

Using Risk-Based Auditing Concept And Indicators Of Analytical Procedures In Assessing Risk Of The Material Misstatements

*Sohad Sabih Alsaffar, Middle Technical University,
Technical College of Management- Baghdad, Iraq.
sohadalsaffar72@mtu.edu.iq*

Abstract

The objective of the study is to estimate the risk of material misstatements and take it into account when planning the audit. The research hypothesis is: "Indicators of analytical procedures, primarily relative importance and growth, contribute to designing a method for estimating the risk of material misstatements, and this is reflected in the choice of methods for determining audit procedures." The practical aspect was prepared through an analytical study in an Iraqi tourism company, adopting a model prepared to use indicators to estimate the risk of material misstatements. The elements of the financial position statements and the income statement were selected in the field of application of the research. An exploratory study was also conducted on a number of auditors to determine the extent to which they adopted the concept of risk-based auditing and indicators of analytical procedures in their field work. The most important conclusions are that there is a need for the auditor to take into account the risks of fraud and material errors by applying a set of analytical indicators. Assessing the risks of misstatement helps determine a methodology for dealing with and reducing the risk by determining the nature, time and extent of audit procedures.

Keywords:

Risk-based auditing, material misstatements, analytical procedures, financial statements.

Introduction

The auditor seeks to carry out his duties by adopting local and international auditing standards, to obtain reasonable assurance that the elements of the financial statements are free of material misstatements (IFAC ISA200, 2009; AICPA, 2015), and in compliance with laws and instructions (Moroney et al., 2014).

Any violation of these standards entails accountability (Barron et al., 2001). However, achieving this assurance may be hampered by the difficulty of avoiding the effects of the risk of material misstatement (Bagshaw, 2013; IFAC ISA240, 2009). The auditor may also possess skills to detect misstatements (Smieliauskas et al., 2008), but choose to work concisely, ignore errors that, from his point of view, are materially insignificant, use techniques that lack the ability to detect misstatements (Zikmund, 2008), or fail to obtain evidence. Proof is sufficient (Hussin et al., 2017).

ISA330 (International Auditing Standard) emphasizes the need to assess the risk of material misstatements before giving reasonable assurances, which means communicating in the audit report the level of risk of possible misstatements in order to disclaim its responsibilities (Zukauskaitė, 2021). Accordingly, the problem can be formulated as follows: When the auditor relies on a traditional method when designing and implementing the audit plan, he may underestimate or ignore the risk of exposure to the financial statements. (Financial position and income statement) for material misstatement. As a result, the following two questions can be raised: Does adopting risk-based auditing help in estimating the risk of material

misstatements (fraud and error)? Does the use of analytical procedures affect the assessment of the risk of material misstatement?

The study seeks to achieve a set of objectives as follows:

1. Presenting the risk of material misstatements, determining its probability and impact on the financial statements, and the extent of the ability of analytical indicators to estimate the level of risk.
2. Proposing an approach to estimating the risk of misstatements that focuses primarily on using indicators of analytical procedures by adopting the concept of risk-based auditing.
3. Presenting the opinion of external auditors on the importance of risk-based auditing using indicators of analytical procedures to support the assessment of the risks of material misstatements.

The research is based on the hypothesis that: “Indicators of analytical procedures, primarily relative importance, and growth, contribute to designing a method for estimating the risk of material misstatements, and this is reflected in the choice of methods for determining audit procedures.”

Literature Review

Risk Of Material Misstatements:

The concept of risk is the cumulative effect of the possibility of an uncertain occurrence, which may reflect positively or negatively on achieving goals (FFIEC, 2014), and is measured through the impact and probability of its occurrence. As for the risk of material misstatements, it represents the risk that the financial statements of any unit include material misstatements as a result of committing

fraud and error (AICPA, 2014). Misstatement means modifying, changing, deleting, or incorrect classification of some financial transactions, or not following generally accepted accounting principles, as a result of ignorance or negligence (Ugochukwu & Okenwa, 2021; Hussain et al., 2019).

Misrepresentation can be divided into two types: fraud and error. Fraud represents intentional or reckless behavior that results in the preparation of misleading financial statements (Marshall, 2021; Spatacean, 2012), as well as intentionally deleting or amending accounting entries to cover a deficit, or conceal facts related to financial conditions (Bhavani, 2018; Kassem & Higson, 2012). Fraud is mainly aimed at : First, concealing the embezzlement or misuse of the assets of the economic unit. For example, proving fictitious payments to cover a deficit, such as adding fictitious names to a payroll, or forging fictitious payment documents.

Second, tampering with records to influence financial statements, most notably the financial position and business results of profit or loss (Nindito, 2018; Sarwoko & Agoes, 2014). Fraud is difficult to detect when management is in a position that allows it to bypass supervisory controls and conceal misrepresentations, to influence decisions. Users of financial statements (Donelson, 2017). As for errors, they occur in documents and books unintentionally and without prior planning as a result of ignorance, lack of experience of working individuals, failure to follow generally accepted accounting principles, or oversight and negligence of employees due to lack of appropriate supervision, or lack of control policies and procedures.

