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Possibility of Reducing Risks of Audit Profession in Improving Audit Quality - A Case Study in the General Company for Electric Power Production / Southern Region

Amani Emad Jawad Al Radhi [a], Alaa Fareed Abdulahad [b]

[a] *Southern Technical University, Management Technical College, Basrah, Iraq.*
E-mail: amani.jawad.fa21@fgs.stu.edu.iq
[b] *Southern Technical University, Management Technical College, Basrah, Iraq.*
E-mail: alaabotto@stu.edu.iq

Abstract

The auditor's knowledge of professional risks is one of the basic means of success in practicing the profession, and this requires a review of the methodological framework related to qualification of the auditor; use of technology has led to the emergence of many risks, and these risks have been classified into different types, and use of technology has brought almost radical changes In the practice of the profession, as it affected types of services provided by the auditing profession, such as assurance services or advisory services. The research aims mainly to identify the extent to which it is possible to reduce the risks of auditing profession in improving quality of auditing from point view of auditors and employees in auditing offices who are allowed to practice occupation. Among the most important results reached: The most important factors in judging audit quality are experience with the client, knowledge in the field of activity, and the effect of the auditor's assessment of audit risks on the audit procedures necessary to respond to the assessed risks when auditing the financial statements. The recommendation that it proposes is to pay attention to continuing professional education and intensifying training courses in auditing and accounting. Paying attention to the consolidation of moral values by senior management to reduce the risks of the auditing profession in economic units.

Keywords: Audit Risk, Audit Quality, Inherent Risk, Control Risk, Non-Discovery Risk.

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Introduction

The quality of the audit services provided is the main variable that stands behind the continuity of the auditing profession. Accordingly, it requires the profession to take care of building and training human resources to bring them to high levels of skills that support auditing profession within framework of elements of modern technical environment. The most common risks and challenges auditors feel are exposure risks due to insufficient control procedures. Human risks result from a lack of qualified personnel, and analytical procedures play an important role in the risk-based audit approach, as they direct attention towards high-risk areas and help identify issues related to the audit that detailed audit procedures could not discover.

The quality of fieldwork implementation, good planning of audit process, scientific and practical qualification of the auditor, achievement of audit objectives at specified times at the required level, and adherence to international professional auditing standards. Developing appropriate methods and procedures to increase the ability to detect errors, fraud, and material violations of clients, and good and appropriate disclosure in audit reports. It helps in evaluating final audit results and providing objective evidence that is of decisive importance in assessing the level of risk so that the auditor can use this risk assessment to design procedures for collecting appropriate audit evidence and limiting risks when expressing his neutral technical opinion on the financial statements.

The First Axis/Research Methodology

First: The Research Problem

The auditor is exposed to multiple risks when carrying out audit process in the companies to be audited, as the auditor may be exposed to a kind of shading by the company's owners or employees, in addition to manipulation in the preparation of financial statements, which negatively affects the auditor's opinion. So the auditor must test both the control risks and the risks of discovery and identify the risks that can stand in the way of the auditor to determine audit procedures to ensure the safety of work and avoid the risks that the company may face in the future.

Second: The Importance of Research

The main purpose of the research is concentrated on reducing the risks of the auditing profession by achieving the following objectives:

1. The auditor takes several procedures before starting the audit process, such as conducting a complete study on the company to be audited and evaluating the company in order to discover and evaluate the risks that the company faces.
2. Anticipate the future risks that may affect the company, which will affect the auditor negatively, such as bankruptcy and default.
3. Carrying out several tests before starting the audit process, as these procedures greatly affect the auditor's opinion, the determination of audit procedures, and the size of the audit process.

Third: Research Objectives

The main objective of research can be identified as reducing the risks of the auditing profession and the possibility of improving the quality of auditing, and the following objectives are included:

1. Statement of the factors affecting the determination of auditing procedures.
2. Determining how to conduct a level of control test on the concerned company at the level of control procedures.
3. Disclosure of the auditor's commitment to control risk considerations when determining audit procedures.

Fourth: The Research Hypothesis

The research hypothesis can be defined as follows: "There is a significant effect of the extent to reducing the risks of auditing profession can improve audit quality."

The Research Sample

The research sample was represented by (The General Company for Electric Power Production / Southern Region), as it approved a number of auditors' reports in the concerned company issued by the Federal Office of Financial Supervision for two fiscal years 2015-2016.

