



**THE IMPACT OF THE EXTERNAL AUDITOR'S PROCEDURES
ACCORDING TO INTERNATIONAL AUDITING STANDARDS (320,
330) IN REDUCING SIGNIFICANT MISREPRESENTATIONS OF THE
FINANCIAL STATEMENTS**

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ABSTRACT	KEY WORDS
The research aims to know the procedures of the external auditor in accordance with the International Auditing Standard (320, 330) that enable him to express his opinion on the financial statements that they are generally prepared correctly, honestly and free from material distortions, and the most important of these procedures have been addressed in the theoretical framework of the research And to the most important reasons that lead to the existence of material misstatements in the financial statements, and then preparing a questionnaire targeting workers in the field of control and auditing according to a sample of (127), with which the study reached the most important conclusions, and the risks of significant misstatements in the financial statements increase when the external auditor does not separate between each of The error is unintentional and the fraud resulting from the management. The latter is preoccupied with detecting minor errors, and to the most important recommendations, which is the need to use Relative importance when planning the audit process and during the examination stage in separating between unintentional error and fraud resulting from management and not being preoccupied with detecting minor errors, which is the focus on detecting misrepresentation material in the financial statements.	External auditor procedures. Material Misstatements of Financial Statements, International Standards on Auditing (320, 330).

Introduction

Audit risks have become a realistic matter that threatens the work of the external auditor, so he must know and realize the size of the risks effectively and study the factors influencing them in order to estimate the degrees of audit risks and identify the areas in which they rise and take the estimated levels into consideration when planning the audit process and take everything that would reduce the severity its impact on the financial statements. (Rashid, Kareem, & Abd, 2023). By using the relative importance of the elements of the financial statements in total and at the level of account balances in determining the quality of the audit procedures necessary to collect relevant audit evidence about the understanding of the economic entity and its environment, including the controls of the effectiveness of the internal control system in order to evaluate and assess the risks of material misstatements to which the financial statements are exposed. Accordingly, the external auditor will evaluate the extent to which information is presented and classified in the financial statements and reports in a fair and honest manner, and distinguish between unintended errors in the financial reports resulting from omissions in collecting or processing financial statements or in an incorrect accounting estimate, (Abd, Kareem, & Kadhim, 2019), and intended distortions in the financial statements resulting from misuse of entrusted funds. For a specific person or disposition resulting from the act of managing the economic entity by manipulating books and accounting records to mislead the users of the financial statements.

Theoretical framework

First: The concept of audit risk:

Audit risk means that the external auditor gives an improper professional opinion about the financial statements when they contain material misstatements (Simunic., & Stein, 1990) Audit risks may result for several reasons, including the failure of the external auditor to discover material Misrepresentations that may exist in the financial statements due to his lack of experience or due to the failure to exercise the necessary professional care in which he expresses his opinion. Audit risks include the following types: (Nikolovski, & Karadjova, 2016)

* **Risks inherited from account balances:** It means the Possibility of a financial account balance from financial operations to the occurrence of a fundamental error, and it is material if it meets with other errors in the balances of accounts or other operations in the absence of procedures for the internal control system, (Fearnley, & Brandt, 2005).

* **Control risk:** It means the risk resulting from the possibility that the current internal control system of the economic entity did not detect or prevent the occurrence of material errors in the financial statements. It is not imagined that this risk is zero, because the internal control procedures cannot guarantee the prevention and detection of all material misstatements. These procedures may be ineffective in some cases as a result of the human element, which is due to negligence and exhaustion, (Dimitrijevic., & Stancic, 2015).

* **Risks of non-discovery:** It is that the auditor's audit procedures lead to the absence of an error in one of the balances or a certain type of operation, and at the time when the error actually exists, it is material if it is combined with errors in other balances or in another type of operation.

The external auditor is also exposed to the risks of termination of assignment: many clients change the external auditor due to the failure of the audit process to detect significant distortions in the financial statements or the conflict of interests of the client with the external auditor, (Mohammed, & Flayyih, 2021)

Second: The concept of relative importance:

It means the amount of riskiness of errors in the financial statements, whether individually or in aggregate, which is likely, given the surrounding conditions, to have a negative impact on the decision or judgment of the ordinary user of the financial statements. Materiality in the financial statements is divided into two groups: (Acito., & Johnson, 2009).

* **The overall relative importance of the elements of the financial statements:** It indicates the amount of deviation that the auditor accepts in the financial statements as one unit, while still concluding the availability of a true and fair picture of the financial position, profits and losses of the economic entity under audit, and the auditor also needs to estimate the level of that deviation or The level of materiality before it begins to perform the audit process, and this type helps to determine the audit effort required to perform the audit process as a whole, (Bernardi., & Pincus, 1996).