The auditor's failure to diagnose material misstatements is one of the matters that negatively affects the auditing profession (Ruhnke & Schmidt, 2014). The inability to assess the risk of misstatements has become a source of concern when cases of fraud or error are revealed after the audit (Reid et al., 2020), which weakens confidence in auditors, as they are expected to discover all misstatements while they rely on the sampling method when carrying out the audit. It can be said that there is a difference between what society and users of financial reports believe about auditors' responsibility, and what auditors believe about this responsibility (Arens et al., 2017). In this area, professional bodies emphasized auditors' interest in assessing the risk of material misstatements and obtaining evidence (Hussin et al., 2017; IFAC ISA 330, 2009)

Risk-Based Auditing Concept:

The concept of risk-based auditing was used in the second half of the 1990s (Eilifsen et al., 2001). It was associated with changes in the nature, time, and extent of planning procedures, risk assessment, and collecting substantive evidence. The concept focuses on the need for auditors to anticipate and estimate risk when implementing Their tasks, instead of simply studying control policies and designing audit procedures without taking into account the risk of undetected material misstatements affecting the validity of audit reports (Rittenberg, 2008, AICPA, 2015). International Auditing Standard 240 (IFAC ISA240, 2009) referred to the risk of Material misstatements associated with fraud.

International Auditing Standard 300 (ISA 300, 2009) (IFAC) indicates the necessity of assessing the risk of material misstatements at the beginning of audit

planning, and International Auditing Standard 315 (IFAC 315, 2019) indicates the importance of identifying the risk of misstatements at the financial statement level. As for International Auditing Standard 320, ISA 320 (2009) has indicated taking into account the relative importance and risk of material misstatements when determining the nature, time, and extent of audit procedures and stating that in the auditor's report, while International Auditing Standard 330 requires the implementation of additional procedures based on the estimated risk of misstatement (IFAC ISA 330, 2009).

The Concept Of Analytical Procedures:

Analytical procedures are one of the tools adopted when planning and designing audit programs (Imoniana et al., 2012), and they are also considered one of the effective techniques in reducing the volume of tests, which is reflected in reducing audit costs. In addition, it is considered a means of proof used by the auditor (Dolinska, 2019; Alani & Matarneh, 2013) to discover material distortions in the data through a set of indicators (Bhavani, 2018). It is also defined as the evaluation of financial information by studying expected relationships between financial and/or non-financial data (Awadallah & Said, 2018). In addition to its benefits for inquiring about the presence of fluctuations and relationships that are not consistent with the related financial information or deviate significantly from the expected amounts (IFAC, 2017). The importance of analytical procedure indicators emerged through the formation of mathematical and statistical equations that use data from previous time periods and relying on them to predict future balances, as they are characterized by objectivity when calculating the predicted values

(Montgomery, 2008). Another researcher believes that there are a number of benefits as a result of the auditor adopting analytical procedures, the most prominent of which is reducing the scope of the audit by focusing on high-risk accounts - for example, it indicates the presence of material misstatements of an account balance that constitutes an important part of financial reporting (Newman et al., 2021). Analytical procedures are carried out at several stages of the audit, including when developing the plan, assessing the risk of material misstatements, designing audit programs, and finally concluding the audit with the aim of evaluating the soundness of the auditor's conclusions. The most appropriate type is chosen depending on the nature of the confirmation that the auditor wishes to obtain, for example (Arens et al., 2017):

1. Compare unit data with data for a previous period, and investigate any amounts outside the specified percentages.
2. Comparing the unit's data with the data of a sector in which it operates, and using this information as an indicator to determine its financial status and performance from other economic units in the sector (Jakhyur, 2021).
3. Comparing the unit's data with specific and expected results within budgets that reflect expectations for an upcoming period of time. The comparison may indicate differences between budget results and actual results, which indicates the possibility of distortions.
4. Comparing the unit's data with the auditor's expectations using financial data. The auditor can compare the unit data with his expectations after performing calculations to arrive at expected values.

Procedures For Dealing With The Risk Of Estimated Material Misstatement:

The ISA330 standard clarifies the procedures for dealing with the estimated risk when adopting the concept of risk-based auditing, as these procedures are designed to link the nature, time, and extent of the audit procedures on the one hand, with the estimated risks on the other hand, as follows: (IFAC, 2017).

1. The nature of the procedures. It refers to the type of tests carried out by the auditor, either analytical procedures or detailed tests, or by combining the two together.
2. Procedure time. Audit procedures can be carried out during the fiscal year, or at the end of it. The risk of not detecting the misstatement increases if the procedures are implemented during the year due to the possibility of fraud and error occurring in the remaining period. The auditor may decide to implement these procedures close to or at the end of the year if he finds that the risk of misstatement is high because timing provides greater assurance in detecting misstatements.
3. Extent of procedures. The amount of audit procedures carried out, as the amount of tests can be expanded when there is suspicion of a high risk of misstatement. The extent of the procedures depends on the auditor's judgment after taking into account the materiality, and the degree of certainty he wishes to obtain, in addition to the estimated risk.

Methodology

The auditor carries out the procedures for developing audit programs, initially reporting the results through his report. To achieve all of this, there is a need to adopt indicators of analytical procedures as part of the auditor's analysis of the risk

that the financial reporting, specifically the financial position and income statements, contain material distortion, and it is estimated by linking the paragraph with the possibility of it being subject to distortion. It extracts the relative importance of the paragraphs to determine the probability of the risk occurring and to know the extent of the risk’s impact on the financial statements in the event that the paragraph contains a material misstatement and the estimated level of risk. As shown in Table 1, each paragraph of the table includes five choices, the auditor marks one of them to represent the probability of risk. The first of them takes an estimate of a risk that is certain to occur if it is chosen and its presence raises the probability of risk, while the second is an estimate of the risk that is most likely to occur if there is a possibility of causing harm in financial Statements, The third option is possible to occur when its presence makes the probability of danger somewhere between high and low, while the estimate corresponding to the fourth option is that the probability of danger is unlikely to occur when there is a possibility to prevent harm. The last option has a very low probability if it is chosen instead of any of the previous estimates and its presence makes the probability of risk low.

