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FINANCIAL INSTRUMENTS AUDIT PROGRAM ACCORDING TO THE INTERNATIONAL AUDITING PRACTICE STATEMENT NO. 1000 (SPECIAL CONSIDERATIONS IN FINANCIAL INSTRUMENTS AUDITING)

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ABSTRACT

The research aims to identify the general framework of financial instruments and audit procedures in accordance with international auditing standards, and prepare an audit program to audit financial assets according to the International Auditing Practice Statement No. 1000. Special considerations in auditing financial instruments, as it provides important practical assistance to auditors when addressing the issue of evaluation and other considerations related to financial instruments. And that the auditor obtains reasonable assurance about whether the financial statements as a whole are free from material errors, whether they are caused by fraud or error, and the research has reached a set of conclusions, the most important of which are: And auditing accounts do not meet the requirements of auditing in described of the new accounting treatments described under the International Financial Reporting Standards with regard to financial instruments, and the research also reached the most important recommendations: the need to adopt the proposed auditing program that was designed by the researcher in the Federal Office of Financial Supervision and auditing and auditing companies Which shows how to audit accounts that fall within the scope of the requirements of (IFRS 9), (IFRS 7), (IAS 32) and the International Auditing Practice Statement No. (1000), as it includes clear audit procedures on each item that falls within the scope of these standards, to assist the external auditor. It can be relied upon when auditing financial assets and expected credit losses.

KEYWORDS

audit program, financial instruments, IAPN 1000, IFRS 9, IFAC.

Introduction:

Supervisors of commercial banks need periodic data on the workflow within the bank to check on the proper use of material resources and take decisions aimed at correcting deviations or errors that occur during the implementation of the bank's activities, as well as making sure that the financial statements of the bank fairly represent the financial position of the bank and the results of its activity. In accordance with generally accepted accounting principles,(Hasan., Atshan., & Abd, 2023).In 2014, the International Accounting Standards Board (IASB) issued new standards for financial instruments, represented by International Financial Reporting Standards No. 9 (Recognition and Measurement of Financial Instruments) and International Financial Reporting Standard No. 7 (Disclosure of Financial Instruments) to be an alternative to International Accounting Standard 39 (Recognition and measurement of financial instruments) issued by the International Accounting Standards Committee due to the large number of criticisms it faced, the most important of which was considering it the main reason for the occurrence of the global financial crisis in 2008, which prompted both the International Accounting Standards Board (IASB) and the American Accounting Standards Board (FASB) to develop new accounting standards Related to financial instruments, which requires the International Federation of Accountants to issue the International Audit Practice Statement No. 1000 (Special Considerations in Auditing Financial Instruments) to guide it when auditing these instruments. It will have a fundamental impact on the audit process in terms of the requirements for designing and implementing the audit program by the auditor. In the Iraqi environment in general and the banking sector in particular.

The first axis / research methodology

Research problem

Failure to update the approved auditing programs for auditing financial instruments in accordance with the International Auditing Practice Statement No. 1000 (Special Considerations in Auditing Financial Instruments).

The importance of research

The importance of adopting international auditing standards when preparing and proposing an auditing program in accordance with those standards that contributes to expressing a neutral technical opinion on the fairness of the financial statements.

Research objective

- Identifying the theoretical framework for the Statement of International Auditing Practice No. 1000, special considerations in auditing financial instruments.

Preparing a proposed audit program to audit financial instruments. -

Research hypothesis

The program leads the proposed audit of financial instruments in accordance with the International Auditing Practice Statement No. 1000 (Special Considerations in Auditing Financial Instruments) to identify deviation in the financial statements and respond to them?

Research method

The inductive approach was relied on by examining international accounting standards and the relevant international auditing practice statement No. 1000 and local accounting rules.

Data collection methods

The researcher dealt with the research through the following:

1-Theoretical side: The researcher relied on Arabic and foreign books, literature for accounting and auditing, Arab and foreign periodicals, as well as publications related to the research, which are sourced from professional organizations, dissertations, letters, Arab and foreign university research, and the Internet.

2-The applied aspect: the researcher relied on preparing a program for auditing financial instruments according to a set of international auditing standards.

The second axis / the theoretical aspect of financial instruments and audit procedures according to the International Auditing Practice Statement No. 1000.