* **Relative importance at the level of transactions and account balances:** indicates the amount of deviation that the auditor will accept in the group of operations or disclosure in the financial statements before concluding that the appropriate disclosure in the financial statements may mislead its users, and it also provides the basis for setting the maximum amount of deviation that the auditor will accept in the group of operations or Disclosure of the financial statements before concluding that the appropriate disclosure has been deviate in a manner of materiality. Materiality at this level determines the nature, timing and scope of the audit procedures to be performed in connection with the operations group or the disclosure of the financial statements, (David , & Abeysekera, 2021)

Third: The concept of material misstatements in the financial statements:

Significant Misrepresentations in the financial statements result from deliberate operations aimed at deceiving the users of the financial statements by manipulating the financial statements in a way that achieves a certain result. Usually, the administration chooses accounting methods that lead to increasing assets, reducing crises, increasing revenues, and reducing expenses, which helps to transfer profits from the coming periods to the current period. This distortion is considered one of the difficult and dangerous matters, and the external auditor must exert the necessary professional care to detect this material misrepresentation. Therefore, there are two types of distorted financial statements, which the external auditor should take into consideration when auditing the financial statements, namely: (Amiram., & Rouen., 2015).

* Financial data resulting from misrepresentation and manipulation by the economic entity management.

* Distorted financial statements arising from misappropriation of monetary and fixed assets by workers in the economic entity.

Fourth: Reasons for material misstatements in the financial statements

Among the most important reasons for material Misrepresentations in the financial statements are: (Persons, 1995) , (Bunget, & Dumitrescu, 2009).

***Income smoothing:** The management of some economic entities, in their financial statements and reports, goes with a steady stream of growth in profits instead of showing fluctuating profits from a series of big rises and falls for the sake of the illusions of investors and creditors.

***Tax manipulation:** The administration of some economic entities goes in their financial statements and reports to reduce profits and revenues and increase expenses by reducing the margins of tax withholding resulting from them.

***Inflating the management bonus:** the management of some economic entities goes to link their bonuses to profits and circumvention contractual rights and obligations in order to inflate their bonuses.

***Escaping from government laws and regulations:** By choosing accounting methods that contribute to reducing their decided profits in order to escape from the social burdens imposed by government regulations.

***Earnings Management:** It is a method of manipulating the accounts practiced to hide the actual performance of the economic entity for the purpose of achieving beneficial results for the economic entity or some of its employees. It is also known as: It is a proposed innovation in the preparation of the financial report with the intention of obtaining special benefits. It is also defined as: "changing the declared economic performance of the economic entity by the administration, either to mislead shareholders or to influence contractual results" .

Fifth: The procedures of the external auditor in accordance with the international auditing standard (320, 330)

In order for the external auditor to be able to express his opinion on the financial statements, he designs audit procedures that help him to have reasonable conviction that the financial statements in general have been prepared correctly and honestly. Among the most important audit procedures in accordance with International Auditing Standards (320, 330) are the following: (Abbas, & Abd, 2020).

* Examining the internal control system in the economic entity, to ensure that it is designed in an effective manner for the purpose of preventing, detecting and correcting material misstatements in the financial statements. * After examining the internal control system, the initial assessment of the material misstatements in the financial statements is made, as the auditor, at the beginning of the audit process, puts an initial assessment of the financial misstatements in the financial statements (Abd, El Toby, & Kareem, 2023).

* Benefiting from the initial assessment of material misstatements in the financial statements to find out the size of the samples that the external auditor must activate the audit procedures to collect the necessary and appropriate evidence to see if the financial statements have deviations or not.(Abd, 2020)

* Examination of audit samples in accordance with audit procedures An audit procedure designed to know significant misrepresentation in the financial statements. These procedures include two types, namely (detailed tests), which have a fundamental role in reaching acceptable conclusions on which the auditor bases his professional opinion. And (analytical procedures) that focus mainly on the external auditor's evaluation of the financial information by studying the clear and expected relationship between each of the financial statements and the non-financial financial statements. (Al-Hassani , &Al-Jabri, 2021)

* After conducting the examination on the samples that were withdrawn, the value of the essential distortions is estimated in them, and the estimated deviation of the samples under examination is compared with the permissible deviation of the samples that was previously determined. Financial, and if the opposite is true, the external auditor increases the size of the audit samples and examines them.

* After conducting the examination on the samples, discussions are conducted between the external auditor and the members of the supervisory work team to determine the size of the increase in the

samples and the type of those financial accounts that may be exposed to material distortions in the financial statements due to fraud.