The Second Axis: Previous Studies

A Study (Al-Na'san; 2018) Entitled

Factors Affecting Audit Quality from the Viewpoint of External Auditors

The study aimed to identify factors affecting quality of auditing from the point view of external auditors. The most important conclusions are the presence of several factors that have a significant positive impact on auditing quality, including factors related to the audit office. The work team, the professional competence, the academic qualification of the auditor, the availability of objectivity and independence, and factors related to audit fees. The most important recommendations are the need for the auditor to maintain efficiency in work through the continuous application of knowledge and professional skills and develop them through developmental courses and programs to ensure that clients receive professional service with high quality.

A Study (Bunjaku, 2019) Entitled

Audit Components: Literature Review on Audit Plan, Risk and Materiality, and Internal Control

The study aims to identify audit components such as audit plan, internal control, risks, and relative importance, as each is important to any audit process. Besides, given dynamism of the company in the globalizing world, the latter components must be dealt with dynamically. Most Important Conclusions: the last components must be dealt with dynamically, allowing the auditor to draw reasonable conclusions. He bases his opinion on the audit by the International Standards on Auditing. Main Recommendations Seeks to identify and assess specific risks of material misstatement about the entity's financial statements and address them with audit procedures designed to achieve sufficient, relevant, and reliable audit evidence that an effective audit should be conducted by adopting a risk-based approach.

Study (Ibrahim, 2019) Entitled

Joint Auditing and its Impact on Auditing Quality

The study aimed to demonstrate effect of joint auditing on the quality of auditing through a set of dimensions related to joint auditing, which are (professional experience and competence, distribution of audit work, mutual control and review, communication and coordination, independence and impartiality). The most important conclusion is that many organizations contributed to Global professionalism by developing a set of frameworks for audit quality that include influencing and objective measurable indicators that provide insights into how spatial processes can be evaluated and compared. For modern methods and trends, the most important recommendations are the need to involve auditors of the second category in joint auditing of private banks to enhance their expertise in this field, as banking is characterized by complete privacy that distinguishes it from other sectors in addition to that, the involvement of auditors of this category will lead to a reduction in the dominance of Audit firms lead to more job opportunities.

A Study (Saud, Al-Gharbawi, Salman, 2020) Entitled

Determinants of Audit Quality and their Impact on the External Auditor's Performance

The study aims to identify the extent to which the determinants of audit quality affect the performance of the external auditor and to identify the extent to which external audit offices are aware of the determinants of audit quality by analyzing the quality determinants affecting the performance of the audit process represented by (educational qualification and professional experience, sectoral specialization, services Consultancy, the size and reputation of the office, audit fees, auditor independence (the most important conclusions are the determinants that most affect the audit quality represented in academic qualification, practical experience and independence and the determinants that least affect the audit quality represented in audit fees and service. Failure to follow the strategy of specialization in the performance of the audit profession and lack of engagement In international audit offices and companies The most important recommendations are urging and encouraging auditors to obtain professional certificates in the field of specialization and at the Arab and international levels, work to adopt a strategy of specialization in the performance of the audit profession and strengthen the competitive position of audit offices and then raise and improve the level of the profession in Iraq.

The Third Axis: The Theoretical Aspect

First: Audit Risk: Definition, Concept

The International Standard on Auditing No. 400 defines audit risks as the risks that lead the auditor to express an inappropriate opinion when the financial statements contain material errors. Audit risk consists of three components: inherent risk, control risk, and non-discovery risk. Audit risk is the potential for the audit team to express an unfavorable audit opinion when the financial statements are materially misstated (i.e., giving an unmodified opinion on the financial statements that are misleading because of material misstatements that the auditors failed to detect). Such risk is always present, even when audits are well-planned and carefully executed. Of course, the risk is much higher for poorly planned audits and underperforming care. The audit profession has no standard for an acceptable overall audit risk except to be “appropriately” low. (Louwers, et al, 2018:119).

Second: Audit Risk Components

Inherent Risks

The company’s management’s assurances can contain fraud or significant errors, assuming that there are no internal control procedures, and these risks are some of them greater than others in the case of some assurances and related balances or types of operations. External factors also affect risks, such as technical developments that may lead to product obsolescence. In addition to the factors related to a certain confirmation of the balances of one of the accounts or a type of operation, other types may relate to several or all balances and types of operations that may affect the inherent risks related to the confirmation of a specific account or type of operation and include these factors The lack of sufficient working capital to continue production or specific industry in a stage of decay characterized by general failure at the unit level (Sheikhi and Fakir, 2020: 377).