Table 1: Threat risk probability levels and their descriptions from the auditor’s point of view

Probability Level A Descriptive Statement Of Probability	A Descriptive Statement Of Probability
The Danger Is Certain To Happen	The Presence Of A Highly Material Misstatement That Has The Potential To Cause Damage To The Financial Statements.
It Probably Happens	The Presence Of A Material Misstatement Capable Of Causing Damage To The Financial Statements.
It Can Happen	The Presence Of A Potentially Occurring Material Misstatement Capable Of Causing Damage To The Financial Statements, With The Possibility Of Mitigating The Damage.
Danger Is A Remote Possibility	The Presence Of A Material Misstatement That Lacks A Motive But Has The

	Potential To Cause Harm To The Financial Statements, With The Potential To Prevent The Harm.
The Possibility Is Very Low	The Existence Of A Material Misstatement That Lacks The Motive Or Ability To Cause Harm To The Financial Statements, But The Harm Could Be Prevented.

Within the same context, Table 2 shows the impact of the threat at five levels, describing the impact of each level.

Table 2: Threat risk impact levels and descriptions from the auditor’s perspective

Impact Level	A Descriptive Statement Of Impact
Very High	Material Misrepresentation Causes Significant And Significant Damage To The Economic Unit.
High	Material Misstatement Causes Damage To The Economic Unit.
Middle	A Material Misstatement Could Disrupt The Operation Of The Economic Unit.
Secondary	A Material Misstatement Could Temporarily Halt The Operations Of An Economic Unit.
Low	A Material Misstatement Could Negatively Affect The Business Of The Economic Unit And Its Competitive Reputation.

The level of risk is estimated in light of the relationship of the probability of the risk occurring with the impact of the threat risk using a matrix as shown in Table 3. For example, when there is a possibility of a risk that could occur in light of a very high impact of the risk, the assessment of the level of risk is critical, and thus estimates are made for the rest of the cases.

Table 3: Matrix For Estimating The Level Of Risk Of Material Misstatements In Light Of The Relationship Between The Probability Of Threat Risk And The Impact Of The Risk

Potential Risk Of Threat	The Impact Of Risk On The Financial Statements				
Certain To Happen	Critical	Critical	High	High	Moderate
It Probably Happens	Critical	Critical	High	Moderate	Low
It Can Happen	High	High	Moderate	Moderate	Low
A Remote Possibility	High	Moderate	Moderate	Low	Low
The Possibility Is Very Low	Moderate	Low	Low	Low	Low

Source: Hopkin, Paul, (2017).

The research adopted a vertical financial analysis that compares the numbers of the financial position statement and the income statement for the same period, such as comparing each asset element to the total assets. The purpose of this analysis is to extract the relative importance of the financial statement paragraphs. Horizontal financial analysis indicators were also adopted, to know the trend of development of elements of financial statements. Through analysis, it is possible to follow the behavior of an element in the statement of financial position or income statement for several years.

Results

Analyzing And Estimating The Risks Of Material Misstatements Of The Mosul Games Parks Company For Tourism Investments:

The paragraph presents an analysis and assessment of the risk of misstatement in the company in question, by measuring the risk threats and distributing them into areas affecting the risks in relation to assets, liabilities, Right to property , revenues and expenses for the years 2017-2022.

Estimating The Risk Of Material Misstatements In Accounting Disclosures About Assets

Table 4 presents an estimate of the risk of misstatement through the probability of misstatement occurring in accounting disclosures about assets, as follows:

- Cash items were estimated at a critical level, considering the possibility of being exposed to fraud or theft at a high level, and constitute between 2.5%-6.21%. The set of analytical procedures that can be adopted are as follows: comparing the cash balance for the current year with corresponding balances from previous years,

comparing the bank's deposit statement with the records, comparing the analysis of the debtors' balance with the records, comparing the cash balances with seasonal fluctuations in light of the nature of the economic unit's work, and comparing the percentage of cash in hand. To the invested cash for the current year compared to the ratios of previous years, and comparing the quick liquidity ratio with its counterpart for previous years.

- The possibility of fixed assets being exposed to material misstatement was estimated within the level possible for it to occur due to the company's reliance on control policies and procedures that provide protection. However, the impact was estimated within the high level. The assets constitute between 83% and 86% of the total assets. This is reflected in the impact of the misstatements on users. For financial statements. Assessing the risk at a high level will create pressure on the auditor to examine the validity of the amounts disclosed, and to obtain corroborative evidence through detailed tests, while expanding the selection of the sample. For example, the nature of the tests carried out is comparing fixed assets, according to each type, with their counterparts in previous years, and comparing the fixed assets turnover rate for this year with their equivalents in previous years or with sector indicators to ensure that the cost of assets is not exaggerated and to identify any deviations and excesses in the amounts invested. There or the existence of fake accounts.

-The probability of debtors being subjected to misstatement was estimated at the level that could have occurred due to slow growth, as this percentage remained between 4.96% and 7%. The effect was at a moderate level due to the importance

of debtors in the statement of financial position. The level of risk assessment was at medium levels. There is a possibility of reducing the level of tests carried out, as well as restricting the size of the sample drawn. Tests will be carried out at the end of the year. For example, comparing the balances of customers with high values for this year with their corresponding balances in previous years, comparing the debtors' turnover rate for the year with the corresponding rates in previous years or data for the unit's business sector, and comparing the age of the balance of each debtors' account for the current year with what it is offset from balances in previous years and with the debtors' turnover rate to ensure that fictitious accounts are not included in the debtors' accounts, as well as not inflating or reducing doubtful debt accounts and bad debt expense. The absence of uncollectible accounts receivable was not taken into account when forming the allowance for doubtful debts.

