The External Auditor's Perception of the Impact of Fair Value Estimates on the Effectiveness of Professional Skepticism, An Analytical Study of Iraqi Audit Offices and Companies

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Abstract: The study targeted a statement of the importance of the external auditor's awareness of fair value estimates and their impact on developing professional suspicions of the auditor and whether they support or contradict his provisions and decisions related to fair value estimates on verification banks.

To achieve the research goal, the auditors' reports on Iraqi banks were analyzed in order to explain their awareness level in estimating the fair value of those banks, with an indication of the level of awareness of the auditors who practice their professional doubts. The evaluation methods have been used, including the quarreled cash flow method to reassess the investment portfolio of the shares of those banks that the auditors must be aware of.

To reach awareness, the auditor must possess artistic knowledge of the customer industry and a sufficient understanding of the activity of economic unity, but the auditors 'practices lack adequate vision and guidance regarding fair value in order to practice professional suspicion more effectively.

Keywords: the external auditor's perception, fair value estimates, professional skepticism.

Introduction to the research

Due to the recurring financial crises, the auditing profession has faced many economic, social, and professional changes over the past years. International There has been fair attention to the items of the financial statements, despite the issuance of a large number of international accounting standards Which calls for the necessity of evaluating some items of the financial statements at fair value, including financial investments, but measuring the fair value of these The items face many accounting problems, as it has become important for the external auditor to be aware of the fair value estimates and their impact on the nature of the audit evidence adopted in checking those estimates and the level of stimulating the mind towards the effectiveness of critical thinking about that evidence because the auditor's perception is based on his skills and knowledge and the extent of his follow-up with the latest changes in international standards, and the acquisition of a fuller understanding of the sources and The deficiencies reported in the

audits of these estimates. The most skeptical auditor who needs a larger (more convincing) body of evidence can be described as the person who is convinced that management's estimates are accurate, i.e. when auditing value estimates Fair auditors may collect sufficient evidence, but they do not always handle evidence in a manner conducive to effective critical thinking. The skeptical attitude has a positive effect 2 on the quality of the auditor's cognitive processing and reasonable judgments. Therefore, the intellectual perception of the auditors improves allowing them to make better use of the evidence they have, and be able to evaluate it This evidence is critically used to identify inconsistencies and to evaluate the impact of these estimates. In light of this, effective professional skepticism is the key to achieving a higher audit quality. The study will provide a brief overview of the audit process and structure, given the lack of literature and experience surrounding issues associated with fair value estimations. The fair value in the preparation of countries now will open new horizons for future studies.

1- Literature review and previous studies.

The study (Al-Samarrai; 2018) focused on auditors' awareness of risk-based auditing and an analysis of factors affecting determining the acceptable level of total audit risk. In order to estimate its degree due to its importance in planning and performing audit procedures, (Fisher and Kumarasiri; 2011) determined auditors' perception of fair value accounting. This will include assessing the appropriateness of the measurement methods and assumptions used and testing the effectiveness of the assessment. Relevant links, with the development of a scale for comparison with the management estimate. As for the study (Hermansson, et al.; 2017), they set out more fair value guidelines that would improve the audit process, in addition to examining ways to improve auditors' assessment of fair value estimates, and auditors should use an approach that relies less on management's assertions of fair value estimates. Mary (2018) investigated the relationship between the characteristics of professional skepticism and the ability of the external auditor to detect fraud and fraud. Malaysia, which provides an in-depth analysis to remove professional doubt.

The theoretical framework was built to study the relationship between the external auditor's perception of the impact of fair value estimates and its impact on the effectiveness of professional skepticism by defining the research problem in the multiplicity of fair value measurement methods and assumptions related to it. This is based on the nature of the activity and the transaction, as the external auditor faces great difficulties in auditing the complex accounting estimates of the value, which increasingly threatens the quality of financial reports and the low level of auditor awareness. From this perspective, the research problem can be formulated, which is represented in the main question (Does the external auditor realize the impact of fair value estimates on the effectiveness of professional skepticism?

2- The external auditor's perception of fair value estimates and the concept and definition of perception:

The concept of cognition is the part of consciousness that allows awareness of cognitive processes and relies on self-observation and mental re-enactment of past experiences, memories, or thoughts for better understanding and organization. Thus, perception is the primary cognitive mechanism of the self. Directed work organization. (Demetrio: 2018: 4) (and specify) (Martinez: 2006: 609) (Perception is the ideas that an individual has about his own thoughts and the understanding that an individual's appreciation of his abilities is in a mental task, What is meant by "perception" in the auditing profession is the knowledge that the auditor acquires as a result of auditing the activity of a particular industry or performing specific tasks. Which enables him to discover errors, and thus the auditor will be able to take a broader and more accurate view of the nature of his clients' activity and their characteristics, which gives him a greater ability to provide distinguished services to them that makes him able to meet their increasing requirements in the field of cognitive perception (Bonner & Lewis 1990: 2), where perception depends on the external

auditor's ability to test the data. and accounting assumptions on which management is based appropriately, noting and integrating discrepancies between those assumptions and other internal data and external conditions (Hammersley:2014: 62), so it is possible 3 The perception was described as knowing that the auditor has, which helps him generate as many Creative ideas that he can solve. specific. The auditor's perception is one of the most important aspects that the auditor relies on rationalizing his professional judgments, in a way that enhances the specific field of auditing. (Danielle .et.al: 2016: 16) to meet the challenges associated with the technical development of accounting methods and procedures.

