



THE IMPACT OF THE APPLICATION OF INTERNATIONAL STANDARD NO. (240) ON THE AUDITOR'S RESPONSIBILITY IN DETECTING AND REDUCING FRAUD WHEN AUDITING THE FINANCIAL STATEMENTS AND ITS ROLE IN REDUCING CREATIVE ACCOUNTING PRACTICES APPLIED TO AUDITORS' OFFICES IN IRAQ

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Article history:		Abstract:
Received:	20 th April 2025	<p>This study tackles the application of International standard on auditing (ISA) 240 and the vital role it plays in enhancing auditors’ responsibility in detecting fraud and reducing creative accounting methods within the Iraqi banking sector. Through the systematic techniques and tools outlined in ISA 240, auditors are better equipped to identify financial statement manipulation, fostering greater transparency, accountability and trust among stakeholders. The creative accounting impediments remain, but this study indicates that the introduction of IAS 240 – bolstered by robust auditor training and advanced auditing techniques – limits the opportunity for fraud. The results of the multiple regression analysis indicate that there is a strong, direct, and statistically significant effect to a great degree, of compliance with IAS 240 on the quality of financial statements Audit Firms of 2024 data (Qadisiyah and Baghdad) These results highlight the need for an assembly line of outside expertise in the audit process and adherence to procedure as a means of bolstering the effectiveness of the audit and the integrity of financial reporting.</p>
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1. INTRODUCTION

Accounting errors are the result of the many stages of data processing, in which information is handled by different employees for registration, posting and settlement. Direct errors are easy to identify but fraud is far more challenging to identify. Since fraud is intentional manipulation of financial statements, it is category that is really complicated and hard to detect. As is the case, fraud is still among the top audit concerns for auditors, which is why this process often requires a full and rigorous review process.

While audit risks are recognized by auditors, very few hints are given by the regulator in assessing the risk factor of fraud. The fact that the professional standards and scientific literature are not aligned in this regard makes it even more difficult to identify the roles of auditors in fraud and error detection. One of the core standards related to auditing is IAS 240 which deals with the identification of acts of fraud that could cause a

material misstatement of the financial statements and requires the auditor to take steps for maintaining the integrity of financial statements. Auditor compliance with International Standard 240 constitutes a key driver of the reduction of financial discrepancies, reduction of legal irregularities and greater confidence in financial reporting.

This study explored the effects of the application of International Standard on Auditing (ISA) 240 on auditor responsibilities regarding financial fraud, as well as the role of this standard in minimizing creative accounting within Iraqi accounting firms. This study illustrates the role of ISA 240 with reference to the literature and analyzes the empirical data in order to figure out the importance of ISA 240 in enhancing the primary objectives of auditing financial statements, promoting financial statements openness in Iraq setting.

The rest of the article is organized as follows. The second section gives a summary of past studies



regarding ISA 240 and related fraud. Section III presents the theoretical framework for creative auditing and accounting standards. The research process, sample selection and statistical methodologies are delineated in section IV. Section V discusses and relates the findings to the existing literature. The main findings are concluded in Section VI, which also offers practical recommendations for improving audit quality and integrity of financial reporting in Iraq..

2. LITERATURE REVIEW

In particular, Isa 240 provides guidance about identifying and responding to the risks of material misstatements arising from fraud or error as part of an auditor's responsibilities for the identification and prevention of fraud in the financial statements. Several aspects of this topic have been explored by earlier studies, such as the role of the auditor, earnings management, corporate governance, and forensic accounting. Research into the literature and practice suggests a reaffirmation of the belief that strict adherence to auditing standards can be a remedy.

