Analyzing and evaluating the role of financial monitoring in the field of halting violations and combating financial and administrative corruption.

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Abstract

The users of the financial statements expect from the auditors to find out the mistakes and illegal actions that effect on the financial position and the outcomes of the business. They also expect his/her report should include adequacy, integrity, independence and objectivity. There is no auditing process that gives complete affirmation in which the financial statements are free of essential mistakes, fraud and illegal behaviors. The purpose of this study is to shed light on the actions and conducts that lead to distortions of material effect in the financial statements of the different economic units, and identify the methods and motives of their use to take the necessary procedures to detect them, and the auditors' responsibilities to reduce fraud, illegal acts and fighting corruption.

Keywords: Financial statement, Fraud, Monitoring and auditing.

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Introduction

Certain establishments follow illegal accounting practices and the administration resorted to some accounting measures and policies in order to achieve a fictitious (unrealistic) improvement in its financial situation by taking advantage of the multiple available alternatives in the accounting policies that are used in the preparation of financial reports to serve the management objectives. The practice of fraudulent methods reduces the credibility of the financial statements. This is clearly reflected on the management's practice when choosing between accounting methods and policies in preparing and submitting financial statements in which company business, its financial position and its cash flows are shown. Since the auditor represents legally authorized and supervisory body to audit the financial statements of the economic units, he must ensure that these lists have been prepared according to the accepted standards. Therefore, the importance of this study to clarify the contribution of financial control to reduce the practices of illegal methods and fraud in Iraqi companies. It may provide some results that benefit the business sector to enhance the investor’s confidence in the financial reports, and to ensure that all different types of resources are allocated to their proper place.

Research Methodology

Research problem

The increase and diversity of swindle and fraud in most of the economic units and devising multiple methods to pass those cases by the administration or employees have made it difficult to prevent and detect. They become a heavy burden on the economic establishment. Therefore, auditors carry the responsibility of to set up measures and methods to reduce swindle fraud, illegal acts and combat corruption.

The importance of research

The study derives its importance from the work of financial control and its responsibilities in preventing and detecting cases of fraud and illegal methods setting up controls taking the appropriate measures to prevent it, achieving effective control over various aspects of activity, following up the implementation of policies, and the impact on fairness and clarity of financial statements in expression On the financial position and results of activity of the auditioned economic units.

Objective of the study

The study aims to shed light on the illegal acts and actions that cause distortions that have financial impact, the motives of their use and their impact on the financial statements of the economic units and the role of financial control in reducing these actions.

Research hypotheses

First hypothesis: Financial control has a role to limit fraud and illegal acts in financial statements of companies.

The second hypothesis: The commitment to the requirements of laws, regulations and instructions issued by the concerned authorities in addition to the related local and international standards that reduce fraud and illegal acts.

Research methodology and tools

The research depends on a group of tools to complete its theoretical and applied requirements. The theoretical aspect depends on the available scientific studies and papers in addition to the publications and standards that issued by professional organizations and the internet. In the application aspect, the depends on analyzing financial data of the sample of the study (Iraqi company for manufacturing and marketing dates) as a study sample as well as the auditors reports of company for the years (2010-2012).

Financial Monitoring

The concept of financial monitoring and its definition

Monitoring is the oversight, follow up, internal control, performance measurement, identifying standards and comparing it with the achievements. Monitoring is the process of achieving the objectives of the organization that includes efficient use of resources by establishing performance standards, comparing actual performance with these standards in order to report progress of the objectives and success [1]. Drury referred to the concept of monitoring as the stage of ascertaining that the activities of the establishment are in line with its plan and the objectives have been achieved as there is no control without prior goals and plans and the control is an application for a typical and a desired behavioral model through a set of procedures to be followed by the members of the establishment to ensure its work in a desirable manner [2]. Financial monitoring can be defined by three views:

- Financially, it is defined as "a financial measure that is a focus of accountants or who are in their position to ensure that the funds allocated for a project has been spent on the real allocated areas."
- According to the administrative point of view, it is defined as "one of the management elements that helps to monitor the progress of processes and identify the strengths and weaknesses of their achievement and their reflections on taking appropriate correctional actions.
- Legally, financial monitoring is defined as "a constitutional right authorizes the owner to take necessary decisions for the success of the projects of the unit".

Based on what's mentioned above, the financial monitoring means supervision, examination and auditing by the financial monitoring authority to ensure the use of public funds and the commitment to the provisions and laws and regulations and verify the integrity of the results of financial statements, performance evaluation and disclosure of financial irregularities and the causes of these irregularities to find the suitable solutions [3].

The importance of financial monitoring

The importance of financial monitoring is essential to preserve the public money, which is reflected on several aspects. Politically, it is represented by the state that is identified by its attitudes and its compliance with the issued laws. Accounting and financial aspect ensures the collection of revenues and the disposal of financial allocations without excessiveness and waste. Legally, the gravity of mistake and its impact on the public money and the responsibility of the perpetrators of the mistake or manipulation and fraud and penalties imposed on those mistakes. Socially, it is the most important means to limit social risks as diffusion the corruption culture and the seizure of public money. The importance of financial monitoring is represented by:

- An effective way to make comparisons between actual performance and planned one.
- Analyzing the deviations at the right time, their reasons and identify the ways to handle them and deal with them.
- Identifying weaknesses and strengths to improve operational efficiency.
- Motivating managers to focus on regulatory and monitoring interests and abandon opportunism.

