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Research Article

The Impact of Accounting Standards for Foreign Currency Transactions and Financial Statements Translation on Auditing Procedures: The Case of Iraq

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ABSTRACT

This paper aims to convey the notion of auditing, its relevance, and the report's function in strengthening the recipients' trust. It also tries to study accounting rules for foreign currency transactions and interpret and unify financial statements for overseas entities. The research aims to study and analyze accounting for foreign transactions and the translation of financial statements in public sector corporations, the research sample, and compare these accounting treatments with those that should be included in the relevant accounting standards. The objective meaning of the word auditing is based on the fact that auditing is a search for the truth since this is the core of the auditing process. Auditing is fundamental to all operations, and its presence dates back to antiquity and the first civilizations. This study aims to shed light on the concept of foreign transactions, the translation of financial statements, the presentation and discussion of problems arising from them, the accounting standards for accounting for transactions in foreign currency, the translation and consolidation of financial statements for foreign units, their impact on auditing operations and what is reflected in the auditors' report. In addition to investigating the reality of accounting for transactions in foreign currency and translating the financial statements of public firms, the sample research also examines the validity of accounting for transactions in foreign currency. The findings indicate that the financial statements of the public sector enterprises comprising the study sample do not fairly represent their work and financial status outcomes.

Keywords: Accounting Standards, Foreign Currency Transactions, Financial Statements, Auditing Operations.

INTRODUCTION

The primary objective of audit work is to assess the efficiency and effectiveness with which local governments use financial resources and fulfill their responsibilities. The job of a financial audit has become more vital in uncovering substantial economic hazards and fostering enhanced integration of development and security measures. In an era characterized by intricate interdependencies among economic variables, it becomes apparent that a seemingly little fiscal issue and associated risk, if improperly managed, could initiate a detrimental sequence of events. Hence, audit authorities must conduct comprehensive economic oversight throughout the entirety of the auditing process. This entails promptly identifying and disclosing issues and risks in economic operations, leveraging the power of auditing to monitor economic activities, and ultimately ensuring a robust foundation for sustained and sound economic and social progress. Ensuring the high-quality growth of the international economy in the future is imperative. Recent decades have seen unprecedented economic growth, which has spawned an increase in the number of international companies (multinational corporations) and the geographic scope of their operations (Petricevic & Teece, 2019). As the competition among nations for foreign investment has heated up, some contentious accounting issues have arisen. Numerous aspects of related topics, such as accounting for transactions in foreign currency and translating financial statements for foreign economic units, are contested and unresolved, making them significant. It is notably true when accounting policies and standards vary from country to country and when accounting policies and standards are applied differently (Abad & Dodds, 2020).

The weak commitment of public sector companies (the study's sample) to the requirements of local standards or standards of international transactions related to accountancy is the root cause of the gap between the accounting standards issued by the Council of Standards and Accounting and Control Rules in Iraq and the international accounting standards issued regarding accounting for transactions in foreign currency and translation of financial statements. The objective definition of auditing is based on the fact that auditing is an examination conducted to discover the truth. Auditing is vital to every operation, and its presence has been noted in even the earliest civilizations. The study's overarching objectives are to elucidate the nature of international transactions, the process of translating financial statements, and the issues that arise from doing so, and to draw attention to the accounting standards that pertain to the treatment of transactions denominated in a foreign currency, the translation of financial statements, the consolidation of financial statements for foreign units, and the effect of these factors on auditing procedures and the auditor's report. The research group also looked at the practicalities of translating public-sector company financial statements and accounting for foreign-currency transactions.

LITERATURE REVIEW

Accounting For Foreign Currency Transactions

The mutual commercial relations between local and foreign parties resulted in the emergence of foreign transactions. These transactions increased after the issuance of many agreements and the accession of many countries to these agreements, as the process of measuring and recording transactions in foreign currency differs from those in local currencies (Panasyuk et al., 2020). Foreign trade means that the economic unit buys or sells goods or services in foreign currencies, lends or borrows money in foreign currencies, or conducts exchange contracts in foreign currencies or other transactions in foreign currencies (Aizenman, Ito, & Pasricha, 2022). Foreign currency is treated in every country as if it were a commodity or a means of the money market. In the United States of America, for example, foreign currencies are bought and sold by commercial banks. These foreign transactions are in the interest of the banks on the one hand and their customers of multinational companies on the other hand. The reason for looking at foreign currencies as commodities is due to the divergence of exchange rates between the two countries' currencies (Fantacci & Gobbi, 2021).

Al Janabi (2020) adds to the previously mentioned operations the purchase or sale of goods or services whose prices are determined in a currency other than the local currency. The economic unit performs one of the above operations, the problem arises in how to prove it in the accounting records and the local currency used by the economic unit, in addition to the emergence of another problem represented in the change in the foreign currency exchange rate between the date of emergence of the operation and the date of payment or the date of preparing the financial statements for transactions that take place on credit. However, the history of economic units that have branches in other countries or whose activities extend to more than one country can be attributed to the first merchants who were practicing import and export operations and who were in the form of families such as the Dantini family in Florence, Italy during the period extending from (1335-1410 AD), and the Foggers family in Austria in 1400 AD (Hakimovna & Muhammedrisaevna, 2022). However, their companies emerged with the British East Indian Company, the American Hudson Bay Company, and the Dutch Company. Studies indicate that the distinguished era of these companies was between (1945-1970) (ÇİFTCİ, 2020). This was confirmed by Saunders and Cornett, who indicated that the actual history of these companies starts from 1944 until 1971 (Saunders & Wilson, 2020). Western capitalist countries established international institutions after World War II and concluded agreements to lay stable foundations for international credit and investments. It is to liberalize global trade and stabilize transactions between countries. Still, the efforts in this regard did not achieve the desired goal (Byerlee, Jayne, & Myers, 2006). The need arose in the seventies of the last century to establish accounting principles for foreign currencies due to the phenomenon of lack of stability and chaos witnessed by the global monetary system in that era and what resulted from the abolition of the system of fixed exchange rates for currencies and its replacement with floating prices, the disengagement of the dollar price from gold and the depreciation of the dollar and the subsequent sharp fluctuations in the exchange rates of foreign currencies of the industrialized countries in the world (Selim, 2021). The relative importance of currency spreads has increased and become essential in net annual profit or loss and total shareholders' equity. Therefore, there is an urgent need to address this revenue item for its money from the impact on business results and shareholders' rights as well as on the profits distributed to shareholders, and to understand the operations related to foreign currency transactions, a distinction must be made between the following terms (Emms, Arief, Freitas, Hannon, & van Moorsel, 2014).

