



THE IMPACT OF GENERALLY ACCEPTED AUDITING STANDARDS ON THE ROLE OF THE EXTERNAL AUDITOR IN DETECTING AND IDENTIFYING ACCOUNTING VIOLATIONS

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Article history:	Abstract:
Received: 11 th May 2022 Accepted: 11 th June 2022 Published: 28 th July 2022	The research aims to shed light on generally accepted auditing standards and external auditing, and to show the relationship between generally accepted auditing standards and the external audit process and its impact on detecting and identifying accounting violations. The research has reached the most important conclusions: the lack of importance of generally accepted standards in the Iraq environment in order to activate the external audit process to detect and identify accounting violations in the financial statements of government institutions. The research also reached the most important recommendations: the necessity of adopting generally accepted standards in the Iraqi environment in order to activate the external audit process to detect and identify accounting violations in the financial statements of government institutions.

Keywords: External audit, generally accepted auditing standards, accounting irregularities.

INTRODUCTION:

The external audit is an organized and systematic process of collecting evidence and audit evidence, which is carried out by one or more persons who are characterized by impartiality and mental and administrative independence. Its purpose is to express a professional opinion on the fairness and validity of the financial statements submitted by the entity subject to audit and used in the process of making economic decisions by multiple related parties. In order for the external auditor to carry out the audit process effectively, it is required that the auditor be familiar with the generally accepted and accepted auditing standards in accordance with the ethics and conduct of the audit profession, and then express his neutral technical opinion on the validity and accuracy of the audited financial statements by him. The generally accepted auditing standards are defined as: A set of common rules that govern the work of the auditor when performing an independent audit for the purpose of expressing a technical opinion on the financial statements of any economic unit regardless of its size, objective and legal form, in the absence of a legislative text issued by the state or any party local specialist.

RESEARCH METHODOLOGY AND THE DIFFERENCE OF THE CURRENT STUDY FROM PREVIOUS STUDIES

First: the research problem.

The research problem crystallizes in the light of the following question. What is the role of generally accepted auditing standards in activating the external audit process carried out by the external auditor and its reflection in detecting and identifying accounting violations?

Second, the research objectives. The research aims to:

1. Highlight generally accepted auditing standards and external audit
2. Statement of the relationship between generally accepted auditing standards and the external audit process and its impact on detecting and identifying accounting violations.

Third: The importance of research:

The importance of the research emerges from the role played by the external auditor in auditing government institutions by presenting the relationship between generally accepted auditing standards and the external audit process in identifying and detecting accounting violations.

Fourth: the research hypothesis.

The research is based on the hypothesis that. There is a relationship between generally accepted auditing standards and activating the external audit process in detecting and identifying accounting violations in the financial statements of government institutions.



Fifth: The current study differs from previous studies.

Most of the previous studies focused on the presentation and comparison of local and international auditing standards. While the current study focused on clarifying the relationship between generally accepted auditing standards and the external audit process in detecting and identifying accounting violations in government institutions.

Theoretical framework for examining the relationship between generally accepted auditing standards and the external audit process in detecting and identifying accounting violations

First: Generally Accepted Auditing Standards:

The generally accepted auditing standards are defined as: a set of common rules that govern the work of the external auditor when performing an independent audit for the purpose of expressing a technical opinion on the financial statements of any economic unit regardless of its size, objective and legal form, in the absence of a legislative text issued by the state or by any A competent local authority (Al Jawhar, 2014: 44). Based on this definition, standards for auditing have been developed. These standards represent the broad framework to be applied by any auditor, and the number of these standards is ten divided into three groups or levels.

The first level: It is related to the personality of the auditor, also called the qualification and performance criteria: (Rohill and Anderson, 2015: 40)

- a. The scientific and practical qualification of the auditor: the type of certificate and the amount of scientific experience that qualifies him to practice the audit profession.
- B. Independence and impartiality of the auditor: The auditor must have an independent mental attitude in all matters related to the task entrusted to him.
- c. The necessary professional care shall be exercised by the auditor at work.