Numerous studiess have been studied about the application of International Standard 240 for fraud detection. A study conducted by Ben Deghi and Chikhi (2021) on auditors in Algeria found that implementation of ISA 240 leads to better fraud detection measures. Their research has promoted ongoing professional development and creating local detection standards for fraud. Al-Zaher et al. The Nadlo (2021) also Analyzed auditor's responsibilities under Jordanian law, suggesting that the differences between IFRS 240, which only addresses part of the auditor's responsibilities, and national rules that have a norm on auditor's responsibility, could increase auditor's legal risks. The results of their findings highlighted the importance of improving financial literacy and fraud detection systems in business settings. The auditors are playing an important role in fraud detection, as per the field study conducted by H.E. & Faisal (2022), it stated that the auditors must be competent, professional, and must comply with international standards to find fraud and they must develop their interest in fraud detection as well to find any issues related to fraud. The role of ISA240 to minimise creative accounting practices, is discussed by Nazir and Belkacem (2021) and emphasises on the need of stringent requirement of audit to prevent misreported financial statement.

Besides fraud detection, literature investigated creative accounting as a strategy that disguises the line between honest financial management and financial distortion. In the eighties, creative accounting

techniques were applied to artificially inflate financial performance, especially in recession periods (Taleb, 2018). The creative accounting is categorized into various types by research, profit manipulation and income calming are the examples, the creative accounting clearly shows its prevalence in the financial statements and the business decisions. Abdulmoghni and Almajidi (2022) found in their study in Yemen that the role of external auditors in identifying creative accounting techniques is heavily dependent on their professional qualification, advanced training, and high ethical standards. Their analysis advocated tightening accounting standards setting so the rules could not be perverted and relied on the courts to hold perverse actions by individuals accountable to the law (fraud). In 2023, Hammad discussed the potential effect of the judicial accounting on the financial transparency by declaring that it has an essential role in revealing financial fraud and improving the reliability of audit reports.

One of the correspondence that the scientists have examined is that between corporate governance and fraud avoidance. Explanatory note: Research implies that corporate governance processes are required to lower the level of fraudulent behaviour and maintain the integrity of financial reporting. This gap between actual auditor roles and public perception has led to questions on the efficacy of auditing (Bashir, 2013). Most experts state that good governance structures allow management practices to drive ethical financial reporting. According to Rashid (2015), corporate governance standards such as the Sarbanes-Oxley Act (2002) minimize the chances of fraud and promote transparency.

These experiences can be abstracted, which leads to a common theme: ISA 240 is a foundational standard guiding auditors in their ability to detect any kind of fraud and for providing an audit opinion on financial statements. The researchers treat the issue through different lenses – legal structures, audit requirements, or matters relating to creative accounting – but in each illustrate how the conduct for auditing has to comply with standards to function as a bulwark against fraud.

There are different ways that this study used to do better than many of the previous results. It offers an analysis of IAS 240 through the years, evaluates its application in the different forms of financial statement (statement of financial position, income statement, cash flow statement, and statement of changes in equity) as well as the influence of creative accounting on financial choice behavior. We employ an empirical, questionnaire-based methodology to generate ideas



from practitioners, thus improving their added value to the literature.

This research examines these linked subjects to enhance audit quality, regulatory compliance, and financial transparency, to bolster the (external) auditor's role in (external) corporate accountability, and to improve investor confidence in the financial reporting ecosystem..

3. Theoretical frameworks for the study

Theories constitute rudimentary structures which assist in defining and comprehending business processes that are convoluted. A framework for systematic ideas that produces a basis for practice, including the legitimacy needed to justify decisions related to corporate governance and relations with stakeholders. Some of you are likely considering agency theory, stakeholder theory or governance theory, each of which provides a distinctive way of thinking about corporate governance and accountability.

Agency theory takes a look at the relationship between owners of a company (directors) and executives who are working for the company (agents) and the conflict that arises when the agents put their own interests ahead of the shareholders profit. This concept includes a focus on external audits and corporate governance mechanisms for minimizing conflicts of interest and ensuring transparency in financial reporting.

In contrast, stakeholder theory not only broadens the perspective beyond shareholders, but also encourages more accountability to anyone impacted by the actions of the firm. The second, third, and fourth path to management freedom focus on balancing the needs of the employees, consumers, suppliers, and society while still ensuring that the company can last over a long run and act well as a corporation.

