

The Reflection of Applying the IFRS 7 'Financial Instruments: Disclosures' on the Development of Auditing Procedures and Compliance with Its Requirements

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Abstract

The research aims to demonstrate the impact of applying IFRS 7, "Financial Instruments: Disclosures," on the development of auditing procedures and their requirements in Iraqi banks. The study focused on assessing the extent to which private banks recorded on the Iraq Stock Exchange comply with the requirements of IFRS 7, and analysing the effect of this compliance on the design and implementation of auditing procedures from the auditors' perspective. The main research hypotheses were formulated as follows: Private banks comply with the supplies of IFRS 7 regarding financial instruments, as reflected in the accuracy and fairness of financial report presentation. There is no statistically significant correlation between agreement with IFRS 7 supplies and the design of auditing procedures. There is no statistically significant effect between agreement with IFRS 7 supplies and the design of auditing procedures. A comprehensive checklist was prepared that included the essential requirements of the IFRS 7 and applied to a sample consisting of four private banks. The results showed that Ashur Bank ranked first in terms of compliance with the required disclosures, followed by Middle East Bank and Gulf Commercial Bank, while Trans Iraq Bank was the least compliant. The results also indicated support for international auditing standards concerning the integration of IFRS 7 requirements in the development and implementation of audit procedures. The analysis of the questionnaires revealed a strong positive correlation and impact between the implementation of IFRS 7 and the development of audit procedures, which enhances the quality and effectiveness of audit processes in banks. The study recommends adopting a proposed model for designing audit procedures in compliance with the stipulations of IFRS 7, and the necessity of developing additional audit procedures that align with the Iraqi environment and support the move towards full compliance with international financial reporting standards, in line with the policies of the Central Bank of Iraq regarding the enhancement of transparency and financial disclosure.

1. Introduction

In recent years, economic units have witnessed a series of successive financial crises, creating an increasing need for accurate and reliable accounting information while simultaneously keeping pace with the rapid changes occurring in financial markets, thereby enhancing users' confidence in the credibility of such information. In this context, the Central Bank of Iraq issued a decision mandating private banks to implement the IFRS, taking into account IFRS 7 concerning financial instruments and disclosures, due to its pivotal role in determining the disclosure requirements for

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financial instruments and the associated risks. The application of Financial Reporting Standard 7 enables auditors to perform their duties with a high level of efficiency and professionalism, based on international auditing standards, when preparing and executing audit procedures related to financial disclosures in agreement with the supplies of IFRS 7. These procedures also help assess the extent to which economic entities comply with international standards, enhance the effectiveness of management performance oversight, and reduce the information gap between the various related parties.

2. Theoretical framework

2.1. An Overview of IFRS 7 'Financial Instruments: Disclosures'

IFRS 7, the standard on financial instruments and disclosures, serves as a guide that specifies the information that must be disclosed when preparing and presenting financial statements, and the application of disclosure requirements for financial instruments and risks.

Financial reporting, in general, involves producing general-purpose financial statements that fulfil the needs of external users who do not have access to the entity's internal information (Rahman, 2016; Elhamma, 2023). Financial statements provide relevant information that can be presented in various forms and published in official documents. Some consider it an integrated system for reporting all elements of the accounting information system that are of interest (Boolakay & Tawiah, 2020), by representing the objectives of financial reporting through accounting conceptual frameworks, measurement methods, and disclosure bases, in addition to accounting regulations and the preparation of financial statements (Beerbaum & Piechocki, 2016; Abdullah, 2011). According to International Financial Reporting Standards (IFRS), financial reporting represents a set of standard rules that specify how to report certain types of transactions and events in financial reports (Imhanzenobe, 2022; Tsalavoutas et al., 2020), provided that they are consistent, transparent, and comparable (Mokhtar et al., 2018; Hasan & Hasan, 2020).

The IFRS7 emerged to fulfil the needs of all parties at various levels through the exchange of financial instruments carried out by these users when acquiring or investing in assets (Nadia & Rosa, 2016). The standard is considered mandatory, based on the principles of disclosure of financial instruments, and applies to entities that hold financial instruments and require additional disclosures related to the risks associated with these instruments.

It can be said that the standard seeks to provide disclosures in financial reports regarding financial instruments, as it is more detailed in disclosing information regarding both qualitative and quantitative matters the risks associated with financial instruments and gives a clear picture to users of financial reports about the nature of the risks to fulfil the needs of interested internal or external parties. It maintains a consistent tempo with ongoing developments in response to the demands of relevant entities for report on the quality of financial instruments (Mnif & Znazen, 2020; Cynthia, 2022). The IFRS 7 standard achieves the following objectives (Yamani & Hussainey, 2021):

- i. Harmonising and Strengthening Disclosure Requirements Related to Financial Instrument Risks
- ii. Providing information on the import of financial instruments to the entity's performance and financial position, by disclosing the form and characteristics of these instruments, such as revealing the value of each category of financial instruments.
- iii. Enhancing transparency for users of financial reports by providing information on the exposure of the entity to financial risks and the methods employed to manage those risks.

The scope of the standard applies to all economic units and to all financial instruments that comply with IFRS, including financial instruments not explicitly excluded from the standard's scope. It also pertains to all financial instrument instruments, including those instruments that are not recognized in the statement of financial position, and across all industries. The standard does not apply to interests in subsidiaries and joint ventures, obligations arising from employee benefits, contracts resulting from contingent liabilities in business combinations, insurance contracts, and contracts and instruments arising from share-based payment transactions.

2.2. The relationship of IFRS 7 with the design of audit procedures according to International Standards on Auditing

Auditing is considered one of the key tools of banking supervision, as it maintains the integrity and strength of the banking system, which in turn contributes to economic development. Banking auditing is defined as an external audit that derives its objectives and significance from the auditing of accounts of economic units. The auditor provides an objective professional opinion on the annual financial reports and assists the stakeholders associated with the bank in assessing the extent In accordance with disclosure standards in the financial reports. Table 1 illustrates the relationship between the IFRS 7 and the design of audit procedures.

Table 1 The relationship between IFRS 7 and the design of audit procedures for the financial reporting standard

S.	IFRS 7	International Auditing Standard	Audit Procedures for IFRS 7 Standard
1	The objective of auditing financial instruments	Auditing Standard 200: General Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Auditing Standards	<ul style="list-style-type: none"> - All registered financial instruments, and there are no unregistered financial instruments as of the financial report date. - All financial transactions related to the financial instruments have been properly assessed and presented. - All relevant disclosures regarding financial instruments have been made.
2	Accounting principles disclosed in compliance with IFRS 7	Auditing Standard 210: Agreeing on the Terms of Audit Engagements	<ul style="list-style-type: none"> - The auditor discusses with management the nature and extent of audit work related to financial instrument activities in accordance with IFRS 7. - Engagement terms related to auditing disclosures of financial instruments. - Guidance on agreeing with the bank regarding the audit procedure associated with IFRS 7.
3	Disclosure of information that enables users to understand the financial statements	International Auditing Standard 230: Documentation of Audit Work	<ul style="list-style-type: none"> - Preparing sufficient audit documentation on financial instruments and disclosures. - Disclosing significant matters identified during the audit and the evidence obtained related to IFRS 7. - Documenting the results and discussions regarding financial instrument disclosures with management and those charged with governance.
4	Disclosure of Errors in Financial Instruments	Global Auditing Practices 240: Duties of the Auditor Concerning the Verification of Financial Statements via Fraud	<ul style="list-style-type: none"> - Maintaining professional skepticism when preparing the comprehensive audit plan for IFRS 7. - Inquiries from the independent audit committee in identifying and assessing areas of fraud. What recommendations are submitted to senior management regarding IFRS 7.