It is clear that the importance of financial monitoring stems from being one of the main pillars to raise the establishments to cope with the development and modernization in order to achieve high levels of efficiency and effectiveness in order to reduce the chances of committing mistakes, illegal acts and protect the assets of the unit and ensure the safety of its use.

The main objectives of financial monitoring

Strategic objectives include:

- Strengthening Accountability: Accountability means obliging individuals and authorities responsible for managing public resources to provide information on the management of all funds so that they are subject to question regarding their entrusted responsibilities in financial, business and program management aspects.
- Protecting public funds of waste, loss and misuse and ensure spending funds in the assigned purposes.
- Raising overall performance levels across the state departments and society.
- Providing appropriate and reliable information of the department that is being audited to the legislative and supreme authorities of the state [4].

Technical objectives of financial monitoring include the following:

- Establishing a neutral technical opinion on the representation of the financial information for the department that is being audited and results of its work so as the auditor can ensure the absence of fraud, swindle and mistake.
- Verifying that accounts are maintained and organized according to accounting rules and standards.
- Providing technical and accounting assistance in accounting and related administrative and organizational issues.
- Disseminating auditing awareness and fulfilling preventive benefit of financial monitoring through activating the role of the departments of public

relations to promote disseminating awareness and its role in preserving funds.

- Ensuring the integrity of financial regulations and laws, and identify the weaknesses to propose proper methods to ensure monitor public money.

Based on what is mentioned above, the main objective of financial monitoring is to emphasize the proper management of public funds, the application of financial regulations, ensure the integrity of laws and regulations, and verify their efficiency to preserve public money from theft, embezzlement, manipulation and misuse, and to verify the accuracy of data and financial reports.

Swindle and Fraud and the Auditor's Procedures to Minimize their Impact on the Financial Statements

The concept of fraud in financial reports

Terminologically, the concept of fraud refers to intentional distortions. Here, the distinction must be made between stealing, and abuse of the assets that is called employees' fraud (embezzlement) and between misguided financial reports that is called management fraud. Fraud as a general concept represents a major threat to any organization or establishment through the misrepresentation of financial statements, failure to find out information, and abuse of office [5]. Many definitions have been included in criminal laws to define the crime of fraud in terms of jurisprudence such as "the seizure of the full possession of others money by deceit resulting in the delivery of that money" or "The seizure of something owned by others with the intention of owning it through the means of fraud mentioned by the laws" [1]. The US Fraud and Embezzlement Institute defined it as a person's utilization of his/her job in order to gain personal wealth by intentional misuse or misapplication of the company's resources or assets." As previously mentioned, fraud includes all actions, means, deception and fraud or various any illegal ways included fraud or that can be invented by man through using wrong suggestions or hiding the truth, which the individual seeks to gain illegal or unfair benefit.

The methods and procedures adopted by the management in the process of swindle and fraud

The methods can be summed up as:

- The management selected some accounting rules, policies and procedures in order to give a desired financial image of the organization.
- The management manipulates with accounting estimates. The possibility of manipulation lies in the ability to estimate the life of these assets as they relate to evaluation and forecasting to effect on the financial statements in conformity with the management's desires.
- The management may make fake accounting records related to other parties as selling one of the organization's assets and re-lease it in a higher or lower than the actual value of the asset in order to manipulate with the budget values and values of the income statement and financial position.
- The management makes fake accounting records to give a new image and impression.
- The management uses artificial transactions to manipulate the accounts of the financial statements and manipulate the timing of the transactions to determine a specific year of profits and losses [6].

The management motives of using methods of fraud and swindle in the financial statements

There are several motives that motivate the management to use fraud and swindle methods in financial statements:

- The positive impact on the reputation of the company in the market. The use of fraud methods to improve the financial value that is related to the performance of companies, which their operational or investment conditions do not allow to achieve this improvement naturally or without the management of the company interference.
- Increase loans from banks: The companies suffer from lack of necessary liquidity to continue their operational or investment processes or to meet their obligations. Therefore, they seek to use fraud methods in order to obtain the necessary funding and improve their financial value, which will effect on taking credit decisions of the institutions.
- Tax evasion: Through these methods, some financial institutions reduce profits and revenues and increase expenditure (expenses) in order to reduce the tax base.
- Professional Classification: Several companies resort to use various fraud methods in order to emphasize the improvement of their financial statements to get advanced professional classification. It can be evidenced through the financial statements issued by those companies.
- Rewarding managers: Manager use fraud to increase profits, especially if their incentives and rewards are related to those profits.

Therefore, the policy of combating and preventing fraud should not be exclusive on the imposing appropriate penalties on the perpetrators of fraud, but it must be concerned with the means and procedures that prevent the occurrence of fraud. Based on this, the policy of preventing fraud focuses on imposing control and monitoring on the organization's funds and stocks to prevent fraud. Monitoring is considered the first defense line against fraud. The financial community expects the auditors to include his report the adequacy, objectivity, integrity, impartiality and discovery of the fundamental mistakes that effect on the financial statements.