Control Risks (CR)

The Iraqi audit manual no. (4) defines control risks as the risks of material errors occurring in the accounts without the possibility of preventing or detecting them promptly through the accounting system and internal control systems as a relatively important misleading risk that is not detected or protected from through control measures The internal controls applied in economic units, and control risks are an indication of the effectiveness of the internal control system. If this system is effective, it increases the possibility of preventing or detecting errors if they occur using this system, and therefore the risk factor that can be determined for those risks is less and vice versa. That is, the internal control system, no matter how effective and efficient it is, cannot eliminate all possibilities of occurrence or non-occurrence of errors being discovered due to the existence of violations (Al-Awad and Al-Mayali, 141:2020).

Detection Risks (DR)

It is the risk that the auditor will not detect a misstatement at the assertion level, which may be material on its own or when aggregated with other risks. The acceptable level of detection risk at a given level of audit risk is inversely related to the risk of material misstatement at the assertion level. The auditor should identify assertions that may contain risks of material misstatement and focus audit procedures in these areas when designing and evaluating the results of the procedures used. The auditor must consider the following possibilities: - Poor selection of audit procedures; poor application of appropriate audit procedures; Misinterpretation of the results of the audit procedures (Amirish, 139:2021).

Third: Audit Risk Levels

Issa (2018: 64) determined that estimating the level of audit risk is the main key to controlling those risks. It may be noted that the level of audit risk that the auditor can accept is an economic decision that needs a cost-benefit analysis. The potential benefit of accepting a high audit risk level is savings. The audit risk levels are represented in the following: (Dahu, 2018: 83):

1) Planned Risks: Risks identified before studying and evaluating the internal control system or performing audit procedures.
2) Final risks: These are the risks that express the final level of risk, which the auditor estimates after completing all analytical and detailed audit procedures.
3) Actual risks: These are the risks that reflect the real level of risk that the auditor is not aware of, and this level exists in theory.
4) Professional Liability Risks: It is defined as the possibility of the audit firm being exposed to direct losses as a result of its compensation to the unit that it audited for damage that occurred due to issuing

a wrong opinion on the fairness of its financial statements, as well as to indirect losses, which include a shake-up in its position and reputation with the customer. In particular, and in the business community in general.

5) Desirable or permissible risks: These are the risks that include the auditor's acceptance of a certain level of uncertainty when performing the audit function in the audit process, i.e., the uncertainty is either about the effectiveness of the customer's internal control systems, or there is a state of uncertainty whether the data has been presented Finance fairly after the audit process. (Abdulaziz, et al., 2017: 170).

Fourth: Audit Risk Assessment

Al-Ansari, (2021:50) indicates that audit risk assessment identifies, measures, and analyzes risks related to a specific audit program or process. In the first stage of audit planning, improper assessment of audit risks may lead to misallocation of resources and inefficient or ineffective audit results. Ineffective internal control leads to increased control risk, which leads to additional audit procedures.

In practice, audit risk is assessed at the overall financial statement level (as a whole) and for each significant account and statement by focusing on the relevant assertions identified. A material account or disclosure is an account or disclosure that has a reasonable possibility of containing a material misstatement, regardless of the effect of internal controls. A relevant assertion is a management assertion with a reasonable possibility of containing a material misstatement, regardless of the effect of internal controls. The auditor's concern concerning any particular assertion depends on the significant account the auditor is experiencing (or to which the assertion relates). For example, the auditor may consider an occurrence assertion more of a risk when testing revenue than an assertion of conformity presents. Most companies like to report a good revenue stream, so they are less likely to omit sales that might violate the completion confirmation. The company is more likely to report sales that did not occur to provide more revenue, which violates confirmation of occurrence. To help better understand and ultimately mitigate audit risk, the Professional Standards divide overall audit risk as Figure (1) indicates risks (1) that material misstatements may occur (inherent risks) and (2) that they will not occur. Are prevented or detected by the client's internal controls (control risk), and (3) are not detected by the auditor's procedures (detection risk). Because the inherent and control risks are related to the company and its overall environment, these two components are combined into the risk of material misstatement (RMM), which is the risk that the financial statements will be materially misstated before the auditors apply. Their procedures (Louwers et al, 2018: 120).