			- Management procedures for identifying and assessing areas of fraud in financial instrument disclosures.
5	Disclosure of the laws and regulations pertaining to IFRS 7	International Auditing Standard 250: Consideration of Laws and Regulations in the Audit of Financial Statements	<ul style="list-style-type: none"> - The auditor gains a general understanding of the laws and regulations related to IFRS 7. - Obtaining sufficient audit proof pertaining to adherence to rules and regulations related to IFRS 7. - Identifying instances of non-compliance with laws and regulations that may have a material impact on financial instruments.
6	Disclosure of the Bank's Strategy and Its Impact on Financial Statements	International Auditing Standard 300: Planning an Audit of Financial Statements	<ul style="list-style-type: none"> - Understanding the bank's operations to identify and comprehend events and transactions that affect financial instruments. - Developing a comprehensive strategy and a detailed approach for auditing IFRS 7. - Preparing an audit plan that includes the nature, timing, and extent of planned procedures for financial instruments in accordance with IFRS 7.
7	Disclosure of financial instruments risks	International Auditing Standard 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	<ul style="list-style-type: none"> - Gaining a comprehensive understanding of all financial instruments activities of the bank. - Identifying the main types of risks related to financial instruments as indicated by IFRS 7 (credit, liquidity, market risks). - Methodology for managing credit, liquidity, and market risks associated with financial instruments. - Understanding the bank's choices of accounting policies and their application. - Ensuring the alignment of accounting policies with IFRS 7.
8	The Relative Importance of Disclosures on Financial Instruments	International Auditing Standard 320: Materiality in Planning and Performing an Audit	<ul style="list-style-type: none"> - Determining the relative significance of financial instruments and the effect of non-disclosure on decisions made. - Considering materiality with regard to the disclosure of financial instruments in accordance with IFRS 7.
9	Procedures for Verifying Disclosure of Financial Instrument Risks	International Auditing Standard 330: The Auditor's Responses to Assessed Risks	<ul style="list-style-type: none"> - Testing the control tools relied upon by the auditor when examining financial instruments.

			<ul style="list-style-type: none"> - Designing and implementing audit procedures for each category of financial instruments. - Carrying out procedures to respond to the risks associated with financial instruments, including the execution of detailed tests. - Designing additional procedures based on the findings obtained regarding disclosures of financial instruments.
10	Assessment of Financial Instruments Disclosures	International Auditing Standard 500: Audit Evidence	<ul style="list-style-type: none"> - Verifying the returns of financial instruments. - Ensuring that financial transactions related to financial instruments have indeed been recorded. - Verifying the classification and disclosure of financial instruments in accordance with the requirements of IFRS 7.
11	Analysis of Financial Instruments Disclosures	International Auditing Standard 520: Analytical Procedures	<ul style="list-style-type: none"> - Analyzing the results of financial instruments activities in the current and previous periods. - Comparing recorded financial instruments with financial instruments over reasonable time periods and taking appropriate action regarding any discrepancies.
12	Disclosure of Fair Value Estimates	International Auditing Standard 540: Auditing Accounting Estimates and Related Disclosures	<ul style="list-style-type: none"> - Fair value estimates were conducted in accordance with IFRS 7 requirements. - Examine the steps taken by management to estimate the fair value of financial instruments.- Obtain evidence supporting the fair value of financial instruments.
13	Disclosure of the results reached regarding financial instruments	International Auditing Standard 700: Forming an Opinion and Reporting on Financial Statements	<ul style="list-style-type: none"> - Express an opinion on whether the financial instruments have been disclosed in accordance with the requirements of IFRS 7. - Risk identification and evaluation of the financial instruments and design and implement appropriate audit procedures for them. - Report any key matters in IFRS 7 that require attention.
14	Disclosure of general information related to financial instruments	International Standard 1000: Special Considerations in Auditing Financial Instruments.	<ul style="list-style-type: none"> - The purpose of financial instruments and the risks associated with them. - Evaluation of financial instruments.

			- Presentation and disclosure regarding financial instruments.
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Prepared by the two researchers based on IFRS 7 and the International Standards on Auditing (ISA)

3. Research Methodology

3.1. Problem

IFRS are considered fundamental pillars for enhancing transparency and credibility in the financial reporting of economic units, particularly in the banking sector. The Central Bank of Iraq has mandated private banks to implement IFRS 7, which pertains to financial instruments and disclosures, to improve the quality of disclosure and strengthen the protection of investors and stakeholders. However, many Iraqi private banks struggle to fulfil the complete requirements of the standard, which negatively impacts the quality and reliability of their financial reports and limits the effectiveness of banking reforms aimed at enhancing financial trust. Additionally, there is a noticeable absence of specific and integrated audit procedures that ensure accurate assessment of compliance with financial instrument disclosure requirements under IFRS 7, which impacts the effectiveness of auditors' work and the quality of audit processes. Based on the above, there is a clear need to study the range to which private banks fulfill with IFRS 7 and the impact of the standard on developing and adapting audit procedures to fulfil new disclosure requirements, thereby ensuring the improvement and reinforcement of the supervisory role of external auditing in protecting the interests of all related parties.

3.2. Objectives

The research aims to achieve the following objectives:

1. It outlines the key points of IFRS 7 and presents the standard's requirements regarding disclosures on financial instruments and risks.
2. It covers the audit procedures, which consist of several auditing steps.
3. Determine the compliance of the banks under study with the Central Bank's instructions regarding the implementation of IFRS 7 provisions.
4. Assess the impact of the obligation to implement IFRS 7 on the design of auditing procedures from the perspective of a sample of external auditors.

3.3. Importance

1. Statement on the extent of compliance of private banks in the Iraqi environment with the requirements of the International Financial Reporting Standard IFRS 7.
2. Analysis of the impact of implementing IFRS 7 on the design and development of audit procedures related to financial instruments in private banks.
3. Identification of gaps in the application of IFRS 7 and their impact on the quality of financial disclosures and audit reports.
4. Proposal of an integrated framework and audit procedures to assist auditors in evaluating adherence with IFRS 7 requirements and enhancing the quality of audit processes.

3.4. Hypothesis

1. Private banks are committed to responding to the requirements of IFRS 7 Financial Instruments: Disclosures, which reflects the fairness and accuracy of financial reporting.
2. There was no statistical significance correlation between responding to the requirements of IFRS 7 and the design of audit procedures.
3. There is no statistically significant impact on the design of audit procedures resulting from responding to the requirements of IFRS 7.

3.5. Methodology & Sample

The method of descriptive analysis was chosen by utilizing published Arabic and foreign sources, as well as relying on international and local systems, laws, standards, and legislations, in addition to personal interviews and field visits. The research sample was chosen from private banks listed on the Iraq Stock Exchange, namely, the Gulf Commercial Bank, Ashur Bank, Trans Iraq Bank, and Middle East Bank. A questionnaire was distributed to several auditors working in private auditing firms and offices. The period of study covered (2019–2022), during which financial reports were reviewed concerning the requirement for the sample banks to comply with IFRS 7.

4. Data & Analysis

In its practical aspect, the study relied on the following by the two researchers:

1. Field visits to the banks included in the research sample.
2. Personal interviews: Several personal interviews were conducted to gather data and information from both the heads and employees of the bank's departments.
3. Financial reports: Reliance was placed on the reports published in the Iraq Stock Exchange.
4. Checklist and Questionnaire: These are considered the primary tools used by the two researchers to collect field data. Regarding the checklist, its sides were formulated based on the supplies of IFRS 7 and auditing standards. It included 10 items through which compliance with IFRS 7 requirements was measured and analysed. The checklist was distributed to four Iraqi banks (Gulf Commercial Bank, Ashur Bank, Middle East Bank, and Across Iraq Bank) across the credit, finance, compliance, risk management, control, and internal audit departments. The number of checklists distributed was 49, and 40 checklists were retrieved, deemed suitable for analysis and study, representing 83%, which constitutes a significant proportion, as shown in Table 2.

Table 2 Distributed Checklists Subject to Analysis

Banks	Number	Percentage
Gulf Commercial Bank	10	25%
Ashur Bank	10	25%
Middle East Bank	10	25%
Trans Iraq Bank	10	25%
Total	40	100%

The checklist processing was conducted according to the (three-point Likert) scale, as shown in Table (3).

Table 3 Three-Point Likert Scale

Scale	Applied	Partially Applied	Not Applied
Weight	3	2	1

As for the questionnaire, it was divided into two sections:

1. First Side: Analysis of the requirements of IFRS 7, which was divided into 10 requirements.
2. Second Side: Designing audit procedures in accordance with audit evidence and standards. The questionnaire was distributed to a random sample of employees in the Federal Financial Supervision Bureau, audit companies, and offices. The number of questionnaires distributed was (120), of which (103) were returned complete for analysis and study, representing (86%)—a relatively high percentage, as shown in Table (4), which was arranged according to response rates.

