



The role of the auditor in the reliability of the future financial information and the effect on tourism: an empirical study of the Iraqi environment according to ISA 810

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Abstract

The aim of this study was to evaluate the importance of the role played by the report given by an auditor which includes forecasting the future financial information that has become a great importance in accordance with the rapid changes in the business environment and in global tourism. The important role of the information disclosed in the financial reports serves as a way to reduce a situation of misappropriation and to enhance confidence in the future information issued by the organization through the requirements of ISA 810. Also, the auditor provides the proposal for a future information provider in the banking sector in the Iraqi environment as well as the impact on the tourism for the period of 2009-2012. The study shows that the banking sector listed on the Iraqi Stock Exchange discloses future information but there is weakness in the reliability of the information through the auditors' report. Thus, this study proposed a format for the report of the external auditor in accordance with ISA 810.

Keywords: Auditors, banking, tourism, financial reporting, Iraq.

Introduction

Recently, the trends in financial reports have expanded disclosure towards the predictive capacity of the information. The financial reporting enhances a stakeholders' ability to make decisions and has been improved by continuous contributions of the future financial and non-financial information available (Adams & Simnett, 2011). However, an external auditor who is identifiably qualified is needed urgently by the stakeholders in expressing their willingness to validate future financial statements through the reports. This study is divided into four sections to examine the requirements of the standard ISA 810 which provides information on future confidence. The first section addresses the methodology of the research while the second section is the report of ISA 810 and its role in trusting the financial reports. The third section addresses the elements of the ISA 810 auditor's report and its role in creating confidence in the future financial information in the Iraqi stock market. The last section comprises conclusions and recommendations.



Prior research analyses and categorizes the reasons for financial differences between countries (Choi & Mueller, 1984; Douplik & Salter, 1995; Mueller, 1967; Ali & Ahmed, 2007; Frank, 1979; Da Costa *et al.*, 1978; Gray, 1988; Nobes, 1984; Nair & Frank, 1980; Nobes & Parker, 1995; Radebaugh, 1975). There is a need for stakeholders to reduce risks in the business environment (Nicolaidis, 2015), and the need to establish confidence and emphasis on future information due to the increasing needs for accounting disclosure of the future financial information in the tourism industries. In this context, Balaguer and Cantavella-Jordá (2002) suggested the hypothesis of development driven by tourism to generate economic growth by expanding global tourism operations. The TLGH derives straight from the commonly recognized export-led growth hypothesis (ELGH), which indicates that economic growth cannot be promoted simply by extending human and technological resources within the economy and by increasing the profits. The current research fills these significant gaps in the literature by evaluating less Iraqi researched links in advanced financial technology between tourism and economic growth. Meanwhile, the instructions for disclosure and trading with its requirements under Law No (74) for the year (2004), as amended in the market security, confirms that these are not addressed explicitly or implicitly and can raise the following research question:

Following the proposed indicator, does the ISA 810 play a role in emphasizing future information in the Iraqi environment? This study contributes to the existing literatures by addressing the future financial information and the importance and role of the auditor in accordance with the requirements of the standard (ISA 810). Thus, it emphasizes the Iraqi environment and the tourism industry through the proposed index of future disclosure and reports of the auditor.

Literature Review

The important role of information disclosed in the financial reports has been shown to be the best means of reducing uncertainties in light of the changes in the business environment. Through the opinions given by the external auditor on future reports, the need to enhance confidence in the future information issued by the economic units has now increased. The report is a written document issued by a scientifically qualified person who in his unique analysis of the significance of the financial reports of the organization as a result of an audit process has a full account of the future financial information. This study aimed to test the impact of developments in accounting towards the current accounting disclosure which calls for disclosure of financial information and future (Healy *et al.*, 2001). There is difference in the level of disclosure of future financial information in the financial reports of the sectors listed on the Iraqi Stock Exchange. With a positive correlation on market value, the average disclosure was achieved by approaching companies within the selected sectors listed on the Iraq Stock Exchange and by presenting the future financial information from their annual reports and also through the instructions issued by the market authority.

In the study of Arya *et al.*, (2017) titled, "Synergy between Accounting Disclosures and Forward: Looking Information", the objective of the research was to find the relationship between the future information in accounting disclosure and its usefulness to investor decisions and their reflection on stock prices. The study found that companies that disclose future information appropriately will boost their value more in the US financial markets. Therefore, this is through the auditor's adoption of ISA 810 standards (Abbasi, 2013). The current study highlights the role of the auditor's report in enhancing the assurance of future financial information.



