PalArch's Journal of Archaeology of Egypt / Egyptology

THE EFFECT OF FAIR VALUE ESTIMATES ON THE AUDITOR'S REPORT UNDER CONDITIONS OF UNCERTAINTY

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Ali Fadhil Dakheel, Adnan Kadhummatrood, Ahmed Hamzah Abbas ,The effect of fair value estimates on the auditor's report under conditions of uncertainty-Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(1), ISSN 1567-214x

Abstract

This study aims to demonstrate the impact of fair value estimates under conditions of uncertainty on the auditor's report. The problem is that the adoption of the fair value principle and the emergence of many international accounting standards increased the volume of clarifications and disclosures in the financial reports and statements and increased the auditor's burden in investigating what they contain. These lists are based on data before expressing a neutral technical opinion regarding them, especially since most of these clarifications were requirements for many international accounting standards, and despite these increases and complications, the auditor's assurances were not at the required level, especially in light of the conditions of uncertainty. The researchers used a questionnaire that was distributed on Auditors in the Office of Financial Supervision and private audit offices in Iraq, and after analyzing the results of the questionnaire, the researcher came to a set of conclusions and recommendations.

Keywords: fair value,auditor

Introduction

With the beginning of the nineties, many financial accounting standards appeared, which began to request an increase in the size of the explanations complementing the financial statements, which reached in some companies (General Motors Company) to 18 pages. The fair value of many accounting values increased the size of the notes and notes, and in 2008,2009 in some public companies it reached 108 pages, and in other companies it rose to 156 pages (Al-Baroudi, 2013) There is no doubt that the increase in the volume of disclosures places more burden on the auditors in the investigation What it contains of data before expressing a neutral technical opinion regarding it, especially since most of these clarifications were requirements for many international accounting standards, and despite these changes and the increase in the degree of complexity, especially in light of the conditions of uncertainty of the accounting estimates, the level of the auditor’s report and the nature of his assertions were not at the required level Although these estimates have become more common nowadays (Jagdish S. et al., 2002, P.331), the analysis of this study is not intended to explain limitations. The auditor, rather, it goes beyond that by finding adequate methods that develop the functions of the auditor and make him work in the best way expected of him in light of the current circumstances of the standards for preparing the report and auditing standards.

Literature review

Despite the spread of the phenomenon of the use of fair value estimates in accounting not so long ago in the world, the researcher found a dearth in previous studies at all Arab, local, regional, international and global levels, whether from the perspective of accounting, which may have received few studies or from the angle of auditing Perhaps due to the delay in the issuance of a standard for auditing measurement and disclosure of fair value, or because it is believed that it represents an accounting estimate and therefore international auditing standard No. 540 is applied to it, tagged: auditing accounting estimates,“Auditing is mainly the examination of financial information or data by an independent and impartial person for any institution, regardless of its purpose, size and legal form.” (Al-Tamimi, 2014: 20) The American Accounting Association defined auditing as “a systematic process of obtaining clues related to the elements of evidence. Based on economic events and evaluating them objectively, then communicating the results of that to the concerned parties.

Burpaud, C. Simon defined it as monitoring control systems as it checks the effectiveness and efficiency of this system, as well as verifies the correctness and conformity of the information provided. ”We can summarize from these definitions that the audit includes the process of examination, investigation and report on the information Introduction and visualization of business results (Al-Tohamy, 2003: 3). Although the main purpose of external auditing is to express a neutral and independent technical opinion on the fairness and clarity of the financial statements prepared in accordance with the approved and audited accounting rules and principles in accordance with the approved auditing standards, the auditor has a role. Fundamentally, it focuses on providing confidence in the audited financial statements and the possibility of their adoption in making economic decisions by the parties that use these statements and reducing the uncertainty about future economic events (Al-Baz, 2017: 56)However, there is no audit process that can give complete and certain assurances that the financial statements are free of errors, because errors may occur as a result of the application of the financial operations of the economic unit or improper performance by the financial department of that unit and other errors of accounting treatments, the report of the external auditor does not give any guarantees That the financial statements are completely accurate, but that it gives reasonable assurances that the financial statements are free from material errors and based on the definitions provided and the importance of external audit clearly shows the development of the objectives of the latter as a result of the development that the economic units have known on the one hand and as a result of the multiplicity of parties using accounting information on the other hand (Abd al-Hadi: 2014: 87)