Table 4 Distributed and Analyzed Questionnaire Forms

Job Title	Number	Percentage
CPA	52	51.5%
Assistant Chairman of the Organization	14	13.5%
Organization Chairman	12	11.6%
Senior Chairman of the Organization	13	12.6%
Other	12	11.6%
Total	103	100%

The questionnaire was processed according to the five-point Likert scale, as shown in Table (5).

Table 5 Five-Point Likert Scale

Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Weight	5	4	3	2	1

4.1. Measuring and Analyzing the Level of Compliance with IFRS 7 Requirements

For the purpose of assessing the level of compliance with IFRS 7 requirements in the context of Iraqi banks, the two researchers prepared a checklist, which was distributed to the banks under study, in addition to reviewing the audited and published financial reports for four years, 2019–2022. The checklist included 10 items through which compliance with the standard's requirements regarding the disclosure of financial instruments and risks was measured and analyzed for each of the four banks (Gulf Commercial Bank, Middle East Bank, Ashur Bank, and Trans Iraq Bank).

Table (6) presents the means and standard deviations of the level of IFRS7 implementation in the banks under study, using a checklist designed for this purpose within an ordinal scale of applied, partially applied, and not applied. The numbers representing the weights are (3, 2, 1) respectively. Accordingly, the class interval is calculated by dividing 2 by 3, as 2 represents the number of intervals (from 1 to 2 is the first interval, from 2 to 3 is the second interval), and 3 represents the number of choices. Thus, $2/3 = 0.666$, which is the class length, and the distribution becomes as follows:

Table 6 Three-Point Likert Scale

Applied	Partially Applied	Not Applied
2.333- 3	1.667 - 2.333	1.666

4.1.1. Examination of the control procedures for IFRS 7

The procedures established by banks represent the achievement of their objectives through an organized and disciplined methodology for assessing and improving the effectiveness of risk management and control systems. Table (7) illustrates the examination of control procedures.

Table 7 Examination of control procedures for the implementation of IFRS 7 standard

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
The senior management is committed to developing frameworks that outline the requirements of IFRS 7	2.63	0.50	2.36	0.67	2.90	0.30	2.81	0.40	There is a description of the policies and procedures that illustrates the treatment of certain requirements under IFRS 7 after referring to the governance report.
The IFRS7 application complies with the requirements of the Central Bank and the regulatory guidelines.	2.80	0.42	2.60	0.51	2.70	0.48	2.90	0.31	The existence of circular instructions issued by the Central Bank of Iraq based on the letter regarding the implementation of IFRS, No. 12/9, dated 4/1/2016.
Individuals working in the financial and auditing fields possess knowledge of international standards.	2.50	0.52	2.60	0.51	2.80	0.42	2.10	0.31	There are announced training courses in financial reporting that are linked to IFRS, where individuals working in the finance department, risk management, compliance,

									and internal auditing are trained.
Compliance with regulatory instructions on financial instruments	3.00	0.00	3.00	0.00	2.90	0.31	2.50	0.52	Monitoring the preparation and updating of supervisory policies and procedures in a manner that reflects compliance with the requirements and instructions of the Central Bank of Iraq regarding policies and procedures from the Compliance Department.
Preparing programs for internal auditing covers the risks of financial instruments.	2.50	0.52	2.50	0.42	3.00	0.0	2.50	0.52	Preparing internal audit procedures that enhance the overall risk management framework in line with IFRS 7 standards.
Identifying, detecting, and correcting material misstatements	2.70	0.48	2.80	0.51	2.80	0.42	2.40	0.51	Internal audit reports are submitted to the Board of Directors regarding the discrepancies discovered during the audited period.
Individuals have knowledge of the risks and	2.60	0.51	2.30	0.67	2.90	0.1	2.50	0.52	Relying on the Iraqi Central Bank Law No. (56) of 2004

regulatory controls associated with financial instruments.									and the Banking Law No. (94) of 2009, taking into consideration the provisions contained in Article (4) of the regulatory controls issued by the Iraqi Central Bank in its letter numbered (9/1/4/306) dated 19/9/2016 regarding the compliance officer.
Overall average	2.68	0.49	2.59	0.47	2.85	0.32	2.52	0.44	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed supervisory procedures are based on international auditing standards, specifically Standard (250) on Consideration of Laws and Regulations in Auditing Financial Statements, and Standard (265) on Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.

1. The existence of clear rules regarding the permissible scope within which officials responsible for financial instruments activities may operate. An example of this is legal or regulatory restrictions imposed on the use of financial instruments.
2. The presence of information systems that provide governance officers with an understanding of the nature of financial instrument activities and the risks associated with them, including sufficient documentation of transactions.
3. Examination of internal controls in terms of application and documentation to provide reasonable assurance that banks use financial instruments within the scope of their risk management policies.

4.1.2. Examination of Accounting Policies for IFRS 7

Accounting policies represent the approach that can be applied to express financial events, encompassing principles, fundamentals, terminology, rules, and procedures. Table (8) illustrates the examination of accounting policies according to the International Financial Reporting Standard IFRS 7.

Table 8 Examination of accounting policies for the implementation of IFRS 7 standard

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
Secondly: Accounting Procedures and Policies									
Disclosure within the financial statements themselves, in the notes, or in a supplementary schedule.	2.40	0.51	3.00	0.00	2.40	0.51	2.80	0.52	The financial reports are prepared in accordance with laws, regulations, directives, and international standards, as confirmed by the audited reports.
Assessment and evaluation of risk management policies emphasized by IFRS 7	2.50	0.52	2.20	0.42	2.40	0.51	2.20	0.42	Updating risk management policies to identify and analyze risks, establish thresholds and controls, and monitor risks.
Enhancing the key financial data with analytical statements.	3.00	0.00	3.00	0.00	2.70	0.48	2.60	0.51	The presence of notes attached to the financial statements clarifies the figures presented.
The bank is concerned with	2.70	0.48	2.70	0.48	3.00	0.00	2.60	0.51	The presence of explanations

presenting the notes attached to the financial statements.									for most of the accounts appearing in the financial statements, with each explanation assigned a reference number for easy cross-referencing.
Adequate disclosure in the event of changes in accounting policies and specifying their effects.	2.80	0.42	2.30	0.67	2.70	0.48	2.30	0.48	Disclosure of certain changes related to the adopted international standards and clarification of the impact of these changes on the financial statements.
Analysis of unusual items, with provision of sufficient clarifications.	2.40	0.51	2.40	0.51	2.50	0.52	2.50	0.52	Accounting policies reflect the manner in which management addresses the requirements of IFRS 7.
Overall average	2.63	0.40	2.60	0.52	2.62	0.42	2.50	0.49	

Prepared by the researchers based on SPSS 24, published reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for accounting policies, based on the International Standards on Auditing (ISA 500) for obtaining audit evidence, (ISA 300) for audit planning, and (ISA 520) for analytical procedures.

1. Verifying the accounting of financial instruments and events and presenting them according to their financial reality, not merely their legal form, and clarifying material matters sufficiently to influence evaluations or decisions.
2. Comparing the financial instrument data presented in the financial statements to assess the bank's efficiency.

3. Providing adequate disclosures on the components of assets, liabilities, cash flows, and the strategies that affect the level and direction of financial instrument risks.
4. Issuing reports that demonstrate the bank's compliance with accounting policies and established limits for financial instruments in order to regularly identify any deficiencies.

4.1.3. Examination of Financial Instrument Categories under the IFRS 7

Examination of the disclosure of categories of financial assets and liabilities as indicated in the standard. Table (9) illustrates the review of the procedures followed for categories of financial instruments according to the International Financial Reporting Standard IFRS 7.

Table 9

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
The bank classifies financial instruments according to the financial statements.	2.90	0.31	3.00	0.00	2.80	0.42	2.70	0.48	Financial instruments are classified based on the business model employed, in order to assess the significance of financial instruments in the statement of financial position and the income statement.
All transactions related to financial instruments should be disclosed.	2.09	0.31	2.07	0.48	3.00	0.00	2.70	0.48	Banks disclose the methods used to measure financial instruments through explanatory notes, whether in the footnotes or appendices.