Theoretical side of financial instruments

Definition of Financial Instruments

IAS 32 defines a financial instrument as a contract that can create a financial asset for an economic entity and at the same time create a financial liability or an equity instrument for another economic entity. A contract that imposes on an economic entity a contractual obligation to deliver cash or another financial instrument or exchange financial instruments based on potentially uncertain terms or transfer a contractual right to receive cash or another financial instrument or exchange financial instruments based on potentially uncertain terms to a unit Other Economics (Shallour, 2011: p. 96) .

Components of financial instruments

First - the financial asset: the financial asset is defined as the asset that is represented in cash, and the investment in shares of another economic entity (such as ordinary or preferred shares), or it is a contractual right to receive cash from another economic entity such as loans, receivables and bonds (Kieso, 2012: 480).

Second - Financial Obligations: Defined as obligations that are contractual in the event of a contract. (IAS 32, 2012:8)

Delivery of cash or other financial asset to another economic entity. 1)

2) The exchange of financial assets or financial liabilities with another economic entity under potentially uncertain circumstances.

The economic entity has an obligation and can be paid against one of its financial assets or dispose of one of the elements of its capital components (such as capital bonds), in the event that the number of bonds required to pay the aforementioned obligation changes with the change in their fair value and the total fair value of those bonds is not expected to be Realizing gains or losses as a result of the fluctuation in the price of capital bonds, and that these fluctuations are treated as a financial obligation on the economic entity (Al-Owaisi, 2015: 70).

Third - Equity Instruments: Defined as the remainder after paying debts and other obligations on the economic entity, and ownership instruments, which is what belongs to the owner of the economic entity and theoretically includes all the owners who invested in the economic entity, including the funds used to start the economic entity, and the annual profits that It has been kept in the economic entity over the years, as well as the ongoing investments made in order to replace and improve the assets of the economic entity (Lund, 2013:6), and in the same context it represents a share in ownership such as ordinary shares or preferred shares and other capital shares after The date of the acquisition of the shares and according to the acquisition of the economic entity and the share of the ordinary shares of the economic entity invested in it (Ibrahim, 2009: 11), and that the difference between the equity instrument and the financial commitment, although they are within the financial instruments, is that the financial commitment instrument results in a contractual agreement to receive or receive cash by one of the parties, while the equity instrument entails for the economic entity the right to choose to deliver cash to shareholders and is not considered a financial obligation (Younis, 2011: 3).

Audit procedures according to the International Auditing Practice Statement No. (1000) Special Considerations in Auditing Financial Instruments:

In order to attract the attention of auditors to focus on these important aspects, procedures have been identified in a number of international standards, and the researcher will address them as follows:

1. International Auditing Practice Statement No. (1000) Special Considerations in Auditing Financial Instruments:
   Since the external auditor may encounter, in his quest for approvals between banks, difficulties related to language, terminology, fixed interpretation, the scope of matters covered by the answer, these difficulties often result from the use of different types of approval requests, or from a misunderstanding about what was intended by them. Coverage, or due to the difference in audit procedures from one country to another. The International Auditing and Assurance Standards Council issued the International Auditing Practice Statement No. (1000) regarding mutual certification procedures between banks. The Council has confirmed that the purpose of statement (1000) is to provide assistance in the certification procedures between banks to the auditor, as well as to the bank's management, such as internal auditors and inspectors. Statement (1000) will also contribute to the effectiveness of authentication procedures between financial institutions, and to the efficiency of the answers provided. In addition to the foregoing, he indicated that the statement was prepared and approved by a joint committee represented by the International Committee for the Auditing Profession of the International Federation of Accountants, and the Committee on Instructions and Practice of Banking Supervision of the Group of Ten Major Industrialized Countries and Switzerland, in the month of November of the year / 1983 Until it was published in February of the year / 1984, the statement included (1000) instructions regarding the need for authentication, methods of using it, preparing and sending it, and receiving answers to it, in addition to the content of authentication. (Jum'a, 18: 2013).
2. International Standard on Auditing No. (200) The general objectives of the independent auditor and conducting the audit:
   It states that the aim of auditing the financial statements is to raise the degree of confidence of the intended user in the responsible party so that the auditor can express his opinion about the bank's financial statements, which were prepared in accordance with a specific financial reporting framework, and the auditor's report must refer to the financial reporting framework that was used In preparing the financial statements of the bank, including determining the country of origin for the financial reporting framework, when the frameworks of international standards are not used in the preparation of financial reports, and when the report on the financial statements of the bank has been specially prepared for use in a country other than the country in which its laws were established. The auditor considers whether those financial statements contain appropriate disclosures about the financial reporting framework used. (Jum'a, 31: 2013).
   International Standard on Auditing No. (540) Auditing Accounting Estimates .As it requires the auditor to obtain an understanding of how the management makes accounting estimates and the data on which the estimates are based, as the management develops a methodology for

