

THE ROLE OF THE EXTERNAL AUDITOR IN HARMONIZING THE ENVIRONMENT AND SOCIETY WHEN AUDITING THE IRAQI ECONOMIC ENTITIES A STUDY ACCORDING TO THE INTERNATIONAL AUDITING STANDARD (1010)

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ABSTRACT	KEY WORDS
<p>The research aims to indicate what is the role of the external auditor in the direction of detecting environmental and social damages according to theoretical frameworks, as well as a statement of what is the role of the external auditor in the direction of detecting environmental and social damages resulting from the Iraqi economic entities (industrial and service) as a result of practicing their work in order to limit or prevent those damages that fall on the environment and society, and in the light of the results of the practical side, the external auditor will issue a conservative oversight report on the activities of the Iraqi economic entities (industrial and service) despite their efforts to preserve the environment and protect society from the effects, as well as despite the disclosures about the size of the impact of their activities on the environment and society, but the presence of some damage to the environment and society and one of the most important recommendations is to activate the role of the Iraqi industrial economic entities in addressing the reasons for stopping the factories, which accounted for (31%) of the total factories, Of the total laboratories. In addition to the use of modern methods in the treatment of industrial solid waste hazardous to the environment and society, and the necessity of activating the role of the Iraqi economic service entities in increasing the percentage of the population covered by services as well as moving away from the traditional methods of disposal of the usual waste, which constituted (87.5%) of the total quantities of normal waste.</p>	

Introduction

The prevailing view of the economic entity was based on the sole responsibility of exploiting resources with the aim of increasing profits and providing goods and services. However, the economic and environmental changes after World War II and the damage to the environment prompted increasing attention to be given to the economic entity to have new responsibilities added to its economic responsibilities, which are social and environmental responsibilities.(Hayes, 2005). In order for them to be held accountable, there must be a specialized an external supervisor that performs performance evaluation work on the extent of their commitment to achieving a suitable environment for the living of the population, meeting its needs, improving and developing their quality of life and expanding their options. The environmental and social activities have a fundamental impact on the financial statements, which arouses the interest of the users of the financial statements to demand the administration to approve,(Thomas, Norway,& Johnson, 2006) .measure and disclose them in its financial statements, and therefore activating the role of the external auditor through the audit procedures that it performs in accordance with the International Auditing Standard (1010) provides all the beneficiaries with information about the performance of economic entities in improving and protecting the environment and reducing damage to society and the environment,(Al-Thunibat, 2009)

First: Research Methodology:

1-Research problem: The research problem is embodied by asking the following questions:

- Does the external auditor in the Iraqi environment achieve the maximum economic benefits through the possibility of accessing the reasons for the low level of efficiency of the performance of economic entities in reducing the damage, social problems and environmental damage that they cause when carrying out their activities.
- Does the external auditor make an audit report that includes environmental and social information to all members of society so that they can evaluate the extent to which these rare resources are used by the entity managements efficiently and effectively?

2- Research Objectives: The research aims to clarify what is the role of the external auditor in the direction of detecting environmental and social damages according to theoretical frameworks, as well as indicating what is the role of the external auditor in the direction of detecting environmental and social damages resulting from Iraqi economic entities (industrial and service) as a result of practicing their work in order to limit or prevent those damages that occur to the environment and society according to practical cases.

3-The importance of the research: The importance of the research is represented in achieving maximum economic benefits, achieving well-being for all members of society through the information provided by the external auditor in his audit report that contributes to evaluating the extent to which these rare resources are used by the entity managements efficiently and effectively.