Classification of financial instruments as financial assets at amortized cost, holding the financial instruments until the maturity date.	2.08	0.42	2.30	0.82	2.80	0.42	2.60	0.51	The bank management classifies financial instruments at amortized cost for holding purposes, not for trading, and records them in the statement of financial position, represented by the principal investment amount and the yields.
The bank classifies financial instruments at fair value through contractual cash flow collection and sales.	3.00	0.0	2.30	0.82	3.00	0.00	2.60	0.51	Financial instruments are recorded at fair value through other comprehensive income from the time of acquisition to address valuation differences of financial instruments in equity.
Financial instruments measured at fair value are classified for trading purposes.	2.70	0.42	2.50	0.70	2.50	0.70	2.50	0.52	Financial instruments are recorded at fair value on the statement of financial position, with changes recognized in the income statement.
The bank discloses the carrying	3.00	0.00	3.00	0.00	2.60	0.51	2.50	0.70	Disclosure of the book value in accounting

amount of both financial assets and financial liabilities.									disclosures to determine the fair value of each asset through comparison.
The assessment method aligns with the financial reporting framework in the evaluation of financial instruments.	2.80	0.42	2.60	0.51	2.60	0.51	2.40	0.51	Establish a general and appropriate framework in line with the requirements for report preparation according to financial reporting standards, particularly IFRS 9.
Disclosure of net gains and losses from changes.	3.00	0.00	1.80	0.78	2.90	0.31	2.90	0.31	The Board of Directors' report outlines the changes to the standards approved by the bank.
Overall average	2.70	0.24	2.45	0.52	2.77	0.36	2.93	0.59	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for categories of financial instruments rely on international auditing standards, specifically Standard (1000) Special Considerations in Auditing Financial Instruments, Standard (ISA 450) Auditing Accounting Estimates, Including Fair Value Measurements of Financial Instruments, and Standard (ISA 315).

1. Comprehending the financial instruments employed by the bank and their attributes, such as their degree of complexity, may necessitate the application of specialized knowledge and expertise to evaluate the financial instruments.
2. Ensuring that the financial statements encompass all relevant aspects of the financial instruments and their implications.
3. Examining the mechanisms for documenting financial instrument transactions and the authorization of new types, taking into account the accounting, regulatory, legal, financial, and operational risks associated with these instruments.
4. Verifying the accuracy of the processing of financial instrument transactions, including the existence of evidence supporting the authorization of assets and cash.

4.1.4. Credit Risk Management Examination

Evaluating the implemented policy for credit risk management and its alignment with the requirements of IFRS 7, Table (10) illustrates the measures for managing credit risk.

Table 10 Credit risk assessment in accordance with IFRS 7 standards

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
The bank possesses a credit risk strategy that aligns with the requirements of IFRS 7	2.70	0.48	2.70	0.48	3.00	0.00	2.90	0.31	Banks disclose practices for managing credit risk and how they relate to the recognition and measurement of credit losses
Diversifying the credit portfolio in terms of economic activity, geographical distribution, and categorical allocation	2.70	0.48	2.50	0.52	2.90	0.31	2.70	0.48	The credit risk management is responsible for monitoring credit concentrations by credit type, in order to assess the expected loss amounts associated with loans and financial guarantee contracts
The bank relies on the alignment of credit with the provided guarantees	3.00	0.00	2.90	0.31	2.90	0.31	2.70	0.51	Periodic assessment of guarantees according to the nature, type, and risk level of the collateral

									provided to the bank.
The bank is concerned with having controls in place to verify the implementation of IFRS 9 with regard to expected credit losses	2.30	0.94	2.60	0.51	2.80	0.42	2.80	0.42	The process of calculating the financial impact of IFRS 9 has commenced through the estimation of expected credit losses, based on Letter 9/6/466 dated 26/12/2018. The auditor also mentioned this in their report.
The bank is concerned with defining the responsibilities and authorities of those in charge of credit	3.00	0.00	3.00	0.00	2.80	0.31	2.70	0.48	Defining the responsibilities of the credit departments in terms of the monitoring mechanism and frequency, the reports generated, and the method of presenting them to the higher committees.
The establishment of regulations that define the maximum due dates, the minimum payments, and the guarantees	2.60	0.51	2.80	0.42	2.90	0.31	2.90	0.31	The Risk Management Department monitors the nature of financial instruments to ensure that they remain within the approved limits.

The presence of electronic systems in the bank can be relied upon for credit losses, both in terms of inputs and operations	2.50	0.52	2.50	0.52	2.10	0.87	2.20	0.78	According to the report of the auditor and the compliance department, management seeks to develop and negotiate with companies to purchase a system that ensures the verification of all daily operations and risk assessment.
Submitting periodic reports to the Board of Directors regarding the ongoing credit process	2.80	0.42	3.00	0.00	2.70	0.48	2.60	0.51	The Risk Management Department provides comprehensive monthly and quarterly reports on all risks, measuring deviations from acceptable risk levels and the statutory ratios mandated by the bank.
Overall average	2.70	0.42	2.75	0.39	2.42	0.37	2.68	0.53	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for credit risk management are based on International Standard on Auditing (ISA 250) concerning compliance with laws and regulations when auditing financial statements, and International Standards on Auditing (ISA 315) and (ISA 330) regarding the auditor's responses to assessed risks.

1. Ensuring the diversification of the credit portfolio by setting limits to mitigate concentration risks at various levels, such as activity, maturities, and economic sector.

2. Periodic review of the credit portfolio to ensure that its quality aligns with the policy approved by the Bank's Board of Directors and the acceptable level of risk.
3. Establishing an information system that provides accurate and timely data and statistics regarding clients, sectors, and credit concentration.
4. Adhering to the instructions of the Central Bank of Iraq and the approved lending policy, which includes the authorities and responsibilities for each type of loan and the specific guarantees for each type.

4.1.5. Liquidity Risk Management Review

Assessing the efficiency of liquidity risk management to ensure the adoption of specific policies and metrics under IFRS 7 standards. Table (11) illustrates the liquidity risk management procedures.

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
The bank analyzes the maturity dates of financial instruments by categorizing them into groups based on the remaining periods.	2.70	0.48	2.40	0.51	2.80	0.42	2.10	0.31	Financial instruments are allocated based on the remaining contractual maturity period as of the financial statement date, on a monthly and annual basis, and without maturity.
The bank possesses sufficient cash liquidity to fulfil its obligations.	2.60	0.51	2.80	0.42	2.08	0.42	2.20	0.42	According to the report of the Board of Directors and the auditor, the liquidity ratios exceed the stipulated amounts.
The bank maintains emergency financing plans.	2.80	0.31	2.50	0.70	3.00	0.00	2.60	0.51	Adequately established a general banking risk reserve and a

									fair value reserve.
Achieving a balance between credit risks and expected profitability.	3.00	0.00	2.80	0.67	2.70	0.67	3.00	0.00	Fulfillment of obligations on their due dates, diversification of funding sources, and alignment of maturities.
The relative importance is given to each element of the sources of funds.	3.00	0.00	2.80	0.42	2.70	0.48	2.20	0.42	Banks are attempting to diversify their sources of funds and not rely solely on conventional operations.
Setting flexible limits on reliance on deposits from certain sectors to address risks.	2.90	0.51	2.80	0.84	2.70	0.48	2.80	0.42	Adopting a risk strategy in specific sectors and reviewing it annually in an official manner, or sooner if deemed necessary.
Adhering to the Central Bank's instructions regarding the retention of liquid funds.	2.90	0.31	3.00	0.00	2.80	0.63	2.20	0.41	Maintaining an adequate cash balance and the rationale for tradable securities.
Overall average	2.84	0.30	2.72	0.64	2.64	0.44	2.44	0.36	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for managing liquidity risk are approved in accordance with International Standards on Auditing and local auditing guidelines, represented by Standard (1000) Special Considerations in Auditing Financial Instruments, Standard (ISA 315), Standard (ISA 330), and Standard (ISA 520) Analytical Procedures.

1. Understanding liquidity risks, their sources, and impacts in the short and long term, and their interaction with other banking risks.