The second level: the level of field work: (Sobh, 2013: 37)

This level contains a set of criteria related to the procedures for executing the audit process, namely:

- A- The work must be properly planned and the audit program developed, and there must be adequate supervision of the assistants if they are used.
- B- The internal control system must be examined, as it is the cornerstone of the audit process, and in light of

the results of the examination, the size of the audit sample and audit procedures are determined.

C- Sufficient and appropriate evidence must be obtained through the audit and examination process in order to provide a reasonable basis for expressing an opinion on the audited financial statements.

The third level: Criteria for preparing the report: (Al-Quraishi, 2011: 36)

According to these standards, the auditor must prepare a report on the financial statements as a single unit, including media disclosure. Four criteria have been identified that govern the preparation of the external audit report, which are:

- a. The report should clarify whether the economic unit has committed to applying the generally accepted accounting principles.
- B. Emphasis on the continuation of the economic unit in applying the same principles from year to year.
- c. Disclosure of all information related to the auditor's field of work or the financial statements.
- d. The report should include the auditor's opinion on the financial statements as a single unit and confirm that this is not possible. When it is not possible to express that opinion, the report must clarify the reasons for this. In all cases, the report must include a conclusive explanation of the characteristics of the examination and audit carried out by the auditor, if any, and the degree of responsibility that he bears.

Secondly. External auditor:

a. The concept and characteristics of the external auditor: The person who performs an audit and submits a report to express his opinion on the financial statements of the economic unit is called an auditor. It is synonymous with terms such as the auditor of accounts, financial statements and chartered accountant (Kareema, Abd, & Ali, 2019). Also, the meaning of the licensed independent auditor is called the Certified Public Accountant in the United States (CPA). The Statutory Auditor in the United Kingdom, and the legally certified accountant in the Netherlands (Register Accountant) and is called the registered accountant in Germany. For the external auditor, they are as follows: (Gaballa, Azza and Ning, 2011: 300).

- Auditors must possess many qualities in order to contribute to the development of the audit profession, because professional organizations have already contributed to formulating these qualities and making them available to members of the profession.
- Must fully understand the scientific principles and practical applications of accounting and record



keeping, and be keen to follow the latest trends in his professional field. Understand the nature and basis of each financial event recorded in the books of economic accounts alone. The auditor must carefully study the accounting treatment and the basis followed by the unit, otherwise the inspection process that he conducts will become a superficial process and will not be able to achieve the objectives of the audit.

- Familiarity with the principles of control, scientific principles and practical issues, and familiarity with modern auditing methods and trends.
- In addition to knowledge in accounting and auditing, they should be familiar with the laws and regulations related to their work, such as commercial law - corporate law - tax law, etc.). (Al-Naami et al., 2016: 227-231).
- Familiar with cost accounting, ability to use scientific methods and their practical application in audit work, familiarity with planning and budgeting, and knowledge of the principles and principles of reasonable operating management; Laying the foundation for the unit to establish an internal control system.
- Language is spoken and written fluently, and is not ambiguous.
- Commitment to professional ethics, **intolerance of violations under any pressure.**
- Strong personality have self-control, skill, tact, careful judgment, self-respect, wisdom, intuition and good treatment of people when performing audit assignments.
- Whether you are asking for information, getting information inquiries, or asking questions, you must have a real business spirit.
- Good implementation of the functions of the auditor and the achievement of audit objectives based on his knowledge of the necessary technical information for the client subject to the audit (the office / company). The auditor visits factories, workshops, warehouses and offices, and requests technical aspects to understand the details of the work assigned to the audit, which helps to complete the task in an appropriate manner.
- He must maintain confidence in the secrets of the accounts he reviews and the institutions that trust him, so he must be honest. Therefore, he must not disclose any Client's secrets to others (except for a court decision) who may use such information and harm the interests of the Client. There is no doubt that an auditor with these personal and legal qualities will surely occupy a leading position among his colleagues and enjoy a good reputation, in order to achieve the

highest level of success in work and professional services.

