the bank, a breakdown of each bank's balances should be made separately, as well as obtaining bank statements of account, and reconciliation observation for each bank account, bank certificates, and copy of the account from the books.</u></b>							
A- tallying the breakdown in the trial balance and books at the date of	x		x				

preparing the financial statements.							
B- Matching the opening balances in the books with the previous year's worksheets or the approved financial statements for the previous year	x						
C- Select a sample of issued checks and deposits and verifying them documentarily and how they are recorded	x			x			
D- Making sure that accounts of bank reconciliation observations are valid.	x	x					
E- Matching the reconciliation note of each bank account with the balance of the books, the bank statement and the bank's certificate on the date of the preparation of the financial statements.	x	x		x	x		
F- Review the unpaid amounts in the reconciliation note and follow up them in the next period, for deposits, payments, or any other standings.	x			x	x		
G-Making		x				x	



<p>sure that the evaluation of balances in foreign currencies and rendering them into the currency of the books in accordance with the closing prices on the date of preparing the financial statements.</p>							
<p>H- Making sure that the bank holdings are presented correctly in the financial statements in comparison with the previous years.</p>		*					
<p>I-Making sure that the classification and comparative classification between cash balances whose nature has changed comparing to the comparison period are correct.</p>						*	
<p>J- Making sure that the checks under collection, deferred payment checks and checks drawn on bank accounts are separated from the accounts of banks that were not delivered to their owners on the date of the financial position from</p>		*					

the reconciliation note to any of their accounts.							
K- Opening more than one current account without actual need for it, with unusual movements on these accounts.							*
L- The cash flow statement in the agreed form for more than one financial period is not prepared indicates the sources of obtaining and spending the money, which may mislead the users of the financial statements of the audited unit.							*
M- making sure that there are no current accounts open in the name of parties other than the economic unit that is the subject of the audit.							*
<b><u>3- In order to make an opinion on cash in the fund and obtaining a cash breakdown, as well as obtain inventory records in the history of the financial position</u></b>							
A-Making sure of computational validity of the analysis and inventory records.	*	*	*	*			
B- Matching of accounts in the inventory records with analysis and							

books							
C- Matching the breakdown in the trial balance and books on the date of the financial statements	x		x				
D-matching initial balance of the books with the previous year's worksheets or the approved financial statements for the previous year	x						
E-Making sure that the cut-off procedures are correct for cash receivable and payable vouchers on the date of the financial position and that they are properly recorded.	x		x	x	x		
F- Revaluation of foreign currencies at the closing price on the date of the financial statements	x					x	
G-obtaining the approvals from the concerned party	x	x	x	x	x		
H - Verify that the cash balances and cash in custodies are correctly displayed						x	

compared to previous years.							
I- Use cash in the fund to disburse a cheque belonging to others.							x
J- Failure to comply with the cash deposit controls within the limits specified for the bank's cash deposits.							x
K- Non-periodic inventory of the exploitation of the amounts of the petty cash for the period exceeding the specific period for it.							x
L- Cash disbursements as advances more than the actual need for the audited unit.							x
M- lack of insuring on trustees against breach of trust.							x
N-Making sure of procedures that provides the required protection to funds ( safe and Fortified rooms ).							x
O- making sure that adequate means are in place to protect cash to be transferred							x

to and from the economic unit and according to the nature of the activity (availability of money transport vehicles, guards to protect the transferred money ... etc).							
<b><u>4- In order to make an opinion on expenditures, obtain an analytical schedule of general and administrative expenses for the current and comparative periods</u></b>							
A-Matching the analysis in the books and the trial balance on the date of preparing the financial statements	*						
B - Analyzing the expenditures at the level of items and at the level of the monthly and ask the reasons of difference for the different items			*	*			
C- Study the fundamental differences between the current period and the comparison period and identify the most important of those differences, and then ask about their reasons and justification.	*		*	*		*	
D- If there are unexplained differences, select a sample of those items							

and examine it documentarily as following:							
• See the supporting documents	*			*			
• making sure that the calculations of attachments are correct.							
• making sure that the accounting orientation and deportation are correct and suitability of bank classification .						*	
•make sure that these expenditures are approved by the authority.					*		
• making sure that the presentation and disclosure of the financial statements are correct.						*	
E- making sure that there are estimated plans and budgets appropriate to the need for economic unit.							*
F- . making sure that there is no expense more than the actual and planned need							*
G-making sure that the expenses do not cover personal needs unrelated to the work of the economic unit.							
H- making sure of compliance with the regulations							