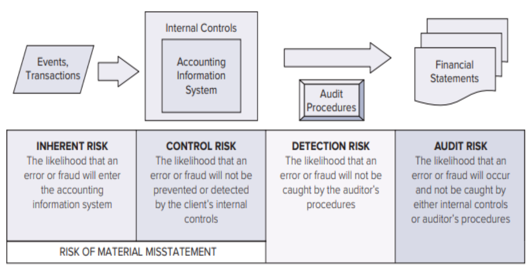

Fig. 1: Audit Risks, Source (Louwers, et al, 2018: 120)

Fifth, The Distinction between Business Failure to Audit and Audit Risk

Many accounting and law professionals believe that the main cause of lawsuits against CPA firms is the lack of understanding by users of financial statements of two concepts:

1. The difference between business failure and audit failure
2. The difference between audit failure and audit risk

Business failure occurs when a company cannot repay its lenders or meet the expectations of its investors due to economic or business conditions, such as a recession, poor management decisions, or unpredictable competition in the industry. Audit failure occurs when the auditor issues an incorrect audit opinion because it failed to comply with the requirements of auditing standards. An example is a firm that hires unqualified assistants to perform certain audit assignments where they fail to recognize material misstatements in the client's records that a qualified auditor would have found. Audit risk is the possibility that the auditor, after conducting an appropriate audit, may conclude that the financial statements have been presented fairly when, in fact, they are materially misstated. Audit risk is inevitable because auditors gather evidence only on a test basis and because well-hidden frauds are extremely difficult to detect. The auditor may comply fully with auditing standards and fail to detect a material misstatement due to fraud (Arens et al., 2017: 116).

The Fourth Axis: Audit Quality

First: The Definition and Concept of Audit Quality

It was defined according to International Accounting Auditing Standard No. (220), as it was defined by the policies and procedures applied in the auditing company to verify that the audits carried out were carried out by generally accepted auditing standards (Shipli et al., 2019:2929), and accordingly, it can be said that the quality of the audit in terms of time has two dimensions (Al-Samarrai and Al-Sharida, 20:2020)

(1) Pre-audit quality: This type is determined by accepting the audit assignment and the possibility of detecting errors and material irregularities in the financial statements.
(2) Post-audit quality: This type of quality is when the auditor presents his report and opinion on the possibility that the financial statements are free from errors and material irregularities, and this depends on the extent of the auditor's independence and freedom from pressure.

Second: Classification Factors Effecting Of the Quality Audit

The American Institute of Certified Public Accountants (AICPA) as well as the Institute of Internal Auditors (IIA)) issued a list of auditing standards No. (65) Specifying audit quality factors. The influencing factors can be classified according to the following (Al-Qudah, 2018: 8):

A. Behavioral factors: represented by the auditor having a high degree of honesty and independence, being cooperative and united with the members of his audit team, having high mental capacity and open-mindedness, and being keen with the management to provide quality factors in the audit. (Bouzar and Boudwara, 27: 2018).
   a. **Efficiency:** The efficiency of the audit is a function of the amount and degree of the audits performed by the auditor, and therefore the competencies are often available in the major accounting firms, and therefore the beneficiaries are less reassured towards the unqualified auditors than the audit process and the results by qualified auditors. Likewise, the experience and competence of the auditor reduce the chances of failure for the unit subject to audit (Agmas et al., 2018:46).
      - **Adequate knowledge** about auditing financial statements by applying best practices and conducting audits following applicable international or local standards.
      - **Accounting knowledge** and financial reporting preparation and the extent to which financial reporting preparation complies with the International Financial Report Standard (IFRS) or local standards to perform the audit task at a level of quality and effectiveness.
   b. **Independence:** (Ardhani et al., 2019:6) indicate that independence is an audit criterion necessary to maintain confidence in the unit management's financial statements. If the auditor is not independent of unit leadership, his or her opinion will have no effect. Independence is a free, unchecked attitude dependent on other parties (Prasanti et al., 2019: 225).
   c. **Honesty:** The auditor must be honest and impartial in his work, give this work his full due, perform the work with inspiration from his conscience, exert his utmost scientific and technical energies in carrying out the work assigned to him, and present the results he reaches with accuracy and honesty without distortion. Alternatively, camouflage and his report do not guarantee only the data that he trusts in its integrity, the facts that he believes in its correctness, that he does not flatter anyone in the opinions he expresses, and that he is a trustworthy advisor to his clients (Shatah, 9: 2017).
   d. **Objectivity:** It means not being biased towards any party that may have an interest in evaluating the unit's activities or the results and reports of internal auditing and avoiding conflicts of interest (Bouzar and Boudwara, 2018: 31).