A—Foreign Operations and Transactions in Foreign Currencies

The result of mutual trade relations between local and foreign parties is the emergence of so-called foreign operations, such as import and export operations, lending, and borrowing between local and foreign economic units. Still, any foreign operation will result in a foreign currency operation for one of the parties to that process. For example, an Iraqi economic unit imported a commodity from a Jordanian unit, provided that the contract provides for the payment of the value in Jordanian dinars, the Iraqi team has carried out an operation in a foreign currency While The Jordanian contingent would have carried out a foreign operation but with its local currency (Alzoubi & Jaaffar, 2020).

B—The foreign Currency Measurement

In the case of local operations, i.e., those that occur between economic units within the same country, these operations are generally measured and agreed to be carried out in that country's currency. In the event of a trade exchange between economic units from two different countries, the transaction may be measured and agreed to be carried out in the currency of the country of one of the dealers or a third currency other than the currency of the dealers (Bernoth & Herwartz, 2021). For example, when an Iraqi economic unit imports from a Jordanian unit, both the Iraqi and Jordanian units measure the value of the commodity and prove it in the accounting records using the local currency of each of them, the Iraqi dinar, to measure and demonstrate the process from the point of view of the Iraqi economic unit and the Jordanian dinar to measure and explain the process from the point of view of the Jordanian unit. It may be agreed between the two parties to determine the currency in which payment is made, usually the currency of one of the parties. In this example, if the price is set based on the Jordanian dinar, it can be said that the Iraqi unit will have creditors that need to be repaid by using foreign currency. From the point of view of the Jordanian unit, this foreign operation will result in debtors measured and specified in the local currency, which is the Jordanian dinar. The agreement to determine receipts and payments could be in a third-country currency such as the US dollar. Therefore, if the agreement stipulates that the value of the transaction is selected and paid in Jordanian dinars or any foreign currency, then the value equivalent of the transaction is calculated in Iraqi dinars. Suppose the value of the transaction is one million Jordanian dinars. In that case, the proof of the transaction in the records of the Iraqi economic unit must be done in Iraqi dinars. Therefore the value corresponding to the transaction must be calculated in Iraqi dinars. The corresponding value of the transaction is calculated using so-called foreign exchange rates (Álvarez-Díez, Alfaro-Cid, & Fernández-Blanco, 2016).

C—Currency Conversion and Translation of Value in Foreign Currencies

A distinction must be made between the word translation and the word conversion because each has a different meaning. Nobes pointed out that the conversion in which the asset changes from one currency to another as if converting dollars into pounds, but in the case of translation, the asset remains unchanged, as the foreign security on the assumption in dollars stays the same, only the basis of the calendar changes (Manzella, 2012).From the point of view of the author, the transfer (is the process through which it is possible to obtain units of currency, whether foreign or local, in exchange for what he pays from several units as well, whether it is foreign or local currency units), i.e., very briefly a real and tangible exchange of currency units. As for translation, from the researcher's point of view, it is also (a process of digital expression only of the value of our currencies against another currency, that is, there was no actual exchange process for the currencies we own).

Audit Procedures and Financial Reporting Standards

The word audit gives the meaning of listening in addition to the sense of examining and testing accounts and records, and this is confirmed by all Arabic and English dictionaries, as it seems and from the apparent meaning of the word audit, "it involves an oversight work based on the activities of examination and verification that are performed by a specific person or entity to obtain the necessary information to verify the implementation of tasks, adherence to standards, preservation of resources and achievement of objectives (Rezaee, Elam, & Sharbatoghlie, 2001)." The audit process includes examination, verification, and report. The examination is intended to ensure the correctness of the measurement and integrity of the operations that are recorded, analyzed, and classified, i.e., the examination of the accounting measurement of the financial processes of the specific activity of the project. In contrast, verification is intended to judge the validity of the final financial statements as a rational expression of the project's work for a particular financial period and as an indication of its financial position at the end of that period (Almagtome, Al-Yasiri, Ali, Kadhim, & Heider, 2020). Thus, examination and verification are related functions intended to enable the auditor to express his opinion on whether the measurements of the financial statements have resulted in a fair picture of the outcome of the project and its financial position first. As for the report, it is intended to crystallize the results of the examination and verification and prove them in the information submitted to those interested inside and outside the project, which is the conclusion of the audit process (Abdillah, Mardijuwono, & Habiburrochman, 2019). Thus, the auditor has a remarkable ability to provide multiple services to customers and beneficiaries of the relevant, "and for the auditor to provide the required service in the appropriate place and with the required effectiveness, he must ensure the services sought by each customer and realize the extent and limits of these services" (Xiao, Geng, & Yuan, 2020). Therefore, the services extend from the audit as the service that gives the highest confidence level to other services with the lowest confidence, starting with the examination. Then the audit and compilation of accounts, and the end of the contracted procedures, and whatever the form and extent of the audit, it depends on the circumstance of each case in its case, as it must be determined by the experience of the auditor in judgment and personal diligence (Hegazy & Salama, 2022). The concept and scope of auditing have moved between several attempts to define it, including expanding the scope of the concept of auditing, as stated in the definition of the International Auditing Applications Committee (IAPC) of the International Federation of Accountants (IFAC) in the introduction issued in 1991 within the set of international auditing standards as Independent examination of the financial statements and related information of an entity, whether for-profit or not, regardless of its size or legal form when this examination is carried out to provide an opinion on it (Humphrey, Sonnerfeldt, Komori, & Curtis, 2021). The expansion of the range comes from financial statements to information that may be examining the management report, outlook, performance statement, and others (Khaghaany, Kbelah, & Almagtome, 2019).