-The level of possibility of the inventory being exposed to material misstatement was estimated at a level that is unlikely to occur due to the presence of evidentiary evidence that strengthens the company's control over the paragraphs within the policies and supervisory procedures. Also, the effect of the presence of misstatement was estimated at the medium level due to what the paragraph represents to the total assets of 2.8% to 4.8%. The auditor can carry out detailed tests within a restricted level, while reducing the size of the sample drawn between 1% to 2%. The tests can also be carried out at the end of the year.

-The estimate of the level of exposure of projects under implementation to material misstatement was within the level of a very low probability of occurrence due to

the small relative importance it constitutes when compared to the rest of the accounts, and the same applies to its impact on financial reporting within the low level. The auditor can restrict work to this paragraph and examine supporting documents.

Table 4: Estimating The Risks Of Material Misstatements In Accounting Disclosures About Assets (Amounts In Millions Of Dinars)

Disclosure Of Assets	2017	2018	2019	2020	2021	2022	Risk Probability	Risk Impact	Estimated Risk Level
Fixed Assets	1,344	2,001	2,660	2,819	2,836	2,725	It Can Happen	High	High
Percentage	%46	%61	%83	%86	%84	%87			
Projects Under Implementation	149	-	102	7	26	5	The Possibility Is Very Low	Low	Low
Percentage	%5	-	%3,21	%0.22	%0,77	%0.16			
Inventory	17	47	98	93	161	198	A Remote Possibility	Moderate	Moderate
Percentage	%0.58	%1.4	%3.1	%2.8	%4.8	%6.33			
Debtors	143	158	134	163	237	172	It Can Happen	Moderate	Moderate
Percentage	4.9	%4.8	%4.21	%4.96	%7	%5.5			
Money	1,250	1,048	198	208	85	34	Certain To Happen	High	High
Percentage	%43	%32,2	%6.21	%6	%2.5	%1			
Total Assets	2,903	3,254	3,192	3,290	3,345	3,134			

In view of the changes in the fixed assets account and its relative importance compared to the rest of the assets, the indicators of this paragraph will be analyzed by calculating the growth for the years 2017-2022 for some fixed assets paragraphs based on the following equation (the current year's amount is subtracted from the previous year's amount divided by the same paragraph for the previous year), as In Table 5.

Table 5: Growth In The Fixed Assets Account (Amounts In Millions Of Dinars)

Factor	2017	2018	2019	2020	2021	2022	Growth Rate 2017-2018	Growth Rate 2018-2019	Growth Rate 2019-2020	Growth Rate 2020-2021	Growth Rate 2021-2022
Buildings,	192	240	601	635	676	808	%25	%149.8	%5.65	%6.5	%19.5

Facilities And Roads											
Machines And Equipment	1,529	2,280	2,692	2,969	1,948	3,100	%49	%18.08	%10.28	%34-	%59
Means Of Transportation	17	54	55	55	68	90	%217	%3.04	0	%23	%32
Tools And Templates	5	8	10	12	7	25	%60	%16.45	%20	%41-	%257
Furniture And Equipment	16	42	97	116	107	173	%162	%129.5	%19.58	%7.7-	%16.5

Evaluating the risks of material misstatements in accounting disclosures about liabilities:

Table 6 presents an estimate of the risks of material misstatements of liability accounts and an estimate of the probability of the risk that it is possible to occur and its impact is at a high level. However, the estimated level of risk was high.

Table 7 presents Accounts Payable changes for the years 2017-2022.

Table 6: Evaluation Of The Risks Of Material Misstatements In Accounting Disclosures About Liabilities (Amounts In Millions Of Dinars)

Disclosure Of Liabilities	Liabilities 2017	Liabilities 2018	Liabilities 2019	Liabilities 2020	Liabilities 2021	Liabilities 2022	Risk Probability	Risk Impact	Estimated Risk Level
Creditors	823	728	1,212	1,271	1,209	1,038	It Can Happen	High	High
Total Liabilities	823	728	1,212	1,271	1,209	1,038			

Results showed that the growth rate of total creditors for the year 2020 was 4.8%. As for the year 2021, the total creditors reached (1,209) million dinars, with a negative growth rate (-4.9%). Growth in 2022 appeared negative (-14%). The auditor can adopt audit procedures such as comparing the creditors’ account balances for the current year with the corresponding balances for previous years,

comparing the ratio of purchases to creditors for the current year with its equivalent for previous years, and comparing the ratio of creditors to the current liabilities account for the current year with its equivalent. Balances for previous years, and comparing the overdue balances for the current year with the corresponding balances for previous years to ensure that they are free of any distortions or potential errors.