governing disbursement (budget execution instructions, contract implementation instructions, contracting terms, etc.).							
<b><u>5-In order to give an opinion on the due revenues to obtain a revenue analysis by type.</u></b>							
A-Conformity of analysis in the trial balance and books at the date of preparing the financial statements.	x		x				
B- verify the correctness of the cut-off procedures that were performed on the review of the revenues	x				x		
D- review the supporting documents	x						
E- Verify the validity of the basis on which it was relied and how it is consistent with the revenue recognition policy.	x	x					
F- Following-up collection of those due revenues during the following period.	x			x		x	
G- making sure that the revenues are collected on a timely manner.							x
H-Making sure that there are not fake revenues							x
<b><u>6- In order to form an opinion on creditor payable, and obtaining an analysis of creditors by type</u></b>							
A-Matching	x						

the analysis of the books and trial balance at the date of preparing the financial statements							
<b>B-</b> Matching the accounts for the first term to the books with the previous year's worksheets or the approved financial statements for the previous year	*						
<b>C-</b> Prepare the authentication statistics and assess the reliability of the authentication as additional evidence.	*		*	*	*	*	
<b>D-</b> Matching the debit balances and credit balance shown in the statements of account or the authentications with the book balances and searching for the reasons of the difference, if any	*		*	*	*		*
<b>E-</b> In case that the incoming authentications are insufficient, Payments continued in the following period to verify payment of amounts received by analysis and review of payment documents	*		*	*	*		*



F- In case that the previous period of credit is not sufficient, a sample of transactions is selected for the period under review and is documented and verified as follows	*			*	*		
• Review the supporting documents	*						
• Making sure that it belongs to the period							

Required audit procedures	Confirmatory targets						
	Validity and accuracy of the values of amounts	Proper presentation and disclosure	All amounts are recorded in the books	The actual existence of the amounts and their supported documents	The amounts are belong to the company and approved by the management	The basis for evaluating the estimated amounts is a valid basis	Preserving public money from wastage, waste, or misuse
Verify the validity of classification and presentation	×	×					
g- Consider the need to create a financial provision for potential liabilities			×			×	
h- Verify the validity		×				×	

<p>of creditors 'and other credit balances' presentation in the financial statements compared to previous years, and verify the unnatural balances and debit balances that are not classified as creditors in a proper way (such as related parties or receivables ).</p>							
<p>i-Ensuring that the apparent creditors account is matched by providing a good or service.</p>							<p>×</p>
<p>j- Ensuring the economic unit policy in selecting suppliers according to the applicable regulations and instruction</p>							<p>×</p>

s.							
<b><u>7- With the aim of forming an opinion on the debit accounts by type, obtaining an analysis of debtors at the date of preparing the financial statements</u></b>							
a- Match the beginning period balances in the books with previous year's worksheets or approved financial statements for the previous year	×						
b- Match the debtors' account balances shown in records with the balances of these items in the trial balance at the end of the period subject to audit.	×		×				
c- Make a summary of the approvals received from debtors and match those approvals with the analysis contained in those	×		×	×	×	×	×

balances, identify time-justifiable differences and unjustified differences, study them and determine the extent of the need to create a financial provision for doubtful debts.							
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Required audit procedures	Confirmatory targets						
	Validity and accuracy of the values of amounts	Proper presentation and disclosure	All amounts are recorded in the books	The actual existence of the sums and their support for documents	The sums are from the company and approved by the management	The basis for evaluating the estimate is a valid basis	Preserving public money from Waste, waste, or misuse
d- Take a sample from the debit accounts and verify the accuracy of the analysis of customer balances ages prepared by the auditee.	×						
e- Match	×			×	×		

the balances of approvals received from debtors with the debit balances shown in the trial balance of the financial position lists date and examine the reasons for the differences, if any.							
f-Check documents of the debit balances at the end of the period, and verify the following:	×		×				
<ul style="list-style-type: none"> <li>The customer receives the goods</li> </ul>							
<ul style="list-style-type: none"> <li>The existence of documents supporting the receivables from the debtors</li> </ul>							
g-Examine documents of the movement made on the customer's account, and verify	×		×	×			

the following:							
<ul style="list-style-type: none"> <li>Verify that the invoice pricing is correct according to the contracts with the debtors</li> </ul>							×
<ul style="list-style-type: none"> <li>Verify that the invoice is recorded in the customer's account and that it is shown within the lifetime of the debt</li> </ul>							×
h-Check debit and credit reconciliations on a sample of debit accounts and verify their integrity	×		×				
i-Examine the customer's position from the age of debts analysis of the debtors	×		×	×		×	×

'balances and the need to support the financial provision for doubtful debts							
j-Following up transactions during the following period (during the final period) with the debtors to verify the absence of any bad or doubtful debts, as well as verifying the correctness of initial payments procedures for purchasing goods.	×			×	×	×	×