One of the definitions is narrowing the scope of the concept of auditing as defined by Areus & Loebbeeke as the compilation and evaluation of evidence about information to determine the reporting of the degree of conformity/similarity between that information and existing standards and the audit must be performed by a competent/qualified and independent person (Hamdani, Rahimah, & Hafiz, 2020). Thus, the scope of the audit concept is narrowed by limiting adherence to existing standards without providing technical opinions to different users to help them make their decisions. Auditing also has a professional meaning: an organized way to objectively obtain evidence and evidence regarding what is proven in books and records about events according to specific standards and to transfer the results to the parties concerned (Salehi, Rostami, & Mogadam, 2010). With this definition, auditing is described as a systematic, organized process that includes a set of sequential and well-planned procedures governed by a fixed theoretical framework represented in a set of agreed objectives and standards to collect evidence and evidence objectively in the sense that it must not be affected or subject to the whims of its collectors or be subject to their bias. Thus the auditor must be of objective mental orientation when collecting and evaluating evidence as it represents the nature of the existence of the basic audit process. The audit process is not limited to examining the information provided in the financial statements but also includes exploring the accounting system that results in such financial information, which consists of the internal control system. The metrics against which the results are evaluated are uniform criteria and are primarily understood by all concerned parties. Finally, the auditor's report must be prepared to communicate the audit process results to the concerned parties.

One of the most widely used definitions in our time is the definition contained in the AAA Fundamental Auditing Concepts Committee Report Statement, which states, "a structured process for objectively obtaining and evaluating the evidence related to assertions about economic acts and events to ensure the degree of symmetry/conformity between those assertions and existing standards and communicating the results to the beneficiary users (Chacón, Coy, & Alcalá, 2022)."

It appears to us that it is a broad definition that includes several general characteristics of more recent audit activities, namely:

• Structured process guided by recognized standards.

• Evidence by collecting evidence and evaluating that evidence objectively and without bias.

• Economic acts and events represent the representations prepared by the facility's management, so the hypotheses are the subject of proof for the auditor.

• The degree of symmetry represents the extent to which quantitative and qualitative conformity or consistency with agreed scales is met.

• Existing standards are the measure against which they are judged.

• Communicate the results through a written report showing the fairness of the financial statements prepared by management.

• Beneficial users of persons and entities that endorse the auditor's report to make decisions, such as shareholders and other interested parties.

On the other hand, this definition comes in line with modern developments in auditing in terms of objective, method, and scope (Almagtome, Khaghaany, & Önce, 2020). The current view of the nature of auditing sees it as a mental inferential research activity, and through the Japanese writer Toba that auditing is research that depends on proving or denying hypotheses related to assertions involving financial statements and using the process of logical reasoning mainly (Hines, 1991). The Chartered Institute of Public Finance and Accounting in England has stated this view as auditing as the rational analysis of activities and procedures, the assessment of opportunities and risks within operations, and the evaluation of selected tests of financial and operational control systems that are established by management to achieve particular objectives. This is the essence of auditing, a mental attitude, and the Institute also believes that the commitment of the lead auditor is to think, not to point.

During the early stages of the audit profession's history, the audit process's main objective was to detect fraud, technical errors, and errors related to applying the principles. Therefore the auditor focused on documentary examination more than he does now, considering that the review is carried out in response to the desire of the management that owned the economic unit at the same time, as well as that the reliance on the efforts of investors in saving funds was limited. Examination typically involved a complete documentary examination of financial operations, which sometimes involved testing and auditing of all financial transactions, and almost entirely internal evidence, which meant that approved financial statements were consistent with the accounts of the financial position in the books since the idea of the economic situation was often the only published list (Abdullatif & Al-Khadash, 2010). With the beginning of the twenties of the last century, enterprises began to rely clearly on the capital of the investor public, which generally took the form of shares sold to a third party that does not exercise the management function, and in the face of this development in the business environment, the goal of auditing began to evolve from just discovering errors and fraud to expressing an opinion or determining the sincerity and fairness of the presentation of financial statements. Concerning the auditor's responsibility for the discovery of mistakes, copies, or fraud, the International Accounting Committee clarified that the auditor must be interested in control systems and other standards designed to prevent such errors, fraud or fraud (Dimitrijevic, Milovanovic, & Stancic, 2015). It should also be noted that the auditing scope in the stages preceding the twentieth century was comprehensive and connected to all operations. Still, in the twentieth century, due to the increasing growth of business establishments in terms of size, activity, and transactions, the auditors faced considerations of cost, time, and effort that forced them to switch their techniques and adopt a new technique, namely the selection of samples that transferred the audit process to the testing and examination of selected operations and not all functions. The stronger and tighter it is, the less the scope or size of the assessment required by the auditor and vice versa. That is, there is a general awareness that the scope of the auditor's work, his selection of samples, and the determination of their appropriate quantity depend on the strength of the internal control system of the auditee. The pressures of globalization, global trade, and the high intensity of competition between companies have led to the emergence of performance audits or operations audits, which require the collection and evaluation of evidence regarding the efficiency, effectiveness, and economy of the company's operational or operational activities about the specified objectives (Muhammad, Char, bin Yasoa, & Hassan, 2010). Against this expansion of the goals and scope of the audit, another trend has emerged that views the audit as an activity that must be performed at a reasonable cost, both for the auditor himself and the auditee who pays for the audit atmosphere. There is a focus on creating added value by carrying out the audit work. It represents another challenge for auditing, and at the same time, it means the appropriate opportunity for the emergence of auditing as a social activity that serves the broad goals of society rationally by measuring the results of the activities of the facility and estimating its efficiency in the community by adopting social auditing.