Table 7: Growth In The Accounts Payable (Amounts In Millions Of Dinars)

Factor	2017	2018	2019	2020	2021	2022	Growth Rate 2017-2018	Growth Rate 2018-2019	Growth Rate 2019-2020	Growth Rate 2020-2021	Growth Rate 2021-2022
Commercial suppliers	217	218	232	302	296	217	%0.46	%6.4	%27.4	%1.9-	- %26.69
Various accounts payable	272	136	124	159	150	168	%50-	%8.8-	%28.2	%5.7-	%12
Dividend creditors	551	374	848	808	584	652	%32-	%126	%4.7-	%27.7-	%11.64

Table 7 indicates that when calculating the growth rates for some components of creditors, it was found that the growth rate of commercial suppliers (27.4%) for the year 2020, and for the years 2021 and 2022, was negative (-1.9%), (-26.69%). As for the various accounts payable, the growth was (28.2%) for the year 2020. A significant change was noted in this account (-5.7%) for the year 2021, then it became positive in 2022 (12%). The growth of dividend creditors was negative for the years 2020 and 2021 (-4.7%), (-27.7%) and then positive in 2022 (11.4%). It can be said that there is a need to expand the sample size regarding the creditors’

account in its details and implement a set of detailed tests during the year, due to the changes it witnessed.

Estimating The Risk Of Material Misstatements In Equity Accounting Disclosures:

Table 8 presents an estimate of the risk of misstatements in equity disclosures. The probability of the risk was estimated at a very low probability level - likely to occur, and the impact of the risk was at a low - moderate level. The estimated risk level was between the levels (low) and (high). The auditor can restrict tests of equity accounts since they have not changed significantly, and the growth occurring in them is known and explained in the Board of Directors’ reports.

Table 8: Estimating the risks of material misstatements of accounting disclosures about shareholders’ equity (amounts in millions of dinars)

Shareholders' Equity	2017	2018	2019	2020	2021	2022	Risk Probability	Risk Impact	Estimated Risk Level
Capital	400	800	800	1,000	1,500	1,500	The possibility is very low	Secondary	Low
Percentage	19	31	%40	%49	%70	%71			
Reserves	1,682	1,726	1,182	1,021	639	598	It probably happens	Moderate	High
Percentage	%81	%69	%60	%51	%30	%29			
Total Shareholders' Equity	2082	2526	1,982	2,021	2,139	2,098			

Estimating The Risk Of Material Misstatements Of Accounting Disclosures In The Income Statement:

Evaluating the risks of material misstatements in accounting disclosures about revenues

Table 9 displays an estimate of the probability of the risk and its impact on the revenues of the company in question, the range of which ranges from likely to

occur to possible occurrence. The impact of the risk ranged between high and medium. The estimated risk level is between critical and medium. Given the relative importance of the current activity revenues paragraph between 91% and 95%, some paragraphs will be analyzed according to Table 10.

Table 9: Estimating the risks of material misstatements in accounting disclosures about revenues (amounts in millions of dinars)

Revenues	2017	2018	2019	2020	2021	2022	Risk Probability	Risk Impact	Estimated Risk Level
Revenues From Current Activity	273	2,479	1,999	1,028	2,085	2,262	It Probably Happens	High	Critical
Percentage	%99	%96	%95.5	%94	%91.9	%93			
Interest And Credit Rents	-	2	45	40	171	160	It Can Happen	Moderate	Moderate
Percentage	-	%0.08	%2.1	%3.5	%7,5	%7			
Other Revenues	1	100	71	29	15	-	It Can Happen	Moderate	High
Percentage	%1	%3.9	%3.4	%2.5	%0.6	-			
Total Revenue	274	2581	2,115	1,097	2,270	2,422			

Table 9 shows a decrease in total revenues in the year 2020 (1,097) million dinars when compared to the year 2019 (2,115) million dinars, to rise again in 2021 (2,270) million, and to continue to rise in the year 2022 to (2,422) million. It is possible to point out the necessity of analyzing the account and identifying the reasons for the decline and change between the years in question, and examining the expenses that are associated with these revenues, as their rise and fall should be directly proportional to the change in revenues.

Table 10: Calculating Growth In Current Activity Revenues (Amounts In Millions Of Dinars)

Revenue From Current Activity	2017	2018	2019	2020	2021	2022	Growth Rate 2017-2018	Growth Rate 2018-2019	Growth Rate 2019-2020	Growth Rate 2020-2021	Growth Rate 2021-2022
Games Revenue	197	1,640	1,218	633	1,343	1337	%732	%25-	%48-	%112	%0.45-
Entry To The Tourist Area	61	429	305	132	293	424	%603.	%29-	%57-	%122	%44
Tourism Services Revenues	14	30	24	25	42	47	%114	%20-	%4	%68	%12
Revenue From Entertainment Equipment	-	113	155	95	185	214	-	%37	%38-	%95	%15.7
Cinema Revenue	-	3	3	1	3	4	-	-	%66-	%200	%33
Miscellaneous Income	2	3	1	2	1	3	%50	%66-	%1	%50-	%200
Renting Tourist Buildings	-	259	287	131	208	199	-	%11	%54-	%59	%4.3-
Renting Recreational Machines And Equipment	-	-	3	5	3	6	-	-	%66	%40-	%100

Table 10 shows that there is a decrease in the total revenue of current activity during the years 2020 to increase in 2021. It was (2,115) million dinars in 2019, and in 2020 (1,097) million dinars achieved negative growth (-48%), rising in 2021 to (2,270) million dinars with a positive growth of 106.9%. There is a need to investigate the fluctuation and use a set of analytical procedures, for example, comparing the revenue account balances and their types for the current year with the corresponding balances for previous years, and comparing the percentage of gross profit for the current year with the equivalent for previous years. Comparing

the balances of gains and other revenues from contingent and incidental events for the current year with the corresponding balances for previous years to identify possible errors in them, and comparing the balance of revenues from previous years for the current year with the corresponding balances for previous years to identify possible errors in them. The calculation of the total revenues of current activity and agencies will be analyzed:

Games revenue: Compared to the year 2020, the percentage of change was (-48%), and (112%) for the year 2021. The reason for the negative change was a decrease in the amount of games revenue for the year 2019 from (1,218) million dinars, to (633) million dinars for the year 2020. In 2021, gaming revenues increased to (1,343) million dinars. It is noted that the decrease in growth requires the auditor to expand the size of the sample examined.