Methods of manipulation and fraud used in the financial statements

International accounting standards provide an area of selection among accounting alternatives for many items and provisions that effect on the financial statements. The management has to bear this responsibility to choose an accounting method that will provide useful information for its users to help them take wise economic decisions. But sometimes, the management's selection of methods and accounting policies and the methods of disclosure are mostly influenced by the management's private objectives. This leads to negative aspects on the quality and transparency of the published information. Hence, methods of financial statements are as follows:

Methods of manipulation and fraud used in the statement of financial status:

- Intangible assets: The management over evaluate intangible assets as trademarks in addition to accounting recognition of intangible assets in contrary to the rules and regulations of international accounting standards as recognition of purchased goodwill and making unjustified changes to reduce these assets [7].
- Fixed assets: The principle of historical cost is not adhered to determine the table value in the budget. Also, the manipulation of assets depreciation ratios through decreasing or increasing them. Moreover, the unjustified changes in calculating depreciation as the changing of the straight-line method to the diminishing balance method and vice versa.
- Circulating investments: The manipulation of the market prices is made to evaluate the portfolio in addition to unjustified reductions in the allocations of conversion rate.
- Cash: Through this item, there is no disclosure of cash items clearly or the manipulation of the exchange rates that is used in translating available monetary items of the foreign currencies.
- Accounts receivable: They manipulated in these accounts through non-disclosure of distressed debts to decrease the value of the doubtful debts. Moreover, they may commit intentional mistakes in the classification of accounts receivables of the long-term receivables, and manipulate them as being current assets to improve the liquidity of the organization [8].
- Long-term investments: The change of accounting methods used regarding accounting of long-term investments including cost to property rights method, which do not exclude transactions between the parent company and its affiliated ones when preparing group financial statements as mutual sales and loans.
- Floating Liabilities: As non-listing of due premiums of the current year for long-term loans of current liabilities. The aim is to improve liquidity ratios in addition the management pays short-term loans through long-term borrowings to improve liquidity ratios.
- Long-term liabilities: The management of the organization gets long-term loans before issuing the budget. The purpose is to pay short-term loans to improve liquidity ratios. They also amortize callable bonds before their due time, and add gains to the net profit without disclosing them under extraordinary items.
- Inventories: This item is the focus of manipulation and fraud methods where including inventories of stagnant and obsolete goods in addition to manipulating the prices of their valuation and unjustified changes in the stock pricing method [9].

Fraudulent methods used in the income statement: The administration can practice manipulations and fraud through modifying the numbers of income statement:

- Early recognition of revenues: It means rapid recording of revenues while the selling is still in question. In this way, the revenues generated by the sale is recognized and calculated before the real completion of the same process or the mutual benefit. The process includes recording fake revenues. The problem is not limited to the production goods and services, but includes long-term contracts.
- Recording of false revenues: The method includes recording fake revenues through recording sales of no economic value. This can be achieved through preparing sales table of a particular product for a customer even he/ she is not committed to buy or pay to increase the organization's revenues in crooked ways. Or through recording the receiving cash from the banks to be considered revenues or dealt with as borrowing, which are different from the cash received as a result of the sale of goods and services. The first type is recorded in liabilities and the organization has to repay it, while the cash that received from sale processes is dealt with as revenues.
- Increasing income through a one-time return, which includes increasing profits by selling less resident assets, investment income as part of revenue, and recording investment income as operating income. This type of return is treated as a result of non-core and non-operating transactions.
- Transfer current expenses to prior or subsequent accounting periods.
- Transfer current revenues to a later period.

Methods of swindle and fraud in the cash flows statement: The cash flow statement is important for predicting the future of an organization and an important factor of evaluation. There is flexibility in the statement of cash flows that can be exploited by the management when measuring and reporting cash flows. This flexibility can be represented in various aspects as follows:

Manipulation of cash flows classification: Swindle and fraud lie in the classification and disaggregation of cash flow items among operational, investment and financing cash flows as they differ in some countries. Because there is an agreement in the structure of cash flow statement but there is a difference in the elements that come under each activity. Such practices would not affect the organization's total cash flows but effect on operational cash flows as a measure of the business's earning capacity. International Accounting Standard 7(IAS 7) has allowed alternatives for the categorization of received and paid interest, investment returns and cash distribution.

Cash flows from non-continuing activities: Cash inflows and outflows of non-recurring activities are treated as cash flows from continuing operational activities, where the organization classifies the cash inflows as operational cash flows and cash outflows that have a negative effect are classified as cash flows from non- continuing activities [10].

Manipulation of the policies and procedures that come under swindle and fraud to manipulate operational cash flows: The manipulation of accounting policies that are used without exceeding customary accounting standards and principles, but exploiting the two elements of flexibility and selection in those standards and principles. Flexibility of accounting methods provides opportunities of manipulation and gives an incorrect image of the organization's situation [11].