3- Perception characteristics of the external auditor:

In the auditing profession, what is meant by perception is the knowledge that the auditor acquires as a result of auditing the activity of the external auditor. specific industry or performing specific tasks that enable him to discover errors and thus the auditor will be able to undertake more broadly and accurately the nature of his clients' activity and their characteristics, which gives E greater ability to provide distinguished services to them that make him able to meet their growing requirements in the field of that cognitive realization (Lewes&Bonner:1990:2) and (Hammersley;2014:62) showed that the perception of the external auditor is based on his ability to test the statement and adequately evaluate management's accounting assumptions and assumptions, noting and integrating inconsistencies between those assumptions and other internal data and external conditions.

i. The concept of fair value:

It has been analyzed and studied for a long time and has become theoretical. According to researchers, it is not the only measurement methodology, as it includes various approaches to estimating the exit value. The Financial Accounting Standards Board (FASB) states that an accounting estimate of fair value needs to begin with a series of assumptions. while providing a frame of reference in which the principles are applied and elements that reflect expectations of how the Fund will operate GAAP (Upton & Foster, 2001:2) as the exit price, in 2001 when it was described by the U.S. Accepted Accounting Principles. Previous International Financial Reporting Standards as entry price, defined as 'the amount at which an asset can be exchanged or a liability settled between knowledgeable parties willing to In a transaction between two parties independent (kieso&weygandt:2011:53).

The role of the external auditor in auditing management assumptions of fair value estimates.

The measurement of fair value estimates is based on assumptions and models determined by management. These assumptions are inputs to accounting estimates that are not based on market prices or formulas. However, in light of the conditions of uncertainty (Al -Rahman, 2018:89-90), the auditors are required to evaluate the reasonableness of the assumptions used by the management in preparing the estimates, and pay attention to There is a contradiction in the relevant evidence, because the uncertainty related to the reasonableness of assumptions allows for the existence of management bias, which may lead to material errors, as in the case of (Backof: 2018: 1798) The auditors' evaluation of the reasonableness of the assumptions prepared by the management is one of the core issues when auditing these estimates. Therefore (Singh&Doliya: 2016: 302) considered the process of auditing fair value estimates as a profession based on the personal assessment of auditors and the lack of experience, skills, and knowledge of these auditors that would enable them to review fair value estimates when the matter requires the use of specialized experts to evaluate these estimates. The bias of that administration, whether intentionally or unintentionally, may result in This fertile measurement and display that would be an unfair field for the results of the unit's business and its financial position, and the distortion of profits and property rights.

ii. Fair value of financial assets:

The International Accounting Standards Board (IASB) issued the International Accounting Standard International Financial Standard (IFRS9) (Financial Instruments) in November 2009, and it is considered the first batch to replace the International Accounting Standard (IAS39) after its adoption. The new standard (IFRS9) (New Requirements in the Measurement and Classification of Financial Assets), whereby a financial asset is defined as `any contract that results from each financial asset of an economic unit and a financial liability or equity instrument of another entity (605: 2019: Wiley) where financial assets have been divided into two categories. They are financial assets that are measured at amortized cost (and are measured later in financial reports) or the second category is the first financial asset (cost, amortized when preparing the measurement at fair value, International Arab Society of Certified Accountants (IASCA, 2019) which is divided into two types: -

1. Financial assets at fair value through profit and loss.

2. Financial assets at fair value through other comprehensive income, where the classification is within these two categories upon acquisition and when the economic unit becomes a party under a contractual engagement with third parties based on each of the following (IFRS: 2014: 4)

iii. The business model of the economic unit, financial asset management:

It means the manner in which the economic unit manages its business-related financial assets. Actual actions take place on a portfolio of financial assets, where the business model of the economic unit does not depend on management's intentions regarding a single instrument. Rather, (Dyckman & Davis: 2001: 649), it is at the portfolio level. Therefore, an economic unit may maintain an investment portfolio in order to collect contractual cash flows and manage another portfolio for purposes of satisfying trading to achieve fair value changes.

iv. Financial asset:

That is, the financial asset generates cash flows on specific dates, such as bonds.

 Here, the previous classification under the categories of financial assets prepared for sale, financial assets held to maturity, loans, and financial assets is canceled. Receivables are included in the standard (IAS39). Therefore, he explained (Larson, 2005: 430) that the objective of the business model of the economic unit is to preserve financial assets in order to collect contractual cash flows even when selling financial assets.

4- professional skepticism when auditing fair value estimates

Professional skepticism is one of the basic concepts in the auditing profession, as the auditor cannot provide reasonable assurance about the validity of the evidence and information obtained from the financial statements that are free from cases of fraud and material errors without possessing the direction of doubt, and that the auditor's practice of skepticism enhances the professional competence of audit quality. Therefore, the International Standard on Auditing (IAS200, Paragraph 13) refers to the concept of surrounding circumstances that may indicate the possibility of doubt. Professional skepticism is an attitude that includes a questioning mindset, concern for material errors, and assessment of evidentiary evidence (GRENIER: 2010:281). Asking questions and evaluating audit evidence critically", while (Arens. et al.: 2014: 84)specified that professional skepticism is "the direction taken by the auditor by not assuming a lack of integrity of management and not assuming its absolute honesty. Added to this (Plumlee: 2017:4) is the independence of that auditor. And (Quadacker, et al: 2014:649) show that professional skepticism is related to the judgments it makes. The external auditor relies on his authority, which reflects a high assessment of the risk of incorrect disclosure by management based on the available information.