Entry revenues to the tourist area: Entry revenues decreased by a large percentage, as the rate of change for the year 2020 was (-57%), and for the year 2021 it was (122%), and this is due to the decrease in account revenues for the year 2020 to (132) million dinars, while it became (293 million dinars in the year 2021, to increase in 2022 and become (424) million dinars, which indicates the necessity of expanding detailed tests.

Tourism services revenue: The percentage change in tourism services revenue for the year 2020 was (4%), and (68%) for the year 2021. The reason for the change is due to the increase in the amount of equipment revenue from (25) million dinars for the year 2020 to (42) million dinars for the year 2021. This change is

considered significant, and it rose to (47) million dinars in 2022. Here, the auditor can implement restricted tests and be satisfied with analytical procedures.

Entertainment equipment revenue: The percentage change in entertainment equipment revenue for the year 2020 was (-38%), and (95%) for the year 2021. The reason for the change is due to the decrease in the amount of equipment revenue from (155) million dinars for the year 2019 to (95) million dinars for the year 2020. It increased again in 2021 to (185) million dinars, then it became (214) million dinars in 2022, with a change rate of (15.7%), which requires expanding the size of the examined sample for different periods of the year.

Cinema revenues: The percentage change in the account for the year 2020 is (-66%), due to the decrease in the amount of revenues from (3) million dinars for the year 2019 to (1) million dinars for the year 2020 by (-66%), and revenues increased again in 2021 by an amount of (3) One million dinars, with a growth rate of (200%). It will continue to rise to (4) million dinars in 2022, with a change rate of (33%). Due to the small relative importance of the amount, it is possible to limit the size of the tests examined and suffice with the indicators of the analytical procedures.

Miscellaneous revenues: Referring to Table (10), it is noted that the change in this account for the year 2020 is (1%), as it amounted to (1) million dinars for the year 2019 to (2) million dinars for the year 2020, and the percentage of change for the year 2021 is (-50%) due to the decrease in revenues. Diversified to (1) million dinars for the year 2021, then in 2022 it became (3) million dinars with a change

rate of (200%). Here there is no need to expand the size of the selected sample and suffice with documentary verification of a restricted sample.

Rent for tourist buildings: The percentage change in rent for tourist buildings for the year 2020 was (-54%) and for the year 2021 (59%), and the reason for the negative change is due to the decrease in building rent from (287) million dinars in the year 2019 to (131) million dinars in the year 2020. Then It rose again in 2021 to (208) million dinars. When asked about the reason for the decline, the answer was a small turnout of visitors to entertainment venues. There was a further decline in building rental revenue for the year 2022 to become (199) million dinars, with a change rate of (-4.3%). There is a need to review old and recent lease contracts and review the terms of renewal.

Renting recreational machines and equipment: The percentage change for the year 2020 is (66%) due to the increase in the rental amount from (3) million dinars to (5) million. The amounts decreased again to (3) million dinars, with a change rate of (-40%) in 2021, and then continued to increase in 2022 to an amount of (6) million dinars, with a change rate of (100%). The auditor may suffice with a restricted documentary audit of the sample being examined.

Evaluating the risks of material misstatements in accounting disclosures about expenses

Table 11 displays estimates of the probability of the risk between occurring most likely and likely to occur, and the probability is very weak, while the impact of the risk is between high, low, and minor. The estimated risk level ranged from high to low. Given the relative importance of calculating production costs, the level of

growth will be analyzed for some of the account items for the years under study, as in Table (12).

Table 11: Evaluation Of The Risks Of Material Misstatements In Accounting Disclosures About Expenses (Amounts In Millions Of Dinars)

Expenses	2017	2018	2019	2020	2021	2022	Risk Probability	Risk Impact	Estimated Risk Level
Cost Production	160	2,479	715	402	798	1,046	It Probably Happens	High	Critical
Percentage	%60	%73	%38	%37	%36.90	%45.80			
Cost Of Production Services	40	283	357	201	599	523	It Can Happen	High	High
Percentage	%15	%8.40	%19	%18	%27.70	%22.90			
Cost Of Marketing Services	40	213	178	100	199	104	The Possibility Is Very Low	Low	Low
Percentage	%15	%6.30	%9.60	%9.40	%9	%4.60			
The Cost Of Administrative And Financial Services	26	219	543	308	406	430	It Can Happen	Moderate	Moderate
Percentage	%9.70	%6.50	%29	%29	%18.80	%18.80			
Transfer Expenses	1	40	54	33	36	39	Danger Is A Remote Possibility	Secondary	Low
Percentage	%0.37	%1.20	%2.90	%3.10	%1.60	%1.70			
Other Expenses	1	125	14	26	119	143	It Can Happen	Low	Low
Percentage	%0.37	%3.70	%0.80	%2.40	%5.50	%6.20			
268	3,361	1,861	1,070	2157	2,285	—————			

The auditor can use some indicators of analytical procedures, for example, comparing the number of employees according to the payrolls with their numbers according to the records of individuals and reviewing the contracts, comparing the balances of salaries and wages for the current year with the corresponding balances for previous years, and comparing the depreciation rates of fixed assets for the

current year with the percentages The same balances for previous years, comparing the balances of fixed assets maintenance expenses for the year with the corresponding balances for previous years, and comparing the bad debt expense ratios for the year with the corresponding ratios for previous years. The purpose of these comparisons is to provide indicators to ensure that there are no fictitious names or expired contracts and to identify possible errors in these calculations.