Procedures and tests applied by the auditor to reduce fraud and swindle in the financial statements

Procedures and tests applied by the editor to reduce the effects of fraud and swindle in the financial statement: The following table includes a presentation of the most important fraud procedures related to the financial position list and countermeasures that the external auditor is required to apply as indicated in the Table 1 below.

Procedures and tests applied by the auditor to reduce the effects of swindle and fraud on the income statement:

Table 1*. The methods of fraud that are related to the statement of financial position and countermeasures the auditor has to apply.*

Items	Methods of fraud	Auditor procedures
Cash	• Non-disclosure of restricted cash items. • Manipulation of exchange rates used in the translation of items of cash from foreign currencies.	• Excluding cash restricted when calculating liquidity. • Verifying of exchange rates and correcting mistakes, if any.
Traded investments	• Evaluating traded investments of the incorrect market prices. • Reclassifying investments from circulating to long-term investments when market prices fall.	• Verifying used prices. • Verifying the justification of reclassification according to the stipulated rules in the International Accounting Standards.
Receivables	• Non-disclosure of bad debts to reduce the value of the allocations and not disclose stagnant accounts. • Include the number of debtors in receivables of the concerned parties, subsidiaries or associates. • Including some long-term receivables in current assets.	• Demanding disclosure of receivables to verify the percentage of allocation to total receivables. • Examining the accounts receivable and verifying the disposal of the receivables of the subsidiaries and associates and disclosing them in a separate item. • Verifying the validity of classification and exclude receivables from current receivable.
Inventory	• Including inventories stagnant or damaged goods. • Manipulating the prices of evaluating commodity inventory. • Unjustified change in stock pricing method.	• Examining inventory and verifying the actual existence of the items in the warehouse. • Verifying inventory prices in comparison to current prices. • Review the management's opinion on the justifications of the change and the impact on the financial statements.
Long-term investments	• The change of the method of accounting for long-term investments, as conversion from cost method to property method. • Non- disclosure of the parent company's share in losses of subsidiaries companies or associates. • Never exclude mutual transactions between the parent company and its subsidiaries from the standardized lists.	• Verifying the changes through the auditor's report and the consequent effects on the income list and financial position. • Re-adjusting of the share of profit of the parent company through the losses of subsidiaries or associates. • Excluding these operations and showing their effects on the financial statements.
Fixed assets	• Non-compliance with the historical cost principle and follow the method of revaluation method of the market value to show the surplus in the income statement instead of showing it in property rights. • Reducing the percentage of the depreciation of conventional ratios. • Making an unjustified change in the method of depreciation calculation.	• Verifying the compliance with the principle historical cost and verifying the validity of the valuation process as it was carried out by specialists and exclude the surplus from the statement of financial position and include income within shareholders rights. • Verifying those ratios and modify the expense of depreciation. Reviewing the management's opinion on the change and verifying its cumulative effect on the accounting data
Intangible Assets	• Overestimating intangible assets in contrary to the sound rules. • Recognition of intangible assets in contrary to accounting standards as recognition of not purchased goodwill. • Reducing the amortization rates of these assets than usual rates. • Unjustified change in the amortization of these assets.	• Verifying the foundations of the evaluation according to the correct bases. • Verifying intangible assets and recognition of not purchased assets to make the necessary adjustments due to its impact on the financial position. • Reviewing the value of these assets in the statement of financial position and amortization expense in the statement of income. • Verifying the management's justifications of changing the amortization intangible assets and examine its effects on the financial statements.
Current liabilities	• Non- including due long-term loans in current liabilities. • Paying short-term loans through long-term borrowings.	• Verifying the reality of these premiums within the current liabilities and re-calculating liquidity ratios. • To verify and study its effects on the interests and assets provided as collateral and leverage ratios.
Long-term liabilities	• Obtaining a long-term loan before the end of the financial period and to use it to repay a short-term loan. • Recall the due date and add the gains to net profit without disclosing them in extraordinary items.	• Verifying attainment of a long-term loan before the end of the year to pay a short-term loan and make the necessary adjustments in the financial leverage ratios. • Reducing net profit and deal with its impact on financial ratios.

The Table 2 provides an overview of the procedures for fraudulent methods of income statement and countermeasures that the external auditing or is required to apply.

Based on what is above mentioned, there are many different ways practiced by the management according to the objective and circumstance and the available opportunity to control the economic activity and the financial reports. Although the interested authorities in accounting and financial work develop standards of financial reporting to improve the presentation and evaluation, and accounting disclosure. But the companies' management attempt to exploit these standards to practice swindle and fraud in the financial statements in order to achieve their own benefits at the expense of the interests of other parties. In this respect, the monitoring pillar can be considered necessary to reduce the risk of swindle and fraud of the management in the financial statements to create an appropriate climate to avoid cases of corruption.

The Applied Side

In order to achieve the objectives of the research and collect the required data objectively and impartially, the financial data of the Iraqi Company for manufacturing and marketing dates / industrial sector was analyzed as well as the reports of the auditor that belong to the company for the years 2010-2012. The analytical study was divided into two axes:

Studying and analyzing the company's financial statements

The company's budget (Disclosure of financial position): In order to realize the company's compliance with the requirements of the laws, regulations and instructions issued by the concerned authorities and the local and international standards, the general budget of (Iraqi Company for Manufacturing and Marketing Dates/Industrial Sector) will be studied and analyzed for the three years (2010-2012) (Table 3).