Reasonable assurance is given to the auditors

The term reasonable assurance aims to inform the users of the financial statements that the auditors neither guarantee nor assert the fair presentation of the financial statements, but rather indicates that there are certain risks indicating that the financial statements will not be presented fairly and honestly even when the auditor's opinion on the financial statements is not conservative, if the auditors do not provide absolute assurance That the financial statements were prepared fairly, but provide reasonable assurance, and the Financial Supervision Board of Public Companies clarified in 2004 that the technical definition of the meaning of reasonable assurance means high assurance (PCAOB, April, 2010)

The Internal Audit Board and the Assurance Standards Board (LAASB) followed the same concept as the Financial Supervision Board and defined reasonable assurance as follows (Lotfi: 2014: 85)

"As a basis for the auditor's opinion, the generally accepted auditing standards (GAAS) require the auditor to obtain reasonable assurance as to whether the financial statements as a whole are free from any material misstatements due to fraud or error. The reasonable assurance is of a high degree and not an absolute level. This is obtained when the auditor obtains Sufficient and appropriate evidence to reduce the risk of audit This risk expressed by the auditor as an inappropriate opinion when the financial statements are materially misstated to the lowest acceptable level of risk (PCAOB, As NO, 11,2010) that the reference of a high assurance board when conducting integrated audits of companies The public has pushed large auditing firms to review and study this term - despite their knowledge that it is subject to the supervision of the Financial Supervision Board, and the audit offices saw through their study that this high assertion is consistent with degrees of confidence determined by the auditor falling between 90% to 95%, which he applies through the use of procedures A specific review and classification of operations so that these procedures and classifications reveal material misstatements in the values contained in the financial statements or any fundamental weakness in control (Brant, EC, et al, 2011) and therefore we find that professional organizations and offices of the Large auditing and financial control bodies agree that the term reasonable assurance means high assurance, and it applies the term high assurance at a confidence level of 90% to 95%.

Disclosure of fair value estimates:

In terms of concept, the IASB defines fair value (IFRSs, 2006) as: (It is the amount for which an asset could be exchanged or a liability settled between informed parties willing to deal on a purely commercial basis, in a balanced framework, or under normal conditions, or between two independent parties . While the FASB (FASB Statement No.141) defines it as: It is the amount with which it is possible to buy an asset or sell or bear a commitment or a payment in a current deal between willing parties, other than forcible sale or liquidation.

From a practical point of view, we find that the basic form and content of the income statement and the balance sheet have changed in recent decades because of the estimates - especially fair value estimates - in the core of the financial statements, and this has led to an increase in the volume of disclosures in the notes complementing the financial statements, and this leads to more burden on the auditors. Accounts to verify the estimates made in these notes and their inputs and any changes that occur in them before expressing an opinion regarding the original statements (Jill Hoaks& Chris J.van, 2011, P.201) and some believe that the increase in the length of the explanations complementing the financial statements is due to the fact that the reports and lists are issued. The financial statements are designed to maintain a specific position in the core of the financial statements - such as adhering to historical cost accounting - despite the increased level of complexity and uncertainty associated with many of the values included in the core of the financial statements and reports and despite the increase in the volume of accounting estimates of fair values required by international accounting standards, as some have an estimate in Uncertainty remained little or no, and some had extreme appreciation in light of uncertainty (CLor - Proell, SM, 2010).

(Brant EC, et al, 2011) indicates that the disclosure of fair value estimates under conditions of uncertainty in the notes and notes attached to the financial statements in accordance with international accounting standards and fair value standards leads to more complexity and uncertainty for users of these lists, especially that fair value estimates are adopted On the basis of models used by management and based on assumptions and inputs that may change from one financial period to another, and therefore disclosure of them in the notes or explanations is not considered to be a documentation of the information contained in the issuance of the financial statements from the viewpoint of many users of the financial statements (Libbly, RMet al, 2006) is added to the above. The information related to the required disclosures is still brief and is limited to meeting the purpose of communicating uncertainty to users and that users of financial statements acknowledge that what is required of much more information than is disclosed (Ahmed, et al, 2006).

