



# ROLECHECKERIN DISCOVERYTHE RISK OF MATERIAL MISSTATEMENT IN LIGHT OF THE APPLICATION OF THE INTERNATIONAL AUDITING STANDARD 240

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Article history:	Abstract:
<p><b>Received:</b> 26<sup>th</sup> February 2022 <b>Accepted:</b> 26<sup>th</sup> March 2022 <b>Published:</b> 6<sup>th</sup> May 2022</p>	<p>This research is motivated by reform of regional finance, good governance, The research aims to identify Bezel The auditor's obligation to apply Auditing Standard 240 related to detecting fraud and identifying the risks of material misstatement When the financial statements, through Design a questionnaire in the form of a special question knowingly The extent of the auditor's commitment to procedures The audit received in accordance with International Auditing Standard 240 when auditing financial statements, so has been judged resolution From before (11) One of the auditing professors, and the notes were taken, modified, and then distributed to the research sampler represented by First-class audit companies and offices that are in a general prospectus 2022 Issued by the Board of Auditing and Oversight Profession in Iraq The research reached the most important conclusions: There is no statistical significance for the external auditors in Iraq to follow the audit procedures contained in Standard No.(240) From the point of view of the sample members, this indicates that the external auditors in Iraq do not follow the audit procedures contained in Standard No.(240) When auditing the financial statements The research also reached the most important recommendations: The necessity for the Board of Audit and Oversight Profession in Iraq to educate and guide external auditors to follow audit procedures (Requirements) contained in International Auditing Standard No(240), because of its contribution to strengthening the auditors' reports, and obligating them to do so.</p>

**Keywords:** Auditor, Material Misstatement, International Auditing Standard 240.

## INTRODUCTION

The main objective of auditing the financial statements is to give a neutral technical opinion about the financial statements if they are prepared according to a specific framework for evaluating the financial statements and that the financial statements are free from the risks of material misstatement and the auditor has the responsibility to identify and disclose the risks of material misstatement that the management failed to identify. He should evaluate and identify these risks so that he can determine the nature, timing and extent of the audit procedures necessary to collect evidence about the fairness of disclosure in the client's financial statements.

These include risks of material misstatement all Among the risks due to error and risks due to fraud, Standard

240 deals with both The two types, so **The search problem Represented in the shadow of the question** Does the external auditor apply the necessary procedures and policies contained in Standard 240 in identifying and assessing the risks of material misstatement when auditing the financial statements. In order to answer that, it is necessary to know on Bezel The external auditor's compliance with the audit procedures contained in Standard 240 to prevent the risks of material misstatement in the statements Finance, under the following hypothesis: **No There is a relationship between commitment The Audited by the application of the International Auditing Standard 240 And Identify and assess the risks of material misstatement at the financial statements.**



## The second axis: the theoretical framework

### 2-1 The concept and independence of the external auditor:

Longer checkerHe is that person who is qualified, independent, and authorized to perform the audit of the financial statements and submit his report on them to the entity that assigned him. (Al-Tamimi, 2006: 25) and indicate Auditor Independence to a potTeand readyHTo resist the pressure of the client under audit (Tepalagul & Lin (2015:2).as you meanthat independencedo the checkerhis duty in the required manner and enable him to express his opinion reassured without fear. (, 2005:12Pickett & pickett). The Guide to Professional Ethics and Conduct issued by the International Federation of Accountants (IFAC) has also identified two types of independence, mental independence and apparent independence: (Johar et al., 2021:41).(Thomas and Henke, 1989: 182)

1- Mental independence: It requires auditors to be in a state of mind that allows them to express their opinions about the party they are auditing without feeling that they are under pressure because of independence issues and that they feel that they can act with integrity, and that they carry out their audits objectively and according to a methodology Professional skepticism, also referred to as true independence.

2- Apparent independence: It is the perception of a third party regarding the independence of the auditor, that the third party whendon't take overDrHas a belief in the independence of the auditor, although the auditor is considered mentally independent, the third party does not trust the auditor and this is the result of a certain set of surrounding circumstances or as a result of certain relationships that are not commensurate with independence. The guarantee pledge that the auditor is supposed to provide shall vanish.