2. Reviewing liquidity risk management policies under both normal and stressed conditions.
3. Examining the organizational structure for liquidity risk management, including responsibilities and duties within the three lines of defense model, represented by business management, risk management, and internal audit.
4. Reviewing methods and techniques for measuring liquidity risks for activities both on and off the balance sheet.
5. Describing the system for exchanging and transferring information related to liquidity risk management and limits across different administrative and organizational levels.
6. Procedures for determining the amount of additional liquidity required to be maintained under normal and abnormal conditions.

4.1.6. Market Risk Management Examination

Assessment of appropriate measures for measuring market risks in accordance with IFRS 7. Table (12) illustrates the market risk management procedures.

Table 12 Market Risk Management Examination in accordance with IFRS 7

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
The bank is concerned with conducting sensitivity analysis for market risks (stock prices, interest rates, and foreign exchange rates).	3.00	0.00	3.00	0.00	3.00	0.00	2.20	0.42	Assessing market risks by analyzing each type of market risk and undertaking specific measures through tables that show the most significant changes occurring in exchange rates, interest rates, and indicating the percentage difference.
There is an information system for	2.00	0.81	2.70	0.48	2.80	0.42	2.10	0.73	The Treasury and

monitoring market risks that provides reports on assessment results to the management levels.									Investment Department is responsible for analyzing and monitoring open positions daily and closing them when risks increase based on market movements.
The bank sets the maximum limit for the transactions it conducts.	2.70	0.48	2.50	0.70	2.90	0.31	2.20	0.42	Exceeding the limits is prohibited, and any portion that surpasses the maximum for any operation will be liquidated.
Assessment of the changes that have occurred in the methods and assumptions for calculating market risks.	3.00	0.00	2.40	0.84	2.70	0.48	2.60	0.51	A table is prepared showing the potential impact of changes, illustrating the percentage of change and its effect on profits and losses.
Foreign Exchange and Market Value	2.70	0.48	2.60	0.83	3.00	0.00	2.60	0.78	Foreign exchange centers are monitored

Risk Assessment									on a daily basis.
Establishing standards and regulations to mitigate the risks of foreign exchange rate fluctuations.	2.30	0.94	2.50	0.52	3.00	0.00	2.80	0.42	Hedging strategies are employed to ensure that foreign currency positions are maintained within the approved limits.
Overall average	2.62	0.38	2.61	0.48	2.90	0.21	2.41	0.54	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for market risk management rely on International Standard on Auditing (ISA 315), International Standard on Auditing (ISA 330) - Auditor's Responses to Risks, and International Standard on Auditing (ISA 250) - Consideration of Laws and Regulations.

1. Ensure the Board of Directors' approval of the market risk strategy, which includes core activities, target markets, risk limits, types of acceptable risks, and portfolio diversification levels.
2. Verify the processes and their suitability to the organizational structure, identify associated market risks, and evaluate them at the overall banking group level.
3. Ensure that operations are approved after review by the Chief Risk Officer, Chief Compliance Officer, Finance, Legal, and the relevant product and operations departments.
4. Ensure the existence of an effective market risk management information system that guarantees reporting to and from the Board of Directors and the timely availability of critical information to all management levels within the organizational structure.
5. Verify compliance of all bank employees with these policies and procedures necessary for market risk management, as well as instructions issued by the Central Bank of Iraq in this regard.
6. Ensure that recommendations are submitted to the Board of Directors concerning market risks, significant changes in the volume and direction of risks, and their impact on the bank's revenues and financial soundness.

4.1.7. Examination of the provided guarantees

To examine the guarantees provided to the customer for loans or credit facilities granted according to IFRS 7 (Table 13), the procedures for auditing the guarantees are outlined.

Table 13 Examination of the guarantees provided in accordance with IFRS 7

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
Seventh: Procedures for Auditing the Provided Guarantees									
Ensuring the validity of the confirmations related to the received guarantees and bank attestations.	2.80	0.42	2.80	0.63	2.80	0.63	2.20	0.42	Preparing a dedicated database for the guarantees provided, identifying their sources, and categorizing them according to the type of guarantee offered.
The provided guarantees are capable of recovering the loan amounts along with interest.	2.80	0.42	2.80	0.42	2.80	0.42	2.60	0.51	Most of the accepted guarantees are (real estate, deed and promissory note, personal guarantee).
The forms for the verification of guarantees are the same as those submitted to the bank.	2.70	0.48	2.90	0.31	3.00	0.00	2.80	0.42	Legal auditing of all contracts and documents supporting the provided guarantees.
Documenting the reports carried out by the committees	2.70	0.48	2.80	0.42	3.00	0.00	2.50	0.52	Ensuring the appropriate guarantees and properly documentin

specialized in evaluating and inspecting guarantees.									g them as a precaution against risks.
Property guarantees and that the value of the property covers the loan.	3.00	0.00	2.80	0.42	2.80	0.42	2.80	0.42	Banks rely heavily on mortgages.
Registering guarantees in its banking system and considering the effect of those guarantees when calculating credit provisions.	2.90	0.31	2.80	0.42	2.70	0.48	2.30	0.48	Periodic evaluation of guarantees according to their nature, type, and risk level to enhance them and ensure they adequately cover the credit on an ongoing basis.
Clarification of changes in the quality of mortgage guarantees.	2.70	0.67	2.60	0.51	2.80	0.42	2.20	0.42	Periodic evaluation of guarantees according to the type and level of risk.
Overall average	2.41	0.40	2.39	0.45	2.84	0.33	2.48	0.46	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed audit procedures for the provided guarantees are based on international auditing standards, including ISA 540, Auditing Accounting Estimates, ISA 330, Auditor's Response to Assessed Risks, and Standard 1000, Special Considerations in Auditing Financial Instruments.

1. Verification of the guarantees provided for the estimation of financial instruments and the timing and amounts of cash flows, such as interest payments and the principal amount related to a mortgage or credit card guarantee.
2. Ensuring the adoption of prepayment assumptions. For instance, if market interest rates for mortgage guarantees have declined, mortgage guarantees may experience higher prepayment rates than initially expected.
3. Estimating default risks and assessing the severity of losses through a close evaluation of the provided collateral. For example, when the collateral includes residential mortgage liens, the severity of losses may be influenced by estimates of housing unit prices.

4.1.8. Fair Value Assessment

Examining the framework for the preparation and presentation of financial instruments at fair value and Table (14) illustrates audit procedures for fair value in accordance with IFRS 7.

Table 14 Fair value assessment in accordance with IFRS7

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
Measuring the fair value of financial instruments in accordance with the three specified approaches	2.70	0.48	2.50	0.70	2.90	0.31	2.20	0.42	He established three levels for measuring fair value according to the hierarchical structure, which are considered methods and means of evaluation.
Fair value assessment based on the first approach, which relies on quoted prices in an active market, and the second approach, which depends on markets similar to the active market.	2.80	0.42	2.40	0.84	2.80	0.42	2.50	0.52	Measuring fair value according to Level 1 of the main market, and in its absence, measurement is carried out according to Level 2, represented by a market similar to the main market.
Management sets fair value estimates based on its	1.90	0.87	2.30	0.67	3.00	0.00	2.30	0.48	Management employs other techniques

assumptions in the absence of published market prices.									that serve as inputs having a significant impact on fair value, but they are not based on observable market information.
The bank engages experts to reassess the fair value.	1.70	0.67	2.50	0.52	2.90	0.31	2.30	0.48	The individuals in management possess expertise and knowledge in fair value assessments.
The congruence of fair value measurements and disclosures with IFRS.	2.80	0.42	2.3	0.67	2.80	0.42	2.30	0.48	Fair value is measured based on the standards of financial instruments, relying on First Level .
Implementing test procedures to audit the fair value in order to obtain sufficient evidence.	2.20	0.42	2.50	0.48	2.70	0.48	2.50	0.52	Reviewing the carrying amounts recorded in the financial statements for financial instruments as of the balance sheet date to identify indicators of impairment.
Review of subsequent transactions after the	2.80	0.42	2.80	0.42	2.90	0.31	2.80	0.42	Determining whether subsequent events affect the fair value

financial reporting date									assessment of instruments.
Overall average	2.41	0.58	2.47	0.51	2.85	0.33	2.41	0.47	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed fair value audit procedures rely on international auditing standards, specifically Standard (ISA 540) on auditing accounting estimates, including fair value and related disclosures, Standard (1000) on special considerations in auditing financial instruments, and Standard (ISA 620) on the use of the work of an expert.