The genesis of governance theory was driven by the corporate scandals that destroyed thousands of jobs and wiped out trillions of dollars of wealth, highlighting the need for the presence of accountability and ethical leadership as well as an organizational commitment to the law. Emergence of governance systems as seen from the Sarbanes-Oxley Act also noted increased focus on financial integrity and transparency of regulations.

All of these theories give us a background to explain corporate behavior, safeguard financial markets, and stimulate corporate ethical behavior. This paper brings together these ideas and discusses how the application of these principles can bolster trust, minimize risk, and align corporate strategy with broader national and social priorities..

4. RESEARCH METHODOLOGY

The mixed approach was adopted in this study as it combines qualitative and quantitative research methodologies to examine the relationship between ISA 240 and auditors' responsibilities to identify and limit financial fraud/abusing innovative accounting practices in Iraq. In terms of methodology, the research employs a descriptive, inductively-oriented theoretical analysis and a descriptive analytical approach to practical elements, relying on data maintenance, performed by auditors at audit offices in Qadisiyah in Baghdad..

4-1. Study problem and scope of research

It investigates the level of ISA 240 compliance among auditors in Iraq and assesses its effectiveness in curbing fraud and creative accounting practices. Although there has been a continuing development in the standards for auditing, Creative Accounting is still an enormous problem in Iraq. This technique involves manipulating financial statements to present a false picture of financial health, thus amplifying risks of fraud and loss of stakeholder confidence. International Search Standard 240 outlines auditors' responsibilities to ensure that they can identify fraud and provides a baseline for preventing financial misstatements and facilitating financial integrity and transparency. The purpose of this study is to evaluate the application and effects of ISA 240 in accounting offices in Iraq and its role in reducing financial crises. Style and Methodology;Methods and Analysis.

4-2. Objectives of the study

The study seeks to achieve the following objectives:

1. Analysis of ISA 240 principles and guidelines.
2. Evaluate the function of auditors in identifying fraud and inaccuracies.
3. Examine creative accounting procedures, including their underlying techniques and motivations.
4. Evaluate the implementation of ISA 240 and its effectiveness in mitigating creative accounting techniques.

4-3. Importance of the study

This study is important given its focus on IAS 240 as an essential tool to address fraudulent financial reporting and enhance financial transparency. Identifying and mitigating fraud is a major concern for auditors, as the integrity of financial statements directly affects stakeholder trust and decision-making. The results will enhance the quality of audit methods in Iraq and promote compliance with ISA 240 standards, thereby promoting more ethical financial reporting and transparency in the country.

4.4 Data sources and collection methods



The study adopts secondary data from books, articles published in a refereed academic journal, dissertations, and legal documents related to ISA 240 and the practice of auditing. This also provide full theoretical background toward the standard purpose against fraud and creative accounting.

Methods: A structured questionnaire was filled from auditors in Iraq, mainly from audit offices in Qadisiyah and Baghdad. The questionnaire aimed to get a direct experience of the enforcement of IAS 240 with respect to its effectiveness in detectThe questionnaires obtained first-hand experience on the enforcement and application of IAS 240 in terms of its effectiveness in identifying fraud and preventing creative accounting..

4.5 Study population and sample

The study sample was obtained from a random group of auditors working in audit bodies in Qadisiya, Baghdad. The sample consisted of 200 questionnaires, which resulted in 147 correct responses, resulting in a 74.5% response rate for the analysis. These responses provide a representative perspective of audit practices in the region, ensuring that the findings are relevant to the broader audit context in Iraq.

4.6 Data Analysis and Statistical Methods

The data was analyzed using SPSS for quantitative analysis. Subsequent statistical approaches were used:

- Spearman's correlation coefficient: to measure the strength and direction of the relationship between the application of ISA 240 and the reduction of fraud.
- Alpha Cro-Napach coefficient: to assess the reliability and internal consistency of the questionnaire.
- Linear regression: Examine the predictive relationship between the application of ISA 240 and the reduction of creative accounting practices.