The twentieth century witnessed dramatic developments in the drafting of the auditor's report, which included the examination points, the types of financial statements under examination, the financial period, the records covered in the study, the information obtained, the approved accounting standards, the auditing standards used in the completion of the examination, etc. (Sahlin-Andersson & Engwall, 2002). The general language of the report has been developed so that the auditor's report is no longer a written exercise, according to Carmichael & Willingham. The auditor has several alternative types of reports from which he can choose the appropriate format or format for his report as he expresses his opinion (Church, Davis, & McCracken, 2008). The phrase "true and true," which was used at the beginning of the audit process to express the results of financial statements, was replaced by the phrase "fairly and truthfully presented," and this phrase was amended after the profession realized that there were absolutely no entirely correct financial statements. The International Federation of Accountants (IFAC) Manual 2001 of Standard No. 700 states that the auditor's report on the financial statements must clearly state the auditor's opinion as to whether the financial statements are presented honestly and fairly or fairly represented in all material respects under the Financial Reporting Framework, together with its guidance, where appropriate, whether the financial statements comply with legal requirements (Fakhfakh, 2013). The auditor shall have reached this opinion after making sure that:

• The accounting principles selected and applied represent generally accepted and accepted principles.

• Accounting principles are appropriate and appropriate in light of the surrounding environmental conditions.

• The information provided by the financial statements is classified and summarized acceptably.

• Financial statements appropriately reflect economic events and operations in light of reasonable and practical limits.

Currently, the Financial Accounting Standards Board (FASB) is the body presently authorized to issue accounting standards, so if the client disagrees with the auditor on an important matter affecting his financial statements, he may appeal to the Board.

The Asian Organization of Supreme Audit Institutions (ASOSAI) believes that there is a broader audit than that: The Tokyo Declaration of 1985 stated the following: In the past, the primary function of audit bodies was to express an opinion and give confidence and credibility to the financial statements of the various units under their supervision, but now their role should be more concerned with directing performance.

The Japanese (Matsushita) believes that the audit function has intertwined dimensions and has explained it as follows:

1. Justice: a social concept (investigating justice).

2. Efficiency: an economic concept (reducing expenses).

3. Effectiveness: A political concept (financial impact).

4. Regular: a legal concept (investigation of deviations).

If the report's content is of great importance, the format and wording play a key role in communicating its message, understanding its content correctly, and facilitating the task of its users (Mursyidatunnajwa et al., 2020). To achieve this end, the auditor's report must be:

1. Summary: The report should be brief without elaboration and include the most important results.

2. Comprehensive: The reader must be given a complete picture of the topic, so it is sometimes necessary to provide some basic information to stand out clearly.

3. Understood: One of the conditions of the report to be understandable and in this context must be taken into account (the choice of words and words clear and specific meaning, avoiding restricted words and choosing the most circulating, avoiding verbosity and ambiguity).

4. Accurate and specific events: Clarifications, reservations, and clarifications must be based on precise information and according to valid and appropriate evidence, and events must be narrated so that the disclosure of accounting information achieves the desired objectives that revolve around a fundamental purpose and benefit of the user in the decision-making process.

Hence, the importance of disclosure of accounting information has increased in its present era, as the subject of disclosure and transparency has received significant attention, whether by the researcher or by professional groups specialized in setting accounting standards, and the researcher will address in some detail these two topics (disclosure and transparency) with their role and importance and as one of the basic principles of governance.

Especially in light of the events at Enron, which illustrate how badly governance can go wrong. Specifically, it has failed to disclose specific accounting methods and financial restructuring processes under the norms of the governing management. Shareholders had to put all their faith in projections made by top executives who had a conflict of interest and could not make objective decisions. The main question remains what the main reason behind the fall of Enron is, whether it is the wrong internal policies alone, the improper advice of investment advisors and banks, the inadequate external audit procedures, the incorrect evaluation of the company's conditions, or all these reasons have combined caused this horrific fall of the company (Grant & Visconti, 2006). The answer came with the many reports prepared by the investigation committee formed by the Enron Board of Directors to find out what exactly happened, which focused heavily on two main aspects: the accounting side and the disclosure aspect. The company used a lot of very complex accounting methods, which are called methods of inflating profits and sometimes contrary to the real to maintain the high share price in addition to raising the value of investments, which gives the impression of the company's remarkable success, and has also established many independent companies (joint) in which it owns significant shares to be able to transfer losses from its books to the books of companies and try to dye those attempts in a legal form that does not conflict with the rules and laws in this regard, On the other hand, any flows from these companies to Enron are recorded by the company's management in its books as investment income, even if those investee companies have not yet started the activity.

The Committee adds that the management of (Enron introduced these investment companies in many operations that were not necessary or necessary to enter into initially, as most of these operations were designed elaborately to manipulate and show the financial statements well that serve private interests and these operations moved away from the goal of economic benefit or hedging for future risks. Some of these operations were designed thoughtfully and did not follow the generally accepted accounting procedures and principles. As a result of not following those principles, these investment companies were not shown in Enron's financial statements as an asset and liabilities. Other operations were applied inappropriately and incorrectly and with the consent of financial investors, where some losses resulting from fictitious hedging operations were extinguished, knowing that if these operations were correct, they should have resulted in profits for Enron, as Enron is the hedge. Therefore investment companies should have compensated for losses. But how is this possible if Enron owned those companies, and this ownership was elaborately hidden and did not appear until the event (collapse) occurred? This operation is the most dangerous operation that has been done and contributed to the company's failure, as it showed in previous years, fictitious profits amounting to one billion dollars more than the actual profit.