B. Personal factors: He must have the practical experience and educational attainment that qualifies him to practice the profession, and the auditor must be keen to participate in it (Osama et al., 43: 2020).
   a. **Eligibility:** It is measured through academic qualifications and professional certificates, including the auditor's personal qualities, such as his skill, experience, ethics, and the soundness of his approach used in the audit process. (Judges, 2018:8).
   b. **Integrity:** It includes the following behavioral rules (Qalqul, 2018: 41):
      - Auditors must perform their work honestly, carefully, and responsibly;

- Auditors must uphold the law and expect to discover any wrongdoing by law or the profession;
- Auditors must not engage in activities that are illegal or unknown, or specific to the auditing profession or the unit in which they work;
- Auditors must respect and contribute to achieving the legal and ethical objectives of the unit in which they work.

c. **Ability:** It is an essential factor affecting audit quality. According to Muslim et al. 2020:10 (2020:10) supports the determination of the decision to be made, the auditor must have sufficient ability and experience in understanding the criteria for determining the evidence; These skills are acquired through education and auditing experience.

d. **Due Professional Care:** Impartiality is the first indicator that must be present in the auditor, and he must also have ethical qualities that remove suspicions from him and preserve his profession. If the auditor does not have the necessary skills or does not exercise the degree of due diligence in performing his work, then his behavior, in this case, is inconsistent with the ethics and morals of the profession. He violates his legal duties and exposes himself to legal accountability (Masoudi, 2019: 31). To achieve audit quality, auditors must exercise due professional care to conduct audits according to ethical principles, which is an important element of accountability. In carrying out their work, auditors must (carefully and accurately use professional competence, professional skepticism, and professional judgment in the entire audit (2021:10), Wahyudi & Arum).

C. The basic factors of the auditing profession:

a. Reliance on internal auditing: cooperation between the internal and external auditor has an impact by avoiding duplication of work and replacing the effort made by the external auditor, as dependence on the internal auditor is linked to several factors, including the independence and performance of the work of the internal auditors' Internal audit competence, objectivity Alsmairat et al. (2018:514), and good use of internal audit work can affect and improve the efficiency and effectiveness of external audit and benefit from some of the advantages of internal audit, because the internal auditor has more knowledge of the unit subject to audit than the external auditor, especially With its accounting system, as well as reducing the time it takes for external auditing and then reducing its cost (Al-Kinani 547: 2020), then effective internal control can enhance the quality of financial statements and be beneficial to users' decisions. The impact of internal auditing and the extent of reliance on it by the external auditor is the effective performance of internal auditing and the essential factor (Boskou et al. 2019:927).

b. The auditor's turnover rate: The auditor's turnover rate means the period spent by the audit office to perform its audit duties for the unit subject to audit. This is due to his acquiring the necessary knowledge about the unit and the circumstances surrounding it, making it easier for the auditor to discover errors better. The negative aspect is that the turnover rate will affect the auditor's independence and lead to the consolidation of his relationship with the management, which encourages fraudulent behavior (Alaq, 2019: 59).

c. Specialization and Knowledge of the Auditor: The American Institute of Accountants (AICPA) has considered the professional specialization of the auditing firm as one of the issues affecting the auditing profession through the following: (Al-Taie and Salman, 2019: 531).

- Public awareness of the role played by auditing firms.
- The ability to adapt to market requirements.
- The added value offered by the auditing companies to the units.
- The interest of auditing firms at the global level, as well as the importance of specialization, as it represents the basis for the survival and continuity of auditing firms.

d. Audit Fees: The relationship between audit fees and audit quality is a direct relationship; that is, the higher the volume of revenues, the more effort expended by the auditor in carrying out his duties increases accordingly, and then there is a high possibility of detecting errors and financial fraud. The size of the audit fees is a factor and a strong indicator of the quality of auditing for the unit subject to auditing, as well as for auditing companies, given that they use highly experienced, specialized, and qualified auditors to work and perform the tasks assigned to them to the fullest (Nasr, 2019: 125).