4-7. Study of hypotheses

The hypotheses of this study were formulated based on accounting and auditing theories which is the audit theory that emphasizes the analysis of accounting data to verify the validity and reliability of financial statements. Furthermore, insights from previous research and accounting literature provide the theoretical framework for this investigation, helping to make basic assumptions.

A. Development of the main hypothesis

The purpose of International Standard on Auditing (ISA) 240 is to help auditors identify and assess the risks of material misstatement due to fraud in the financial

statements. The standard mandates auditor-specific actions needed to assess risks of fraud, obtain audit evidence, and certify the financial statements. He emphasizes that the relation should be with higher management and the certification of financial statements should be made available from authentic sources. ISA 240 increases the transparency and reliability of financial reports, increasing of the act of fraudulent and public trust in the financial institution. Additionally, the standard strengthens the entire suspicion of the professional auditor which will result in correct reliable valuations and ultimately lead to an ethical financial process. Many researches have focused on the factors that impact on the ability of auditors to detect fraud and creative accounting skills. Dahdouh (2006) found that the effective role of an auditor, organizational factors, and auditing standards affect identification of financial errors, while social influence did not have any significant effect. Al-Washli, 2010, pointed out that management fraud cannot be detected by standard audit tests and the auditors should react by applying scepticism and flexibility on audit methodologies. But the auditors in the study appeared confused about their roles in detecting fraud, relative to current auditing standards. There are global links between auditing and accounting standards, and research has validated this. Bahlouli (2017) stated that the global auditing standards direct the audit and also ensure the global accounting standards. Both professional operation and financial stability have their variety of effects upon fraud detection according to Arrab and Zeidan (2018), however auditors are not professionally bound to engage in additional tasks unless new evidence are presented indicating falsities. Further research has studied the effects of creative accounting on transparency According to Mezeimesh and Shreiki (2020), creative accounting has its positive and negative effects. Nonetheless, it is used to manipulate financial statements which leads to misleading stakeholders. This is why external audits are required to minimise such activities by increasing the confidence of financial-accounting reports. According to Mowaffaq (2019), creative accounting has been defined as the act of changing financial statements in a complex and strategic manner, when accountants exploit loopholes in accounting regulations to create misleading financial statistics..

B. Research hypotheses

This study assumes that the application of International Standard on Auditing No. 240 (ISA 240) significantly mitigates fraudulent activities and creative accounting practices in financial statements, which are based on

the theoretical framework of auditing and previous empirical research. The integral hypothesis and its constituent elements are illustrated as follows:

Key hypothesis (h): The use of ISA 240 significantly reduces fraud and creative accounting methods in financial statements.

Sub-hypothesis:

H1: ISA 240 significantly reduces fraudulent activities in all elements of financial statements, including income statement, statement of financial position, statement of cash flows, and statement of changes in equity.

H2: ISA 240 significantly reduces innovative accounting techniques in all elements of financial statements, including income statement, statement of financial position, cash flow statement and statement of changes in equity.

4-8. Study model and variables

Figure 1 depicts the study model, defining the conceptual basis on which the research is based. The model defines an independent variable: the implementation of International Auditing Standard (ISA) 240, which defines the auditor's responsibilities in identifying and processing fraud in financial statements. This variable is expected to affect many dependent variables, evidenced by innovative accounting procedures that affect core financial reporting, including:

- Income Statement
- Statement of financial position
- Statement of cash flows
- Statement of changes in equity

This model seeks to assess the impact of ISA 240 on reducing fraudulent financial reporting and reducing innovative accounting techniques.