5- Characteristics of professional skepticism:

The (Hurtt,2018: 152) study identified (characteristics of professional skepticism) that could affect the auditors' practices and judgments, which are reflected as a result of the opinion contained in the auditor's report. Dividing these characteristics into three groups as follows:

A - Characteristics related to the auditor's examination of audit evidence: Includes the characteristics that First, focus on audit evidence, and includes the following**:**

1- **The characteristic of interrogating the mind (the questioning mind):** it means that the minds have the ability to constantly question, etc. The duty to obtain sufficient evidence about the validity of the obtained and appropriate audit evidence that helps the auditor to express an audit opinion (Iskandar & Hussin: 2015: 70). Noting that the American Standard (SAS 99) focused extensively on professional skepticism by emphasizing that skepticism requires continuous questioning of the mind in light of the available information and whether there are material misstatements confirmed by the audit evidence obtained (SAS99, 2002:1724).

2- Suspension of judgments: This feature is an integral part of professional skepticism, as it requires the auditor to suspend judgments until appropriate and appropriate evidence is collected. When expressing an opinion, the auditor must make an effort to corroborate or negate assertions and present judgments based on convincing evidence.

3 -The property of searching for knowledge:

This characteristic indicates that the auditor should be characterized by cognitive curiosity, have a general exploratory vision, be aware of all aspects related to the audit process, and obtain more information because low knowledge reduces the level of suspicion of the auditor and makes him dull and dependent. Accuracy of management estimates leads to increased risk. (AL-Shaear: 2018: 40).

B- Characteristics related to how to audit evidence is dealt with by the external auditor**:** (Zeitoun, et al: 2017 :12) stressed that it includes two characteristics of self-confidence and independence, as they represent the ability of the self-referee to deal with the information available to him, and they are represented by the following characteristics: -

1. Characteristics of self-confidence: Professional doubt requires the external auditor to have high self-confidence, ability, and competence in analyzing data, diagnosing violations, and issuing professional judgments as well. In addition to the strength of his personality that maintains the mentality of questioning to face the temptations related to accepting the answers provided by the administration, and the courage to express his opinion and complete conviction in the work he is doing.

2. emphasized the independence and impartiality of the external auditor, the most basic features that the auditor should have when evaluating the evidence, as it requires him to evaluate the evidence objectively, in order to be able to determine whether the evidence is sufficient to issue a professional judgment and to express the appropriate opinion On the Fairness of Financial Statements (Risho: 2014 : 253).

6 - Research Hypotheses Test:

H0- There is no correlation between the external auditor's perception of fair value estimates and the effectiveness of professional skepticism.

H1- There is no statistically significant relationship between (the external auditor's perception of fair value estimates) and (the effectiveness of professional skepticism).

The research community included auditing companies and offices totaling (255) companies and offices, according to the Auditors' Bulletin, in all governorates of Iraq except for the Kurdistan region. The research sample included workers in first-class audit offices and firms in all governorates of Iraq, with the exception of the Kurdistan region. A number of (136) companies audit is responsible for auditing all Iraqi companies and banks in the private sector.

First: The external auditor's opinion on the fair value estimates of stock investments in banks.

By reviewing the reports of the external auditor on the final statements of the banks mentioned in Table No. (3) and examining the reports of the Board of Directors, we provide a summary of the auditors' opinion on the fair value of the shares. For the purpose of collection by those banks and an indication of the methods used by the auditors specialized in examining the validity of these accounting estimates after their approval of the financial statements and for the period from (2016 to 2021) as shown in Table No. (1) Below:

1/ The Al Ahly Bank of Iraq
The opinion of the external auditor:
➢ The asset inventory process was carried out properly and under our supervision, and the results of the inventory were in conformity with the records, principles, and approved accounting principles. Assistance These assets have been evaluated according to
➢ The bank's financial investments represent an investment portfolio in the shares of companies listed and unlisted in the Iraqi Stock Exchange, where it was noted that the ratio of investments to capital and sound reserves amounted to (3%) after excluding investments in Iraqi government bonds Investment balance ceilings
➢ The bank's consolidated financial statements and management report are in agreement with the records and meet the legal requirements and express a clear and fair picture of the bank's consolidated financial position and its cash flows.
2/ Mansour Investment Bank
The opinion of the external auditor:
➢ The financial investments were evaluated at fair value within the financial assets accoun at fair value through other comprehensive income and amounted to (1,104.381) thousan dinars as of 12/31/2020.
➢ The financial investments were evaluated at fair value within the financial assets accoun In fair value through other comprehensive income, it amounted to (1.512.979) thousan dinars as of 12/31/2021, and it amounted to 7. The percentage of the aforementioned investments to capital and sound reserves is (5.0%).
➢ taking into consideration the notes and clarifications in the report that the data The financial statements are in agreement with the records, meet the legal requirements, and clearly and fairly express the financial position.
3 / Commercial Bank of Iraq
The opinion of the external auditor:
➢ The relevance and objectivity of the internal evaluation were assessed, in addition to the efficiency and independence of the experts used in the calculation process.
➢ The accounting policies, estimates, and significant accounting judgments were evaluated.
➢ The consolidated financial statements of the bank as a whole are free from material misstatements, whether resulting from error or fraud, as of 12/31/2021.

It is clear in Table No. (1) that the researcher did not infer a number of axes that there is no indication that the auditor has reviewed and presented them in the audit reports for all studies. The aforementioned symptoms reflect the level of the auditor's awareness of the fair values audit, and were represented by the following observations :

1- It was not confirmed that the management took into consideration Market price fluctuations, the level of risks associated with the market, and analysis of changes and fluctuations in estimating the fair value of the stock Investing the financial assets and in the manner through which the auditor can exercise professional doubt about the appropriate evidence for that accounting estimate .