evaluating the fair value of financial assets. This methodology relies on active market information related to the financial asset or similar or matching information, or the fair value is evaluated By the management using an expert according to the three levels approved in the International Financial Reporting Standard 13 (fair value) (1035: 2017, IAASB), as for expected credit losses, it requires the auditor when the management adopts multiple methodologies for each type or group with common characteristics One of the financial assets is obtaining an understanding of these methodologies and verifying the validity of the deliberate calculation methods in each methodology, in addition to verifying the information used in each methodology and the calculation results that are considered the outputs of each methodology (Instructions of the Central Bank of Iraq, 2018: 8).

3. Assessment of the risks of material misstatement:

The International Auditing Standard ISA 540 (Auditing Accounting Estimates) states that the degree of uncertainty in the accounting estimate resulting from evaluating the fair value of financial assets or measuring expected credit losses leads to an increase in the risk of material errors in accounting estimates, especially those that have a high level of uncertainty in fluctuations Future cash flows (1035: 2017, IAASB), and thus the emergence of what is known as audit risk, which was defined by the American Institute of Certified Public Accountants (AICPA) as the risk resulting from the failure of the auditor to express his opinion appropriately and related to the financial statements that contain material errors (al jauhar and et al., 2017: 70), as defined as the risks of the auditor expressing an appropriate opinion when the financial statements are materially distorted, or expressing an inappropriate opinion when the financial statements are free from material misstatements.

(5: 2013, Lobo & Zhao), as defined by the International Federation of Accountants as the risks that the auditor expresses an inappropriate audit opinion when the financial statements contain material errors. The risk of auditing can be viewed from two different angles (Al-Sabbagh, 2016: 45).

First: The risk resulting from the wrong rejection, that is, when the financial statements are sound and the auditor rejects them unjustly.

Second: The risk resulting from wrongful acceptance, that is, when the financial statements of the unit under audit are accepted by giving a clean report, at a time when the financial statements contain substantial errors.

International Standard on Auditing No. (320) Materiality in Auditing:

In assessing materiality, the auditor should take into account the following:

- because of the high efficiency, the relatively small erroneous data may have a significant impact on the results of the time period and on the capital, although its impact may not be significant on the total assets.
- Banks' revenues are low compared to the total assets and liabilities off the balance sheet, so the distorted data that is related to assets only, may have less importance in liabilities than those that can also be associated with revenue data.
- Banks are often subject to regulatory requirements such as requirements to maintain the lowest levels of capital, and breaching these requirements may raise doubts about the appropriateness of management's use of the continuity hypothesis, so the auditor establishes the level of relative importance in order to identify distorted data, which, if not corrected, will cause material breach of such regulatory requirements. (Jum'a, 69: 2013).

International Standard on Auditing No. (580) Written Declarations: Recognitions must be obtained from management acknowledging its responsibility for preparing the financial statements in accordance with the applicable accounting standards, and they are among the evidences upon which the external auditor relies when expressing his opinion.

International Standard on Auditing No. (315) Identifying and assessing the risks of material misstatement through understanding the entity and its environment:

The standard sets requirements for understanding the economic entity and its environment, including the entity's internal control system, as the auditor's understanding and evaluation of the internal control system enables him to identify and assess the risks of material misstatement in the financial statements and levels of assurance (25: 2019, AICPA) as the goal of The criterion is that the auditor studies and evaluates the internal control system of the entity under audit in order to identify the extent of its soundness as the point from which it starts, as the weakness or strength of the internal control system determines the size of the sample chosen during the implementation of the audit program related to financial assets, since all accounting information related to it is audited. With financial assets, it is considered impossible in large entities that own a large volume of financial assets, such as loans and financial investments in stocks, bonds, and others. Therefore, whatever the control system is weak leads to an increase in the size of the selected sample, which requires more time and effort, and vice versa (Mazon, 2011: 23).