SECOND: ACCOUNTING VIOLATIONS:

1. Concept and Manifestations of Accounting Violation:

It is represented in the negligence or failure in the accounting work in accordance with the instructions, laws and accounting rules in force, which leads to the loss of private money, or which leads to the waste of public money or damage to the national economy. The accounting violations are also represented by the embezzlement of fraud and deception of personal property by a person who may possess this property when this possession has been obtained based on a trust relationship, and embezzlement is defined as "the misuse of funds entrusted to a particular person or their illegal disposal and covering this disposition." By tampering with the administrative books and records, as it is defined as the unauthorized entry of movable materials, papers or any other things found in his possession by virtue of his position, or of those working in public organizations.

(Maskoor et al., 2013: 5) (Abd, Kareem, & Kadhim, Audit Program Proposal for Local, 2019))

There are several divisions of accounting violations, some of which are intended and unintended, as follows:

- **Intentional violations:** They are a type of violation characterized by the presence of the employee's intention to act or refrain from doing the violation and that this intention was directed to committing the violation, knowing that this may lead to misuse of public funds or loss of a right of the financial rights of the state or its public institutions.
- **Unintended Violations:** Violations that occur due to inattention or unintentional negligence. It should be noted that some legislative systems classify serious negligence that results in a large loss among the violations punishable by law, including the Iraqi Penal Code.
- Some may report that the violations may take various other forms, such as embezzlement violations related to the embezzlement of funds or breach of trust, or may be expressed by misusing the funds entrusted to a certain party or person and disposing of them in illegal or legal ways by manipulating the approved accounting or administrative records and books: there may be substantial violations, which are violations that have a significant impact on the economic unit and the parties benefiting from it. These violations usually include violations of embezzlement of



great relative importance, and violations related to accounting miscalculation as in inventory or violations of re-evaluation of fixed assets or violations of large and unjustified exchange, or Delay in executing the budget or transferring between items of exchange for large amounts without legal basis (Al-Sharifi, 2020: 66).

Third: The characteristics, rights and duties of the external auditor in accordance with generally accepted auditing standards in limiting accounting violations. Auditors must have the most important qualities (honesty, impartiality, independence and realism in the performance of their duties), interest in all publications of relevant international institutions, associations and organizations, and be familiar with technical information related to the audit. The audit process is determined by a professional organization as follows:

• **Independence:**

GAAS has affirmed the generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA). Through the second standard, the independence, impartiality and objectivity of the auditors, and the standards published by (IFAC) as described in the requirements of Standard No. 101 (Auditors must be independent in the performance of their duties) and independence in audit is defined as the presence of an impartial viewpoint during the implementation of the tasks of the audit process and the results of the audit. Evaluation and reporting based on this opinion (Arns Loebbeck, 2012: 118). Therefore, independence is the most important concept because it reflects among the needs of the beneficiaries of the financial statements. The importance of the financial statements stems from the fact that they have achieved the objectives of the audit process represented in providing credibility and expressing impartial technical opinions. The value of the auditor's opinion. (Thomas and Henke, 1989: 55), (IFAC, 2002:41).

• **Integrity:** The attribute of integrity is closely related to the first two concepts of independence and the second concept of objectivity. It is not an abstract adjective, but honesty, but rather treats, fairness, trust and is related to objectivity, because it requires professionals to insist on fairness, honesty, rationality and non-conflict of interests. These qualities are common to objectivity and integrity (IFAC, 2003: 43). Integrity is one of the professional duties, because it is the basis of commitment and one of its requirements, because it must be a means for auditors to work and his life because it reflects a high degree of ethics.

• **Objectivity:** Objectivity is defined that auditors must be fair and not allow bias, unfairness, conflict of interest or overreach (IFAC, 2001: 41) and objectivity means possessing or displaying the following qualities (integrity, wisdom, honesty, lack of personal interest).

• **Professional competence and care:** The auditor must provide professional services with caution, care, efficiency and diligence, and strive to continue to maintain the level of his professional knowledge and skills. To prove to many multi-parties and (employers) in particular that he will benefit from his professional services when performing actual tasks on the latest professional developments and commitment in accordance with the law and the latest methods. Professional competence is an essential component of performing tasks in the audit process Professional competence is expressed as the continuity of knowledge, experience and structured training to ensure that you are aware of and keep abreast of the latest professional developments.

• **Confidentiality:** the simple meaning is that (not to disclose or disclose private information) the auditor is a unique accountant whose mission is focused on the process of inspection, monitoring and auditing of the economic unit being audited. Audit requires him to be trained and to have other capabilities such as public confidence (FACI, 2008: 117).