2-It was appropriate and characterized by a great deal of reliability, indicating the extent of its reflection on measurement and presentation within the framework of the applicable financial reports, account balances, and related disclosures.

3-The nature and type of appropriate evidence that could be obtained have not been clarified. During this, the auditor makes sure of the reasonableness and correctness of the methods used by management in the evaluation, as they are reflected in the amount of audit evidence of the auditor's professional skepticism, which primarily reinforces the reasonableness and realism of what the management went to when developing and selecting it. for its assumptions and interpretations.

4 -It was not clear that the auditors did the mathematical recalculation of the fair values and ensured the validity of the inputs approved by the bank's management in stock evaluation.

5-There is no indication that the auditor has assessed the risks of material misstatement in the estimates of the fair value of the shares and the manner in which According to which the management prepared these estimates.

Second / **Analysis of the variables of fair value estimates for long-term equity investments the fair value.**

evaluation of the equity investments of banks is reviewed as a model that can be used by the external auditor in examining and evaluating the management's disclosures about the fair value through steps The following calculations:

1-The return rate per share and the market RE / RM

The return per share shows the percentage of profit achieved for each ordinary share during the fiscal period. The return per share and the market return are calculated for banks whose activities are subject to audit The auditors are the research sample, where the rate of return on the stock and the market will be calculated for the month (December / 2021) as growth A calculation model is based on the monthly rate and for the period of the year (2016-2021) according to the following equations:

$$\text{Rs} = \frac{Po - Pi + Dij}{Pi}$$

Rs = stock return.

Po = Opening price Monthly per share.

Pi = The monthly closing price of the stock.

D = Dividend per share.

Calculation of the stock and market return for the Al Ahly Bank of Iraq in December 2021

$$\textbf{Earnings per share for the month (D/2021)} = \frac{1.23 - 1.1 + 9.13224}{1.1} = \textbf{8.420418 dinar}$$

As for the rate of return on the market, the return on the investment portfolio, which consists of all the shares of the economic units listed in the Iraq Stock Exchange, is calculated through a sample consisting of (43) A commercial bank listed in the Iraq Stock Exchange according to the following equation:

$Rm = \frac{Ii - I}{I}$

RM=Return of the market portfolio.

Ii= Subsequent observation of the market index.

I= Previous observation of the market index.

$$\textbf{Market return for the month (D/2021)} = \frac{569.2 - 551.9}{551.95} = \textbf{0.031253 dinar}$$

Tables No. (2) below shows the calculation of stock and market returns for the National Bank of Iraq, noting that the above-mentioned equations have been applied to the rest of the banks, and below are the results of applying the equations to the shares of the National Bank of Iraq, as follows:

Table No. (2) Opening and closing prices for the shares of the Al Ahly Bank of Iraq

Year	Month	Opening Price	Closing Price	Results		market index	cash dividends
		OP	CP	stock return	market return	M/I	CD
2016	January	0.56	0.45	-0.55	-0.12596	638.54	
	February	0.48	0.46	-0.54	-0.02601	621.93	
	March	0.42	0.42	-0.58	-0.06764	579.86	
	April	0.39	0.31	-0.69	-0.04939	551.22	
	May	0.3	0.31	-0.69	-0.07436	510.23	
	June	0.31	0.31	-0.69	0.057307	539.47	
	July	0	0	0	0.050049	566.47	
	Father	0.3	0.33	-0.67	-0.01013	560.73	
	September	0.33	0.32	-0.68	0.000499	561.01	
	October	0.34	0.34	-0.66	1076.521	604,500	
	November	0.35	0.41	-0.59	-0.99895	632.28	
	December	0.45	0.41	-0.59	0.027203	649.48	
2017	January	0.45	0.59	-0.41	0.096677	712.27	
	February	0.59	0.56	-0.44	0.044323	743.84	
	March	0.55	0.54	-0.46	-0.10672	664.46	
	April	0.54	0.55	-0.45	-0.04437	634.98	
	May	0.54	0.54	-0.46	-0.06857	591.44	
	June	0.57	0.56	-0.44	-0.02592	576.11	
	July	0.52	0.5	-0.5	-0.00087	575.61	
	Father	0.48	0.51	-0.49	0.001685	576.58	
	September	0.51	0.5	-0.5	0.018436	587.21	
	October	0.49	0.5	-0.5	-0.03588	566.14	
	November	0.48	0.47	-0.53	0.009556	571.55	
	December	0.46	0.47	0.021783	0.015729	580.54	0.00002