-International Standard on Auditing No. (500) Audit Evidence regarding the auditor obtaining the assurances contained in the financial statements:

The auditor implements the basic procedures to obtain audit evidence represented in:

First- Viewing: This includes examining records, documents, or tangible assets. The auditor checks if he is convinced of the actual existence of the tangible negotiable assets that the bank holds.

Second - Inquiries and confirmations: Inquiries include seeking to obtain information about known persons inside or outside the bank. It also includes confirmations on aspects of the inquiry to enhance the information contained in the accounting records.

Third – Guarantees:

- Ascertaining or obtaining an independent confirmation of the value of assets and liabilities that are not traded or can be traded only through direct sales.
- Existing, commitment.
- Legal opinions on the legality of the bank's claims.

Fourth: The account:

The account includes examining the arithmetic accuracy of the source documents and accounting records, or the implementation of the accounts independently, and within the content of auditing the bank’s financial statements. The account is a useful procedure for examining the continuous application of evaluation models.

: International Standard on Auditing (520) Analytical Procedures According to International Standard on Auditing No. (520), analytical procedures mean the analysis of significant ratios and trends, including examination results about fluctuations and relationships that are not consistent with other appropriate information or deviation from expected amounts. (Jum'a, 137: 2013).

ISA No. (560) Subsequent Events:

The external auditor has sufficient understanding of the nature of subsequent events, as he is obligated to design and implement audit procedures to verify that all events that the entity goes through up to the date of the auditor's report may require adjustments or disclosure in the financial statements that have been diagnosed, as the prices announced in the market may not reflect those the changes.

International Standard on Auditing No. (260) Communication with Those Charged with Governance:

As the standard requires reporting of audit issues of administrative importance from the external auditor to those responsible for monitoring performance in the economic entity, and because of the uncertainty that is frequently associated with some fair value measurements, any potential impact on the financial statements can be of any important risks of administrative importance, for example The external auditor takes into account the relative importance of the items measured at fair value and related to the assumptions made by the management (Juma, 2009: 71-72).

International Standard on Auditing No. (700) Forming an Opinion and Reporting on the Financial Statements:

According to this standard, the external auditor evaluates the adequacy and appropriateness of the evidence obtained for measuring the fair value and disclosing it in the financial statements and its compatibility with the applicable accounting standards, taking into account the consistency of this evidence with other audit evidence obtained related to the rest of the items of the financial statements. In order to reach an opinion on the financial statements as a whole (IFAC, 2015,688).

The quality of the external auditor's report on fair value measurements and their disclosures is determined in light of the objective of the audit process, as it is audited within the audit of the financial statements as a whole according to ISA 700, or auditing for special purposes ISA 800, and (Mazon) sees this as follows: (Mazon, 2011: 80).

Issuing a report on auditing fair value measurements and disclosures with the financial statements as a whole: In this case, fair value audits are not referred to unless there are material distortions associated with them, which should issue a conservative or adverse report or refrain from expressing an opinion according to their impact on Financial Statements.(Abd., Kareem., & Kadhimc, 2019).

The third axis / preparing an audit program for financial instruments

After reviewing the financial instruments in general in the second axis, it becomes clear to us that the auditor expresses an opinion on the truthfulness and fairness of the financial statements of the entity subject to audit, which bears distortions and fundamental accounting irregularities as a result of the management's failure to comply with the laws, instructions, and applicable accounting norms. The auditor was working in an audit office or one of the auditor's assistants. In this topic, the auditor's procedures will be presented according to international auditing standards in their theoretical form Poor estimates when auditing financial instruments.

Requirements for designing the proposed audit program for financial instruments based on the International Practice Statement No. (1000):

Auditor program in light of the requirements of international financial reporting standards .

The program for auditing financial assets and expected credit losses in accordance with international standards prepared by the auditor consists of main sections as follows:

1- Description of the account: Financial assets are represented in (investments in debt instruments or property instruments). They are current assets kept by the entity in order to accumulate wealth by earning interest on debt instruments (loans, bonds, etc.) Investments increase the value of the capital as they constitute a large part of the total assets owned by the entity, as the investment can be represented by financial assets in the investment in ordinary or preferred shares or investment in governmental and non-governmental bonds or loans and others, as for the expected credit losses that came with it (IFRS 9) It is considered one of the provisions of great importance because it depends on future forward-looking information based on macroeconomic indicators according to the unit's methodology for calculating them and a special model for them according to the management's estimate of the indicators related to each financial asset or a group of similar assets.