The result of the activity: The company's surplus during the year 2010 as in the first and second phases of about (812616) thousand dinars and (662852) thousand dinars respectively, less than the first and second phases of the previous year to (766415) thousand dinars and (924007) thousand dinars respectively as listed in the Table 4 below:

In our study of the company's results for the current year and comparing them with the previous year, we obtained some of the following indicators:

- Decrease in the revenues of the current activity by (1628150) thousand about (37%) compared to the previous year, resulting mainly from a decrease in the net sales of the company by (567322) thousand and a decrease in the miscellaneous income account by (731320). The weight of the dates received for the purposes of the Ministry of Agriculture in implementation of the receipt of dates in exchange for a decrease in the calculation of miscellaneous services income by (350340) thousand dinars derived from the steaming dates and examination.
- The current expenditures decreased by (690,783) thousand dinars compared to the previous year, which resulted mainly from the decrease in operating services expenses by (524797) thousand dinars due to the low production of processed dates, in addition to the decrease in the expenditure of goods inputs by (2801199) thousand dinars.

During 2011, through study the result of the following activity: The company achieved on 31/12/2011 a surplus about (1269609) thousand dinars in the first and second phases of the year and (982620) thousand dinars, respectively, and increases from the first and second phases for the previous year amounted to (456994) thousand dinars and (319768) thousand dinars (Table 5).

During the year 2012, when studying and analyzing

***Table 2**. The types of fraud related to the income statement and the counter measures taken by the auditor.*

Items	**Methods of fraud**	**Auditor procedures**
Sales	1. Make fictitious sales bargains before the end of the financial period to be canceled later in the next period. 2. Make real sales transactions of easy terms. 3. The registration of consignment stock that are sent to the costumers as sales.	1. Checking sales invoices, especially those transactions with parties related to the company as subsidiaries and associates. 2. Verifying credit terms including the terms of payment, discount and adequacy of doubtful debts. 3. To verify shipping documents of the consignments and their conformity with documents to deliver the price of the goods received from the customers.
Cost of sold goods	1. Unjustified change of stock evaluation. 2. Including inventory lists stagnant items. 3. Postponement of purchase invoices proofs for the current financial period to the next financial period.	1. Refer to the reasons of management's change of stock evaluation and its impact on the financial statements. 2. To verify building up a provision of falling prices. 3. Examining documents of purchase invoices.
Operational expenses	1. Capitalizing the capital expenditure that does not meet capitalization requirements as maintenance expenses. 2. Unjustified change in the methods of fixed assets depreciation and amortization of intangible assets. 3. Using depreciation or amortization rates less than the conventional in the business in which the facility operates.	1. To verify the involvement of capitalization in such expenditure. 2. Refer to the management's opinion to find out the reasons of the change and its effects on the financial statements. 3. To check and recalculate the depreciation expense according to the common rates.
Business outcome of non-continuous activities	Failure to disclose the impact of the decision to shut down a production line that has a essential impact on the business outcome of the organization.	Estimating the effect of the production line closure on the outcome of the work.
Exceptional and extraordinary items	Including operational profits as profits arising from exceptional or extraordinary items without disclosing the nature of those items.	Excludes the profit of those items from operational profits.

Table 3. *The company's budget.*

Item	The way of presenting and disclosing the item in the company's general budget
Fixed assets and inventory assets	Fixed and inventory assets are presented in the company's general budget at a net book level of the budget. Details of these assets are disclosed in the annex of the fixed assets, which is called statement of fixed assets and the related depreciations that show their historical costs at the beginning of the year, the adjustments during the year and the annual and cumulative depreciation, reaching to the book value at the end of the fiscal year as mentioned in item No. (10) of IAS 1, amended of 1997.
Projects in progress	Projects in progress of the company's general budget have been presented in a gross manner. The list of projects in progress has been disclosed in the attached financial statement of the types of projects and actual costs up to the date of the budget. This was in accordance with item No. 10 of International Accounting Standard No. 1 in 1997 amended.
Inventory	The inventory was disclosed in the general budget of the company on a gross basis. An attached statement of the inventory has been disclosed that includes the total amount of inventory according to the major categories up to the date of the budget. The inventory was estimated according to the historical cost or net realizable value, which was up to the requirements of Accounting Rule No. (5) Issued by the Board of Accounting and Auditor Standards in the Republic of Iraq.
Debtors and other debit balances	The amount of accounts receivables are presented in the general budget of the company in a total amount that includes receivables, third party insurance, prepaid expenses, accrued income, cash and cash equivalents, compensation claims, advances for business purposes and employees' advances (this disclosure is in accordance with item 66- (1) for the year 1997 amended and disclosure of the magnitude of the provision of doubtful debts to meet these debts, because they cannot be collected.
Cash	The cash components of the general budget of the Company were presented in a gross manner in the core of the budget. The details were disclosed in an attached list of financial statements called Money-Back Statement showing the types of money. This is in line with the requirements of paragraph 66- g of International Accounting Standard No. (1).
Capital	The nominal paid capital is disclosed only in the general budget of the company. The capital components of the company are not disclosed in details in the budget or in the annual report of the company's board of directors. This is not in accordance with the requirements of item 74 of the International Accounting Standard No. (1) for the year 1997 amended.
Reserves	The gross reserves are presented in the statement of financial position (in accordance with IAS 10, item 10). The details are disclosed in an annex to the financial statements showing details of reserves by type and movement for each reserve during the year. This conforms with the requirements of item (11) of the same standard.
Creditors and other credit balances	The total credit and other payables have been disclosed in the Company's general budget sheet, but the details have been disclosed in a statement of financial statements attached to the list of creditors. This is in accordance with the requirements of the first international accounting standard (item 66) amended, which obliges the companies to include at its core a minimum of the trade payables and other payables items.
Financial Investments	The financial investments in the company's general budget have been presented on a gross basis. A list of financial investments has been disclosed in the attached financial statements disclosure of the types of investments, the purchase cost, the nominal value of the shares, the number of these shares and the profits received.