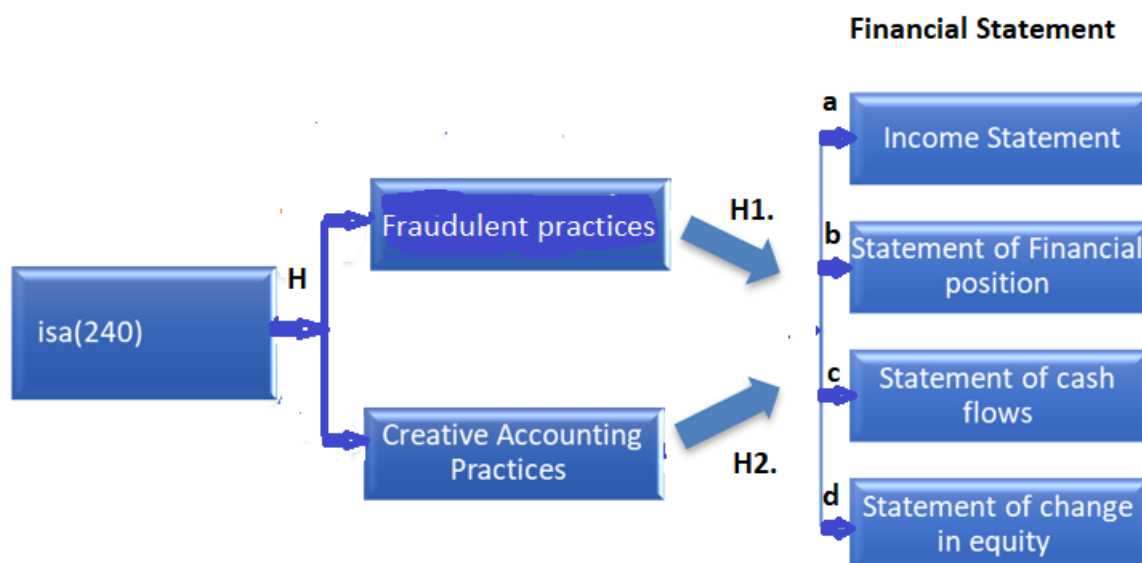


Figure 1: Research model

4.9 Ethical considerations

1. Ethical considerations were supported by ensuring that all participants were fully aware of the objectives of the study and the voluntary aspect of their participation. Participants' responses were kept confidential, and all data was anonymized to protect privacy. Ethical approval has been obtained to ensure compliance with relevant ethical rules and standards.

5. RESULTS AND DISCUSSION

5.1 Descriptive statistics



The demographic characteristics of the 146 subjects in the present study are summarized in Table 1. From the gender distribution, we also decided to find out how many male vs female respondents we have in our sample and it seems like male population is predominant (67.81% vs 32.19% of females). Such a split is a familiar pattern in audit more generally, where men are more likely to be in professional and senior roles.

By age, the largest age group by response is 40 to under 50 at (61.64%); the second largest age group by response is 30 to under 40 (32.19%). Only a minority are below the age of 30 (1.37%) or aged 50 and over (4.79%). This finding indicates that the sample is mostly made up of mid career folks, generally indicative of a professional experience accumulation and developed judgement model.

The academic background, 89.73% of respondents are higher or higher degree, only 10.27% of respondents are bachelor. The 90% or higher who attained such a high level of academic achievement suggests these respondents are very well-enabled to address complex research and professional issues, which increases the credibility of their contributions. To the question about his/her profession, 61.64% of respondents are auditors, 32.19% are in third-party jobs. On the other hand, the lowest percentages correspond to audit office managers

(4.11%) and trainee auditors (2.05%). The fact that most of the participants hold professional positions indicates that the majority of participants were in operating role in the field of auditing giving practical perspective. The professional background of the sample is mixed. 41.41% of respondents do have a fellowship at the Iraqi Chartered Auditor Level but most (55.48%) are "other" signifying non-traditional or foreign au qualifications. British (2.05%), Arab (1.37%) and American (0.68%) fellowship is sizable but by international professional comparison modest. Experience in years — It shows experience samples About 69.86% of respondents have 15 or more years of professional experience, and another 23.29%, report being 10 and under 15. The only exception would be in the bottom scale with less than 10 years experience — 12.33% — which is a minority. Having this diverse experience bolsters the reliability of answers and the foundation for post-study analyses.