* After increasing the size of the samples, additional audit procedures (detailed and analytical) are implemented aimed at ascertaining the existence of possible fraud or error that has an important impact on the financial statements, and that these amended or added procedures depend on the judgment of the external auditor after discussions with the members of the oversight work team.

* After applying additional auditing procedures and detecting material misrepresentations in the financial statements, the higher administrative levels in the economic entity are informed of these misrepresentations as quickly as possible. This is through the external auditor expressing a qualified or negative opinion in his report or even refraining from expressing an opinion on the financial statements.

* In the event that the management of the economic entity does not respond to the findings of the external auditor that there are material distortions in the financial statements, the withdrawal from the audit process is chosen.

The third axis: the practical side

This paragraph reflects an analysis of the general study model by determining the relationship between the independent variable, the procedures of the external auditor in accordance with international auditing standards (320, 330) in reducing material misstatements, and the dependent variable, the factors and risks affecting the size of material misstatements in the financial statements, as follows:

Table (1)The number of questions for the study variables:

Variable	Number Questions in the questionnaire list
Factors and risks affecting the size of significant Misrepresentations in the financial statements.	10
The procedures of the external auditor in accordance with International Auditing Standards (320, 330) in reducing material misstatements in the financial statements.	10
the total	20

Source: Prepared by the authors (2023)

- Description of the respondents to the research sample

Table (2) Characteristics of the study sample

Sequences	Certificate	the number	The ratio
1	Ph.D	48	%38
2	Accountant	23	18
3	Master's	40	31
4	Bachelor's	16	13
Total		127	100%

Source: Prepared by the authors (2023)

Calculating the Cronbach coefficient for the variables of the study:**Table (3) statement of the validity of the questionnaire**

the scale	Kornbach alpha coefficient
Factors and risks affecting the size of material misstatements in the financial statements.	0.865
The procedures of the external auditor in accordance with International Auditing Standards (320, 330) in reducing material misstatements in the financial statements.	0.874
All variants	0.925

Source: Prepared by the authors (2023)**Discuss the results:****The first axis:**

the procedures of the external auditor in accordance with international auditing standards (320, 330) in reducing significant Misrepresentations in the financial statements.

Table (4) presents the arithmetic means, standard deviations, the level of response and their significance for the variable of the external auditor's procedures in accordance with International Auditing Standards (320, 330) in reducing material misstatements in the financial statements. It is noted from the table that paragraph (1) which refers to (the use of the total relative importance of the elements of the financial statements by the external auditor helps in estimating the level of material misstatements to which the financial statements are exposed). I obtained the highest arithmetic mean (4.0866) and a standard deviation of (0.67874) This shows the consistency of the research sample's responses towards this paragraph and within the "very high" response level". While Paragraph (6), which refers to (relative importance contributes to the external auditor obtaining reasonable assurance that the financial statements as a whole are free from material errors, whether due to fraud or error and thus avoiding the risk of non-discovery) got the lowest arithmetic averages with an arithmetic average of (3.8504).) and a standard deviation of (0.87359), and this indicates the agreement of the research sample answers and within the "high" response level. As for the general rate of the external auditor's procedures variable according to international auditing standards (320, 330) in reducing significant Misrepresentations in the financial statements, the general arithmetic mean was (3.965), with a standard deviation of (0.7648), and at the level of "high" response.

Schedule (4)

Arithmetic means, standard deviations, response level, importance, factors and risks affecting the size of material misstatements in the financial statements (N=127)

Sequences	Statement	Arithmetic mean	Standard deviation	Answer level	Importance
1	The use of the overall relative importance of the elements of the financial statements by the external auditor helps in estimating the level of significant misrepresentation to which the financial statements are exposed.	4.09	0.67874	high	1