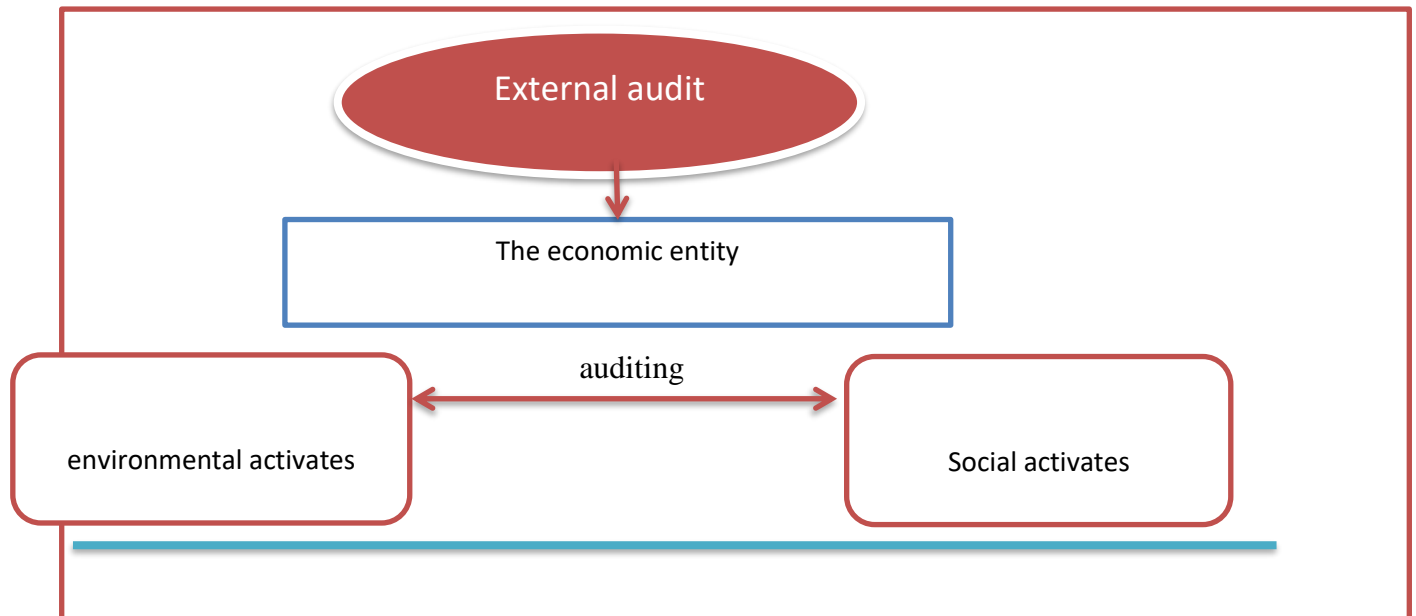
4- A hypothesis for the research: The research is based on the assumption that (the external auditor's guidance with the international auditing standard (1010) leads to diagnosing and addressing the damages of economic entities to the environment and society as a result of carrying out their work.

5-The scientific method of research

To achieve the objectives of the research, two approaches have been followed in defining the research problem and the theoretical side, since it relied on the inductive approach in determining a realistic

problem that economic entities suffer from in the Iraqi environment, and relied on the deductive approach on the theoretical side, but regarding the practical side, it used the analytical method.

6-The research model: To clarify the relationship between the study variables (independent and dependent), the form was prepared below:



Theoretical framework / the nature of external auditing on environmental and social activities in economic entities :

First: The environmental and social responsibility of the economic entities previously consisted in profit maximization only, but the environmental and social circumstances related to them, such as the emergence of the large disparity in income and pollution of the environment, changed the basic justification for their existence, and therefore the environmental and social responsibilities of the economic entity can be clarified as follows:

1-Environmental responsibility: It is represented by the real disclosure of the economic entities commitment to preventing damages that it may cause to the environment as a result of production processes, and what is its role in reducing the process of product spoilage and gas emissions, in restoring balance between workers and in preserving natural resources from depletion. The management is responsible for the accounting estimates related to environmental matters included in the financial statements,(Al-Hawari,&Nahed,2015) It is also defined as a set of activities concerned with measuring and analyzing the environmental performance of economic entities and communicating that information to the entities that use and benefit from it, in order to help them in making decisions. It is also defined as measuring the internal and external costs related to environmental damage that have a direct financial impact on the economic entity, the environment, society and individuals, as well as the costs of preventing and discovering all environmental impacts(Harris, 2000).