After examination and investigation, the Committee found that the original accounting operations that occurred with LJM1, LJM2, and CHEW CO, which led to the collapse, were misstructured and contrary to generally accepted accounting principles, knowing that these operations were carried out under the approval and supervision of the company's external auditors and consultants Andersen. Proof of this is the amount paid to them for investments ($5.7 million), which was mentioned in the report of the Board of Directors. The institution (Arthur Andersen) is one of the largest audit institutions in the world, which has monitored the accounts of the company (Enron), and this naturally means that that institution was responsible for expressing an impartial technical opinion on whether the company's financial statements honestly and reflect the reality of the company's financial position and the result of its activity, and therefore (Arthur Andersen) is responsible in one way or another for the omission of any fraud or fraud carried out by the management of (Enron).

The principle of disclosure occupies excellent importance among the generally accepted accounting principles, as through the application of this principle, the reader will get to know the project clearly, evaluate it and then reach the desired decision, and thus the principle of disclosure is broad and includes all accounting data and information to serve its users to make decisions (Hope, 2003). Accounting disclosure has gone through many stages, as its nature and level differ according to the nature of each step, depending on the different benefits sought by the readers of the financial statements, their diverse cultural group, and their knowledge of financial and economic matters about the monetary unit (Lascoumes & Le Galès, 2007). Foster attributed the importance of disclosure of financial statements to users to three fundamental factors:

1. They disclose variables that are of direct interest to many parties.

2. Financial statements are the most reliable and reliable sources of information.

3. The cost of obtaining information in financial statements is very cheap, as the cost of preparing special reports for different users can exceed the expected returns.

Thus, it can be said that the role of disclosure in financial statements is to reduce the state of ambiguity for decision-makers to help make rational decisions, and IQPAL et al. confirm this by pointing to two main reasons for disclosure:

1. Reduce the risk of capital financiers so they can assess the expected return of each investment opportunity against the associated risks.

2. Inform individuals and groups whose lives and standard of living affect the company's activities and operations to enable them to influence the company's actions if they wish to do so after reviewing the disclosure in the financial statements.

However, question remains who the users of this accounting information are, and the answer came from the tongue of Camp (users of accounting information are divided based on knowledgeable users and uninformed users) (Durocher & Fortin, 2021). Others divide them based on (users who have the authority or ability to obtain accounting information and users who do not have that authority or command) (Sumaryati, Novitasari, & Machmuddah, 2020). Users of accounting information are also divided in terms of their association with the company into two primary groups, each with specific goals and purposes that may differ. The first group includes users from within the company. It represents parties that have a direct and daily relationship with their activities and are responsible for achieving their goals. The second group includes users from outside the company and represents users who do not have a direct daily relationship with its activity (Hutahayan, 2020). We argue that what he went to (Wilkinson) is an objective basis in the case of adding a third group represented by the parties of society, from individuals, institutions, or organizations interested in preserving the environment and combating pollution or industrial security and occupational safety or human rights. The other question that can be asked is what these users need and the nature of the accounting information.

A—Relevance: It means that the information can influence the decisions made by the information users in forming future predictions or verifying the validity of previous expectations.

The characteristics that make accounting information relevant are:

• To have predictive power.

• To be obtained by decision-makers promptly.

• If he can verify the validity of past expectations (feedback).

B—Reliability: Accounting information has sufficient objectivity to make the decision-maker trust it and rely on it as a source of information and forecast-building. The characterization of information in this capacity depends on the following sub-characteristics:

• The information shown should represent the subject of the research truthfully.

• The information should be objective and verifiable.

• The information should be unbiased (neutral).

The fulfillment of user requirements is widely recognized as a fundamental aspect in the preparation of reports and financial statements. Ideally, these documents should possess the qualities of convenience, reliability, and a high level of assurance, thereby maximizing their utility and effectiveness in facilitating decision-making processes. However, it is uncommon for such information to be readily available in its ideal form in real-world scenarios. In certain instances, it may be necessary to compromise a certain level of convenience in order to enhance confidence, or alternatively, sacrifice a degree of confidence in favor of greater appropriateness within a business context. In all cases, as a general rule, accounting information must include a minimum in all characteristics, so it is unacceptable to completely absent one of the characteristics of reliability and reliability from accounting information) (Landsman, 2007). As for the methods of accounting disclosure, the choice of method used depends on the nature of the information and its relative importance. It also impacts the assimilation of its users and then the level of decisions taken. The following are the most important of these methods:

1. Disclosure in the body of the financial statements:

The main financial statements are the statement of financial position, the information on income, and the statement of cash flows:

The information recorded therein applies generally accepted principles of accounting and personal estimation, and the integrity of the personal assessment element depends on the extent to which the persons preparing these lists are able, experienced, absorbed, and understood generally accepted accounting principles (Carpenter & Feroz, 2001). Significant digitally relevant information is disclosed in these financial statements.

2. Disclosure in the margins of the financial statements:

Additional notes are made in the margins and are about information that has strong relevance to the financial statements and reports but cannot be reflected in the body of these statement, which can be focused on the following points:

• Accounting information is necessary for the proper interpretation of the financial statements.

• Financial information not covered by the financial statements.

• External information is essential and affects the user of the financial statements.