2- Audit Objectives: During the implementation of the audit program related to financial assets (debt and equity instruments) and credit losses, the auditor aims to verify the following:

- Occurrence: Evidence of the existence of financial assets (financial investments of various kinds in debt instruments and property instruments) registered and the occurrence of investment transactions indicating their existence.
- Completeness: This objective is concerned with determining whether all financial operations related to financial assets and their investment transactions are complete. which should be recorded in the books have already been recorded.

3- Classification: This objective is related to determining whether the financial assets recorded in the books have been appropriately classified in accordance with the international standards represented in Standard.

4- Valuation: This objective relates to determining whether financial assets have been appropriately evaluated. That is, the evaluation process is carried out according to the amortized cost or the fair value, and any unrealized increase or decrease in the value is appropriately recorded in accordance with the requirements of Standard

5- Presentation and disclosure: This objective relates to determining whether the presentation and disclosure of financial assets and realized and unrealized profits and losses are appropriate in accordance with international standards.

Audit procedures

First: general procedures:
• Ensure that senior management is committed to developing business models and policies for the distribution of financial assets according to those models.
• Ensure the reliability and clarity of the business models set by the bank -
• Ensure that business models reflect the bank's strategy for managing financial assets and securing related cash flows in the long term.
• Ensure the extent of the bank's stability on the established business models, and in the event that it is forced to change, it must take into account (that the changes are justified and not repeated, that they result from internal and external changes that have a significant impact on the bank).
• Conducting discussions with the administration in order to obtain sufficient understanding regarding the methodology set by the bank for calculating expected credit losses and its compatibility with the requirements of the standard and the guiding regulations provided by the Central Bank regarding the application of the requirements of the standard.
• Verify the soundness of the systems used in calculating expected credit losses in terms of their suitability with the requirements of the standard by involving experts in the audit process.

Second: Procedures for auditing financial assets: The following procedures must be followed to verify financial assets:

Financial assets at amortized cost
• Verifying the validity of the returns of financial assets (stocks, bonds, loans, etc.) by referring to their issuance certificate .
• Checking whether all financial transactions related to financial assets and their investment transactions are complete. which should be recorded in the books have already been recorded.
• Verifying the classification of financial assets into the category of financial assets at amortized cost if the following conditions are met :
• A business model that requires keeping financial assets (debt instruments) represented by cash with banks, internal and external government bonds, and cash credit facilities (loans and advances) until the maturity date in order to obtain contractual cash flows represented by the nominal value and interest on the nominal value.
• Contractual cash flow characteristics when the financial asset gives a specific date for receiving periodic interest based on the principal amount and payments from the principal amount.
• The sale is an accident within this model and according to the conditions mentioned in the standard, such as the presence of a deterioration in the credit capacity of the issuer of the debt instrument.
• That a clear and approved documentation process takes place for the justifications for each sale and its compatibility with the requirements of the standard.
• Checking the measurement of financial assets upon purchase at their fair value, which represents the cost of purchase and transaction costs, with the exception of financial assets through profits and losses, as the cost of their operations is treated as an expense and closed in the profit and loss account.
• Verifying the validity of the amortized cost measurement of financial assets (debt instruments) at the end of the fiscal year.
• Verifying the validity of the fair value measurement of financial assets through the following procedures:
• When relying on published prices in an active market, the auditor understands and examines the methods through which the published prices used in evaluating the fair value are obtained.
• Verifying the annual movement of financial assets and verifying all additions and exclusions (sales and purchases) during the year and ensuring that the buying and selling process was carried out in accordance with the applicable powers (the managing director, the chairman of the board of directors).
• Ensure that realized and unrealized profits, gains, interests, and losses are recorded in the profit and loss account.
• The audit of presentation and disclosure of financial assets differs depending on whether the entity has adopted the fair value option for evaluation. If the entity does not opt for the option, the auditors must determine that the financial assets are correctly disclosed under the amortized cost category.