### 2-2 Material misstatement of the financial statements:

indicatestandards untilFundamental distortionIt is often difficult to detect because the management and employees who are involved indistortionThey try to hide it, but it is difficult to detect Changing the auditor's responsibility for planning and performing the audit to detect misstatements, whether caused by fraud or error,(Kassem & Higson 2016 :7), . may represent Fundamental distortion doesAdministrationBDeliberate deception regarding the financial position or results of the company's operations, for example,cheating intangible assetsand stockIt is difficult to detect under normal audit procedures, but the audit should be designed to provide reasonable assurance that the

financial statements are free from material misstatement.(O'Leary, 2013:248 )soThe auditors are responsible for discovering material misstatements that may have a material effect on the financial statements, and the auditors need guidance on how to respond to such cases.( Popova ,2015:5),So headingauditorsto merisk assessment Fundamental distortionAt each stage of the audit, the audit of financial statements is organized in three stages: planning the audit, conducting the audit, and issuing an audit opinion. The purpose of the planning stage is to identify the risks of material misstatement so that audit procedures can be designed to reduce audit risks to reasonable levels., AndReferred (ISA 240)thatThe primary responsibility for preventing fraud and detecting its occurrence rests with those charged with corporate governance and management in the first place. It is important that management, under the supervision of those charged with governance, emphasize fraud prevention, to reduce the chances of its occurrence and deter its perpetrators, leading to a conviction among individuals not to commit fraud because of The possibility of detection and punishment, and this implies a commitment to create a culture of honesty and ethical behaviour, which is what It can be enhanced by effective oversight by those charged with governance. Oversight by those charged with governance includes considering the possibility of overriding controls or otherwise inappropriately affecting the financial reporting mechanism, such as efforts made by management to manage earnings to influence analysts' perceptions of the company's performance. . (ISA 240:3).

### 2-3: Procedures and guidelines for the auditor in evaluatingThe risk of material misstatementOn the financial statements:

IhaveAuditing Standard (315, 2017, 240: 6,5) indicated,(SAS NO 99AU Section 316)The procedures for assessing material misstatements should include the following:

- 1.Inquiries from management and others within the company who may have information, in the auditor's judgment, that assists in identifying the risk of material misstatement resulting from fraud and error.
- 2.proceduresAnalytical.(Studying the trend of the items of the financial statements from year to year through the use of horizontal analysis, calculating the ratios of the financial analysis to note any fundamental changes that occur to these ratios. (Godfather, 2015: 41)
- 3.NoteAnd physical examination such as company operations, internal documents, reports prepared by management, company headquarters and factories, information obtained from external sources such as



commercial and economic newspapers or reports of analysts or banks, behaviors and actions of management or those charged with governance, such as a note of an audit committee meeting.

4. The responsibility of the auditor is within the limits of the sample that he is auditing. If evidence of fraud appears in the sample, the auditor should expand the scope of the sample to increase the tests in order to be sure that there are no material errors resulting from fraud. Fundamental errors, he should direct the officials to correct them. If the officials refuse, the auditor should withdraw from the process audit.

5. In the event that the auditor discovers a material misstatement in the financial statements resulting from fraud, and that this misrepresentation has made the financial statements misleading to its users, and not in conformity with generally accepted accounting principles, the auditor should issue an adverse opinion in the audit report, stating the full reasons that prompted him to do so. .

6. If the auditor discovers the misrepresentation, and its effect is substantial, and this misrepresentation is related to one or some of the assertions contained in the financial statements, and it is possible to determine the effect of fraud in these assertions, the auditor should issue a qualified opinion, mentioning the reservation and its full reasons in a separate paragraph preceding a paragraph The opinion.

7. In the event that the auditor discovers a misrepresentation in the financial statements resulting from fraud, but the auditor is unable to determine whether this misrepresentation is material and has a comprehensive impact on the financial statements or not, the auditor should refrain from expressing an opinion, stating the full reasons that invited him to do so.

8. In the event that the auditor does not discover any material misstatement in the financial statements resulting from fraud, but there are possibilities of misstatement resulting from fraud, the auditor should collect additional evidence based on the instructions set forth in this framework, to confirm or dispel these possibilities. The auditor may give a conservative or adverse opinion according to the impact of misstatements on the financial statements as a whole or on one or some of the assurances contained therein. If these possibilities are absent, the auditor issues a clean opinion, and if he cannot confirm or deny them despite the additional evidence, he should refrain from

expressing an opinion. With the reasons given in each case.