Table 12: Changes In The Production Cost Calculation (Amounts In Millions Of Dinars)

Revenue From Current Activity	2017	2018	2019	2020	2021	2022	Growth Rate 2017-2018	Growth Rate 2018-2019	Growth Rate 2019-2020	Growth Rate 2020-2021	Growth Rate 2021-2022
Staff Cost	66	333	296	157	287	348	%404	%11-	%47-	%82.8	%21
Commodity Supplies	12	71	65	55	107	199	%491	%8.45-	%15-	%94.5	%86
Service Supplies	47	191	243	119	271	362	%75	%27	%51-	%127.7	%33.5
Extinctions	34	104	103	71	131	135	%206	%0.96-	%31-	%84.5	%3

Table 12 indicates the following:

Firstly. The total production costs for the year 2019 amounted to (715) million dinars, while it decreased to (402) million dinars in the year 2020, and rose to (798) million dinars in the year 2021, and continued to rise (1,046) million dinars in the year 2022. Each paragraph of the account will be analyzed. :

Staff cost: Decrease in staff cost expenses, and the changes showed negative for the year 2020 (-47%) due to the decrease in spending, while there was growth in 2021 (82.8%), and the amount returned to decline in 2022 to (21%). There is a

need to implement an expanded set of tests aimed at ensuring the number of workers and the absence of fictitious names.

Commodity requirements: The changes for the year 2020 were (-15%) due to a decrease in the amount from (65) million dinars in the year 2019 to (55) million dinars in the year 2020, while the growth for the year 2021 (94.5%) was a result of the increase in supplies to (107) million dinars, and it rose The amount allocated for the year 2022 reached (199) million dinars, with a change rate of (86%). This requires the implementation of a restricted documentary test set.

Service supplies: The change for the year 2020 is equal to (-51%) due to its decrease from (243) million dinars in the year 2019 to (119) million dinars in the year 2020. As for the year 2021, an increase in expenses is noted with a positive growth (127.7%). There was an increase in the amount of service supplies. In the amount of (362) million dinars, with a change rate of 33.5%. A set of documentary and mathematical tests can be conducted on a wide sample of transactions.

Expirations: It is noted from Table 12 that the expirations decreased, and the changes were negative, as the percentage of change for the year 2020 was (-31%), while the percentage for the year 2021 was (84.5%), and the percentage decreased further for the year 2022 to 3%.

Analyze The Results Of The Survey:

This section provides a review of the study sample and an analysis and discussion of the questionnaire's axes using statistical analysis methods represented by calculating the arithmetic means, standard deviation, and percentages of frequency

of answering the questionnaire's questions in order to identify and analyze the choice categories around which the targeted sample's answers are concentrated. The goal of the questionnaire is to identify the adoption of the concept of risk-based auditing when examining financial reports through the use of analytical procedures.

The study sample consisted of two categories: the first was certified public accountants working in the Federal Financial Supervision Bureau, and the second was auditors who owned audit offices within the private sector. The Certified Auditors Bulletin for the year 2023, issued by the Iraqi Accountants and Auditors Syndicate, was approved as shown in Table 13.

Table 13: Questionnaire Forms Distributed, Received, And Subject To Analysis

Place Of Work	No.	%
Sample of the Federal Office of Financial Supervision	74	%66
Sample of auditors' offices	38	%34
Total	112	%100

Analyzing The Results Of Adopting The Concept Of Risk-Based Auditing:

Table 14 shows the values of the arithmetic mean, the standard deviation, and the percentages of frequencies of agreement (or disagreement) of the sample with the contents of the statements contained in the axis of auditors' adoption of the concept of risk-based auditing, as well as the final descriptive interpretation of acceptance or rejection of the content of the statements contained in the questionnaire. By analyzing the sample's answers, it can be said that there is a lack of agreement

about adopting the concept of risk-based auditing, as part of the sample works in the public auditing sector, and there are controls that govern their work. Therefore, there is a very weak possibility of the work being exposed to failure when they are assigned the tasks of examining any economic unit. The focus of audit failure is on professional aspects and discovering fraud and errors in account balances and transactions. This risk can be avoided by expanding the sample examination and evaluating the unit's internal control. When the work is carried out by auditors, they carry it out according to their opinion at the required professional level, whether the concept of risk-based auditing is adopted or not.

Table 14: Auditors' Adoption Of The Concept Of Risk-Based Auditing

Item	M	.S.D	%	Decision
1	4.52	0.6	90	Agree
2	3.98	0.83	79	Agree
3	4.04	0.61	80	Agree
4	4.27	0.59	85	Agree
5	3.26	0.96	74	Agree
6	3.48	0.79	83	Agree
7	3.22	0.8	87	Agree
8	3.57	1.24	83	Agree

Analyzing The Results Of The Role Of Analytical Procedures In Improving The Adoption Of The Concept Of Risk-Based Auditing:

By analyzing the answers to Table 15, the role of analytical procedures in improving the adoption of the concept of risk-based auditing, it can be said that there is a lack of agreement regarding accepting a contract for the audit process because a portion of the sample works commissioned by the Federal Oversight

Office, which submits its reports to the legislative authorities, and there is no room for acceptance or rejection. Also, another part of auditors in the private sector does not believe much in the existence of a role for analytical procedures in preventing contracts. There is weak agreement on examining the continuity of the units under audit. This can be justified by the lack of a local standard requiring auditors to examine the continuity of the units under audit and provide the unit management with an acknowledgment of this.