2018	January	0.45	0.48	-0.52	0.017036	590.43	
	February	0.48	0.58	-0.42	0.075606	635.07	
	March	0	0	0	-0.00394	632.57	
	April	0.55	0.53	-0.47	-0.04041	607.01	
	May	0.53	0.53	-0.47	-0.0218	593.78	
	June	0.52	0.43	-0.57	-0.02479	579.06	
	July	0.41	0.41	-0.59	0.005837	582.44	
	Father	0.36	0.32	-0.68	-0.03606	561.44	
	September	0.32	0.26	-0.74	-0.05224	532.11	
	October	0.26	0.21	-0.79	-0.04879	506.15	
	November	0.21	0.37	-0.63	-0.01606	498.02	
	December	0.38	0.34	-0.10505	0.024296	510.12	0.00008
2019	January	0.36	0.37	-0.63	-0.03503	492.25	
	February	0.38	0.32	-0.68	-0.05509	465.13	
	March	0.32	0.29	-0.71	0	465.13	
	April	0.31	0.29	-0.71	-0.00112	464.61	
	May	0.29	0.38	-0.62	0.063365	494.05	
	June	0.39	0.38	-0.62	0.004574	496.31	
	July	0.38	0.38	-0.62	-0.03268	480.09	
	Father	0.38	0.46	-0.54	-0.01433	473.21	
	September	0.45	0.64	-0.36	0.004797	475.48	
	October	0.65	0.52	-0.48	0.01958	484.79	
	November	0.51	0.6	-0.4	0.002083	485.8	
	December	0.59	0.61	8.201695	0.016385	493.76	5.009
2020	January	0.6	0.57	-0.43	-0.02657	480.64	
	February	0.57	0.48	-0.52	-0.03705	462.83	
	March	0.5	0.52	-0.48	-0.03874	444.9	
	April	0	0	0	-0.07053	413.52	
	May	0.5	0.5	-0.5	0.026964	424.67	
	June	0.5	0.5	-0.5	0.024183	434.94	
	July	0.52	0.68	-0.32	0.039201	451.99	
	Father	0.68	0.69	-0.31	0.039293	469.75	
	September	0.69	0.67	-0.33	0.031144	484.38	
	October	0.67	0.65	-0.35	-0.00087	483.96	
	November	0.65	0.67	-0.33	-0.00653	480.8	
	December	0.68	0.92	10.47353	0.056635	508.03	6.882
2021	January	0.93	0.85	-0.15	-0.04704	484.13	
	February	0.85	0.86	-0.14	0.149588	556.55	
	March	0.86	1	0	0.017303	566.18	
	April	1.03	1	0	0.046911	592.74	
	May	1	1.09	0.09	-0.03641	571.16	
	June	1.05	1.29	0.29	0.004202	573.56	
	July	1.27	1.17	0.17	0.003138	575.36	
	Father	1.17	1.43	0.43	0.032745	594.2	
	September	1.44	1.35	0.35	-0.01074	587.82	
	October	1.38	1.8	0.8	-0.00172	586.81	
	November	1.79	1.15	0.15	-0.05941	551.95	
	December	1.1	1.23	8.420418	0.031253	569.2	9.13246

Source: prepared by the two researchers based on the data of the Iraq Stock Exchange

Through Table No. (2) The opening and closing prices, the market index, and the cash distributions were presented according to the financial statements of The bank and announced on the official page of the Securities Commission website related to commercial banks. As for the column related to the return on the share and the market, it was calculated by the researcher, and it is clear that the National Bank achieved the highest opening price of (1.79) dinars during (November / 2021), and the lowest opening price for the bank's shares was achieved during the months of (July / 2016) and (March). / 2018) with a value of (0) dinars, while the bank achieved the highest closing price during the month (November / 2021) with a value of (1.80) dinars, and the lowest closing price in Monthly (July / 2016) and (March / 2018) with a value of (0) dinars.

2-The beta coefficient (β) of the stock.

The risk of stocks varies according to the value of the beta coefficient, for example, if there are certain stocks that have a change in the beta coefficient greater than one (β>1), this means that the changes in the return of the share are equal to the return of the market, in addition to that, the risk of these shares is high It is called Stock Aggressive (if the beta coefficient of the share is less than one Since (1<β) will have a lower risk than the return risk of the market portfolio, it is called In conservative or defensive stocks, if the beta coefficient is equal to one (β = 1), this means that the stock is at risk. The value of the beta coefficient is calculated on the market portfolio (Rm) (while the stock returns are equal to the risk of returns of the market portfolio). According to the following mathematical equation:

$$\beta = \frac{Cov(Ri\ Rm)}{vRM}$$

β= Beta

(Cov / Rm Ri)= The common discrepancy between the stock return and the market return

VRm = Market portfolio return variance

The beta coefficient of the stock can be calculated through the following equation:

The standard deviation of the return on the stock *
The value of the correlation between earnings per share and the market
stock beta = The standard deviation of the market

$$\beta = \frac{1.93197}{126.8714} * 0.0412 = -0.00627 \text{ Iraqi Al Ahly Bank share beta}$$

After using the same steps whose results are presented in Table (2) and applying the calculation equation (Share beta (The results of calculating the share beta for banks are included (Al-Mansour Investment, Iraqi Commercial And through the mathematical equations that the researcher used after calculating the value of the return on the stock and the return on the market portfolio for the economic unit and for the same period, as shown in Table No. (3) below:

Table (3) the results of the data of the economic units of the research sample to reach the beta of the stock risks

Bank name	Average earnings per share, R/E	average market return, R/M	EPS variance	Market return variance	Correlation between market return and share return	for the standard deviation of the stock	The standard deviation of the market return	stock beta β
Al Ahly	0.00795	0.1493369	3.732527	16096.36	-0.0412	1.93197	126.8714	- 0.00627

bank								
Mansour	1.338026	0.1493369	128.08329	16096.36	-0.0143	11.31516	126.8714	- 0.00128
commercial	12.10582	0.1493369	76.87708	16096.36	-0.88236	8.00401	126.8714	- 0.19132

According to Table No. (3), the first and second columns represent the average return of the stock and the market, which was extracted through the sum of the values according to their numbers and using the (Average) function, which is considered One of the functions of the Excel program, while the third and fourth columns represent the variance of the stock return and the market return of the economic units in question using the (VAR) function, either the coefficient The correlation between the return on the share and the market return of the economic units was calculated by using the (CORREL) function, as well. The fields for calculating the standard deviation value of the return of the stock and the market were the result of using the STDEVA function (for each of the returns d the stock and the market, and as a result of applying the beta law by dividing the standard deviation value of the stock by the standard deviation value of the market multiplied by the value of the correlation between the return of the stock and the stock Then, a coefficient (beta) is reached.