1. Understanding how fair value measurements obtained from external pricing sources, based on traded prices in an active market, are calculated.
2. Verifying whether the fair value measurements of financial instruments are derived in a manner consistent with the applicable financial reporting framework.
3. Checking whether the fair value assessment is reasonable. It may be inappropriate to rely solely on taking the average of submitted quotes without conducting further investigation, as there might be a single prevailing price.
4. Using more than one model to corroborate the results of each model, taking into account the data and assumptions used in measuring fair value.
5. Ensuring the engagement of an expert to evaluate some or all of the financial instruments.

4.1.9. Hedging Accounting Review

Examination of hedge accounting practices used in mitigating financial instrument risks under the financial reporting standard IFRS 7, Table (15), hedge accounting procedures.

Table 15 Hedge accounting examination in accordance with IFRS 7

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
Ninth: Hedge Accounting									
Describe each type of hedging (fair value hedge, cash flow hedge, and net investment hedge).	2.80	0.42	2.30	0.67	2.70	0.48	2.00	0.00	Hedging is included under the financial instruments at fair value section and within market risk management in the financial report sections.

Measuring all types of banking risks by considering their three dimensions (size, duration, and likelihood of occurrence).	2.80	0.42	2.30	0.52	2.60	0.51	2.10	0.31	The Risk Management Department is responsible for preparing and developing measurement and control methodologies for all types of risks and obtaining their approval from the Board of Directors.
Description of hedging instruments and their fair value at the reporting date	2.50	0.52	2.40	0.69	2.80	0.42	2.20	0.42	The bank classifies such contracts as profit hedging transactions and profit rates in various currencies.
There are mechanisms that determine the funding to address losses.	3.00	0.00	2.50	0.70	2.70	0.48	2.20	0.42	Following a hedging strategy by ensuring that currency positions are maintained within the approved limits.
Complying with the hedge ratios specified by the supervisory authority.	2.10	0.73	2.30	0.67	2.30	0.67	2.40	0.51	Setting hedge reserves resulting from changes in the value of the hedging instrument.
Overall average	2.64	0.42	2.36	0.65	2.62	0.51	2.18	0.33	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

The proposed auditing procedures for hedge accounting were established in accordance with International Auditing Standards, namely ISA 200 on the overall objectives of the independent auditor, ISA 540 on auditing accounting estimates and related disclosures, ISA 1000 on special considerations in auditing financial instruments, and ISA 330 on responding to assessed risks.

1. Auditing the reporting of measurement results and the financial instruments hedging strategies adopted by the Board of Directors.
2. Examining the accuracy of measuring the impact of hedging operations on assets, liabilities, and equity in accordance with accounting standards.
3. Ensuring the existence of a risk assessment mechanism for the purpose of identifying business risks arising from the use of financial instruments, estimating the significance of these risks, evaluating the likelihood of their occurrence, and making decisions regarding the hedging accounting measures to be taken for management.
4. Understanding the inherent risks of each financial instrument before management engages in hedging accounting disclosures, including the purpose, such as the economic and commercial objective of financial instrument activities.
5. Auditing the recognition of fluctuations in the fair value of derivatives according to the type of hedge, whether it is an unassigned or speculative hedge, fair value hedge, cash flow hedge, or net investment hedge.

4.1.10. Examination of capital and reserves

Examination of capital management procedures and reserves according to IFRS 7, Table (16), illustrates the procedures

Table 16 Capital and reserves in accordance with IFRS 7

Requirements of IFRS 7 Standard	Gulf Commercial Bank		Middle East Bank		Ashur Bank		Trans Iraq Bank		Notes on the Application
	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	Mean	St. Deviation	
Full payment of the bank's capital for the purpose of determining the adequacy of the capital.	3.00	0.00	2.50	0.52	2.80	0.42	2.80	0.42	The adequacy of capital shall be calculated in accordance with the instructions of the Central Bank of Iraq. In its session held on September 27 and 28, 2010, it was decided to increase the capital to 250 billion dinars.
A study of dividend	3.00	0.00	2.80	0.42	3.00	0.00	2.80	0.73	According to the Board of

distributions and the relationship between capital and profits.									Directors' recommendations, the net profits shall be distributed according to the shares.
The existence of reserves utilized in accordance with the law	2.90	0.42	2.90	0.31	2.80	0.42	2.50	0.52	A deduction of 5% of the net profits is made to form a statutory reserve, and the deduction ceases once it reaches 50% of the paid-up capital.
The capital is sufficient to cover unforeseen losses.	2.90	0.31	2.70	0.48	2.70	0.48	2.60	0.51	According to the Board of Directors' report and the auditor's report, the capital ratios exceed the requirements set by the Central Bank of Iraq.
Continuous auditing of the bank's capital movement throughout the year.	3.00	0.00	2.80	0.42	2.50	0.52	2.20	0.42	Banks clarify the management of capital structuring and implement the necessary adjustments.
Overall average	2.96	0.14	2.45	0.43	2.76	0.36	2.58	0.52	

Prepared by the researchers based on SPSS24, financial reports, and the obtained inquiries.

Proposed Audit Procedures:

Proposed audit procedures for capital and reserves according to International Standards on Auditing, Standard (ISA 265) Reporting Deficiencies in Internal Control to Those Charged with Governance and Management, Standard (ISA 250) Consideration of Laws and Regulations when Auditing Financial Statements, Standard (ISA 315) Identifying Risks of Material Misstatement, Standard (ISA 500) Obtaining Audit Evidence.

1. Ensuring that the bank maintains capital above the minimum regulatory capital requirement under the first pillar of Basel framework.
2. Ensuring that the bank regularly and continuously monitors and manages its portfolios and makes adjustments in its new activities in order to address, correct, or avoid potential future issues.
3. Verifying that the Central Bank of Iraq is informed of any material outcomes related to financial instrument risks and any corrective actions undertaken by the bank concerning these risks.

4. Ensuring the assessment by regulatory authorities of the adequacy of the capital required to cover these risks, for example by developing the bank's methods for measuring financial instrument risks and determining the capital required to cover such risks, and considering this during the internal capital adequacy assessment process.
5. Adopting the level of importance assigned to risks within the framework of internal capital adequacy assessment and capital planning based on the outcomes produced by the bank's internal measurement methods.
6. Taking into account the reserves imposed during the measurement process and risk limits according to the level of risk acceptable to the bank.

4.2. Presentation and Analysis of the Results of the Impact of Requiring Private Banks in Designing Audit Procedures

The paragraph focuses on examining the impact of adherence to IFRS 7 on auditing procedures by implementing a set of statistical tests, such as reliability and validity tests for the study instrument, analyzing the overall results of the research sample based on the questionnaire axes using frequencies, percentages, means, and standard deviations, and finally, testing the hypotheses.

4.2.1. Reliability and Validity Test of the Questionnaire

The concept of questionnaire reliability refers to the degree of consistency that a measure or tool provides when tested repeatedly on the same sample. It also serves as an indicator of the internal consistency of the test results. As for the validity of the questionnaire, it represents the extent to which the adopted measure or tool is capable of accomplishing and measuring what it was designed for, thereby achieving the objectives and hypotheses of the study. Table (17) illustrates the reliability coefficient for the questionnaire items.

Table 17 Reliability coefficient for the questionnaire items

	Title	Number of paragraphs	Variance for group 1	Variance for group 2	Correlation coefficient	Type of equation	Adjusted Correlation Coefficient
First Side	Review of regulatory policies and procedures	7	4.460	2.865	0.699	Guttman	0.811
	Examination of accounting policies	6	3.461	3.034	0.628	Spearman-Brown	0.771
	Categories of Financial Instruments	6	2.719	2.877	0.655	Spearman-Brown	0.792
	Credit risk	5	3.038	1.859	0.585	Guttman	0.724
	Liquidity risk	5	2.686	2.05	0.517	Guttman	0.678
	Market risk	5	3.112	1.863	0.642	Guttman	0.766
	Guarantees provided	5	2.520	1.291	0.591	Guttman	0.717
	Capital and reserves	6	3.519	3.283	0.607	Spearman-Brown	0.756
	Fair value	7	5.001	3.703	0.581	Guttman	0.730

	Hedge accounting	7	5.915	4.629	0.726	Guttman	0.837
Second Side	Audit procedures	20	28.4	26.6	0.821	Guttman	0.901

Prepared by the researchers based on the results of SPSS24 statistical analysis.