3. Disclosure in lists attached to the original Financial statements:

Occasionally, additional information or details of some items are required through other appendices due to the relative importance or the overall appearance of these items. Sometimes we want to show data according to other accounting bases because disclosing the information is very important, such as preparing financial statements at adjusted historic cost or current value. It should be noted that accounting standards oblige the disclosure of important information in the body of the financial statements, provided that other information that is less important, especially concerning detail, either in the notes attached to those statements or in the tables attached to them, and also stipulates that if it is sometimes required that the same information be disclosed in multiple places of the financial statements, whether it is of great importance to For the target user. It remains to be noted that the scope and extent of disclosure in the financial statements have expanded recently as a result of the rapid transformation towards globalization in commercial and investment activities, as well as a result of increasing awareness and interest in the adverse effects of companies on the surrounding environment, all of which obliged companies to improve accounting disclosure and its quality. Hence the severe attempts to find international rules of governance to develop good corporate governance practices that help the growth of transnational companies and the management of governance emphasize that accurate disclosure that takes place promptly must include all material events related to the company, including the financial situation, performance indicators, ownership ratios, company management, as well as disclosure of the experience of the members of the Board of Directors and their remuneration (Mutula & Van Brakel, 2006). The information access system represents one of the most critical systems and tools of governance in companies, as it represents its central pillar, as the availability of data and the provision of information is one of the essential tools to achieve each of the:

• Financial health and safety.

• Achieve attention and alertness to what is happening in the company.

• It aroused investors' interest in it and introduced them to it.

• It is increasing the public's interest in the company and its products.

• They provide the appropriate information climate for the company and related parties interested in the community.

• It is worth noting that companies are not expected to disclose information that may cause a risk or threaten their competitive position unless disclosure is necessary to provide complete information in making investment decisions and to avoid misleading investors, so many countries apply the idea of materiality or relative importance when determining the minimum information that must be disclosed and define material or essential information as information whose omission or distortion may affect the economic decisions made by users of the information.

Transparency creates an environment where information about current circumstances, decisions, and actions is available, visible, and understandable to all public participants (Tian & Xiang, 2018). Transparency, as some point out, shows the reality of companies' financial and non-financial situation so that all parties dealing with them who have direct or indirect interests can know the truth of what is happening in them. Transparency, according to the Cadbury report, is the basis for the trust required to exist between companies on the one hand and all parties that have a stake in them on the other. Thus, it is an important pillar that ensures the delivery of correct, precise, and complete information to all parties interested in the company's activity. It allows the field to provide a fair presentation of practical information necessary for economic decision-making to a wide range of users. Therefore the concept of transparency implies (the importance of creating an environment through which financial and non-financial information related to the circumstances, decisions, and actions in companies is easily accessible, visible, and understandable by all concerned parties so that it can be considered a means to strengthen accountability, internal control, and governance systems). Transparency is essential to accounting responsibility and a prerequisite, especially for lenders, borrowers or exporters, investors, national authorities, and financial and international institutions (Mejía Acosta, 2013). Transparency promotes accountability by facilitating oversight, while accountability enhances clarity by incentivizing agents to ensure that their actions are best communicated and understood and that the reasons for their actions are adequately explained and understood. Hence, it can be said that transparency and accounting accountability together will achieve the following:

It imposes a system that improves the public sector's decision-making quality.

It provides more efficient policies by improving the private sector's understanding of how policymakers should respond and react to multiple events in the future.

The author believes that transparency and accountability are not ends in themselves, nor are they a comprehensive and guaranteed treatment to solve all problems, but rather to help raise performance and the ability to anticipate and evaluate financial information. It is also worth noting that there are two binary ramifications between transparency and confidentiality, so reducing the privacy of information and releasing private information may enable competitors to take advantage of certain situations and thus give competitors an unfair advantage. Under certain circumstances, the enterprise may refuse to provide sensitive information without conditions of business confidentiality. Therefore transparency and full disclosure unilaterally contribute to the definition of a system of transparency that will benefit all parties involved in the market entirely, even if, in the short term, the transition to such a system creates discomfort for units at the individual level.

The purpose of preparing financial statements is to provide information on financial position (statement of financial position or budget), performance (income statement), and changes in cash flows (statement of cash flow). Transparency in financial statements is secured and ensured by adopting full disclosure with a fair presentation of useful (reliable and appropriate) information for economic decision-making to a wide range of users. Adopting internationally accepted accounting standards (IAS) is necessary to facilitate transparency and proper interpretation of financial statements. The International Accounting Standards Committee (IASC) has developed a general framework for the preparation and presentation of financial statements published in 1989, and that framework includes the following:

1. Identify and explain the concepts underpinning financial statement preparation and presentation to users.

2. They are directing those responsible for setting accounting standards and guiding them on their development.

3. Assisting preparers, auditors, and users in interpreting international accounting standards and dealing with issues not constituted or covered by those standards.

There is no doubt that the accounting and accountability process for business enterprises extends beyond their investors and creditors due to two reasons:

1. The company needs to provide information to members of that community in such a way that they can assess whether scarce resources have been used efficiently and effectively.

2. The company's activities affect the quality of life and lifestyles of individuals other than investors or creditors, and these individuals need information to form an opinion regarding the company's performance in their areas of interest.

Thus, the level of disclosure and transparency represents an essential measure of the effectiveness and reliability of the governance system in the facility, as the fairness in providing correct, precise, and complete information promptly to all parties affects the life of the facility enhances the extent of confidence in the management systems of the facility and the mechanism of directing its employees and the stages of decision-making and the ability to manage interaction with the facility based on the information that is disclosed, including reports, annual financial statements, policies, and accounting principles followed and audit reports Therefore, the current study assumes that the adoption the IAS 21 "the effects of changes in foreign exchange rates leads" to an effective auding procedures.

H1: the adoption the IAS 21 "the effects of changes in foreign exchange rates" leads to an effective auding procedures.

RESEARCH METHODOLOGY

This study aims to examine hypotheses pertaining to the modification and enhancement of local accounting standards concerning the accounting treatment of foreign currency transactions and the translation of financial statements for foreign entities in accordance with international accounting standards. Additionally, the study aims to assess the extent to which public sector companies, the chosen sample for this research, are committed to adhering to these standards. The ultimate goal is to ensure the provision of accurate, reliable, and relevant information for effective economic decision-making, while also considering the specific requirements of the local business environment. The present study employs a case study methodology, with the Rafidain Bank being selected as the sample for investigation. The financial accounts of the bank serve as the principal data source utilized for the purpose of testing hypotheses and deriving conclusions.