The Concept and Trend of Future Information

Future financial information means financial information based on making some assumptions about future events and the entity likely to have some reaction to them which require considerable personal judgment and these are inherently subject to high personal judgment. Future financial information may be in the form of future forecasts or estimates, or a combination of the both as the future information is related to the future.

The professional bodies, institutes and professional groups according to Financial Statements and Projections (2001) have expanded several definitions of the concept of future financial information. The researchers believe that the definition of the future financial information can be divided into several directions as follows:

1. A Trend towards the Establishment of Confidence under International Auditing Standards, Bodies, Groups and Professional Institutes

Under section 305 of the Securities Act, the IFAC has issued the ISA 810 "The Examination of Prospective Financial" (AICPA) on the procedures for testing future financial information as effective on May 5, 2017. The body defines future financial information as the information relating to future events and actions that have not yet occurred, but there is evidence that they will occur in the future (Colarusso, 2018). According to the Egyptian Standard of Assignment (No. 3400), the reaction of the potential organizations is the mixture of predictions and future estimates. The Egyptian Standard 2400 and the Saudi Organization for Certified Public Accountants (SOCPA) presented the criteria for future financial statements (1430) and defined the criteria in the paragraph 166 of the standard. The organizations defined future financial information as future information presented in the form of financial forecast or financial scenario (Khan *et al.*, 2007). On the other hand, a guide on management's comments on IFRS, entitled "Commentary IFRS Practice Statement" was issued by the International Accounting Standards Board (IASB) which referred to the availability of future information to stakeholders and indicated that it contained financial and non-financial reports that are relevant.

The Financial Accounting Standards Board (FASB) presented contemporary visions of the quality and effectiveness of financial reporting that are able to provide stakeholders with information on future cash flows and provide forecasts for future events in its framework of financial (Daske *et al.*, 2008).

2. An Interpretive Direction that is Consistent with Accounting Theories

Accounting literature is rich in interpretive theories because these theories can be used to align with the intellectual and procedural content of disclosure of legitimacy theory, stakeholder theory, signal theory, and political costs. The disclosure and availability of information are tending to be expanded by the consistent approach to some accounting theories for stakeholders (Christensen *et al.*, 2010)

3. The Direction of the Reliability of the Future Financial Information in Accordance with the Listing Instructions in the Financial Markets

According to Wallaco and Naser (1995), one of the factors associated with the reliability of disclosure includes foreign and domestic financial markets where it is shown that there is a positive relationship between the quality of disclosure and the market list.



Requirements for Preparing Future Financial Statements

There are some factors to be considered in order for the economic units to prepare future financial statements with more precision among are the following:

- i. Preparing future financial information in good condition: By following the financial projections, this is the possibility of misleading the stakeholders of the organization. Therefore, to prepare the future financial statements the responsible party should make the effort in good faith and paying attention to the use of personal judgment is required by the preparation of these lists. Thus, to avoid misleading the stakeholders, good faith means an effort is made towards of full care.
- ii. Prepare future financial information with necessary professional care: The usual professional care means the preparation of financial forecasts requires the use of a lot of data and appropriate knowledge and efficiency that are required in the preparation of future financial forecasts.

As issued by AICPA, AICPA is the guide for the preparation of future financial information, a guide used to prepare or audit future financial information (DeFond, 2010). The guide is used to describe the management's intention to be presented in the future financial statements while the summary of the Accounting Policies Disclosure for the significant accounting policies is used in preparing a period to be covered and the future forecast. (Al-Taie *et al.*, 2017).

Difference between Financial Projections and Historical Financial Statements

The Standard of Auditing Future Financial Information Test in ISA 810 and its Role in Financial Reporting

As of 1 January 2017, this standard is effective for the business of the related assertion reports. The aim of the standard is to provide some guidance and establish standards on the audit and reporting of future financial information which includes the test of valuation procedures and assumptions. As expressed in general or narrative terms, such as those discussed in the report and analysis of the unit's annual report, this standard applies to the testing of future financial information. In the date of preparation of the information, forecasting future financial information using future events is expected by the management actions (Thijeel *et al.*, 2018)

Services of the Auditor Confirming the Future Financial Information

Events and actions that have not yet occurred and may occur and are referred to as the future financial information. The evidence is forward-looking although there is evidence to support the assumptions on which future financial information is based on. Therefore, it is predictable in nature, which distinguishes it from the ordinary evidence available when auditing historical financial information. Whether the results presented in the future financial information will be achieved or not, the auditor is not in a position to express an opinion and any type of evidence available when estimating the assumptions on which the future financial information is based on. To provide an affirmative opinion that the assumptions are not materially distorted, it may be difficult for the auditor to obtain satisfactory satisfaction. The auditor provides an average level of assurance in this standard when reporting on the reasonableness of management assumptions.