Table 15: The role of analytical procedures in improving the auditor’s adoption of the concept of risk-based auditing

Item	M	S.D	%	Decision
1	2.93	0.73	67	Disagree
2	3.31	0.62	90	Complete Disagree
3	4.13	0.55	96	Agree
4	3.48	0.77	89	Agree
5	4.38	0.56	95	Agree
6	3.92	0.67	78	Agree
	3.44	0.75	86	Agree

- Analyze the results of assessing the risks of material misstatement

The ranges of the arithmetic means for the questions in this axis, as shown in Table 16, ranged between 3.22 and 4.52, which is higher than the acceptance index of 3 in the measurement tool, whose grade ranges from 1 to 5. The ranges of the standard deviation ranged from 0.59 to 1.24. Which indicates that the sample members agreed on the questions included in the axis. The sample agreed to estimate items of a monetary nature at a high level of risk, considering the possibility of them being exposed to fraud or theft at a high level. It agreed to some

extent with both estimating the level of probability that an account will be exposed to material misstatement within a level that is unlikely to occur due to the presence of evidentiary evidence that enhances the unit’s control over policies and supervisory procedures, and estimating the probability that an account balance or a transaction will be exposed to material distortion within the high level in the event of rapid growth, within an estimation level. High risk and expanding testing.

Table 16: Estimation Of Risks Of Material Misstatement

Item	M	.S.D	%	Decision
1	4.52	0.6	90	Agree
2	3.98	0.83	79	Agree
3	4.04	0.61	80	Agree
4	4.27	0.59	85	Agree
5	3.26	0.96	74	Agree
6	3.48	0.79	83	Agree
7	3.22	0.8	87	Agree
8	3.57	1.24	83	Agree

Analyzing The Results Of Using Analytical Procedures To Estimate The Risks Of Material Misstatements:

The ranges of the arithmetic means for the axis questions, as shown in Table 17, ranged between 2.24-4.38, while the ranges of the standard deviation ranged from 0.56-0.89. Which indicates that the sample members agreed on the questions included in the axis. There was no interest among auditors in adopting analytical procedures when estimating the risks of material misstatements associated with account balances and transactions, due to the lack of interest in estimating the risks of material misstatements or adopting the concept of risk-based auditing. There is also weak agreement about the auditors in the research sample using indicators of analytical procedures when understanding the unit and its environment. .

Table 17: Using Analytical Procedures To Estimate The Risks Of Material Misstatements

Item	M	.S.D	%	Decision
1	3.17	0.89	70	Agree
2	2.24	0.67	67	Disagree
3	3.51	0.73	90	Agree
4	3.93	0.63	93	Agree
5	4.38	0.56	95	Agree
6	3.31	0.62	90	Agree

Conclusions And Recommendations

Conclusions:

1. The field analysis to evaluate the risks of misstatements in the Mosul Company for Amusement Parks and Tourist Investments showed an estimated level of risk in the accounting disclosures as follows:

- Estimating items of a monetary nature at a critical level, considering the possibility of them being exposed to fraud or theft at a high level, there is a need to expand the sample size and implement more fundamental tests.
- Estimating the risks of fixed assets being exposed to material distortion within the high level, which means there is a need to ensure that the costs of assets are not exaggerated and to identify any deviations and excesses in the amounts invested in those assets or the existence of fictitious accounts.
- The level of risk of material misstatements of liabilities was estimated at a high level, which justifies the need to analyze the sub-accounts, carry out further substantive tests and obtain appropriate confirmations.

- The risks of misstatements in shareholders' equity disclosures were estimated at (low) and (high) levels. The auditor can restrict the tests in equity accounts because the growth occurring in them is known and explained in the Board of Directors' reports.
 - The estimated risk level of accounting disclosures for revenues and expenses was between critical and low.
2. The auditor's understanding of the risk of material misstatements through indicators of analytical procedures helps in determining an approach to deal with and reduce the risk through designing audit programs that are consistent with the level of the estimated risk, as well as determining the nature, time, and extent of the audit procedures.
 3. The sample did not agree on adopting the concept of risk-based auditing, since part of the sample works in the public auditing sector and there are controls that govern their work. Therefore, the probability of the work being exposed to failure is very low when they are assigned the tasks of auditing any economic unit.
 4. The sample did not agree on accepting the contract for the audit process because part of the sample works commissioned by the Federal Oversight Office, which submits its reports to the legislative authorities, and there is no room for acceptance or rejection. Also, another part of the auditors in the private sector does not see a role for analytical procedures in Preventing contracts.
 5. Weak interest by auditors in adopting analytical procedures when estimating the risks of material misstatements associated with account balances and transactions, due to a lack of interest in adopting the concept of risk-based auditing.

Recommendations

1. It is necessary to take into account the risks of misstatements to protect the auditor himself from possible accusations of negligence.
2. The necessity of developing an estimate of the risks of misstatements using the approach that the research applied to accounting disclosures of assets, liabilities, and shareholders' equity. In addition to accounting disclosures for revenues and expenses, with the possibility of generalizing them to audit activities carried out in any economic unit.
3. The auditor must develop the concept of risk-based auditing and adopt indicators of analytical procedures as an important tool in auditing for its role in shortening audit time and reducing cost.

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