2	The use of materiality at the level of the balances of the elements of the financial statements helps in assessing and estimating the inherent risks of the financial.	4.0157	0.66648	high	3
3	The relative importance contributes to increasing the effectiveness of evaluating the internal control system and determining the level of control risks to which the audit process is exposed, resulting from the failure and weakness of the internal control system in preventing the occurrence or discovery of material misstatements and risks in the balances that make up the financial statements.	3.9606	0.81066	high	5
4	The use of relative importance when planning the audit process and during the examination stage contributes to the separation between unintentional error and fraud resulting from management and not being preoccupied with detecting minor errors, which focuses on discovering significant misrepresentation in the financial statements.	4.0236	0.79147	high	2
5	The relative importance share in to the external auditor avoiding the risk of misestimating of the elements of the financial statements by measuring the relative importance at the level of the financial statements as a whole and at the level of balances.	3.9370	0.75328	high	7
6	Materiality contributes to the external auditor obtaining reasonable assurance that the financial statements as a whole are free from material errors, whether due to fraud or error, and thus avoids the risk of non-discovery.	3.8504	0.87359	high	10
7	The relative importance of the audit procedures contributes to the audit process as a guide to planning the essential procedures, both analytical and detailed, as attention and control work are directed to those items or accounts that are important, or that are subject to errors or fraud.	3.9764	0.71785	high	4
8	Materiality contributes to the external auditor's avoidance of audit risks when it enhances his awareness of the existence of an inverse relationship between the level of risk of material misstatement and the amount of evidence that the auditor must collect.	3.9055	0.77083	high	9
9	Identifying and evaluating the dangers of material misstatements enables the external auditor to reach the nature of transactions between management and employees within the	3.9843	0.83556	high	4

	economic entity, all of which helps the auditor in proper planning of the audit process and performing his work with high quality.				
10	The relative importance through the stages of the audit contributes to changing its decision about the degree of exposure of the financial element to material misstatement. For example, when the degree of material misstatement is low for a financial element at the planning stage, it may be high for the same element at the examination stage and presenting the audit results.	3.9065	0.74995	high	4
Total		3.965	0.76484	high	

The second axis:**factors and risks affecting the size of material misstatements in the financial statements.**

Table (5) presents the arithmetic means, standard deviations, and the level of response and their significance for the factors and risks variable affecting the size of material misstatements in the financial statements. It is noted from the table that paragraph (4) which refers to (the risks of material misstatements in the financial statements increase when the external auditor does not separate between unintentional error and fraud resulting from management and is preoccupied with the latter by detecting minor errors), I got the highest arithmetic averages of (4.0945) and a standard deviation of (0.81097), This shows the consistency of the research sample's answers towards this paragraph and within the "very high" response level. While paragraph (9), which refers to (the external auditor may fail to reach the nature of transactions between management and employees within the economic entity as a result of not identifying and evaluating the risks of material misstatements in the financial statements) obtained the lowest arithmetic averages with an arithmetic mean of (3.7874) and a standard deviation of (0.93120) This indicates the agreement of the research sample answers within the "high" response level. As for the general rate of the factor and risk variable affecting the size of material misstatements in the financial statements, the general arithmetic mean was (3.94), with a standard deviation of (0.824), and at the level of the response "high".

Table (5) Arithmetic means, standard deviations, response level, and importance Factors and risks affecting the size of material misstatements in the financial statements (N=127)

Sequences	Statement	Arithmetic mean	Standard deviation	Answer level	Importance
1	One of the factors affecting the extent of material misstatements in the financial statements is the failure of the external auditor to assess the amount of deviation in the financial statements as a single unit	4.0787	0.81266	high	2

2	One of the factors affecting the size of the material misstatements of the financial statements is the amount of the size of the inherited risks of the balances and the elements of the financial statements, that is, the greater the size of the inherited risks, the greater the potential that the financial statements will be exposed to material misstatements.	3.9843	0.81634	high	4
3	One of the factors affecting the increase in the size of the material misstatements of the financial statements is the high control risks resulting from the incorrect assessment of the internal control system.	4.0236	0.76079	high	3
4	The risks of material misstatements in the financial statements increase when the external auditor does not separate between unintentional error and fraud resulting from management and is preoccupied with the latter by detecting minor errors.	4.0945	0.81097	high	1
5	The external auditor is exposed to the risk of erroneous estimation of relative importance. What the auditor considers relatively important when examining the customer's financial statements is the nature of his commercial activity. It may not carry the same relative importance if the client's activity is industrial.	3.8031	0.77705	high	9
6	One of the factors influencing the external auditor to obtain acceptable assurance that the financial statements as a whole are free from material errors, whether due to fraud or error, is the high rates of non-discovery risks, and then a clean report is issued even though they contain material distortions.	3.9449	0.82910	high	5
7	One of the risks that the external auditor is exposed to is poor planning of the basic audit procedures, both analytical and detailed, as attention and control work is directed to those items or	3.9213	0.81266	high	6

	accounts that are not considered important or are not subject to errors or fraud.				
8	Materiality share in to the external auditor's avoidance of audit risks when it enhances his awareness of the existence of an inverse relationship between the level of risk of material misstatement and the amount of evidence that the auditor must collect.	3.8898	0.89290	high	7
9	The external auditor may fail to reach the nature of the dealings between management and employees within the economic entity as a result of not identifying and evaluating the risks of material misstatements in the financial statements.			high	1
10	The external auditor is exposed to the risk of material misstatement in the financial statements when a financial element is judged to have a low material misstatement at the planning stage, and it is found later that the same element is exposed to a high risk of material misstatement at the stage of examination and presentation of the audit results.	3.8740	0.79674	high	8
Total		3.94	0.824	high	

Source: Prepared by the authors (2023)

Examining the relationship between the independent variable, the procedures of the external auditor according to international auditing standards (320, 330) in reducing material misstatements and the dependent variable, the factors and risks affecting the size of material misstatements in the financial statements in the financial statements .