Table 4. *The company surplus during the year 2010.*

Stage	As a result of activity on 31/12/2010 (thousand dinars)	As a result of activity on 31/12/2009 (thousand dinars)	The amount of the decline (thousand dinars)
The first	812616	1579031	766415
The second	662852	1586859	924007

Table 5. *During the year 2012, when studying and analyzing the financial data/result of the activity of the company.*

Stage	As a result of the activity on 31/12/2011 (thousand dinars)	The result of the activity on 31/12/2010 (thousand dinars)	Amount of increase (Thousand dinars)
First	1269609	812615	456994
The second	982620	662852	319768

the financial data/result of the activity of the company, the results of the activity showed the following: The company achieved a surplus about (1115983) thousand dinars in the first phase of the current activity as of 31/12/2012 and a decrease of (153625) thousand dinars for the previous year. It also achieved a surplus of (1036493) thousand dinars in the second phase with an increase of (53873) thousand dinars for the previous year and through our study we are able to refer to the following indicators:

- There is a decrease in revenues of the current activity by (1861005) thousand dinars and by (13%) from the previous year revenues due to the decrease in sales by (1535234) thousand dinars compared to the previous year. This decrease is due to the company's reduction of dates received from the year before the high prices of dates to more than (4509 thousand dinars per ton because of the large number of requests on Iraqi dates.
- The decrease in the income of fixed assets by (161) million for the previous year to include the account for the previous year received revenues relating to more than one period of the previous years.
- The increase in the revenues generated by the interest income from the savings account of United Investment Bank by (226043) thousand for the previous year in order to increase the amounts deposited with the bank.
- The current expenses decreased by (1481336) thousand dinars for the previous year.
- The increase of the service requirements by (56127) thousand dinars, as well as the reduction of transfer and other expenses.

Planning budgets: During the year 2011 we noticed a surplus in the disbursement of the amounts planned under the planning budget for some expenses without obtaining

Table 6. *Inaccuracy in the development of budget estimates and as shown.*

Chart account No.	Account name	Planned Amount Thousand dinars	Disbursed Amount Thousand dinars	The amount of overset Thousand dinars	The percentage of overset
113	Machinery and equipment	200000	207742	7742	4%
114	Means of transportation	50000	61008	10008	22%
115	Tools and molds	-	782	782	100%
32	Commodity requirements	14711000	10081313	4629687	69%
38	Transfer expenses	60000	30385	29615	%51

the fundamental approvals for these excesses in exchange, in addition to the low implementation rates of some other expenses, which indicates the inaccuracy in the development of budget estimates. During the year 2012 we noticed the existence of overflow on some of the categories of exchange specified under the planning budget without obtaining the required approvals for these abuses in addition to the low rates of implementation of some other expenses, which indicate inaccuracy in the development of budget estimates and as shown in the (Table 6).

The revenues planned in the planning budget (19378) million dinars, while the revenues achieved (12657) million dinars, which require the company to take what is necessary to achieve planned revenues or to be accurate in it. The above abuses on the approved allocations or manipulation of accounting invoices is a form of fraud and manipulation, the regulatory role is important to reduce the cases of fraud, which leads to the embezzlement of public funds.

Management report: By examining the management report of the year ended 31/8/2010, we noted that the company did not disclose some information and indicators in its report of activities for the year above, which is contrary to the accounting standard No. 6 issued by the Accounting and Control Standards Board in the Republic of Iraq:

- The names of shareholders who own more than (5%) of the company's capital.
- The ratios of using design capacity, available and planned energy for the company and the company's contribution to meet the demand of its products and services.
- Growth ratios and growth development in the production in comparison to previous years.
- The cost of waste, loss and damage in available resources as compared to previous years. The problems and constraints faced by the company and the procedures taken to address them and explain their causes.

Shareholders' accounts: There is no match between the number of the share of some holders as mentioned in the capital statement and the number of shares in the management report. The company did not disclose any of the following information and indicators:

- Some of the data in the management report does not match the information contained in the production plan.
- Accounts of shareholders: The lack of conformity of the shares of some shareholders between the statement in the capital account and the number of shares contained in the management report.