Financial assets at fair value through other comprehensive income

•	Verify the authenticity of the returnees of shares and bonds by referring to the certificates of shares and bonds and any other documents supporting ownership.
•	Verifying that all financial transactions related to financial assets (stocks and bonds) that must be recorded in the books have actually been recorded .
•	Ensure that financial assets are classified into the category of financial assets at fair value through other comprehensive income through:
•	If the objective of the business model for managing financial assets is to hold them in order to collect cash flows and sell them.
•	High sales in terms of periodicity and value compared to the business model maintained in order to collect contractual cash flows.
•	Verifying the validity of the fair value measurement of financial assets. According to the three approaches specified in IFRS 13 (fair value measurement) through the following procedures:
•	When relying on the first and second approach to measuring the fair value, which is based on published prices in an active market or markets similar to an active market, the auditor must understand and examine the methods through which the declared prices used in evaluating the fair value were obtained.
•	When the management makes fair value estimates according to its assumptions (in the case of prices not published in an active market) according to the third approach, which is based on management estimates based on the available information, the auditor must, based on the international auditing standard IAS 540 (auditing accounting estimates), perform with the following procedures.

•	Examining the information used as input to the process of measuring the fair value of financial assets, and evaluating the appropriateness of this information, including that used in the expert's work and management's assumptions.
•	The auditor prepares independent estimates of the fair value, as well as seeking the assistance of an expert for those estimates, if necessary, and compares them with the estimates prepared by the management and examines the differences.
•	Evaluating the adequacy and appropriateness of the obtained evidence related to measuring the fair value of the financial assets under audit.
•	Checking the reasonableness of the assumptions made by management when measuring the fair value of financial assets through the following procedures:

•	The extent to which the measurement techniques and assumptions set by the management in determining the fair value are consistent with international financial accounting and reporting standards, and the extent to which they are applied consistently during the financial periods.
•	Verify whether subsequent events that occur after the date of preparing the report require adjustments in the fair value measurements of the financial assets.
•	Ensure that changes in the fair value related to financial assets are shown through other comprehensive income, in the statement of other comprehensive income and equity items in the statement of financial position.
•	Ensure that the gains or losses resulting from selling part of the financial assets at fair value through other comprehensive income are shown in the statement of other comprehensive income and equity items, with the transfer of the fair value reserve presented within the statement of other comprehensive income and equity to the item of retained earnings.
•	Ensure that the realized investment revenues have been received and that they have been included in the revenue items in the profit and loss statement.
•	Evaluation of the fair and adequate presentation of financial assets through other comprehensive income in the financial statements.

Third: Expected Credit Loss Verification Procedures: The following procedures must be followed to verify expected credit losses:
• Obtaining an understanding of the main credit operations of the entity represented in granting and monitoring credit, determining provisions, and examining the operational effectiveness of the entity's internal control system.
• Ensure that all financial assets on the balance sheet and off-balance sheet accounts that are subject to measuring expected credit losses are included within the three stages specified in the standard.
• Verify the correctness, completeness and accuracy of the information used, whether it is historical or represents the current situation or about future forecasts or macroeconomic indicators.

The auditor evaluates the following

•	Evaluation of the entity impairment provisions policy based on (IFRS 9) including the standard of significant increase in credit risk with the requirements of (IFRS 9).
•	Evaluation of the methods and methodology of the unit credit losses model against the requirements of (IFRS 9).
•	Evaluation of the validity of the credit rating of the entity.
•	Checking the validity of theories and the integrity of the mathematical operations of the models.