9. In the event that the auditor fails to discover material misstatements resulting from fraud despite his exercise of due professional care and his commitment to the instructions contained in this framework and his performance of the procedures included in these instructions, due to the provisions of this fraud and the complicity of its perpetrators with some or with others, the auditor shall not be considered responsible for this fraud, and the auditor shall bear The administration is fully responsible for it as it is in the best center for committing fraud on the one hand, and its responsibility for establishing programs and internal control systems that prevent and detect fraud on the other hand.

10- In the event that the auditor fails to discover material misstatements resulting from fraud, and issues a clean opinion despite the existence of these misrepresentations contained in this framework, or if he fails to exercise due professional care in implementing these procedures, and the auditor could discover this fraud in the event of his commitment to perform the mentioned instructions and procedures He shall be responsible for this fraud, and bear all legal responsibilities arising therefrom.

### **The third axis: descriptive statistics of the data of the research questionnaire:**

In order to get to know Rolecheckerin discovery The risks of material misrepresentations in light of the application of the international auditing standard 240 from the point of view of the auditors of the research sample. proofreading professors The observations were taken, modified and presented to the supervisor, then the questionnaire form was distributed to the research sample, companies and audit offices of the first category, who are present in the 2022 bulletin issued by the Council of Profession of Monitoring and Auditing of Accounts in Iraq.

### **Descriptive statistics for the questionnaire form**

The questionnaire was based on the five-point Likert scale and weights for the type of answer to each paragraph. (strongly agree = 5, agree = 4, neutral = 3, disagree = 2, disagree at all = 1) and the weighted mean is calculated mean weighted for sample answers due to the presence of weights, and then the degree of agreement and direction is determined as in the following table:



Table (1)  
 Standard Weighted Average Intervals according to the Five-point Likert scale

Weighted average periods	Degree of approval (direction of answers)
1.00 - 1.79	I don't agree at all
1.80 - 2.59	not agree
2.60 - 3.39	neutral
3.40 - 4.19	OK
4.20 - 5.00	Strongly Agree

The length of the period has been calculated (0.80) via  $\left(\frac{4}{5}\right)$

And for the ease of dealing statistically with the paragraphs or questions of the axis in the questionnaire

form when conducting descriptive statistics and the rest of the statistical analysis of the form, as it will be encoded with a symbol  $X$  and its paragraphs take the sequence from (1-16) and my agencies:

Table (2)  
 Questionnaire form paragraphs

(The extent of the auditor's commitment to Audit procedures received in accordance with International Auditing Standard 240 when auditing financial statements.

Paragra ph symbol	ferries(paragraphs) or question
$X_1$	<b>Having discussions (or group thinking) among members of the audit team about the risks of material misstatement resulting from fraud</b>
$X_2$	<b>Understand the company, its environment and internal control system to obtain information that helps identify risks of material misstatement due to fraud.</b>
$X_3$	<b>Inquire of management and those charged with governance and internal control to determine whether they have knowledge of any actual or suspected fraud affecting the entity.</b>
$X_4$	<b>Making inquiries from management regarding its knowledge of existing or potential fraud, the control programs and procedures it has established to prevent and detect fraud.</b>
$X_5$	<b>Inquiries from those responsible for governance (or the audit committee) regarding their knowledge of any existing or potential fraud, and their view on the effectiveness of the control systems and procedures established by management to prevent and detect fraud..</b>
$X_6$	<b>Inquiries from the internal auditor about his view of the existing fraud risks, whether he has taken any procedures to identify or detect fraud, and the extent of his satisfaction with the management's response to the results of fraud identification and detection procedures.</b>
$X_7$	<b>Inquiries from employees working in the company about the extent of their knowledge of or suspicion of fraud.</b>
$X_8$	<b>Performing analytical procedures on revenues during the planning stage of the audit process to identify unusual or unexpected relationships.</b>
$X_9$	<b>An evaluation of whether the selection and application of accounting policies by the company's management, especially those related to the preparation of fraudulent financial reports, due to the administration's application of the practice of profit management.</b>
$X_{10}$	<b>Identifying errors in intentional accounting estimates to identify deviations is a fundamental error and one of the causes of fraud</b>
$X_{11}$	<b>A sudden visit to the locations of the unit under audit to inventory some embezzable assets such as: cash, inventory.</b>
$X_{12}$	<b>Amending the audit plan in the event of evidence of fraud to include additional procedures to determine the impact of such fraud.</b>