It is evident from Table (17) that the reliability coefficient is high for all items and statistically acceptable, thus confirming the reliability of the questionnaire for the study, which makes it highly trustworthy, in addition to its suitability for analyzing results and answering the research questions.

This indicates the internal consistency of the items. The questionnaire items are characterized by the validity of internal consistency through the correlation coefficient values in Table (18) at a significance level of 0.01, with the significance level for all items reaching 0.000, which is less than 0.01. Table (18) illustrates the validity coefficient of the questionnaire items at a significance level of 0.01.

Table 18 Validity coefficient of the questionnaire items

	Title	Correlation coefficient	Sig.
First Side	Review of regulatory policies and procedures	0.643	0.000
	Examination of accounting policies	0.753	0.000
	Categories of Financial Instruments	0.731	0.000
	Credit risk	0.750	0.000
	Liquidity risk	0.561	0.000
	Market risk	0.838	0.000
	Guarantees provided	0.779	0.000
	Capital and reserves	0.751	0.000
	Fair value	0.893	0.000
	Hedge accounting	0.770	0.000
	Second Side	Audit procedures	0.951

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Table (18) presents the Pearson correlation coefficients between the requirements of the FRS7I financial reporting standard and audit procedures. All relationships were found to be strongly positive, with the highest correlation coefficient observed for audit procedures at 0.951, followed by fair value at 0.893, and market risk at 0.779. The lowest correlation was recorded for market risk at 0.561. All items were statistically significant at the 0.01 level.

4.2.2. Analysis of the questionnaire based on descriptive statistics

Descriptive statistical analysis provides a detailed presentation of test results, their analysis, and interpretation of the participants' responses regarding the study variables and their dimensions through the following measures: mean, standard deviation, coefficient of variation, relative importance, general trend, as illustrated below.

4.2.2.1. Analysis of IFRS 7 Application Requirements

A set of general statistics was found for the paragraphs of the first axis related to (auditing the requirements of applying IFRS 7). These were divided into several paragraphs to determine the percentages, frequencies, arithmetic mean, standard deviation, coefficient of variation, and the relative importance of each paragraph of the axis as follows:

1. Analysis of Audit Results of Policies and Control Procedures

The mean scores of the computational items in this section, as shown in Table (19), ranged between 4.30 and 4.51, which is higher than the acceptance criterion of 3 in the measurement tool, whose scale ranges from 1 to 5. The standard deviation values ranged from 0.67 to 0.79. Meanwhile, the mean coefficients of variation showed percentages ranging from 14.6% to 18.4%, which are below the acceptance threshold of 50%.

Table 19 The overall arithmetic mean of the independent and dependent variables

Question	Paragraph	Mean	Standard Deviation	Coefficient of Variation	Relative importance	General Direction
Independent variable						
Audit of regulatory policies and procedures	7	4.38	0.50	11.4	87.6	Strongly Agree
Audit of accounting policies	6	4.26	0.54	12.6	85.2	Strongly Agree
Audit of financial instrument categories	6	4.28	0.50	11.8	85.6	Strongly Agree
Credit risk audit	5	4.25	0.54	12.6	85.2	Strongly Agree
Liquidity risk audit	5	4.29	0.53	12.4	85.8	Strongly Agree
Market risk audit	5	4.22	0.56	13.4	84.4	Strongly Agree
Audit of Provided Guarantees	5	4.33	0.48	11.24	86.6	Strongly Agree
Capital and Reserves	6	4.31	0.55	12.7	86.2	Strongly Agree
Fair Value Audit	7	4.23	0.52	12.5	84.6	Strongly Agree
Analysis of Hedge Accounting Audit Results	7	4.14	0.60	14.6	82.8	Strongly Agree
Dependent variable						
Designing audit procedures based on IFRS 7	20	4.29	11.6	11.6	85.6	Strongly Agree

Prepared by the researchers based on the results of SPSS24 statistical analysis.

4.2.2.2. Hypothesis Test Results: Establishing the Correlation Between IFRS 7 Criteria and the Design of Audit Procedures

The significance of the correlation of the independent variable (IFRS 7 financial reporting requirements) and the dependent variable (audit procedures design) was tested. Correlation analysis was conducted after obtaining the statistical results from the questionnaire, and the results appeared with a significance level of 0.000, which is less than 0.05, indicating a statistically significant correlation between the research variables. Consequently, the alternative hypothesis is accepted, as demonstrated in the following tables:

Table (21) illustrates the correlation between compliance with IFRS 7 requirements and the design of audit procedures.

Table 21 correlation between compliance with IFRS 7 requirements and the design of audit procedures

Testing the main hypothesis	The correlation between fulfilling the requirements of IFRS 7 and audit procedures			
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Requirements of IFRS 7	Independent	0.802	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between fulfil the requirements of IFRS 7 and the design of audit procedures.				

Prepared by the researchers based on the results of SPSS24 statistical analysis.

4.2.2.3. Hypothesis Testing

Table (22) illustrates the correlation between the review of policies and control procedures and the design of audit procedures.

Table 22 correlation between the review of policies and control procedures and the design of audit procedures

Testing the main hypothesis	The correlation between fulfilling the requirements of IFRS 7 and audit procedures			
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Review of regulatory policies and procedures	Independent	0.476	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between the examination of policies and control procedures and auditing procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Examination of accounting policies	Independent	0.623	0.000	Rejecting the null hypothesis and accepting the

Design of audit procedures	Dependent			alternative hypothesis
There is a statistically significant correlation between the examination of accounting policies and the design of auditing procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Categories of Financial Instruments	Independent	0.594	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between categories of financial instruments and the design of audit procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Credit Risks	Independent	0.628	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between credit risks and the design of auditing procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Liquidity Risks	Independent	0.437	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between liquidity risks and the design of audit procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Market Risks	Independent	0.756	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between market risks and the design of audit procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Provided Guarantees	Independent	0.683	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between the provided guarantees and the design of audit procedures				

Variable	Type of variable	Correlation coefficient	Sig.	Decision
Capital and Reserves	Independent	0.656	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between capital and reserves and the design of audit procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Fair Value	Independent	0.737	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between fair value and the design of audit procedures				
Variable	Type of variable	Correlation coefficient	Sig.	Decision
Hedging Accounting	Independent	0.670	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Design of audit procedures	Dependent			
There is a statistically significant correlation between hedge accounting and the design of auditing procedures				

Prepared by the researchers based on the results of SPSS24 statistical analysis.

4.2.2.4. Results of Hypothesis Testing on the Impact of IFRS 7 Standard on the Design of Audit Procedures

The significance of the impact relationship between the research variables was tested using simple and multiple regression analysis, and the results appeared at a significance level of 0.000, which is less than 0.05, indicating a statistically significant impact relationship between the research variables, as shown in the following tables:

1. Testing the main hypothesis

H0: There is no statistically significant effect between fulfil the requirements of IFRS 7 and the design of audit procedures.

H1: There is a statistically significant effect between fulfil the requirements of IFRS 7 and the design of audit procedures.

Table 23 illustrates the effect between the requirements of the financial reporting standard IFRS 7 and the design of audit procedures.

Table 23 The Effect Between IFRS 7 Requirements and the Design of Audit Procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Requirements of IFRS 7 Standard	Independent	0.643	0.911	181.677	13.479	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 0.403 + 0.911X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

2. Testing the First Sub-Hypothesis

H0: There is no statistically significant effect between examining policies and control procedures and designing audit procedures.

H1: There is a statistically significant effect between examining policies and control procedures and designing audit procedures.

Table 24 illustrates the effect between the examination of policies and procedures and the design of audit procedures.