Required audit procedures	Confirmatory targets						
	Validity and accuracy of the values of amounts	Proper presentation and disclosure	All amounts are recorded in the books	The actual existence of the sums and their support for documents	The sums are from the company and approved by the management	The basis for evaluating the estimate is a valid basis	Preserving public money from waste, or misuse
k- In the event that the subsequent period cannot be relied upon individually, the examination of a sample of the debit balances existing balances at the date of preparing the financial statements is conducted, and the following procedures are applied to them:				×	×		
• view the supporting documents	×			×	×		
• Check that it is for the period	×						
• Validate classification	×					×	
l- Verify the validity of evaluation of debit balances in foreign currencies according to the currency rates announced in accordance with the	×				×		



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m- Separating the debit balances from credit balances as installments or otherwise and showing them within the credit balances						×	
n- Verify that the customer balances are shown in the financial statements for the current and previous years						×	
o- Ensure that there are no postponements for collecting debtors of specific entities only							×
p- Ensure that there are no exceptions outside the controls and instructions for granting credit, or granting credit to specific entities only.							×
q- Ensure compliance with the payment within the period of granted credit.							×
<b>8- It aims to form an opinion about the financial provision for doubtful debts</b>							
a- Match the beginning period balances in the books	×						

with previous year's worksheets or approved financial statements for the previous year							
b- Study bad and doubtful debt balances and check the adequacy of the financial provision	×					×	
c- Check the need to create or support a financial provision	×					×	
d- Check the item presentation and disclosure		×					

## Section 4

### Conclusions and Recommendations

#### 4.1 Conclusions:

4.1.1 Audit staff lacks the ability to obtain evidence from various sources given the risky changing economic environment.

4.1.2 To substantiate observations ,FBSA audit staff relies upon certain types of evidence without linking them to the audit assurance objectives .Thus, causing the audit observations listed in the audit reports to be weak .

4.1.3 Audit teams , of the research, rely upon comparisons of expenses or revenues for two periods without analyzing the relationships between the financial and non-financial statement items to determine the extent of homogeneity between them and to verify the existence of any illogical or unexpected relationships. This, in turn , helps the audit teams to save time, cost and human resources as well as studying the risks surrounding the element being examined and the identification of targets to be achieved and the types of evidence required.

4.1.4 Worksheets do not include the appropriate kind of evidence. Some auditors lack sufficient knowledge concerning the kind of the evidence, its source, how it is used and employed in the audit observations.

4.1.5 Non-distinction between the clarifications and observations contained in the audit reports. The elements of the audit observations that must be taken into consideration are not being adhered to namely (identifying aspects of the violation or defects, judging the infringement by means of its violation to laws, regulations, instructions, administrative policies, customs and standards of the internal control system, determining the negative impact resulting from the violation or defect, or indicating the possible negative impact that may occur and the recommendations to avoid the violation or defect or requesting the administration to take corrective or deterrent measures to prevent the recurrence of this violation).

4.1.6 Most of the recommendations contained in the reports do not correspond to the type of risks facing the activities of the economic unit. In addition, procedures of the entities subject to audit with regard to diagnosed observations were not identified.

4.1.7 Audit observations regardless of the violation nature remain fixed despite the fact some audit observations require amending the provided data and taking corrective measures before issuing the report. Writing down audit observations and issuing reports are not enough in this concern.

4.1.8 Some audit observations do not identify the default liability as part of safeguarding public funds.

4.1.9 Audit programs adopted by audit teams do not include studying cases actual or expected risks aspects for the elements examined.

As well as paying no attention to achieve the assurance goals (existence, ownership and robust internal control system, etc.).Also, the auditors' reports did not mention the objectives that were achieved.

## **4. 2 Recommendations:**

**4.2.1** Audit staff of SAIs should be engaged in training courses, workshops on how to obtain and study appropriate evidence and to select the most appropriate one when writing down audit observation in a way that ensure the quality of audit work.

**4.2.2** SAIs should be urged to adopt more than one method or approach that supports audit observations. The adoption the certain evidence on an ongoing basis may lead the auditor to come up with repeated audit observations of the same sort from one year to the next.

**4.2.3** The auditors of FBSA should be instructed to consider the professional care required for planning and collect appropriate evidence in a manner that ensures effectiveness in their audit work. In addition, they should define assurance and other auditing goals. Audit teams should be advised to adopt a mechanism that links evidence with assurance audit

objectives by means of clear, specific audit procedures and programs on how to implement the required audit objectives and the methods that are required to be adopted.

**4.2.4** Develop standards for the quality control team that include requirements for evidence and information that can be used when needed.

**4.2.5** Urging the control teams to support their worksheets with the kinds of evidence used and consider this procedure as a form of documentation.

**4.2.6** Audit and quality control teams should be instructed to study audit observations and risks facing the transactions. Consequently, requesting the auditees to amend some audit observations that substantially affect the activity or that can be modified during the reporting period. Auditee should be urged to avoid repeating such cases.

**4.2.7** The audit procedures and programs for preserving public money from extravagance, profligacy or misconduct should be developed and improved. In addition, ensuring the efficiency of their use by strengthening audit observations through identifying defaulters.