2-social responsibility: it is the continuous commitment of the economic entities to act ethically, contribute to achieving economic development, and work to improve the quality of living conditions of the workforce, their families, and the local community. It is also defined as the moral responsibility of the economic entity towards the group of stakeholders that are affected directly or indirectly by the actions of the economic entity. (Gharib, & Hussein,2015):

Second: The importance of auditing environmental and social matters:

Achieving maximum economic benefits through developing the economic entity and increasing the impact of the internal control system leads to reducing the risk of misrepresentation in the financial statements. Contribute to achieving well-being for all members of society by transforming maximizing profitability into achieving social well-being. Assisting managers in the comparison between alternatives for the purpose of assisting them in making rational decisions, which contributes to reducing environmental costs and burdens. Ascertaining the extent of commitment of the economic entities in providing information to the members of society so that they can assess the extent to which these rare resources are used by the entity's managements efficiently and effectively. (Ali, Abd, & Kareem, 2022). Calculating production costs in a way that helps in reaching modern indicators to estimate the effectiveness of the performance of the economic entity with regard to its environmental and social contribution. To identify the extent of the economic entity's contribution in the areas of environmental protection and the preservation of its resources and the rights of future generations. The possibility of accessing the reasons for the low level of performance efficiency and improving it by limiting the damages, social problems and environmental damages that they cause when practicing. It helps stakeholders' decisions to be rational by providing comprehensive information that helps in comparing between administrative alternatives and choosing the best and most effective alternative. (Arens, & James, 2002)

However, the existence of a set of challenges facing the external auditor when auditing environmental and social matters: (Chavan, 2005)

1-The disappearance of information related to the financial costs of environmental and social activities within the indirect costs: as there are important costs, but they disappear in one way or another in the accounting records within the indirect expenses, and therefore when the urgent need for such information arises, it will not be easy to find it. Therefore, these costs must be classified according to the operations and products that cause them to be achieved

2-The difficulty of obtaining financial information about environmental and social activities from accounting records: as accounting systems do not generally contain information regarding costs related to the future environment despite being of relative importance to the activity of the economic entity, because these systems are often of a historical nature.

Third: The objectives of the auditor in auditing environmental and social matters

Study the results of the environmental and social activities of the economic entity subject to audit and compare them with an economic entity similar to it in work. It aims to measure the net social contribution of the economic entity, which does not only include the elements of the private and internal costs and benefits of the economic entity. This stems from the defects of traditional accounting in the field of measuring the social performance of the economic entity. (Kadhim, Abd, & Kareem, 2020). Evaluating the environmental and social performance of the economic entity, by definition whether the economic entities strategy and objectives are in line with the environmental and social priorities on the one hand, and that it represents the relationship between the performance of the economic entities and the preservation of natural resources and social welfare. Providing appropriate information about the environmental and social performance of the economic entity to all stakeholders in order to rationalize private and public decisions related to directing environmental and social activities and to determine the optimal scope for them, whether from the user's point of view or from the community's point of view.

Preserving natural resources by identifying the most

important observations that would create a balance between the activities of the economic entity, the environment and society. Study the environmental and social laws and instructions related to the work of the economic entity and ensure its compliance with those laws in a way that serves the community and the environment,(Font, Cogotti, &Häusler, 2012)

Fourth: Type of external auditor's report on environmental and social activities:

The report of the external auditor is the final result of the audit process, and the types of audit reports on environmental and social activities do not differ from the types of reports on financial statements. Then the types can be explained as follows: (Al-Shaabani, & Ali ,2018).(Clarkson, Ferguson, & Hall, 2003)

- The report is not conservative: the external auditor issues a unqualified report in the event that the environmental impacts of the activities of the economic entity are within the allowed range, and that the financial statements were prepared in accordance with international or national accounting principles and also in accordance with legal requirements
- Conservative report: The external auditor expresses a qualified opinion in his report, When the environmental management system or the internal control system for environmental performance has deficiencies and weaknesses that seriously affect society. And in the event that the auditor is not provided with the necessary information and clarifications about the environmental effects of the economic unit's activity, or when the auditor's work is restricted.
- Negative Report: The external auditor gives his adverse opinion in his report in the event that there are environmental matters that have a clear impact on the community from carrying out the work of the economic entity with the aim of increasing the environmental awareness of the economic entities and increasing the conviction of the entity management that the impact of its activities on the environment must be disclosed to the community, as well as it must disclose the environmental efforts made in order to preserve or repair the environment.
- disclaimer for expressing an opinion: the external auditor tends to refrain from expressing an opinion because of the presence of determinants or restrictions that do not enable him to obtain evidence and proofs that help him in measuring the environmental performance of the economic entity and its dangerous effects on society. The auditor prepares his report on environmental and social activities as an annex with the financial report and submits the report to several bodies, such as the public body that appointed the auditor, the board of directors, or government agencies to which the economic entity is subject under the prevailing laws, and other bodies concerned with the environment, (Abd, Kareem, &Kadhim, 2019)