Table 24 The effect between the examination of policies and procedures and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Review of supervisory policies and procedures	Independent	0.227	0.475	29.602	5.441	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 2.210 + 0.475 X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

3. Testing the second sub-hypothesis

H0: There is no statistically significant effect between the examination of accounting policies and the design of auditing procedures.

H1: There is a statistically significant effect between the examination of accounting policies and the design of auditing procedures.

Table 25 illustrates the effect between the examination of accounting policies and the design of auditing procedures.

Table 25 The effect between the examination of accounting policies and the design of auditing procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Examination of accounting policies	Independent	0.388	0.575	63.944	7.997	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.842 + 0.575X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

4. Testing the third sub-hypothesis

H0: There is no statistically significant effect between categories of financial instruments and the design of audit procedures.

H1: There is a statistically significant effect between categories of financial instruments and the design of audit procedures.

Table 26 illustrates the effect between categories of financial instruments and the design of audit procedures.

Table 26 The effect between categories of financial instruments and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Categories of financial instruments	Independent	0.394	0.567	65.704	8.106	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.786 + 0.586X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

5. Testing the Fourth Sub-Hypothesis

H0: There is no statistically significant effect between credit risks and the design of audit procedures.

H1: There is a statistically significant effect between credit risks and the design of audit procedures.

Table 27 illustrates the effect between credit risks and the design of audit procedures.

Table 27 The effect between credit risks and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Credit risks	Independent	0.516	0.672	107.866	10.386	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.883 + 0.567X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

6. Testing the Fifth Sub-Hypothesis

H0: There is no statistically significant effect between liquidity risks and the design of audit procedures.

H1: There is a statistically significant effect between liquidity risks and the design of audit procedures.

Table 28 illustrates the effect between liquidity risks and the design of audit procedures.

Table 28 The effect between liquidity risks and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Liquidity risks	Independent	0.572	0.666	134.717	11.607	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.407 + 0.672X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

7. Testing the Sixth Sub-Hypothesis

H0: There is no statistically significant effect between market risks and the design of audit procedures.

H1: There is a statistically significant effect between market risks and the design of audit procedures.

Table 29 illustrates the effect between market risks and the design of audit procedures.

Table 29 The effect between market risks and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Market risks	Independent	0.466	0.701	88.237	9.393	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.479 + 0.666X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

8. Testing the Seventh Sub-Hypothesis

H0: There is no statistically significant effect between the provided assurances and the design of audit procedures.

H1: There is a statistically significant effect between the provided assurances and the design of audit procedures.

Table 30 illustrates the effect between the provided assurances and the design of audit procedures.

Table 30 The effect between the provided assurances and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Provided assurances	Independent	0.430	0.596	76.301	8.735	0.000	Rejecting the null hypothesis and accepting the
Designing audit procedures	Dependent						

							alternative hypothesis
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Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.259 + 0.701X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

9. Testing of the Eighth Sub-Hypothesis

H0: There is no statistically significant effect between capital and reserves and the design of audit procedures.

H1: There is a statistically significant effect between capital and reserves and the design of audit procedures.

Table 31 illustrates the effect between capital and reserves and the design of audit procedures.

Table 31 The effect between capital and reserves and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Capital and reserves	Independent	0.543	0.698	120.211	10.964	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Designing audit procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.725 + 0.596X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

10. Testing the Ninth Sub-Hypothesis

H0: There is no statistically significant effect between fair value and the design of audit procedures.

H1: There is a statistically significant effect between fair value and the design of audit procedures.

Table 32 illustrates the effect between fair value and the design of audit procedures.

Table 32 The effect between fair value and the design of audit procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Fair value	Independent	0.449	0.551	82.330	9.074	0.000	Rejecting the null hypothesis and
Designing audit procedures	Dependent						

							accepting the alternative hypothesis
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Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 1.338 + 0.698X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

11. Testing the Tenth Sub-Hypothesis

H0: There is no statistically significant effect between hedge accounting and the design of audit procedures.

H1: There is a statistically significant effect between hedge accounting and the design of audit procedures.

Table 33 illustrates the effect between hedge accounting and the design of audit procedures.

Table 33 The Impact Between Hedge Accounting and Audit Procedures

Variable	Type of variable	R ²	Regression Coefficient	F	T	Sig.	Decision
Hedge Accounting	Independent	0.449	0.551	82.330	9.074	0.000	Rejecting the null hypothesis and accepting the alternative hypothesis
Audit Procedures	Dependent						

Prepared by the researchers based on the results of SPSS24 statistical analysis.

Based on the above table, the following regression line equation can be formulated:

$$\hat{Y} = b_0 + b_1x = 2.010 + 0.551X$$

Since b_0 is the regression constant and b is the regression coefficient of Y/X .

5. Conclusion

- Mandating banks to adhere to financial reporting standards is imperative, particularly following the issuance of Central Bank of Iraq Instruction No. 12/9 on April 1, 2016. This mandate requires the preparation of standardized and comprehensible financial reports in private banks to facilitate informed economic decision-making. It provides more detailed disclosures regarding financial instruments, encompassing all the risks to which they are exposed.
- Audit procedures can be designed to examine compliance with the Central Bank's instructions regarding IFRS 7 by referring to the standard's requirements and linking them to Iraqi audit evidence and international auditing standards, thus enhancing the auditor's work when performing examination and verification tasks.
- There is a weakness among some staff members working in the banks in the research sample, particularly in their understanding of the provisions governing IFRS 7, as evidenced by the limited number of training courses specialized in IFRS.

- d. The examination of the policies and supervisory procedures of the banks in the research sample revealed the absence of an internal audit program that covers the risks within these banks. Indicates a lack of coordination between the audit committee, the internal and external auditors, and the compliance officer.
- e. The model applied in the research facilitates the evaluation of the disclosure of financial instruments and related risks in the sample banks, as well as the identification of banks that disclose more information. It was found that Ashur Bank was relatively the best in disclosure according to financial reporting standards, followed by Middle East Bank and Gulf Commercial Bank, and then Trans Iraq Bank.
- f. There is no complete application by the sample banks during the period regarding accounting disclosure for each type of hedge in showing profits and losses resulting from hedging and the effectiveness of risk coverage efforts.
- g. Analysis of the questionnaire results related to impact analysis revealed a strong correlation and influence between IFRS 7 and audit procedures, indicating a positive relationship that enhances the auditing process.
- h. International auditing standards related to risks, particularly Standard 315 for identifying risks of material misstatement, Standard 330 for the auditor's response to assessed risks, and Standard 500 for audit evidence, reinforced the design of audit procedures within the IFRS 7.
- i. There is a variation in the responses regarding the application of the paragraph related to the disclosure of fair value as per Level 2 disclosure, and paragraph (following Level 3) has not been applied. These two paragraphs pertain to the auditor's report, measurement, and adjustment of recorded amounts for financial instruments, and a weakness remains in the application of fair value measurement.
- j. Banks are required to rely on individuals with high expertise and competence in the internal audit department, possessing the academic and practical qualifications that enable them to develop a program based on international standards through which risks can be identified and early risk detection can be achieved.
- k. Adoption of the proposed model (designing auditing procedures according to IFRS 7), which illustrates how to audit the items included within the requirements of IFRS 7, and assists the auditor in relying on it when auditing financial instruments and determining the extent of compliance with disclosure requirements.
- l. It is essential to ensure adherence to IFRS 7 and its specific requirements, given their correlation and impact on enhancing auditing procedures.
- m. It is necessary to seriously consider the requirements of IFRS 7 concerning disclosure of hedge accounting and risk coverage transactions, particularly regarding the need to present financial statements that are credible and accurately reflect the efforts undertaken to manage risks within banks.
- n. It is necessary to regularly review the instructions for calculating expected credit losses in accordance with the IFRS 7 standard, taking into account the possibility of making adjustments to the standard based on local environmental variables. It could reduce the implementation difficulties faced by banks, thereby encouraging compliance.
- o. It is essential to pay attention to how the fair value of financial instruments is determined at various levels, as well as to establish the related audit procedures, especially at the second and third levels of fair value. Involves developing the skills and knowledge of external auditors in the areas of fair value auditing by relying on Standard 540 concerning accounting estimates, including fair value estimates.

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