During 31/12/2012 and by studying the management report submitted on the company's activity, we noted that the management report did not include several financial indicators for its activities during this year, which constitutes a violation of the Iraqi accounting standard number 6.

- The total number of employees distributed according to administrative and technical levels.
- The cases of manipulation and embezzlement (if any) during the year.
- The destruction and write-off of fixed assets and materials and their inventory has not been disclosed in the management report.

Auditors' observations and reports on the company's activities

Fixed assets and inventory: There are some evident fixed assets in the records but not visible in the inventory. Including inventory of fixed assets many consumed machines of the headquarters of the company, which are not listed separately or excluded from the relevant records, therefore, they should be recorded in the account of the storage of waste and consumables. Apparently, they were included in the storage of waste and consumables but without regular accounting entries. Moreover, the company is still calculating the annual depreciation of these assets. Including the account of the projects in progress the amount of (70809) Iraq dinars pending for years, which represents the value of a number of tools purchased several years ago and still not used in the activity.

Cash in the Fund and at the banks:

- During the year 31/12/2010: The number of bank accounts of the company in Baghdad and other governorates amounted to (23) accounts with a total amount of (13349904) thousand dinars. The company did not regulate reconciliation of the bank statement with the records of those accounts. There is revaluation of some of the balances of the bank accounts of the company of the foreign currency (the dollar) according to the exchange rate of (1180) Iraqi dinars (one hundred and eighty thousands dinars) per dollar as at 31/12/2010 and according to the price bulletin issued by the Central bank of Iraq number 4 Issued by the Board of Accounting and Auditing Standards in the Republic of Iraq.

- During the year 31/12/2011: The cash account in the financial statements of the company showed the amount of (9669963) thousand dinars as in 31/12/2011, which represents the cash balance of the open savings account with the United Investment Bank. This comes in contrary to item (16-G) of the Iraqi accounting rule number 14, Board of accounting and control standards, which required to be classified in the financial investment accounts.
- During the year 2012: The Company recorded the differences in the inventory increase in the warehouse materials (packing and packaging) in comparison to the records of (198225) JD in the calculation of capital reserves instead of calculating the cash and treasury differences, which is contrary to the instructions of the accounting system.
- All of the above points of defect and weakness of the essential and not addressed may lead to fraud and fraud and the result of the embezzlement of cash in the company especially the cash circulation and suspended from previous years of deposit deposits in the records did not appear in the bank's disclosure.

Debtors and creditors: The balance of the account of non-current accounts receivable amounted to about (2628275) thousand at the end of 2010, including amounts realized from the contracts of their participation with others. These amounts were not collected despite the effectiveness of these contracts. The provision for doubtful debts of (1,005) thousand dinars is not suitable for the total debt of (3807743) thousand dinars, which constitutes 0.5% (five thousand) which necessitates taking appropriate allocation to avoid the possibility of collecting some debts. The company introduced statements to analyze the ages of debts on sub-accounts and detailed level of debtors and creditors accounts without consolidation at the level of the main and total accounts. The profits of the shareholders of realized profits and not received in 31/12/2010, which appeared within the account of the creditors of profits (325142) thousand dinars, while the balance of those profits according to the records of shareholders (74361) thousand dinars with a difference of (250,781) thousand dinars. During 2011 study, the absence of a serious and continuous follow-up of the liquidation of assets suspended from previous years, some of them contrary to the nature of the accounting, which requires intensification of efforts to follow up the liquidation of these differences. A cash and inventory accounts differences showed a debit amount of (22512) thousand dinars and a creditor of (473) thousand dinars, which has been pended since the previous years and the company did not take the necessary measures.

Financial investments: During the fiscal year 31/12/2012 and through study and analysis of financial investments, we noted the following: The total long-term financial investments amounted to (562919) thousand Iraqi dinar, which represents the total of the company's contributions in the capital of 14 mixed and private sector companies with an increase of (105916) thousand for the previous year, and the company did not receive any returns on its investments to the other eight companies. The Company did not calculate the provision of impairment of market value of investments in securities because it did not assess these shares at cost or market, in accordance with the requirements of Accounting Rule No. 14 issued by the Accounting Standards Board in the Republic of Iraq to meet the risk of liquidating some companies or decreasing their value, which requires allocating an amount to face the decline in the market value of shares and evaluation of shares according to the above-mentioned rule. After studying and analyzing the financial statements and the auditors' reports for the company. The researcher noted the following: The Company followed a uniform accounting system in implementing the accounting and the preparation of financial statements, as the company has to abide to these mechanisms of this system that outputs are mainly allocated to manage the state departments rather than other parties. The general budget of the company was organized according to the model attached to the provisions of the uniform accounting system number 1 for the year 1998. The company's management adopted an evaluation of its fixed assets on historical cost and calculated accumulated depreciation on a straight-line basis regardless of the changes of prices of the stored inventories. The auditor's reports on the company's financial statements for these years were conservative, which indicate that there were many irregularities in the activities of the company. The auditor's primary responsibility is to clarify, through their reports, the beneficiary parties whether the financial statements have been fairly or unfairly presented, as well as without any abuse of public funds or substantial distortions and that they do not involve any fraudulent method according to the approved auditing standards. The cases of the company, research sample, which were depended on the contents of the reports of the auditors. These cases were reported to the concerned authorities to take necessary measures to address and deal with the discovered negative aspects, observations and reservations. We noted a repetition of the same negative aspects and observations from one fiscal year to another. It means that measures were not taken to reduce them to create confusion in accounting and financial work. Among the main reasons for the occurrence of these cases are:

- Non-compliance with the approved accounting standards, especially to carry out comprehensive inventories and conduct fundamental matches to pass fraud, mistakes and fraud on fixed assets so as not to be detected by the SAIs.
- The weakness of the internal monitoring system and the internal monitoring measures. The process

of inventory and fundamental matches are means of monitoring and internal monitoring to control the fixed assets.

- There are many cases of manipulation for the purpose of embezzlement and theft of cash, as well as the renewal and innovation of other methods and means to carry out the embezzlement in addition to sufficient time to hide the embezzlement process and fraud by manipulating the financial records.
- The appearance of balances of accounts receivable and credit accounts contrary to their nature is due to lack of application of valid instructions, rules and accounting principles adopted correctly and accurately. Moreover, the weak internal monitoring measures and internal monitoring on these balances which lead to abuse the accounts either to cover the deficit or embezzlement. The difference of the embezzled amount is then treated in accounts receivable and payable as carried forward balances from year to another.
- The weakness of control procedures and monitoring of the assets and materials within the company is one of the main reasons for the occurrence of these cases. Also, the lack of immunity and protection for these items and the people in charge are not integrated to prevent misappropriation or theft of assets and materials.

Conclusion and Recommendations

Conclusion

The main conclusions can be presented in accordance with what was reached through the analytical study of the company sample of the research. During studying the practical cases that revealed by the monitoring authorities for several years, it was noted that cases of manipulation were repeated, which indicates that the necessary measures are not taken by the management to fill the gaps that led to the occurrence of these cases and avoid them and prevent recurrence in the future. The multiplicity and diversity cases of manipulation and irregularities are due to a number of reasons including the following:

- The weakness of accounting and monitoring systems, which are not developed.
- Qualified workers scientifically and practically who have integrity and honesty are not selected, including accounting and monitoring functions.
- Poor coordination and communication between the main administration and its departments, especially if these departments are located outside the headquarters of the company.
- The company, sample of the study, does not comply with the laws, regulations and instructions of some departments and employees, especially in respect to the financial and regulatory aspects and non-compliance with the approved rules and standards of accounting and auditing.

The company, sample of the study, does not comply with the management's annual report. The report does not mention number of requirements related to the preparation of the report, including the amounts of bonuses granted to the members of the board and executives and the bases that adopted in determining these rewards. Also, it shows the impact of the company's activity in the life of the society and the national economy, and the company's efforts in the transfer, localization and development of knowledge, technology and other requirements. Exceeding the approved allocations or manipulating accounting classifications is a form of fraud and manipulation. The supervisory and monitory role of the oversight authorities is important to reduce the cases of fraud, which leads to the embezzlement of public funds. The accuracy of preparing estimates is not taken into consideration when planning the budget, which requires not exaggerating these estimates to implement them and be planned in the light of the amounts expected to be disbursed or actually collected. The presence of the supervisory staff, especially the external monitoring staff in the economic units, departments and branches of the state offices, is a very important factor in preventing and limiting the malpractices and offenses. The work of the auditor may provide assurance and certainty of unlawful conduct in the preparation of financial statements, as well as enhancing confidence and credibility of such data.

Recommendations

Separation of powers and responsibilities between administrative functions and functional titles to prevent fraud and irregularities and to miss the opportunity for those who do this to hide and pass their plans unnoticed. The management and external auditor should examine and evaluate the accounting and monitoring systems and develop them in accordance with the standards and accounting and supervisory guidelines adopted to ensure the implementation of the work in the management of accounts and other departments in the economic unit effectively and efficiently. The corporate departments should prepare the annual report, which includes all the activities of the companies during the period and the most important financial indicators and accounting policies. The need to select employees especially in the accounting and monitoring units, those who have the scientific and technical skills and experience in their specializations in addition to be integrity honest and diligence to work through examining their autobiography and interview them. To pay attention to the scientific and professional rehabilitation of accountants to improve their performance and use modern technologies in the execution of their work through continuous training programs for employees of auditing offices and supervisory bodies to improve their performance and development to cope with the continuous developments in the business world. Disseminate the supervisory awareness in the economic unit and the consequences of the cases of manipulation and irregularities, as well as spreading the legal awareness in terms of the punishment that will face the perpetrators of these cases. In addition to spreading moral awareness, cooperation and solidarity among the employees to achieve the goals of the unit and motivate them morally and materially. The auditors need to emphasize reasonable professional care when auditing the financial statements and express independent professional opinion taking into account the balance between the wishes and needs of different groups of users of those data.

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