$X_{13}$	<b>Obtain written assurance from management that it recognizes its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.</b>
$X_{14}$	<b>The auditor's response to the risks of material misstatement resulting from fraud, and has a comprehensive impact on how the audit process is performed.</b>
$X_{15}$	<b>The auditor's response to the risks of material misstatement resulting from fraud, and the existence of a material misstatement resulting from fraud.</b>
$X_{16}$	<b>Inform those charged with governance in a timely manner if the auditor suspects management-related fraud.</b>

Source: Prepared by the two researchers.

To find out the answers to the sample trends for each paragraph of the questionnaire, ratios, frequencies, arithmetic means and standard deviations were used, as well as the results as follows:

Table (3)

The answers of the research sample to the paragraphs of the questionnaire  
 (The auditor should follow the audit procedures stated in accordance with International Auditing Standard 240 when auditing the financial statements)

Degree approval	deviati on normative	the middle arithmetic	the answers										Code Paragraph	T
			Strongly Agree		OK		neutral		not agree		I don't agree at all			
			5	4	3	2	1	%	K	%	K	%		
Strongly Agree	0.66026	4.3396	42.5	45	50.9	54	4.7	5	1.9	2	0.0	0	$X_1$	1
Strongly Agree	0.57038	4.4434	48.1	51	48.1	51	3.8	4	0.0	0	0.0	0	$X_2$	2
OK	0.67805	4.1604	30.2	32	57.5	61	10.4	11	1.9	2	0.0	0	$X_3$	3
OK	0.78164	4.1321	32.1	34	53.8	57	10.4	11	2.8	3	0.9	1	$X_4$	4
OK	0.68720	4.1509	30.2	32	56.6	60	11.3	12	1.9	2	0.0	0	$X_5$	5
OK	0.71895	4.1604	32.1	34	54.7	58	10.4	11	2.8	3	0.0	0	$X_6$	6
OK	0.86957	3.9245	24.5	26	51.9	55	16.0	17	6.6	7	0.9	1	$X_7$	7
Strongly Agree	0.63670	4.2264	33.0	35	57.5	61	8.5	9	0.9	1	0.0	0	$X_8$	8
OK	0.69609	4.1415	30.2	32	55.7	59	12.3	13	1.9	2	0.0	0	$X_9$	9
OK	0.91056	3.9057	29.2	31	39.6	42	23.6	25	7.5	8	0.0	0	$X_{10}$	10
Strongly Agree	0.72666	4.3302	46.2	49	42.5	45	9.4	10	1.9	2	0.0	0	$X_{11}$	11
Strongly Agree	0.64762	4.4340	50.9	54	42.5	45	5.7	6	0.9	1	0.0	0	$X_{12}$	12
Strongly Agree	0.70072	4.4057	49.1	52	45.3	48	3.8	4	0.9	1	0.9	1	$X_{13}$	13
Strongly Agree	0.70380	4.2170	35.8	38	51.9	55	10.4	11	1.9	2	0.0	0	$X_{14}$	14



OK	075688	4.132 1	30. 2	3 2	57. 5	61	8.5	9	2.8	3	0.9	1	$X_{15}$	15 th
Strongly Agree	0.7454 0	4.301 9	43. 4	4 6	46. 2	49	8.5	9	0.9	1	0.9	1	$X_{16}$	16
Strongly Agree	0.4658 6	4.212 9	Arithmetic mean and standard deviation of the second sub-axis											

Source: Prepared by the two researchers based on the results of the program SPSS.