Third: Duties and Responsibility for Preparing the Financial Statements

The tasks and responsibilities of each of the internal parties of the economic unit, represented by the management of the economic unit subject to audit, the internal audit, and the audit committee must be defined (2019: 23, Brydon)

A- Responsibilities of the internal parties: The responsibilities of the internal parties are represented by the responsibilities of managing the economic unit subject to audit, which includes preparing and presenting data for the applicable financial reporting framework and designing, implementing, and updating a system of internal control in line with the applicable financial reporting framework (Talib, 2021: 62).

B- Auditor’s responsibilities: The auditor’s responsibilities towards the audit process entrusted to him by the audit committee are represented by giving reasonable assurance about whether the financial statements represent fairly and truly the true financial position of the economic unit and the results of the management’s work, and submitting a report thereon to the users of the financial statements (135: 2019, Ghandour) and the following is an explanation of the auditor’s report:

Auditor's Report

(Student, 63: 2021) indicates that the auditor’s report is the primary means of communication between the auditor and the users of the financial statements, as the report represents the outcome of the audit process carried out by the auditor from the moment he obtained the contract letter to carry out the audit task until the stage of expressing his technical opinion Neutral with the fairness and honesty of the presentation in the financial statements, by explaining to the readers of those statements that they have been subject to control and audit by an independent body, and based on this report, users will take many decisions for it.

Audit Management Reporting Standards

The international standards for the professional practice of auditing have identified several principles and foundations that should be adhered to when preparing audit reports and communicating results, as well as the characteristics that must be available in the form and content of the report (Hanbaza and Aqil, 2018: 165) according to the following:

Table 1: Criteria for Preparing Audit Reports

Report content standards	Report format standards
Clarifying if there are any restrictions imposed on the auditor during the implementation of the audit tasks and specifying the objectives and the temporal and spatial scope of the audit process	Writing reports on official management papers
Disclosure of cases of non-compliance with the laws and regulations in the unit and the violations committed.	Put a descriptive title for the report
Disclosure of any weakness in the internal control system used by the Department	Determine the entity subject to audit
Focus on constructive guidance, brevity, clarity, balance, accuracy and objectivity in writing the report	Determine the period covered by the audit
Include the necessary suggestions and recommendations to address deviations, if any	Forward the report to the auditing manager
Include the executives' point of view on the results and observations of the audit process.	Issuing the report upon completion of the audit management process

Source: (Hanbaza and Aqeel, 2018: 165) .

Reporting Quality

Qualified reports are financial reports that produce useful information for their users and information that meets the qualitative characteristics of the information, and financial reports have seven qualitative characteristics as follows (Zubir, 95: 2021):

1- relevance and relevance; 2- Form and content “essence”; 3- reliability; 4- Staying away from prejudice; 5- Comparability; 6- symmetry; 7- Understandability.

The Fifth Axis: A Case Study

In this axis, the most important reservations and clarifications contained in the reports of the observers of the study sample were extrapolated, which were represented by the General Company for Electric Power Production in the Southern Region from the company's employees in the Financial Supervision Bureau and the Internal

Control Department. They will deal with each of the Office of Financial Supervision reports and the company's reports for the two years (2015-2016).

First: Extrapolation of the reports of the Federal Office of Financial Supervision, the second region auditing department, with the issue: on the financial statements of the General Directorate of Electric Power Production in Basra for the year ending on December 31, 2015

Financial Data

A- Decrease in the production achieved for all the stations of the directorate except for the stations (Rumaila, Al-Shuaiba, Bazarkan 2, Diesel Al-Qurna), as it reached the lowest rates of production achieved during the year / 2015 compared to the previous year for the stations (Al-Hartha, Najibiyah, Khor Al-Zubair (old), Khor Al-Zubair (new), North Al-Amarah) As the percentage of decline amounted to (21%, 16%, 26%, 10%, 36%), respectively. / 2018 as follows:

First: Each year has operating conditions, such as generating units in electric power production stations and power transmission systems (132 KV lines and 400 KV lines in secondary stations). Therefore, a decrease may occur in the production of a specific generating station concerning its production in the previous year for the year concerned. An increase in another station and the important indicator here is the production of the entire directorate / in 2015, which achieved an increase of (13%) compared to the year / 2014.

Second: in the year / 2014 and the first quarter of the year / 2015, the two units (1, 2) in the Shuaiba gas station were under rehabilitation work with the Iranian company (IGC), so they achieved an increase in their production compared to the year / 2014

Third: Bazarkan station (LM6000) / unit / the turbine was damaged in the month of (November / 2014), and it is under the warranty period with (EG) company, which made the unit out of service throughout the year / 2015 until the company came to replace the engine in the year / 2016.