RESULTS

Transactions involving foreign currency, such as foreign consultations, deposits, documentary credits, and lending, are conducted by Rafidain Bank through its international department. It is important to note that the bank did not engage in any borrowing activities, either domestically or internationally, during the specified research period, with the exception of the loans received as outlined in statement (1). These loans were obtained by the bank from external entities and were assessed at market value based on the price bulletin issued by the Central Bank of Iraq. It is worth mentioning that these loans are classified as frozen balances and were acquired prior to the year 2003. The following disclosure **Table 1** illustrates this.

Table 1. Loans Received to Rafidain Bank (in Iraqi Dinars)

Accounting Manual Number	Details	2005	2006	2007
241	Long-term Loans Received			
2418	Long-term Loans from the Outside World	8,659,450,462,221	7,715,059,715,219	7,449,137,480,524
	Percentage Change	4	11	3

The debt, totaling $500 million, was acquired from Bahrain in 1983 and has been unpaid, resulting in its classification as a frozen balance since 1991. The valuation of this loan is conducted on an annual basis, specifically using exchange rates as of December 31st of every year. Moreover, the determination of annual interest is based on the loan amount. Consequently, the decline in the quantity of loans in 2007, in comparison to 2006, can be attributed to the devaluation of the US dollar relative to the Iraqi dinar, which can be attributed to the latter's enhancement. nonetheless, The loan is subject to an annual interest rate. The bank often employs a fluctuating exchange rate, relying on monthly currency rate balances provided by the central bank. The direct method is frequently employed in the assessment of foreign currency valuations. The bank engages in the trading of foreign currencies by selling them to official exchange offices, so generating a portion of its earnings. However, the act of purchasing foreign currency is typically conducted on a limited scale and under specific circumstances, as elucidated in disclosure **Table 2**.

Table 2. Foreign Exchange Trading Revenue (in Iraqi Dinars)

Accounting Manual Number	Details	2005	2006	2007
441	Foreign Exchange Revenue			
4412	Income from the Sale and Purchase of Foreign Currency	587,812,655	252,495,147	169,062,597
	Percentage Change	1194	57	33

The table presented above illustrates the percentage change in revenue for the years 2004, 2005, 2006, and 2007. In 2005, the revenue generated from the sale of foreign currencies amounted to 587,812,655, which represents a substantial increase compared to the revenue of 45,438,722 achieved in 2004. This increase corresponds to a percentage change of 1194%. However, the subsequent years, 2006 and

2007, experienced a negative trend in revenue due to a decline in the sale and purchase of foreign currencies. This decline can be attributed to the absence of foreign currency sales during these two years. The bank does not currently engage in any forward transactions. Furthermore, the majority of its transactions are conducted using cash as the preferred payment method. When heavy equipment is acquired, it is documented in the accounting records through the heavy equipment account, which is recorded at a value comparable to 70% of its total cost. This amount represents the portion that has been paid to the external provider. In contrast, the residual significance of heavy equipment, amounting to 30%, is invoiced subsequent to the completion of a defined maintenance period of one year. The payment is determined based on the prevailing foreign currency exchange rate on the given day, often known as the current buying price. The value is converted into Iraqi dinars upon recognition by accounting in both scenarios. Despite engaging in foreign currency transactions and holding foreign investments, the bank lacks any type of hedging mechanism to mitigate the potential risks associated with currency swings and changes.

overseas activities are acknowledged in the accounting records using the prevailing currency rates at the time of the overseas transaction, the compilation of the statement of financial position, and the date of payment. Currency disparities arising from earlier transactions are recorded in the accounts of non-current activity debtors (165) or non-current activity creditors (265), depending on the nature of the transaction. Currency translation gains or losses are not explicitly presented as separate items in both the financial position and income statements. Instead, they are implied in either account 165 or account 265, depending on the nature of the transaction. Both statement (3) and statement (4) provide illustrations of this concept.

Table 3. Non-current Activity Receivables Account (in Iraqi Dinars)

Accounting Manual Number	Details	2005	2006	2007
16	Debtors			
165	Non-current Activity Debtors	185,779,364,544,857	220,090,224,624,529	226,676,401,044,239
	Percentage Change	18	22	3

Table 3 presents the cumulative balance of the non-current activity receivables account for the period spanning from 2003 to 2007. The observed fluctuations in the percentage change can be attributed to the utilization of distinct methodologies for handling currency translation gains or losses, as well as the alterations in foreign exchange rates relative to the Iraqi dinar. Overseas operations are acknowledged in the accounting records based on the prevailing currency rates at the time of the overseas transaction, the preparation of the statement of financial position, and the date of payment. Currency disparities arising from earlier transactions are recorded in the accounts of non-current activity debtors (165) or non-current activity creditors (265), depending on the nature of the transaction. The disclosure of currency translation gains or losses is not presented as a separate item in both the financial position and income statements. Instead, they are implied in either account 165 or account 265, depending on the nature of the transaction. This implication is illustrated in both statement (3) and statement (4).