The Contents of the Auditor's Report Regarding Future Financial Information in Accordance with ISA 810

The following the aspects are the report prepared by the auditor on the examination of future financial information: forward-looking aspects of future financial information; a statement that management is responsible for future financial information; a reference to criteria for commitments of assurance, standards or practices relevant to the testing of future financial information including the assumptions on which the case was based on by referring to the purposes.

A negative assertion determines whether the assumptions provide a reasonable basis for future financial information or not. It also determines the opinion whether the future financial information has been prepared and properly presented on the basis of assumptions in accordance with the relevant financial report framework for testing future financial information such as: the date of the report (which should be the date of completion of the procedures); and the address and signature of the auditor.

The auditor must obtain adequate and appropriate evidence in respect of each of the following when the auditor performs a test task for future financial information:

- i. The assumptions on which management's best estimates were based and used to access future financial information are reasonable. In the case of theoretical assumptions, such assumptions must be consistent with the purpose of the information.
- ii. On the basis of those assumptions, future financial information is well prepared.
- iii. All significant assumptions have been adequately disclosed and future financial information has been presented in an appropriate manner which includes an explicit indication as to whether these assumptions represent the best estimates, or it is just a theoretical assumption.
- iv. Using appropriate accounting principles, the future financial information is prepared on a consistent basis with historical financial statements.

Therefore, the aims of this study are listed as following:

- i. To examine the Statement of requirements for disclosing the future accounting information and preparation.
- ii. To highlight the requirements of the ISA 810 standard and its importance in ensuring the reliability of future information.
- iii. To propose an indicator for disclosing the future information and presenting the auditor's report in accordance with the ISA 810 standard and the paragraphs through which it can be trusted.

Methodology

The population of the study consisted of sectors listed in the Iraqi market for securities while the sample from the population was the banks listed in the market of the banking sector for the period 2009-2012.



Results and analysis

Elements of the Auditor's Report According to the ISA 810 standard and their Roles in Creating Confidence in the Future Financial Information in the Iraqi Stock Exchange

With reference to the disclosure instructions of the listed companies and the Iraq Stock Exchange Law No (74) for the year 2011 (ISX,2019), prepare the index of disclosure of future information in the Iraqi market for securities and the legislations issued pursuant to which the index was prepared for disclosure of future information agencies:

a. Indicators of disclosure of the company's future strategies (descriptive):

- i. Objective and vision of the company.
- ii. Organizational structure of the company.
- iii. Risks to the company with a description of the risk management mechanism.
- iv. Previous and future achievements of the company (description of important events).
- v. The development of the company's plan with an explanation of the procedures to implement it.
- vi. The expectation of the management for future business results.
- vii. Executing future contracts.
- viii. Number of securities owned by the senior management and issued by the company.
- ix. Reasonable confirmation of the company's continuity.
- x. Employee training program and training courses.
- xi. Human resources development.
- xii. The applicable accounting policy.
- xiii. Future challenges.

b. Indicators of disclosure of future financial information (quantity)

- i. Financial impact of non-recurring operations.
- ii. Analysis of business results and financial position.
- iii. Benefits with related parties.
- iv. Contingencies and significant events with a negative impact on the financial position.
- v. Net income.
- vi. Contributing one point of ownership of more than (50) shares of the company immediately after the event to disclose the change.
- vii. Any changes in capital, assets or liabilities in the future.
- viii. Big deals.
- ix. The assessment of the Board of Directors is expected to bring impact on the profitability and financial position of the company.
- x. Changes in Capital Financial Investments.
- xi. Dividend distributions in the future.
- xii. Integration initiation.
- xiii. The effect of the share capital of the company (ownership of the same company or other company).
- xiv. The implications and the reasons for the suspension of the circulation of the company's shares in the market.
- xv. Fair value and evaluation alternatives.
- xvi. Possibility of encountering risks in hot spots for current country conditions.
- xvii. Expenditure on research and development.
- xviii. Future production plans and its expected results.