The response of the body subject to the supervision of - a decrease in the production achieved for all the stations of the directorate except for the stations (Rumaila, Shuaiba, Bazarkan 2, Diesel Qurna), and the answer was given according to our letter (10 planning) on 21.02.20218.

Control risks: a decline in the achieved production of some of the directorate's stations

The reason: each year has its operating conditions as generating units in electric power production stations and as power transmission systems, and therefore a decrease may occur in the production of a specific generating station with its production in the previous year for the year concerned, in return for an increase to another station).

Risk Reduction to Achieve Quality: The SAI should allocate adequately skilled resources available when needed at the various audit stages. If the specialized techniques, methods, or skills are unavailable in the team or the SAI, external experts can provide knowledge or perform specific work. When external expertise is required, the SAI will have different ways of assessing whether the experts have the necessary independence, competence, capabilities, and objectivity.

B- The Results of Implementing the Planning Budget

First: The inaccuracy of revenue planning for my account (electricity revenue and grants from the public treasury) by the Directorate. Our inquiry No. (4) was directed on 6/8/2022, and the Directorate's answer is as shown below:

directory number accounting	account name	Revenue amount an appraiser is a thousand dinars	balance in 2016/12/31 a thousand dinars	the difference Thousand dinars	Directorate answer
4162	electricity revenue	867500345	348028276	519472069	The planning budget depends on the planned production, and in the event of any emergency occurring at the stations, it leads to a breach in the planning budget.
4821	Treasury station	4740000	112735470	(65335470)	To pay the amount of (64400) million dinars (sixty-four billion and four hundred million dinars) from the Ministry of Finance to the Ministry of Oil according to the letter of the Ministry of Electricity No. (3227) on 6/16/2016, which led to this difference.

We recommend that you carefully prepare the annual planning budget for revenues.

The audited entity's answer to First - regarding electricity revenue (4162), the planning budget depends on the planned production in normal circumstances and in case of any emergency for the stations (maintenance stopping the flow of energy fuel) leads to a breach in the planning budget. (46,400,000,000) only sixty-four billion and four hundred million dinars to be transferred to the Ministry of Oil according to the Ministry's letter of number (3227) on 16/1/2017, which led to this difference

Discovery risks: Accuracy in preparing the planning budget for revenues

Risk Reduction for Quality: The SAI must ensure that the entire audit team possesses the professional competence to conduct the audit. According to professional standards. The audit team is assembled to collectively have the competence, knowledge, skills, and experience necessary to carry out the audit

C- Not to involve the employees of the Control and Audit Department in specialized courses to raise their efficiency and develop their oversight performance, and the Directorate's response to our inquiry No. (34) on 11/14/2021 stated that (it involved them in courses during 2020 and 2021).

We recommend that the Control and Audit Department employees be involved in specialized courses annually. **The audited entity's response to** We did not receive from the Ministry of Electricity during the two years 2020/2021 any course related to employees of senior administrations

Inherent risks: Not participating in the courses

Reducing risk to achieve quality: The SAI should ensure that the entire audit team possesses the professional competence to conduct the audit following professional standards. The audit team is assembled to have the competence, knowledge, skills and experience necessary to conduct the audit. These procedures may include the following:

- Provide appropriate training for auditors or develop the skills and experience of auditors
- Adopting encouragement and motivation for skilled auditors through the unit's promotion and upgrading policies
- Maintaining a continuous system of training programs for employees.

Second: Extrapolation of the reports of the Federal Office of Financial Supervision, an auditing department, on the financial statements of the General Directorate of Electric Power Production in Basra for the year ending on December 31, 2016.

Financial Data

A- I received the financial statements from the General Directorate of Electric Power Production / Basra according to the letter of the Ministry of Electricity / Internal Control and Audit No. (5723) on 1/27/2016, and it was returned by our letter No. (5742) on 3/31/2016 due to substantial deficiencies, and the Directorate made adjustments to its financial statements after the date mentioned above and received the financial statements in their final form in the Directorate's letter No. (8100) on 6/6/2016, unlike the uncles of the Federal Office of Financial Supervision / Department of Technical Affairs and Studies with the number (2/5/5/20015) on 1/12 2015, which must be submitted no later than January 31, 2016

We recommend preparing the financial statements accurately according to the requirements of preparing them annually and submitting them within the required timings:

The audited entity's response to A- The financial statements were prepared and provided to the Federal Bureau of Financial Supervision by the approved previous years. The Federal Bureau of Financial Supervision returned them according to the observations and requirements that the Bureau requested. They were included and delivered according to our letter number (8100) on 6/6/2016.