The rights of the external auditor according to generally accepted standards:

Usually, the auditor's rights are determined according to the standards, evidence, instructions, and controls in force. He is the qualified, independent and authorized person to perform the audit of the financial statements and submit his report on it to the entity or entities that appointed him. As well as the rules of professional conduct, professional regulations, and systems of professional practice, based on the circumstances of each country, if the auditor is unable to fully use these rights, he can prove this in a report submitted to the management of the economic unit under audit. (The Iraqi Financial Supervisor's Guide, 2004: 55) The following are the most important auditors' rights:

• **Right of access:** The auditor has the right to review all the books, records and documents of the economic unit, and has the right to verify the correctness of the company's procedures and work, and to view all its documents, amendments, documents and letters, Omri and Akrimi, 2012: 247).



- The right to request data and clarifications: This right is considered complementary to the right of access, because the auditor may find that he needs to obtain some data and clarifications from the administration and employees of the economic unit when performing his work, so he has the right to obtain these data and clarifications without any delay or interruption (Guiding Guide ,2019:65).
- The right to invite the general assembly to meet and attend its meetings: If the board of directors fails to invite the shares held by the general meeting of shareholders on the date specified in the articles of association or the company law, or at the request of the shareholders holding 15% of the shares, the auditor can request to invite them to the meeting is useful, he has the right to do so at any time.
- The right to discuss his dismissal proposal: The legislator gives the auditor the right to respond when he decides to propose his dismissal to the general assembly of shareholders. The auditor has the right to discuss this proposal in a written memorandum that arrives at an appropriate time before the general meeting of the economic unit (Al-Alusi, 2016: 141).
- The right to attend the general assembly meeting and obtain a copy of the notification issued to the shareholders, and express everything related to its currency in the meeting as the flag of the auditor of the economic unit, especially his report on the final accounts of the economic unit and the budget during the discussion.
- The auditor's right to withhold documents and papers until obtaining his fees. This right aims to protect the auditor's interest in obtaining all costs.
- As an auditor of the accounts of the economic unit, he is entitled to express an opinion on any of his powers at any meeting of the general assembly of shareholders.
- Hiring experts: assisting experts when needed to obtain a certificate from these experts to prove the correctness of the issues contained in the financial statements. International auditing standards specify, standard No. (600) for regulating the process of benefiting from experts.
- The right to refrain from expressing an opinion on the financial statements: If the auditor discovers that he cannot obtain all the data and clarifications that he deems necessary to carry out his work, or that there are many errors or irregularities in the books of accounts maintained by the economic unit, he has the right not to express his opinion on the financial

statements in the financial statements for any of the foregoing reasons.

The duties of the external auditor according to generally accepted standards:

The duties of auditors multiply and branch due to multiplicity and their professional duties vary, and some of these duties are determined in accordance with current laws and regulations, and other duties are included in professional rules and norms, or directed by auditors or directing professional standards, whether local or international, most notably: (The Financial Supervisor's Guide , 2004: 60).

- Take the necessary professional and precautionary measures during the audit process, collect sufficient evidence, and select the samples necessary to express their opinions.
- The accounting system used in the project and checking all documents, books of accounts, records and lists contained therein.
- Requiring the Board of Directors to call the general meeting of shareholders to hold a meeting, or requesting the shareholders who occupy at least 15% of the meeting seats.
- Informing the Chairman of the Board of Directors and the company's controller of any violation of the law or the company's system, and in the case of serious violations, refer the matter to the general assembly of shareholders for deliberation.
- Undoubtedly, one of the most important tasks assigned to the auditor is to submit a report to the entity that appointed him, in which he issues a fair technical opinion regarding the examinations and audits that he carried out.

CONCLUSION:

Through what was presented, we conclude that the lack of importance of generally accepted standards in the Iraqi environment in order to activate the external audit process to detect and identify accounting violations in the financial statements of government institutions, which the researchers recommend to: the necessity of adopting generally accepted standards in the Iraqi environment in order to activate the external audit process to detect and identify accounting violations in the financial statements of government institutions.



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