- xix. Expected obligations.
- xx. Funding structure.
- xxi. Expected cash flows in operating, investment and financing.
- xxii. Expected contributions to environmental protection.
- xxiii. Expected Judicial Appropriations.
- xxiv. High-risk products.
- xxv. The expected retroactive adjustments to the sector's transition from domestic to international accounting standards.

c. Indicators of the method of disclosing future information (descriptive)

- i. In the financial statements, the disclosure is disclosed separately.
- ii. Appearance on the website of the market and the company.
- iii. Periodical information occurrence.
- iv. Encouragement of educational disclosure in seminars, social networking sites and other means.
- v. Information on governance mechanisms.

d. Indicators of disclosure of information on the effects of financial, political and social crises (descriptive)

- i. Reflection and ways to address economic crises on the company (as low oil prices).
- ii. Expected growth rates of the sector.
- iii. Expected losses as a result of unstable security conditions.

Second Hypothesis: To test the disclosure of future information in the banking sector listed in the Iraqi Stock Exchange in order to measure the accounting disclosure of future information related to the Iraqi environment, using the two-dimensional criterion by giving the value of (0), the unbalanced method was used to determine the level of disclosure. While the second value gives the bank that discloses the future information, the first value is given to the bank which did not disclose the future information. For the year 2011, the index includes (47) paragraphs and is devised from the disclosure instructions No (8). The content analysis method for the 2009 – 2012 was done using financial reports (ISX, 2019). The following equation was adopted to calculate the disclosure of future financial information coefficient:

Coefficient of disclosure of future information= Number of paragraphs that have been disclosed/Total number of index paragraphs *100%

Table 1. The disclosure of the future information of the banks listed in the Iraqi Stock Exchange (ISX).

Sector	PFI				Average %
	2012	2011	2010	2009	
Banks	89	81	81	79	82.5

Clearly, the banking sector has achieved disclosure of future information in comparison with other sectors with an average disclosure of (82.5) for the years (2009-2012). This value is enough to clarify the role of the auditor in providing confidence in the disclosure of future financial information, ISA 810.



Report on the Testing of Future Financial Information

The following key elements are found in the report of the auditor on the examination of future financial information:

- i. Title of the report.
- ii. To whom to be addressed to.
- iii. Identification of future financial information.
- iv. Reference to the International Standard on the Testing of Future Financial Information.
- v. Responsibility for the assumptions upon which such information is based infers to the management's responsibility for future financial information.
- vi. There should be restriction in the presence of a ban on the distribution of such information to show the purpose of preparing future financial information and the parties for the distribution of future financial information.
- vii. Negative assertions to know if the assumptions provide a reasonable basis for future financial information.
- viii. Presentation and expression of opinion to know whether future financial information has been properly prepared on the basis of assumptions used in accordance with the accounting framework used to prepare the financial statements.
- ix. Issuance of warning about the extent to which the results of future financial information can be achieved.
- x. The date of the report must be the date of completion of the proceedings.
- xi. Reference title.
- xii. Signature of the Auditor.

An unsecured report on future financial information in the banking sector in the Iraqi market for securities:

In accordance with ISA 810 for future financial information, this study has tested for the financial information of the banking sector for the period 2009-2012 to determine future information. The information is prepared for the purpose of providing confidence to stakeholders. Using a set of theoretical assumptions that include assumptions about future events and management's actions, the information has been prepared as the banking sector continues to perform its activities while these assumptions need not be realized. From this perspective, it is clear that the stakeholders can trust the information contained in the auditor's report on the future information as it discloses the information that is not historical and the possible future consequences that may not occur. Thus, the hypothesis of the study is proved.

Conclusion

- i. There is an absence of accounting base or audit manual in the Iraqi environment that regulates how to disclose, prepare, confirm or deal with the future information (auditors or accountants) which makes them vulnerable to criticism of the risks associated with their adoption when making the decision in the Iraqi environment.
- ii. As the accounting disclosure instructions deals with financial information in the form of mandatory and future information with some volition, it makes the instructions weak for the Iraqi market of securities.
- iii. The future financial information can be reliable by adopting the ISA 810 by virtue of the risks associated with such disclosure.



Recommendations

From the above, conclusion, this study recommends the following actions:

- i. Adoption of the proposed indicator and the nature of the report of the auditor in this study for disclosure of future information
- ii. Presentation of future financial information of the annual report by the compelling companies within the sectors listed in the Iraqi Stock Exchange through instructions issued by the Market Authority.
- iii. Issuance of an audit standard by the Accounting and Control Standards Board of the Iraqi Financial Control Bureau in order to test the future financial information.

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