-Estimates of fair value under conditions of uncertainty and auditors ’reports:

The auditing standards require auditors to determine whether the entity’s financial statements contain the estimate that raises significant risks, as stated in the Accountants Union’s clarification No. 540, clause 11, regarding directing auditors towards auditing. Fair value calculations (IFAC, 2008, ISA NO, 540)

Although the estimates included in auditing standard 540, which included some estimates, for example and not limitation, international accounting standards refer to fair value estimates, and the difficulty of these estimates is that there are no accurate practical means to measure them, but rather mathematical models are used in the measurement based on the model input Any change in these inputs changes to a greater degree than the resulting estimates, especially since these estimates are accompanied by a great uncertainty about the future. (Lutfi 2004, 34(

These estimates are usually accompanied by degrees of uncertainty that lead to higher potential risks, which affects the accuracy of the financial statements contained in the reports and financial statements, and the possibility of material risks in them increases, and this leads the management to put controls in place to monitor these estimates with the need to approve proposals related to these estimates through a specialized committee of the Board Management and the possibility of seeking independent specialists for advice on these estimates (GIover, SMet al, 2009, P221). Auditing Standard No. 540 indicated the need for management to periodically reconsider its estimates and the models used in them because accounting estimates in light of uncertainty may lead to estimates. Extreme, leading to great risk (IFAC, 2008, ISA, NO.540)

The auditing standards require the auditor to make an evaluation of management's estimates in addition to the audit procedures used in the audit of estimates.One of the most important additional evaluations relates to the reasonableness of the assumptions, especially if it is in the auditor’s judgment that management has not determined the sufficient effects of the accounting estimates in the event of uncertainty, which leads to significant risks. The auditor should consider this necessary to develop the scope in which he assesses the reasonableness of the accounting estimate).(IFAC, 2008, ISA, NO.320)

The auditor should develop the reasonableness - the reasonableness of the estimates and the assumptions used - and that the useful and effective range is that commensurate with the relative importance of the audit.(AICPA, 2009, AU, S.312) If it is somewhat narrow, the auditor should It concludes whether the accounting estimates were placed in a wrong material manner or not, and that the criterion for the reasonableness of the estimates of fair value must be measured in light of this. The previous parts of the research have shown that small changes in the inputs to the fair value estimation models may in turn lead to a significant change in the estimates. The financial statements and net income outweigh the materiality as a whole several times. (Lutfi 2014, 34)

The auditing standards (AICPA, 2010, AU, S.450) have made it clear that it is not always possible to apply the scope of materiality, which does not necessarily preclude the recognition of accounting estimates, and that these estimates under the circumstances of uncertainty lead to significant risks, which made some indicate To the fact that these assertions are closer to presenting negative assurances to accounts under the maximum degree of uncertainty (Griffith, et al, 2011, P.9) and users of financial statements consider that negative assertions are insufficient and that accounting estimates of fair value under conditions of uncertainty require The auditor accepted an additional review and set a range for this estimate under conditions of uncertainty. The auditor requires a high degree of assurance, and that changes in the inputs of the estimation models must be within a reasonable range, and therefore any fair value estimates can be taken into account and a specific consideration for all material aspects clearly.

Development of auditors' assurances towards fair value estimates:

In the previous parts of the study, it was noted that there are increases in the length and complexity of what was mentioned regarding fair value estimates in accounting standards on the one hand, and in the disclosures about them in financial reports and statements on the other hand, and that the modifications in the auditors ’reports and their assertions did not keep pace with these increases and complications, and a question comes to mind about Whether the auditor's report can witness amendments (revisions).