Table (6) Matrix of correlation coefficients between study variables

Correlations			
Factors and risks affecting the magnitude of material misstatements	External auditor procedures according to international auditing standards (320, 330)		
.786**	1	Pearson Correlation	External auditor procedures according to
.000		Sig. (2-tailed)	

127	127	N	international auditing standards (320, 330)
1	.786**	Pearson Correlation	Factors and affecting the magnitude of material misstatements
	.000	Sig. (2-tailed)	
127	127	N	

It is clear from the above table that there is a significant relationship between the independent variable, the procedures of the external auditor according to international auditing standards (320, 330) in reducing material misstatements, and the dependent variable factors and risks affecting the size of material misstatements in the financial statements (.786**) at a significant level (0.01).

* Examining the effect relationship between the independent variable, the procedures of the external auditor according to international auditing standards (320, 330) in reducing material misstatements and the dependent variable, factors and risks affecting the size of material misstatements in the financial statements.

independent variables	test effect coefficient β	T-test	Morale level Sig. T
The extent of material misstatements in the financial statements.	0.831	14.227	0.000
fixed limit	0.645	2.760	.007
R Square is the coefficient of determination	0.618		
Test F	202.394		

It is clear from the above table that the coefficient of the fixed limit amounted to (0.645), so if the independent variable is equal to zero, that is, in the absence of the effect of the external auditor's procedures in accordance with international auditing standards (320, 330) in reducing material distortions in the audit process, it is equal to (0.645), while it reached The calculated (T) value is (14.227), and when compared to its tabular counterpart of (1.646), we find that it is greater than the tabular (T), with a degree of freedom of (127), and the coefficient of determination (R^2) explained its value (0.618) of the effects that occur in the volume of Material distortions in the financial statements and these effects are due to the effect of the independent variable, the procedures of the external auditor according to international auditing standards (320, 330), while the other effects amounting to (0.382) are due to other variables that were not included in this model. The F test and the level of significance (sig) measure the significance of the model as a whole, as it is noted that the estimated model is significant at a level of significance less than (5%). When comparing the calculated F with its tabular counterpart, we find it larger as its value amounted to (.202.394), while the tabular F reached (2.31), but (the level of significance Sig. F) for the model as a whole represents (0.000), which is less than (5%) that the researcher assumed and he accepted model hypothesis (there is a significant impact relationship between the procedures of the external auditor according to international auditing standards (320, 330) and limiting the size of material misstatements in the financial statements).

Conclusions and recommendations

Conclusions:

- 1- The risks of material misstatements in the financial statements increase when the external auditor does not separate between unintentional error and fraud resulting from management and is preoccupied with the latter by detecting minor errors.
- 2- One of the factors affecting the extent of material misstatements in the financial statements is the failure of the external auditor to assess the amount of deviation in the financial statements as a single unit.
- 3- One of the factors influencing the size of the material misstatements of the financial statements is the size of the inherited risks of the balances and elements of the financial statements, that is, the greater the size of the inherited risks, the more likely the financial statements will be exposed to material misstatements.
- 4- One of the factors influencing the external auditor to obtain acceptable assurance that the financial statements as a whole are free from material errors, whether due to error or fraud, is the high rates of non-discovery risks, and then a clean report is issued even though they contain material distortions.

Recommendations:

- 1- The need to use relative importance when planning the audit process and during the examination stage in separating between unintentional error and fraud resulting from management and not being preoccupied with exposing minor errors, which focuses on discovering material misrepresentation in the financial statements.
- 2- The external auditor should use materiality at the level of the balances of the elements of the financial statements in evaluating and estimating the inherent risks of the financial balances, and thus limiting material misstatements of the financial statements.
- 3- The relative importance of the audit procedures contributes to the audit process as a guide to planning the essential procedures, both analytical and detailed, as attention and control work are directed to those items or accounts that are important, or that are subject to errors or fraud.
- 4- Materiality contributes to the external auditor avoiding the risk of misestimating of the elements of the financial statements by measuring the relative importance at the level of the financial statements as a whole and at the level of balances.

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