Where the expected interpretation of the results of the coefficient (β) can be interpreted as follows:

β < 0 inverse correlation between stock returns and market returns.

β = 0 there is no correlation between stock returns and market returns.

1 < β < 0 positive correlation and the change in stock returns is less than the change In market returns.

β = 1, the correlation is positive, as stock returns change with the same change in market returns

β > 1, positive correlation, and the change in stock returns is greater than the change in market returns.

1- **The risk-free average rate**

The risk-free rate is (5.32) for the year 2021 according to the statistical bulletins Which are issued by the Central Bank of Iraq and issued by the General Directorate of Statistics and Research, as shown in Table (3) below:

Table No. (4) The risk-free rate for the research sample years

year	risk free rate%
2016	4.96
2017	5.73
2018	5.51
2019	5.34
2020	5.55
2021	5.32

Source: Statistical releases issued by the General Directorate of Statistics and Research at the Central Bank of Iraq.

Where the risk-free rate was calculated for the year 2021 and previous years according to the following equation:

$$\text{risk free rate} = \frac{\text{Total interest rates for low-risk investments}}{\text{sum of values}}$$

$$\text{risk free rate} = \frac{63.93}{12} = 5.32\ \%$$

2- **Equity financing cost**

The equity financing cost model consists of three main variables: the risk-free rate Rf, the market rate of return Rm, and the beta coefficient of the economic unit stock. β, and through these three variables, the parameters of the capital asset pricing model (CAPM) are calculated (by finding the relationship A relationship between the risk-free rate for the year 2021, the average earnings per share and the beta coefficient was reached. The required rate of return according to the following equation: R=Rf+(Rm-Rf) β

required rate of return= R

risk free rate = R f

market return = R m

Calculating the risk-free rate for the Al Ahly Bank of Iraq

> **R= Rf + (Rm-Rf) β**
>
> **R = 0.0532 + (0.1493369 - 0.0532) * - 0.0063 = 0.05561 required rate of return**

By applying the same equation to the remaining banks, we arrive at the rates listed in Table No. (5) below**:**

Table (5) Parameters of the Capital Assets Pricing Model (CAPM)

Bank name	risk free rate %	average market return	β beta stock	% required rate of return
Al Ahly	0.0532	0.1493369	- 0.0063	0.05561
Mansour	0.0532	0.1493369	-0.00128	0.05369
commercial	0.0532	0.1493369	- 0.19132	0.06052

Source: Prepared by the tow researchers based on the published financial statements of the banks.

Through Table (5), we find that the value of the required rate of return using the capital asset pricing model equation, through which we can reach the financing cost In property rights, noting that the Commercial Bank of Iraq has achieved the highest required return. Ownership of banks has been listed in Table No. (6) below:

Table (6) total equity of commercial banks - amounts in millions

Bank	paid Capital	Total equity
Al Ahly	250,000,000,000	315,862,149
Mansour	250,000,000,000	280,081,281
commercial	250,000,000,000	314.542.919

Source: Prepared by the tow researchers based on the published financial statements of the banks.

Explanation of table (6) the balance shown in the statement of financial position

Expenses and explain that the value of equity represents the financial structure of these expenses, but the financing value. By means of zero debt, it is an indicator of banks' confidence in the ownership rights of domestic funds and long-term external financing due to the banking policy they follow. These expenses are managed in financing its activities, and accordingly arrive at the weighted average cost of capital based on the cost of equity and amount table (7) below

Table (7) weighted average cost of capital

Bank name	cost of equity	Debt cost	β beta stock
Al Ahly	0.05561	0	0.05561
Mansour	0.05369	0	0.05369
commercial	0.06052	0	0.06052

Source: Prepared by the tow researchers based on the published financial statements of the banks.

3- Free Cash Flow (FCF)

In order to ensure the correctness of the banks' estimates of financial assets, the following must be calculated:

Free cash flow = net operating cash flow - Investment spending - Cash dividends.

Operating cash flow = earnings before interest and taxes + depreciation - taxes + - change in working capital.

Change in working capital = net working capital for the current year - net working capital for the previous year.

The method of calculating the free cash flow of the Al Ahly Bank of Iraq for the year 2021.

> The money worker is a capital in change =4.293.588 - 1.912.743 = 2,380,845 Dinars
>
> For my cash operation = 32.411.941+7.326.932 - 6.248.593 +2.380.845 = 35,411,941 Dinars
>
> Free Cash Flow = 35.411.941- 10.101.103 - 2,283.115 = 23.486.907 Dinars

According to the results presented in Tables 8-9 (Cash Flow), the free cash flows for the previous years and for the remaining banks are arrived at. Free credit for banks whose activities have been audited by the relevant auditors, for the period from (2016 to 2021).

Table (8) Free cash flow of the Al Ahly Bank of Iraq - amounts in thousands of dinars.

Date	2016	2017	2018	2019	2020
Net wind (loss) after tax	23.501.801	2.965.436	-7.912.541	-9.164.205	19.907.518
depreciation	2.577.492	2.221.139	2.182696	2.689.044	3.544.657
The change in working capital	-10.436.225	11.295.214	10.532.088	49.783.931	6.318407
net operating flow	15.643.068	16.481789	4.802.243	43.308.770	29.770.582
capital spending cash	3.402.595	2.717.320	1.284.752	2.022.290	17.205
Distribution of dividends	------	5000.000	20.000.000	12.522.488	2.258.458
Free cash flow	12.240.473	8.764.469	-16.482.509	23.763.992	27.494.919

Source: Prepared by the tow researchers based on the published financial statements of the banks.