Table (3) shows the number of repetitions of the sample vocabulary answers, arithmetic means, standard deviations, and the degree of agreement for the paragraphs of the second sub-axis (the auditor followed the audit procedures contained in the international auditing standard 240 when auditing the financial statements), as the arithmetic means indicated for the paragraphs  $X_1$  (have discussions (Or group thinking?) between members of the audit team regarding the risks of material misstatement resulting from fraud) and  $X_2$  (Understanding the company, its environment and the internal control system to obtain information that helps identify the risks of material misstatement due to fraud) (Doing analytical procedures on revenues during the planning stage of the audit process to identify unusual or unexpected relationships) and (sudden visit to sites belonging to the unit subject to audit to inventory some embezzlementable assets such as: cash, inventory) and (modifying the audit plan in case of evidence of the existence of Fraud that includes additional procedures to determine the impact of such fraud (and paragraph (obtaining written assurances from management that it recognizes its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud) and (the auditor's response to the risks of material misstatements resulting from fraud, with a comprehensive impact on how the performance of the audit process (f) informing those charged with governance in a timely manner if the auditor suspects management-related fraud)  $X_8 X_{11} X_{12} X_{13} X_{14} X_{16}$  However, the answers of the research sample agreed on the degree of agreement (strongly agree) for the paragraphs specified above, while the arithmetic mean for the paragraphs indicated  $X_3$  (Inquiries from management and those charged with governance and internal control to determine whether they have knowledge of any actual or suspected fraud affecting the entity) f (Inquiries from management regarding its knowledge of existing or potential fraud, control programs and

procedures it has set up to prevent and detect fraud) (Inquiries from officials Governance (or the audit committee) regarding its knowledge of any existing or potential fraud, its view on the effectiveness of the control systems and procedures established by management to prevent and detect fraud) and (f) Inquiries from the internal auditor about his view of the existing fraud risks, and his taking any procedures to identify or discover Fraud, and the extent of satisfaction that he shows with the management's response to the results of the procedures for identifying and detecting fraud) and (inquiries of employees working in the company about the extent of their knowledge of or suspicion of fraud) (evaluation of whether the selection and application of accounting policies by the company's management, especially those related to the preparation of reports Fraudulent financial due to management application for profit management practice) and (identifying errors in intentional accounting estimates to identify deviations is a material error and one of the causes of fraud) and (the auditor's response to the risks of material misstatement resulting from fraud, and the existence of a material misstatement resulting from fraud)  $X_4 X_5 X_6 X_7 X_9 X_{10} X_{15}$  However, the answers of the research sample agreed on the degree of agreement (agree) for the paragraphs specified above.

It is also noted from Table (3) the agreement of the answers of the research sample on the degree of approval (strongly agree) for all the paragraphs included in the second sub-axis (the auditor following the audit procedures contained in accordance with International Auditing Standard 240 when auditing the financial statements) and this initially indicates the great importance of the axis with its paragraphs.

### RESEARCH RESULTS

1. The results indicated that Statistical importance for external auditors in Iraq to follow the audit procedures contained in Standard No. (240) From the point of view of the sample members, this indicates that the external auditors in Iraq follow the audit procedures contained



in Standard No. (240) When auditing the financial statements.

2. The results showed that there is statistical importance of the commitment of auditors in Iraq to apply the international auditing standard (240) from the point of view of the sample members, and this indicates that auditors in Iraq are committed to applying the international auditing standard (240).

3. The results indicated that there is statistical significance for the external auditor to apply the necessary procedures and policies contained in Standard 240 to document evidence in identifying and evaluating the risks of material misstatement when auditing financial statements.

4. The results indicated that there is a real and effective role for the internal control system in determining and risk assessment fundamental distortion.

5. The Board of Audit and Oversight Profession in Iraq educates and guides external auditors to follow audit procedures (Requirements) contained in International Auditing Standard No (240), because of its contribution to strengthening the auditors' reports, and obligating them to do so.

6. Encourage The external auditors must exercise the necessary professional care in the audit process for discovering fraud cases that are committed in a controlled manner that is difficult to detect.

7. Providing continuous training opportunities for auditors through holding workshops and professional seminars specialized in International Auditing Standard No (240) By the Board of Audit and Oversight Profession in Iraq to raise the professional level of external auditors.

8. Append Auditors who are new to the audit profession, with accounting courses specialized in identifying and evaluating the risks of fundamental errors.

9. Continuation Research in the field of international auditing standards to find better methods for detecting fraud in financial statements and increasing the reliability of audit results by users of financial reports.

10. to specify Job duties and responsibilities for employees in companies and the responsibility of auditors in a clear and accurate manner and setting rules and controls related to detecting fraud cases in financial statements so that users of financial reports can trust their opinions and the fairness of these reports by expressing the financial position of the company.

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