Table 4. Non-current Activity Creditors Account (IQD)

Accounting Manual Number	Details	2005	2006	2007
22	Customizations			
265	Creditors of Non-current Activity	177,429,895,317,107	211,757,412,082,985	219,023,793,421,819
	Percentage Change	26	19	3

Table 4 presents the cumulative balance of the non-current activity creditors' account for the period spanning from 2003 to 2007. The observed drop in the percentage change can be attributed to the favorable appreciation of the Iraqi dinar relative to the US dollar. The preceding declarations made by the Rafidain Bank and its overseas subsidiaries indicate that adherence to accounting standards for foreign currency transactions and the translation of financial statements of foreign entities would yield impartial, truthful, and comparable information. Furthermore, this practice would enhance the profitability of these subsidiaries by accurately recording and evaluating their foreign investments. This finding aligns with the hypothesis posited in the second study, which suggests that the adherence of public sector companies, the chosen research sample, to accounting standards pertaining to foreign currency transactions and the translation of financial statements of foreign units, would impact the audit process. Consequently, this would result in the provision of reliable, transparent, comparable, and informative data, facilitating informed

economic decision-making. This statement underscores the importance of revising and enhancing the local accounting standards pertaining to the treatment of foreign currency transactions and the conversion of financial statements of foreign entities in accordance with international standards. The proposed measures align with established global norms and are designed to address the specific needs of the developing Iraqi context, particularly in relation to economic sectors and their impact on the auditing procedures.

DISCUSSION

The International Accounting Standard 21, also known as "The Effects of Changes in Foreign Exchange Rates," offers recommendations for the suitable accounting methodology for foreign currency transactions and activities as reflected in financial statements. Furthermore, it provides recommendations pertaining to the procedure of converting financial statements into a presentation currency. To construct a functional currency, an organization must evaluate the predominant economic context within which it operates. If deemed essential, this evaluation should be conducted for every individual operation inside the organization. When documenting foreign currency transactions, the organization commonly employs the spot conversion rate to translate the transaction amount into its functional currency. The conversion is conducted using the prevailing spot exchange rate that is applicable on the date of the transaction. The implications of accounting systems stem from the increase and expansion of international investments and other economic activities on a worldwide scale, along with the establishment of foreign corporations engaging in operations across many nations. A multitude of accounting standards have been established and undergone development over time. The challenges confronting global markets, such as the insolvency of prominent multinational corporations, have brought attention to the significance of robust accounting and reporting standards. Investors and stakeholders currently express a need for financial reports that exhibit transparency, facilitating their assessment of the economic aspects of a company's activities. This enables them to evaluate the associated risks and rewards of their investments, so informing their decision-making process. The primary objective of the present study is to investigate the influence of implementing the worldwide standard IAS 21 on the efficacy of auditing procedures within the context of Iraq. The study aimed to tackle the difficulties related to foreign currency transactions, specifically the task of converting the financial statements of foreign firms. Accounting standards primarily focus on establishing fundamental principles for the identification, measurement, presentation, and disclosure of financial statement elements. These standards also address the effects of operations, events, and circumstances on the financial position and performance of an organization. Accounting standards typically pertain to a certain component of the financial statements or a specific category of activities, occurrences, or conditions that impact the financial statements. The financial status of the establishment and the outcomes of its operations. The objectives of financial accounting play a crucial role in shaping the intellectual framework that guides the production of information to suit the demands of the beneficiaries. Financial accounting principles revolve around the establishment of the characteristics and reliability of the information generated by financial accounting in order to fulfill the requirements of stakeholders.

CONCLUSION

Accounting, like other disciplines within the realm of social sciences, emerges as a result of the contextual demands imposed by its operating environment. The consequences for accounting methods arise from the rise and growth of foreign investments and other economic activity at the global level, as well as the creation of foreign entities conducting operations in many countries. Numerous accounting standards have been promulgated and evolved. The study focused on addressing the challenges associated with foreign currency transactions, namely the process of translating the financial statements of foreign entities and consolidating them with the financial statements of the parent firm. The most significant issues arising from transactions in foreign currencies and translating and consolidating the financial statements of foreign units are represented in the following:

- How to calculate a fair exchange rate for recording international transactions in books of account.
- Determine the entrance used in dealing with the difference in exchange rates, whether the access to the single transaction or the key to the two operations.
- We are determining the functional currency of the foreign units and the indicators used in choosing it.
- Different accounting policies are used in foreign units compared to the mother economic units.
- The various methods for translating financial statements prepared in foreign currencies and the varying accounting treatment of the ensuing differences.

Despite the prevailing environmental circumstances and the potential future prospects and challenges that Iraq may encounter across various sectors, particularly foreign investments, companies currently operating in Iraq continue to adhere to the guidelines outlined in the unified accounting system. Additionally, they comply with the stipulations set forth in accounting rule (4) pertaining to the accounting treatment of price fluctuations. The Council of Accounting and Supervisory Standards and Rules in Iraq introduced "foreign currencies" in 1992 as a means to address accounting challenges arising from fluctuations in foreign currency rates. However, these measures exhibit certain deficiencies when compared to accounting standards established globally and internationally in this domain. The preparation of consolidated financial statements is a necessary requirement under American and British accounting standards, as well as international accounting standards. Economic entities that possess branches, foreign subsidiaries, or joint ventures undertake the task of translating the financial statements of these entities in order to prepare the consolidated financial statements. Nevertheless, it is worth noting that the Council of Accounting and Oversight Standards and Rules in Iraq has yet to establish an accounting regulation pertaining to the formulation of consolidated financial statements. This is a matter of significance, particularly in light of the current environmental circumstances and the imperative for Iraq to enhance its investment sector, encompassing foreign investments.

The financial statements of the public sector companies, the research sample, do not reflect the credibility of the results of their work and their financial position for the following reasons:

• Al-Rafidain Bank—the leading center does not have its financial statements, as the practical reality indicates that the bank's monthly balances are adopted as a basis when preparing the consolidated financial statements for the main center and its affiliated branches.

• The financial statements of the branches of Al-Rafidain Bank are translated at the current exchange rates, including property rights, in a way that contradicts the current prices method in solving the financial statements of foreign units.

• The differences in the translation of the financial statements of the branches of the Rafidain Bank are shown in the non-current activity debit account (165) or the non-current activity credit account (265). However, there is a different account (344) among the requirements of the unified accounting system applied in the research sample bank.

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