From Table No. (8) and by looking at the income statement, it is clear that the National

The Bank of Iraq achieved the highest net profit after tax during the year 2021 at an amount of (26,122,025) thousand dinars, followed by the years 2016, 2020, and 2017, respectively, and the bank also achieved the highest net loss in the year. The year 2019 amounted to (9,164,205) thousand dinars, and the bank achieved the highest net operating cash flow for the year 2019 with a value of (43,308,770) thousand dinars, as a result of the high value of the change in work. capital. Table No. (9) shows the bank's dividend distributions and cash flows during the five years, except for 2016. As for free cash flow, the

bank achieved the highest free cash flow during the year 2020 with a value of (27,494,919) thousand dinars, and it is considered the best year for the National Bank of Iraq Among the aforementioned years, while the bank achieved in 2018 a value of (-16,482,509), which is the lowest cash operating level. between the years under study.

Based on the steps contained in Table No. (8), the results for banks were reached according to Table (9) below, as follows:

Table (9) Free cash flow for commercial banks - amounts in thousands of dinars

Bank name	2016	2017	2018	2019	2020	2021
Free cash flow						
Al Ahly	12.240.473	8.764.469	-16.482.509	23.763.992	27.494.919	23.486.907
Mansour	5.443.735	34.321.880	7.576.404	-38.946.587	6.126.086	14.137.523
commercial	213.438.302	30.461.047	-24.972.504	-17.21.0438	69.920.173	12.341.309

Source: Prepared by the tow researcher based on the published financial statements of the banks.

Through table (9), the Commercial Bank achieved the highest free cash flow during the year (2016) by (213,438,302) dinars, while Al-Mansour Bank achieved the lowest cash flow during the year (2019) by (-38,946,587) dinars.

3- **Terminal Value**

The final value of the economic unit is calculated according to the following equation:

Present value of free cash flows + present value of terminal value - debt. The final value can be calculated using the Perpetuity Growth Model Perpetuity Growth Model

This method is based on the Gordon Growth model, which is based on the assumption of the state of continuous growth of the economic unit and the same growth rates that were assumed to reach the free cash flow. The Perpetuity Growth Model includes the following equation: $TV = \frac{FCF*(1+G)}{WACC-G}$

Terminal Value =TV

The average free cash flow for the years of the research sample = FCF

Permanent annual growth rate of cash flows =G

Weighted average cost of capital =WACC

(The researcher does not assume a growth rate on the basis that the generation of free cash flows continues at one level).

Calculating the final value of the Al Ahly Bank of Iraq

$$TV = \frac{18.054.619*(1+0)}{0.05561-0} = 324.664.97 \text{ dinars}$$

Based on the method of calculating the final value of the National Bank of Iraq, the final value (TV) of the banks was reached, as indicated in Table No. (10), as follows:

Table (10) final value of commercial banks - amounts in thousands of dinars

Bank name	*final value*
Al Ahly	**324.664.970**
Mansour	**330.763.699**
commercial	**1.014.385.806**

Source: Prepared by the tow researchers based on the published financial statements of the banks.

4- **Present value of free cash flow and terminal value**

The net present value of free cash flows and the final value are calculated according to the following formulas: -

➢ Net present value = free cash flow * discount factor for irregular cash flows for each year.

➢ discount cash flows = $1 \div (1+R)^n$.

R = The interest rate is (weighted average cost of capital).

N = Number of years.

Calculating the net present value of free cash flows and deducting the final value of the National Bank of Iraq for the year 2021-2021.

> Free cash flow discount= $1 \div (1+0.05561)^6 = 0.7227$ Dinars
>
> The net present value of free cash flows = 23.486.907 * 0.7227 = 16.973.987 Dinars
>
> The net present value of the final value = 324.664.970 * 0.7227 = 234.635.373 Dinars

Based on the above equations, the results related to deducting the free cash flows and the final value of the banks were reached according to what is shown in Table (11).

Table (11) Net Present Value of Free Cash Flows and Final Discounted Value - Amounts in Thousands of Dinars

Bank name	2016	2017	2018	2019	2020	2021	final discounted value
Al Ahly	11.595.640	7.865.509	-14.012.808	19.139.115	20.977.587	16.973.987	234.635.373
Mansour	5.166.794	30.918.580	6.477.923	-31.605.768	4.718.503	10.370.581	241.679.987
commercial	20.105.888	27.083.645	-20.898.841	-13.605.561	52.118.494	8.674.571	713.000.746

Source: Prepared by the tow researchers based on the published financial statements of the banks

Table (11) shows the current value of the free cash flows and the final discounted value, as they are the main elements in calculating the total value of the economic unit, noting that the discount coefficient for the final value represents the discount coefficient for the irregular cash flows for the last year (the sixth year / 2021).

5- **Estimating the fair value of net assets**

The fair value of the commercial banks that have been audited by the external auditor is estimated by calculating the following:

The value of the economic unit = the total discounted cash flows + the final discounted value

Net assets (property equity) = value of the economic unit - outstanding debts

And in application of the calculation methods referred to above, the net assets of commercial banks were reached, as shown in Table (12) below.