Table 1 Demographic profile of sampleTable 1Demographic profile of sampleFull size tableThe demographic overview provided in Table 1 indicates that this sample was made up of relatively high-achieving, highly professional and experienced individuals. These characteristics are ensuring the firm empirical foundation for analysis that goes after and help to assure the robustness as well as the validity of the findings..

Table 1 **Comprehensive demographics table**

door	Stereotype	reluctance	Percentage (%)
sex	male	99	67.81
	female	47	32.19
Age Group	less than 30 years old	2	1.37
	less than 40 - 30 years old	47	32.19
	Under 50 years - 40	90	61.64
	years and above 50	7	4.79
Qualification	Bachelor's degree	15	10.27
	Higher qualifications	131	89.73
Job Title	Auditor	90	61.64
	Third Party	47	32.19
	Director of Accounting Office	6	4.11
	Trainee Auditor	3	2.05
Professional Qualifications	Fellowship of Iraqi Chartered Auditors	59	40.41
	Fellowship of British Auditors	3	2.05
	Fellowship of Arab Auditors	2	1.37

	Fellowship of American Chartered Auditors	1	0.68
	End	81	55.48
Years of Experience	Less than 5 - 1	9	6.16
	Less than 10 - 5	9	6.16
	less than 15 - 10	34	23.29
	and up 15	102	69.86

5.2 Impact of IAS 240 on reducing fraud in financial statements (H1)

This section presents the results of the test of sub-hypotheses H1a to H1d, which collectively explore whether an auditor's compliance with IAS 240 contributes significantly to reducing fraud across various components of financial statements: income

statement, statement of financial position, cash flow statement, and statement of changes in equity.

Simple linear regression analyses for each subhypothesis were performed using the ISA 240 adherence score as an independent variable and the fraud detection scores in each financial statement as dependent variables. The results are wrapped in the table.

Table 2. Regression Analysis: The Impact of IAS 240 on Mitigating Fraud in Financial Statements (H1)

Financial Component	Statement	Grade (β_1)	Standard Error (S.E.)	Critical Ratio (C.R.)	P value	Importance
Income Statement (H1A)		0.921	0.044	20.754	< 0.001	Great
Statement of Financial Position (H1B)		0.985	0.052	18.823	< 0.001	Great
Cash Flow Statement (H1C)		0.967	0.036	26.943	< 0.001	Great
Statement of Changes in Equity (H1D)		1.065	0.038	27.913	< 0.001	Great

The study findings highlight sensitivity of International Search Standard 240 in combating fraud in all features of high quality statements. The income statement (h1a) shows that enhanced adherence (90st max) IAS 240 is linked to reduced fraud; $\beta = 0.921$, which indicates our good are less likely to commit fraud (92.1%-related likelihood), with a minimum (0.044) standard error (20.754 critical ratio), the based finding is credible. In the statement of financial position (H1b), the effect is even stronger an effect (Evens $\beta = 0.985$) suggesting that ISA 240 works well in curbing fraud related to the reporting of assets, liabilities and equity. H1c cash flow statement (H1c): $\beta=0.967$ (S.E=0.436; CR=26.943) – indicating that ISA 240 is essential, as there may be a temptation to inflate cash inflow or misclassify outflows (Cohen 1989). Strikingly, in the Statement of Changes in Equity (H1d), the highest observed coefficient is $\beta = 1.065$ of ISA 240, which indicates thatISA 240 is significantly more effective in reducing equity errors, – through the assurance of financial estimates – as demonstrated by the significance of a critical ratio (27.913)and a value value (0.000) very near zero, — for

these values strengthen significance testing of and hence that this effect.

All four sub-hypotheses are backed by strong evidence from these data. The continued statistical significance and high impact coefficients suggest that IRF 240 is key to providing audit transparency, reliability and financial integrity. The standard is also essential for helping auditors and the regulatory authority in Iraq to help improve trust and accountability in financial reporting; these are reflected in the theoretical and practical implications of this study..