Control Risks: It did not comply with preparing the financial statements on time and by the applicable regulations.

Reducing risks to achieve quality: Effective planning ensures that control is properly organized and managed to be implemented economically and effectively. The nature and extent of planning activities varies with the size of the unit. The SAI should allocate sufficiently skilled resources that are available when needed at the various stages of the audit. Where specialized techniques, methods, or skills are unavailable on the team or SAI, external experts may be called upon to provide knowledge or perform specific work. Where external expertise is required, the SAI will have different ways of assessing whether experts have the necessary independence, competence, capabilities, and objectivity.

Follow-up to the Bureau's Reports for the Previous Year

B- Our report No. (B/14/45/11/12824) on 10/6/2020 regarding the financial statements for the year 2014 has not been answered to date, contrary to Article (2-fourth) of the Federal Bureau of Financial Supervision Law No. (31) for the year 2011 (amended), which stipulates (that it is considered a financial violation for this law to refrain and delay in responding to reports or correspondences of the Bureau, its objections, and observations within the specified period).

The audited entity's response to We would like to inform you that the report above was not received from you, and if it is received, you will be answered.

Discovery risk: not answering reports.

Reducing Risks to Achieve Quality: The auditors should consider whether specific policies are related to the supreme audit institution, and the auditors should carry out control procedures to ensure that the control risk ratio is 5% or less to provide reasonable assurance from the audit. The elements of control risk are as follows:

The risk implicit in the subject matter of control; Control risk — the risk that relevant internal controls associated with inherent risks are inadequate or not working properly; Detection risk — the risk that the auditor's actions will lead to an incorrect conclusion or opinion.

C- The Directorate is still adding an amount of (1) dinars (JD) to the capital gains reserve account for each fixed asset whose book value amounted to (zero). It crossed it off and entered it in the waste and consumables store for inventory control instead of processing the write-off with the accumulated depreciation provision for the written-off asset, unlike for the treatments of the unified accounting system, it was previously mentioned in our report No. (12822) on 10/16/2020 on the financial statements of the Directorate for the year 2014/2014, and the Directorate answered our inquiry No. (44) on 3/5/2018 b (one dinar was added to control it When they are entered in the waste and consumables store after they are properly consumed, and the account is reduced when the consumable assets are sold).

We recommend performing the correct entry reconciliation to show the true accounts.

The audited entity's answer to B_ The write-off is processed with the accumulated depreciation provision for the asset written off according to the unified accounting system treatments. When it enters the waste and consumables store, (1) dinars are added from the store account to the capital gains reserve account for warehousing control.

Inherent risks: adding one dinar to the capital gains reserve account

Reducing risks to achieve quality: External experts can be used to provide knowledge or perform specific work when experience is needed. Externally, the SAI should have different ways of evaluating whether experts have the necessary independence, competence, capabilities, and objectivity. The SAI also determines whether its work is suitable for audit purposes. The SAI must allocate adequately skilled resources available as needed at the various stages of the audit in the absence of specialized techniques, methods, or skills in the team or the SAI.

Discussion

In light of the analyzed data, the auditor should understand the unit's internal control system and use procedures for assessing the risks of material misstatement at the assertion level. Since the level of unit control, including unit governance, human resource management policy covers all assertions, while control at the level of activities is generally related to special assertions. Both inherent risks and control risks are risks outside the control of the auditor, in contrast to discovery risks that the auditor can control through the selection of appropriate procedures, their proper application, and the proper interpretation of their results; As a result of what has been reached, the auditor should take note of and identify all aspects surrounding the unit, whether internal or external, in addition to determining the nature of its activity, in order to be able to identify weaknesses and expected material misstatements. Based on the previous conclusions, the researchers recommend the need for the auditor to assess the risks of material errors and to plan and design appropriate procedures that enable him to respond to these risks and reduce them to an acceptable level that enables him to express his opinion on the extent of fairness and credibility of the financial statements and the need to highlight the importance of using modern statistical methods in the auditing profession. This is done by holding conferences and seminars highlighting these methods' role in discovering errors and material misrepresentations during the audit process. If the hypothesis was accepted, “There is a significant effect of the extent to which the audit profession risk reduction can improve audit quality.

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