Table (12) Fair value of net assets of commercial banks - (amounts - in thousands)

Bank	Total discounted free cash flow (1)	Discounted Final Value (2)	Economic unit value 1 + 2 = 3	outstanding debts (4)	Net assets (equity) 3-4=5
Al Ahly	62.539.030	234.464.704	297.003.734	16.588.621	280.415.113
Mansour	26.046.613	241.679.987	267.726.600	67.927.735	199.798.865
commercial	73.478.196	713.000.746	786.478.942	37.705.72	782.708.370

Source: Prepared by the tow researchers based on the published financial statements of the banks

It is noted from table (12) that the Mosul Bank for Development and Investment obtained the highest discounted free cash flows, and the highest discounted final value, after subtracting the outstanding debts. Which was subtracted from the total value of the economic unit, and the fair value of the banks' shares was reached. According to (according to the following method: Table 13.)

(Net assets) / (paid-up capital) number of shares) = output × asset ratio to total assets = estimated value of repair.

Table (13) estimated fair value of shares

Bank name	Estimated fair value of the share
Al Ahly	$\frac{280.415.113}{250.000.000.00} = 1.121 \times 0.4 = 0.0484$ dinars
Mansour	$\frac{199.798.865}{250.000.000.00} = 7.9919 \times 0.216 = 1.72$ dinars
commercial	$\frac{782.708.370}{250.000.000.00} = 3.13 \times 0.281 = 0.88$ dinars

When comparing the market value of bank shares for the fiscal year ending on (31/12/2021) with the estimated fair value that was reached, we include the following observations

Table No. (14) Comparison between the market value approved by banks and the estimated fair value

Bank name	Estimated fair value of the share	The market value of the share	Notes
Al Ahly	0.0444 dinars	1.23 dinars	-The bank's shares are trading at a price higher than its fair value, with a difference of (0.786) dinars. - The market value of the share is subject to supply and demand factors without taking this value into account the market risks represented by price fluctuations and instability. Also, the reliance of the external auditor on a method different from the methods of management develops the accounting measurement test procedures and reduces the risk of non-discovery. The risks are high, which

			necessitated more audit evidence to be obtained by the auditor.
Mansour	**1.72 dinars**	**0.51 dinars**	- The bank's shares are trading at less than their fair value, with a difference of (1.72) dinars. - The external auditor's use of the discounted cash flow method or any other evaluation method can be considered as a tool used to review and compare fair value estimates through the results that are reached, especially investments in shares of other companies that are not listed in the stock market and do not have an active market and the possibility of the external auditor By submitting a recommendation to adopt this method for the purpose of reaching the fair value according to the percentage of what the invested asset constitutes in relation to the value of the net assets in those companies, which supports directing the management of banks that disclose some of their investments to the possibility of adopting this method in measurement and disclosure.
commercial	**0.88 dinars**	**0.62 dinars**	The bank's shares are being traded at less than their fair value, with a difference of (0.26) dinars - The auditor's use of independent evaluation models or the development of a specific method enhances the effectiveness of the professional doubts of the auditor and is more able to obtain objective evidence that enhances the interpretation of the mental questions raised in the mind of that auditor. The professional practiced by him to ensure the reasonableness of the measurement methods adopted by the management of the economic unit, given that the fair value estimates are

			subject to judgments and personal judgments by the management, in addition to enabling the auditor to diagnose any risks associated with errors or material misstatements, as confirmed by auditing standard (315). And (330) internationals.

After testing the research hypotheses using the analytical method, the following was concluded:

From the foregoing, the alternative hypothesis is accepted and the research hypotheses are rejected, due to the existence of a positive relationship with a significant correlation and impact between the two axes of the research, the external auditor's perception of the fair value estimates, and the effectiveness of professional skepticism.

Results:

1. Among the results of the practical analysis: the auditor should have sufficient understanding and technical knowledge of the client's industry and the impact of fair value estimates on the activity of the economic unit.

2. The external auditor lacks sufficient knowledge of the rationale behind the methods used by the management in estimating the fair value of the investment portfolio of shares that do not have an active main market for evaluation.

3. There is no evidence that the external auditor has identified and assessed the risks of material misstatement that may be involved in the estimates of the fair value of the shares and the manner in which management has prepared these estimates.

4. The effectiveness of the professional skepticism of the external auditor is affected by the level of knowledge that the auditor possesses and the impact of fair value estimates.

5. The efficiency of the external auditor is reflected in the audit planning procedures by identifying appropriate evidence related to fair value estimates and limiting personal judgments and judgments. To express a neutral technical opinion.

6. The practices of auditors in the Iraqi environment lack appropriate perception and guidance regarding the logic of fair value, which would enable them to exercise professional skepticism more effectively.

Discuss the results

1- The external auditor must enhance his awareness of the advantages of fair value estimates and understand the activity of the economic unit in order to be able to practice auditing with high efficiency, as this is reflected in the quality of the submitted reports by these reviewers.

2- The external auditor must obtain a sufficient understanding of the foundations on which the economic unit management relied in estimating the fair value, most notably the evaluation of stock investments that do not have the main market. and active.

3- It is important for the external auditor to recalculate fair values and ensure the validity of the inputs approved by the bank's management in evaluating the assets and the technical knowledge of the valuation methods.

4. The external auditor shall identify and assess the risks of material misstatement that may be included in the fair value estimates.

5- The importance of the external auditor choosing appropriate evidence related to fair value estimations in order to enhance the effectiveness of his professional doubt and provide a neutral technical opinion.

6- The possibility of conducting more studies that provide an explanation in the Iraqi environment for practicing professional skepticism effectively while auditing management assumptions of fair value.

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