5.3. Impact of ISA 240 on Reducing Creative Accounting Practices (H2)

Here, we describe the findings of the analysis that looks at whether ISA 240 has an effect in reducing creative accounting practices in different financial statements. Abstract PurposeThe study aimed to identify whether the violation of ISA 240 contributes to the misleading financial reporting method in Iraqi banking firms. Creative accounting poses serious challenges to the credibility of financial reporting. This is why auditors must follow common auditing standards like IAS 240 to



avoid misleading financial statements and build transparency and trust.

In relation to each financial statement (i.e., the income statement, the statement of financial position, the statement of cash flows and the statement of changes in equity), the study examined several sub-hypotheses from H2A to H2D. Various regression models were performed to test the stability of the association between lower creative accounting techniques due to

adherence to IAS 240 in terms of these data and statistical significance.

The results from regression analyses of each financial statement are summarized in Table 3 below. These findings underscore the importance of IFRS 240 in improving the role of financial statements by delegitizing innovative accounting practices and hence the quality and reliability of financial reporting.

Table 3. The combined impact of IAS 240 on reducing creative accounting practices (H2)

Financial Statements	estimate	Standard Error (S.E.)	Critical Ratio (C.R.)	P value	Importance
Income Statement (H2A)	0.897	0.032	28.018	($\alpha < 0.001$)	Great
Statement of Financial Position (H2B)	1.091	0.032	34.009	($\alpha < 0.001$)	Very important
Statement of Cash Flows (H2C)	0.956	0.049	19.487	($\alpha < 0.001$)	Great
Statement of Changes in Equity (SCE) (H2D)	0.644	0.091	7.098	($\alpha < 0.001$)	Great

The second international report's results for all sub-hypotheses suggest a positive and significant effect of compliance with IAS 240 on reducing creative accounting methods in the financial statements, emphasizing adherence to auditing standards. But What is More Important is That Each Component Income Statement Component Financial Position Component Cash Flows Component Equity Changes Component—All 04 Component Are Associated with the Un-extensional Fraud Having an Existence Problem When Auditors Follow ISA 240—Fraud And Un-Extensional Fraud Is Reduced to MR Each and every Component Have Significant Reduction in Using ISA 240—Fraud And Un-Extensional Fraud Have a Significant Reduction When Auditors Working in Accordance with ISA 240.

The largest impact was in the balance sheet ($\beta = 1.091$), arguing that IAS 240 is particularly effective at reducing asset, liability and equity balance manipulation. In income statement ($\beta = 0.897$) and cash flow statement ($\beta = 0.956$), their effects are statistically significant, which showing that the standard does play a role in improving transparency in performance and liquidity disclosure. Utilisation of changes in equity ($\beta = 0.644$) had a lower coefficient. Despite this adjustment, the effect continued to be statistically significant and substantive, indicating the effect of the standard even in potentially more hautological disclosures.

The results provide very strong support for the main prediction specified above (H2): IAS 240 significantly loosens up innovative accounting techniques in the primary financial statements. It gives the results of this study, which indicate that strict auditing standards can enhance the financial reports reliability, transparency, and comparability, especially in banking institutions in Iraq, where these institutions adhere to international accounting and auditing standards..

5.4. DISCUSSION

This work empirically examines the impact that application of International Standard on Auditing (ISA) 240 may have in order to reduce fraud, and creative accounting in financial statements, based on primary hypothesis and secondary hypothesis, using a very accurate statistical methods, it has been verified that the application of evaluating whether the application of ISA 240 ISA1342303 significantly reduces the fraud and creative accounting in financial statements of banking institutions. All regression estimates are statistically significant at the $p < 0.001$ level You can also see results of Adler support the claim that IRF 240 is effective in improving financial reporting quality from Table 2 by performing it on all 243 combined reports. Ompadypals Effect Scope: This Effect Incorporates Key Information From Financial Accounts They are the profit and loss statement, the balance sheet, the cash flow statement and the statement of changes in the equity one, having



the biggest effect on the balance sheet and the cash flow statement. Such differences in impacts lead to inherent structural difference between the financial statements and how vulnerable they are to manipulations.