The form and content of the auditor's report remained the same form and content from 1948 until 1988 with no substantial changes since the expectations gap standards were implemented and applied in the late 1980s (Boyal, et, al, 2000, P.58) despite the fact that auditing standards Other forms of reports were presented on auditing reports and financial statements such as reports with the opposite opinion or opinion with reservations, but these forms of opinion were not accepted by the Securities Exchange (SEC) and did not include the complications and recent changes in fair value estimates (Martin, RD, et , al, 2006, P, 285). (Church, et, al, 2008, P, 84) believes that the auditor’s report on the financial statements in its current form for all public companies is similar and provides relatively little information that does not reassure the users of the financial statements. Assurances regarding fair value estimates. The Advisory Committee for the Auditing Profession (PCAP), which was held by the United States Treasury in 2008, recommended that the PCAOB should adopt a draft amendment to the auditor's report standard form due to the increasing complexities, estimates and judgments that included measurements. The fair value and the committee clarified that the current wording of the auditor's report and the assurances presented do not adequately reflect the amount of work that the auditor exerts and its provisions and is not commensurate with the current developments (US Treasury, 2008). The PCAOB in 2011 responded to these recommendations and adopted amendments On the auditor's report, these amendments included the following (Griffith, EE, 2011, P.12):

1-A supplementary narrative must be added to the short (narrow) report, which is determined from the important findings that the auditor reached during the audit process. This narration includes management judgments and estimates regarding fair value.

2-Extending the scope of benefit from the assertions paragraph so that it is not limited to negative assurance, but may include additional confirmation regarding fair value estimates or a high degree of assurance

3-The auditor's assertions must include information outside the financial statements

4-Clarifying the language in the report so that it includes some concepts such as the reasonable assertion of responsibility for mistakes. It is noted that these amendments focused on two very important points, namely:

5-A supplementary narration of the auditor's report determined by the results of other findings. There was a distortion in the estimates or there was no distortion in the estimates. This supplementary narration necessarily calls for expanding the scope of assurances so that it is not limited to negative assertion, but may exceed it to additional assertions or a high degree of assertions And it opens the door towards positive confirmation.

These assumed adjustments in the form of the report and in the level of assurances (which can be implemented all or some of them) are consistent with the need to update the auditor’s report. Nevertheless, some still see them as insufficient to address the problems of fair value estimates under conditions of uncertainty (Bell, TB, & Griffin). , TG, 2011(

In addition to the initiative presented by the Public Company Financial Supervision Board (BCAOBs), both the Internal Audit and Assurance Standards Board (LAASB) and the American Auditing Standards Board (ASB) currently have projects on their agendas that consider the form and content of the auditor's report and the level of assertions it provides. Jill Hoaks& Chris, J.ven, 2011, p.207) This study is based to test the validity or invalidity of the following hypotheses:

The first hypothesis (Ho1): The disclosure and report of fair value estimates in the financial statements do not burden the auditors.

Hypothesis 2 (Ho4): The auditing standards and the auditors 'reports have no response to fair value estimates.

Research Methods

To achieve this goal, the researcher prepared a questionnaire list that included (41) items within the five-point Likert scale, and statistical methods were used - arithmetic mean, standard deviation, percentage, and One sample-test through the SPSS program to test the study hypotheses. For the purpose of the research, a sample of account auditors amounted to (24) workers in the Office of Financial Supervision and a sample of (16) of account auditors working in private auditing offices, and thus the research sample was (40) individuals. After collecting the questionnaires, they were unpacked and the following analyzes were conducted to come up with the results of the study:

Results and Discussion

The research hypotheses were tested using the Deseriptive Analysis method and the statistical methods represented by the arithmetic mean, standard deviation and percentage. The one sample-T-Test was also used at the level of 5% significance and according to the decision rule that includes accepting the hypothesis if the calculated T is less than the tabular T. To the following- :
The first hypothesis: The disclosure and report of fair value estimates in the financial statements do not burden the auditors.