The practical framework for research / external auditing on the impact of the activities of Iraqi economic entities on the environment and society

First: Auditing the Iraqi industrial economic entities:

The Iraqi economic and industrial entities are classified into companies and factories that include five sectors: (chemical and petrochemical, food and pharmaceutical engineering, textile, construction and industrial services), as the total number of companies reached (42) companies and the total number of factories (225) factories. The impact of the Iraqi industrial economic entities on the environment and society:

- 1- The number of operating factories (for the year 2020) that throw hazardous solid industrial waste reached (16) factories out of the total factories affiliated to the Iraqi economic and industrial entities

during the year 2020, and they appeared in the sectors (engineering, food, pharmaceutical, and textile) and by (12, 1, 3) factories, respectively.

2- The number of factories (for the year 2021) that throw hazardous solid industrial waste reached (10) factories out of the total factories affiliated to the Iraqi economic and industrial entities during the year 2021, and they appeared in the engineering, food, pharmaceutical and textile sectors) and by (6, 1, 3) factories, respectively. According to Figure (1) below:

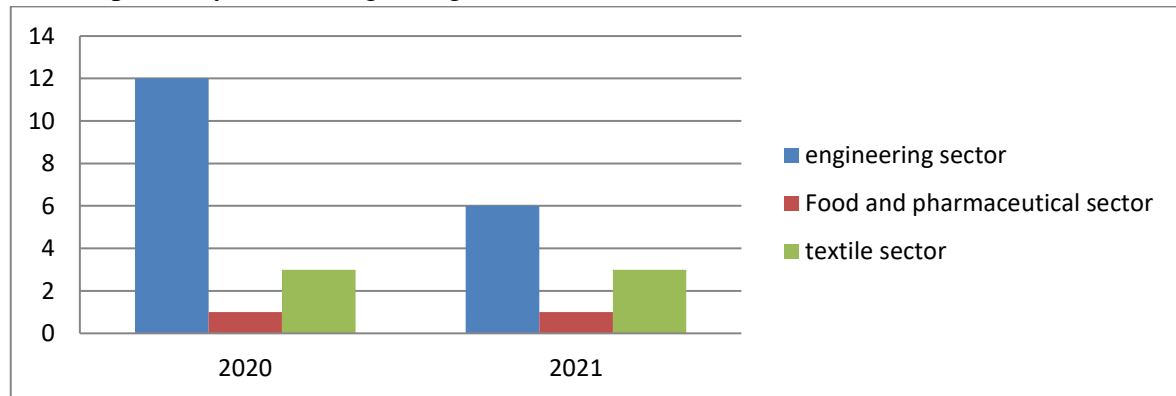


Figure (1) Disposing of hazardous solid industrial waste

3- The monthly average amounted to (8) thousand tons / month of the amount of hazardous and non-hazardous industrial solid waste generated by the Iraqi industrial economic entities, as the highest amount of solid waste generated appeared from the construction sector and industrial services at a rate of (97%).

4-The monthly average amounted to (26) thousand tons / month of the amount of hazardous and non-hazardous industrial solid waste generated by the Iraqi industrial economic entities, as the highest amount of solid waste generated appeared from the work of the construction sector and industrial services at a rate of (99%). According to Figure (2) below:

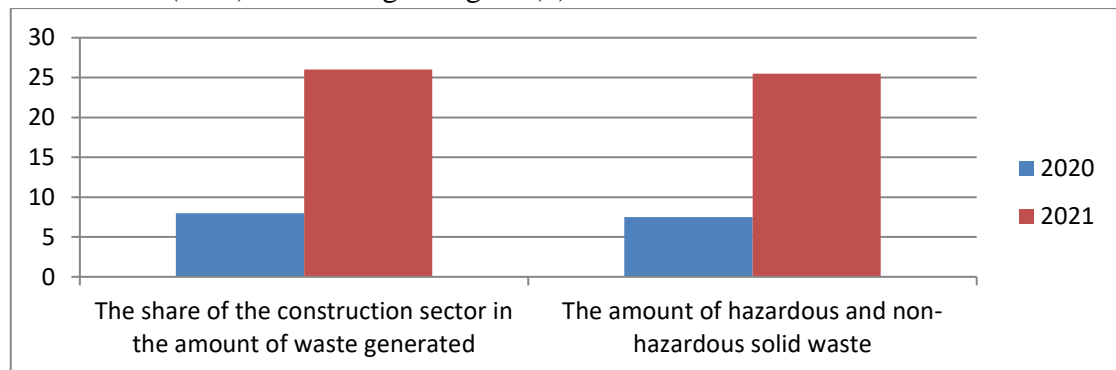


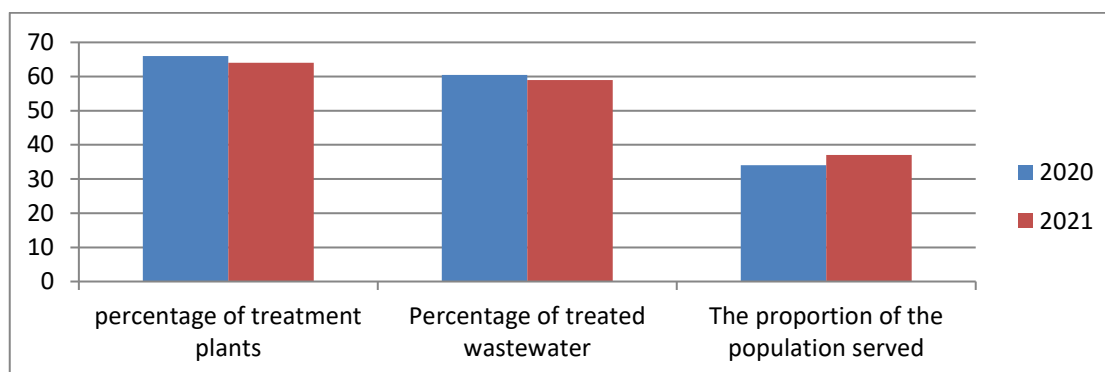
Figure (2) The amount of hazardous and non-hazardous industrial solid waste generated per month

Second: Auditing Iraqi service entities:

1-The total number of central treatment plants and medium and small treatment entities in the Iraqi service entities for the year 2020 amounted to (66) stations and treatment entities, the largest number of which appeared in the capital, at (10) stations. The percentage of the population served by the shared sewage networks for the year 2020 in Iraq amounted to (34). The percentage of wastewater that has been treated is (60.5%) of the design capacity of the treatment plants.

2-The total number of central treatment plants and medium and small treatment entities in the Iraqi service entities for the year 2021 amounted to (64) stations and treatment entities, the largest number

of which appeared in the capital, at (10) stations. The percentages of the population served by the common waste sewage networks for the year 2021 in Iraq amounted to (37.4), and the percentage of treated wastewater was (59%) of the design capacity of the treatment plants, according to Figure (3) below:



Reports of the performance evaluation of the Federal Office of Financial Supervision and for the years (2020, 2021).

3-The percentage of the population served by the waste collection and removal service at the level of Iraq has reached (65.7%), while the percentage of those served at the urban level has reached (90.7%) and in the countryside (12.5%). Modifying and leveling streets, although they are outside the tasks of municipal institutions. As for the usual methods of waste disposal according to traditional methods, the percentage is (87.5%), and according to recycling or reuse methods, the percentage is (12.5%).

Conclusions and Recommendations:

First: Conclusions: In light of the results of the practical side, the external auditor will issue a conservative audit report on the activities of the Iraqi economic entities (industrial and service) despite their efforts to preserve the environment and protect society from its effects, as well as despite the disclosure of the size of the impact of its activities on the environment and society, but the presence of some damage to the environment and society represented by a decrease in the percentage of the population served by sewage networks, which amounted to (34%, 37.4%) for the years 2020, 2021, respectively, as well as a decrease in the percentage of treated wastewater, which amounted to (60.5%, 59%) for the years 2020 and 2021, respectively. In addition to the poor disposal of the usual methods of waste, which accounted for (87.5%) according to the traditional methods.

Secondly, the recommendations: Activating the role of the Iraqi industrial economic entities in addressing the reasons for stopping the factories, which accounted for (31%) of the total factories. In addition to using modern methods in the treatment of industrial solid waste hazardous to the environment and society, and the need to activate the role of the Iraqi economic service entities in increasing the percentage of the population covered by services, as well as moving away from the traditional methods of disposal of the usual waste, which constituted (87.5%) of the total quantities of normal waste.

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