• Checking the future assumptions (macroeconomic indicators) used by the bank in calculating the expected credit losses and comparing them with the available information and how they were integrated in determining the expected credit losses.
• The auditor understands the design and examination of the operational effectiveness of the internal control related to the expected credit losses model, including building the model and approving it and follow-up / continuous verification and governance around the model and the accuracy of the calculations, as well as verifying the validity, completeness and accuracy of the data used and the reasonableness of management assumptions.
• Evaluating the appropriateness of the accounting policies used in measuring expected credit losses, including the significant increase in credit risk, i.e. the indicators set by the management that indicate the transfer of the financial asset between stages at the date of each report.
• Verifying how debt instruments are grouped if expected credit losses are measured on a collective basis.
• Checking the bank's write-off policy, including indications that there is no reasonable expectation of recovery of the full book value and interests of debt instruments subject to the measurement of expected credit losses.
• Selecting a sample of financial assets and off-balance accounts in order to perform the following procedures:
• Verifying the validity of the credit rating classification according to the three stages, and ensuring the correctness of the calculations for the degree of risk for each financial asset.
• Verifying changes in estimation methods or significant assumptions made during the reporting period and the reasons for those changes.
• Ensuring the appropriateness of the process of determining credit.
• exposures upon default in payment, including consideration of cash flows (interests on a debt instrument) resulting from repayment and the resulting calculations.
• Ensuring the appropriateness of the probability of default, the credit exposure upon default and the loss in case of default (including the values of the collateral used) at the various stages.
• Verifying the validity of calculating the expected credit losses for a period of 12 months at the date of preparing the report for financial assets on the balance sheet and off-balance sheet accounts that fall within the first stage of the credit rating as a result of the absence of a significant increase in their credit risks upon initial recognition.

• Verifying the correctness of calculating the expected credit losses for the entire life at the date of preparing the financial report for the on-balance sheet financial assets and off-balance sheet accounts that fall within the second stage of the credit rating as a result of a significant increase in credit risk, but without objective evidence.
• Verifying the correctness of calculating the expected credit losses for the entire life at the date of preparing the financial report for financial assets within the budget and off-balance sheet accounts that fall within the third stage because they have become non-performing.
• Verify the disclosure of expected credit losses at the date of preparation of each report within the statement of profits and losses, or gains to recover losses that require an adjustment to the loss allowance at the date of the report.
• The auditor understands and evaluates the fundamental assumptions of the model in relation to exposures as well as exceptions, with a focus on: The main model assumptions by the unit. –
• The basis and data used to determine the exceptions. –
• Select a sample of exposures and carry out the evaluation procedures for The appropriateness of exposure at default, probability of default, and loss given default (including collateral values used) in calculating expected credit losses.
• Timely identification of exposures with a significant increase in credit risk and the appropriateness of the credit rating of the entity.
• Calculation of expected credit losses. – With regard to the forward-looking information used by the entity management in calculating the expected credit losses, the auditor is required to conduct discussions with the management and verify the internal approvals by the management regarding the economic forecasts used for the purposes of calculating the expected credit losses.
• Checking the adequacy of disclosures in the financial statements with regard to provisions for expected credit losses as required under (IFRS 9).

The third axis: conclusions and recommendations

Conclusions

- The auditing programs approved and issued by the Federal Office of Financial Supervision and the auditing and control companies do not meet the auditing requirements in light of the new accounting treatments indicated under the International Financial Reporting Standards.
- The absence of an audit program prepared in accordance with international financial reporting standards and international auditing standards may lead to an opinion contrary to the truth and fairness of the financial statements, especially the extent of compliance with the requirements of auditing financial instruments.
- Reliance on the proposed audit program prepared by the researcher will help the auditors when auditing the items that fall under the requirements of IFRS 9 and the International Auditing Practice Statement No. (1000) represented in the classification and measurement of financial assets and the measurement of expected credit losses, as it provides clear procedures To audit items that fall within the scope of the standard.

Recommendations

- Oblige the Federal Office of Financial Supervision, the Central Bank of Iraq and the Auditing Profession Council to pay attention to the media aspect of applying accounting standards issued by the International Accounting Standards Board (IASB) and international auditing standards issued by the International Auditing and Assurance Standards Board (IAASB) through holding workshops

And training courses, holding conferences and seminars related to international accounting and auditing standards and how to switch to their application by financial institutions operating in Iraq.

- The external auditor and his team must exercise sufficient professional care, that is, develop more procedures, take longer time, and examine a large volume of selected samples when implementing audit procedures related to verifying the completeness, accuracy, and reliability of historical, current, and future information, the method of calculation, and the results extracted, in order to reach reasonable assurance. About the absence of fundamental errors in the results.
- The necessity of adopting the proposed auditing program that was designed by the researcher at the Federal Bureau of Financial Supervision and auditing and auditing companies, which shows how to audit accounts that fall within the scope of the requirements of (IFRS 9), (IFRS 7) and (IAS 32) and the statement of international auditing practice. No. (1000), which includes clear audit procedures for each item that falls within the scope of these standards, to help the external auditor to rely on it when auditing financial assets and expected credit losses.

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