Table No.(1): Disclosure and reporting of fair value estimates

T	Phrase	SMA	standard deviation	%
1	Reconsidering the disclosure of fair value estimates in the financial statements	4.3	0.57	87
2	Disclosure of fair value estimates on the body of the financial statements only	4.6	0.56	93
3	Disclosure of fair value estimates in additional financial statements	4.4	0.78	88
4	Fair value estimates are disclosed in the body of the statements and in the notes to the statements	4.1	0.96	83
5	The entries to the fair value estimation models are disclosed in the notes to the financial statements	4.5	0.56	90
6	Is the disclosure of fair value estimates in the current ?financial statements adequate	4.3	0.73	86
7	Failure to disclose fair value estimates or inadequate disclosure of them raises concerns for users of the financial statement	4.4	0.703	88
8	The insufficient disclosure of fair value estimates in the financial statements places more burden on the auditor	4.4	0.66	88

From Table No. (1) for the disclosure and the report on fair value estimates, we note that the highest arithmetic mean (4.6) with a standard deviation of 0.56 and a percentage of 93% obtained by Paragraph (2) represented by the disclosure of fair value estimates in the core of the financial statements only and it was (4.8). Phrase (4) obtained the lowest arithmetic mean of 4.1 with a standard deviation of 0.96 and a percentage of 83%. It included that fair value estimates are disclosed in the core of the statements and in the notes supplementing the statements.

.Table No (2)

T Calculated	T Tabular	T Moral	the decision	Arithmetic mean
14.07	**1.96**	**0.00**	**Refusal**	**4.411**

From Table No. (2) we note that the calculated T is greater than the tabular T, which means rejecting the null hypothesis and accepting the alternative hypothesis (the disclosure and reporting of fair value estimates in the financial statements imposes burdens on the auditors

The second hypothesis (Ho2): The auditing standards and the auditors ’reports have no response to fair value estimates.

Table No. (3) The extent to which auditing standards and reports respond to fair value estimates

T	Phrase	SMA	standard deviation	%
1	The current auditing standards have not responded to the changes that have occurred in international accounting standards regarding fair value estimates	3.6	0.82	74
2	The necessity of reviewing the auditor's a to add report regarding fair value estimates paragraph of its own	4.4	0.66	89
3	The necessity of reconsidering the auditing standards for fair value estimates in light of conditions of uncertainty	4.2	0.87	85
4	assertion The necessity to provide levels of value in auditing standards under of conditions of uncertainty	3.9	0.88	79
5	The auditing standards allow the auditor to express an opinion regarding fair value estimates in all cases	3.9	0.83	78
6	The current audit reports regarding fair value estimates are currently inadequate	4.2	0.78	85
7	The auditing standards allow the auditor to express his opinion in the event of material misstatements affecting the financial statements	4.0	0.80	80
8	The need to develop current audit reports regarding fair value estimates	4.6	0.62	92

From Table No. (3) regarding the extent to which auditing standards and reports respond to fair value estimates, we note that the highest mean (4.6), standard deviation of 0.62 and a percentage of 92%, obtained by Paragraph (8), which is the need to develop current audit reports regarding fair value estimates while paragraph (1) At least an arithmetic mean of 3.6, a standard deviation of 0.82 and a percentage of 74%, and it included that the current auditing standards did not respond to the changes that occurred in international accounting standards regarding fair value estimates.

(Hypothesis testing second Table No) .(4)

T Calculated	**T Tabular**	**T Moral**	**the decision**	**Arithmetic mean**
14.07	**1.96**	**0.00**	**Refusal**	**4.411**

From Table No. (4) we note that the calculated T is greater than the tabular T, which means rejection of the null hypothesis and acceptance of the alternative hypothesis (that the auditing standards and auditors ’reports respond to fair value estimates(

Conclusions:

The external audit of the financial statements is a necessary and required goal in order to ensure that these statements include sufficient and appropriate information that prevents misleading of its users from among the groups of society. Listings and reduce uncertainty about future economic events.

And that the rapid developments in fair value estimates and their intensity had a clear reflection in the reports and financial statements of companies and placed their burdens on the account auditors. The information related to the disclosure of fair value estimates is still brief and falls short of fulfilling the purpose of communicating uncertainty to users of what is a gap between what is required of information and what is presented. The fair value estimates under conditions of uncertainty may depict management as manipulating the estimates of accounting values and income, especially with the large number of fair value entries and estimates in the financial statements of large and complex companies, which places more burden on the auditors' shoulders to provide adequate guarantees.

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