These findings conform with contemporary research. Cancer et al (2010) drew attention to the central role of the standard in the prevention of fraud, and stated how auditors must comply with the ISA 240 Procedural Directive. In the same way, Nazir and Belkacem (2021) pointed out that the implementation of the standard itself is a preventative measure for creative accounting, which then increases the quality of an audit. The evidence from Abdelmoghni and Almajeedy (2022) found that the ability to detection fraud is proved to superior with auditor is professional and concern with international standards. This research extends prior literature by conducting a more thorough statistical examination that finds that ISA 240 effects are in fact different across financial statements – something that is generally absent in the relevant literature.

Results of this research are similar to those of other studies, what ever the significant qualitative differences, especially as for the sphere of responsibility of the auditor. Al-Zaher et al. Management — not outside auditors — holds the primary duty when it comes to finding fraud (2021) In contrast, our empirical results demonstrate that auditors, when ISA 240 is applied effectively, take on a crucial monitoring role in the prevention and detection of fraud. This highlights the change in narrative to seeing the auditor as more than a passive auditor but as partners to assure financial viability.

There are many important ways in which this study is different from prior studies. First, it employs a quantitative methodology through linear regression modeling, which the majority of the research relies predominantly on descriptive or qualitative approaches. The report features an analysis of four standalone financial statements which highlights the disparity in effectiveness of the standard. We also find that IAS 240 was effective in addressing the phenomenon of creative accounting, thereby contributing to the overall area of financial transparency. Acknowledging the prior literature stream that equally emphasized the importance of training and auditor professionalism (Mguni et al., 2015; Soltani & Morocco, 2017; La Mura et al., 2020; Hammad, 2023), this research provides an empirical evidence of the link between the competency of auditors as professionals and the manner in which ISA 240 has been employed.

Additionally, different from the earlier work of Bashir and Hussein (2019) and Ameri (2019) who defined creative accounting as a tool used to enhance the image and not an explicit manner of deception, this paper takes a more comprehensive view. It categorizes creative accounting as a type of manipulation that ISA 240 is expressly designed to combat, and is thus broadening the reach of the standard. Such a replicated understanding can help reduce the conceptual distance between different fraud reporting implementations in the academic literature as well as with creative reporting in the auditing literate.

As the results of this study have confirmed earlier studies on the relevance of ISA 240, the findings of the current empirical study add deeper insights into how it is accomplished [41]. This research validates the statistically established inverse relationship between adherence to IAS 240 and misstatements, with practical relevance to regulators, audit professionals, and policymakers. In particular, it provides recommendations to improve auditor training, incorporate new analytical functionalities including artificial intelligence as well as data analytics, and bolster auditor independence for effective standards enforcement. Such findings make a case for a holistic approach to counter fraud strategy by, making it part of regulatory noose, complimenting the regulatory rigour with professionalism and analytical sophistication to curb the culture of fraud in the banking sector and preserve the sanctity of capital markets and financial statements..

CONCLUSION

We draw upon the core audit function of ISA 240, to emphasize the recognition of auditors' accountability and responsibility for preventing detection of fraud, which leads to a drastic decline in creative accounting and increased financial report quality. The findings validate that IAS 240 impacts an important financial statements, in turn increase transparency and credence in financial information. The effect of the standard has a more direct association with the actual implementation and the professional credentials of auditors, rather than mere compliance with the letter of the law. Although auditing methods have evolved, the proliferation of creative accounting reinforces the urgency for a new level of regulatory compliance, ongoing continuing professional education, as well as the need for the widespread application of sophisticated tools such as data analytics and artificial intelligence. The advantages of IAS 240 can be maximized by maintaining auditor independence, constructing implementation frameworks, broadening the application of IAS for all



financial institutions, and incorporating it into academic and professional training curricula. By taking these steps to ensure the guidelines in IRS 240 are fully implemented, this not only supports enhanced audit quality and stakeholder confidence, but it also creates for a more open and ethically driven financial sector, especially in relation to auditors in Iraq..

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