Journal of Economics and Administrative Sciences
2024; 30(141), pp. 565-585
P-ISSN 2518-5764
E-ISSN 2227-703X

Journal of Economics and Administrative Sciences (JEAS)

Available online at http://jeasiq.uobaghdad.edu.iq

The Role of Joint Audit in Reducing Cases of Financial Default in Banks Listed on the Iraq Stock Exchange

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Received:26/10/2023 **Accepted:3/12/2023** **Published Online First: 30 /6/ 2024**

Abstract :

The method of joint auditing is not a recent appearance, but it is needed at the present time due to the occurrence of many global problems and crises. The research problem was represented by the increasing cases of financial distress of economic units, especially the collapse of economic units that occurred in the recent global crises. The research was based on the hypothesis that applying The method of joint auditing in economic units helps in reducing cases of financial distress, as the research aimed to measure the extent to which joint auditing can reduce the occurrence of cases of financial distress in economic units listed on the Iraq Stock Exchange. The research included 14 private banks listed on the Iraq Stock Exchange. Iraq Securities Exchange as a sample for a period of ten years from 2011 to 2020. The research used the survey method to measure the application of the joint audit method, and used the KIDA model to measure financial distress in the research sample. The most important results of the research were that financially distressed units decreased with the application of the joint audit method, that is, whenever there was a joint audit, the incidence of financial distress in economic units decreased.

Paper Type: Research Paper
Keywords: joint audit, financial distress, default cases

1. Introduction:

Joint auditing is not a modern concept. It has been known in practice since the 1930s, but the need for it has emerged in the modern time as a result of the financial crises that struck the world's economies, as well as the scandals of auditing companies that appeared in conjunction with those crises, which had a major impact on the weakness of... Public confidence in the auditing process, as the main reason for these crises was the auditing companies' provision of various auditing and consulting services to the same client, which led to a weakness in the independence and impartiality of the auditing companies. The recurrence of these crises and the inability of the auditing profession to prevent crises from occurring again has led to criticism. The auditing profession was accused of weak independence and practical competence in detecting these crises and warning them before they occurred, which prompted the bodies regulating the auditing profession to present various proposed solutions to restore confidence in the auditing profession and enhance its efficiency. One of those bodies that submitted proposals was the European Commission, which issued Following the financial distress that occurred in 2008, a report known as the Green Paper was issued in 2010, which discussed many proposals to address the weakness in the efficiency and independence of the auditing profession, in order to seek to restore confidence in the auditing profession. One of the most prominent of these proposals that received widespread discussion was the generalization of the French experience. With joint auditing as one of the tools for reforming the auditing profession, Financial distress is an important aspect of the threat to economic units in the midst of the challenges presented by global developments to all economic sectors, which in turn affects the continuity of economic units, Hence the idea of the research came, which is to demonstrate the possibility of joint auditing in reducing cases of financial distress experienced by economic units listed on the Iraqi Stock Exchange.

1.1 Literature Review :

There are many studies that have dealt with the relationship of joint auditing with other external variables, and among those studies that have dealt with that relationship are:

Abdel Halim (2019) discussed the positive and negative effects of joint auditing, as well as examining the impact of applying joint auditing on the value of the economic unit. The study relied on the content analysis approach in examining the financial statements and annual audit reports in order to build a model through which the impact of applying joint auditing on The market value of the economic unit. This was done through a sample of 34 economic units listed within the (EGX 100) index for the period from 2010 to 2017. The study reached the conclusion that joint auditing has positive and negative effects on the auditing profession and auditors, as well as that joint auditing is linked to a moral relationship. With the value of the economic unit.

Khersiat (2020) explained the effect of applying the joint audit method in detecting misstatements in the financial statements, as well as the details of that relationship from the point of view of auditors in Jordan. The study focused on examining the joint audit to understand the procedures of management and the board of directors. The study also examined the various relationships of the economic unit with... Relevant external parties, financing entities, financial statement results, and operational characteristics in order to determine the effect of applying the joint audit method in detecting financial misstatements. The results of the study indicate that there is no statistically significant effect of applying the joint audit method in detecting misstatement in the financial statements at a significant level (5%) in all procedures for detecting misstatements in the financial statements.

Garcia-Blandon, et al (2021) investigated the possibility that the joint audit method provides higher quality than the individual audit method, the study examined the possibility that the joint auditing method provides higher quality than the individual auditing method. The study sample included a group of French and European units. The study reached results indicating that European companies that apply the individual audit method contain similar levels of discretionary entitlements to French companies that apply the joint audit method. The study reached results that French economic units that apply the joint audit method may provide audit quality that is less than European units that apply the individual audit method if profit standards are adopted as a variable to measure audit quality.

Fayed, et al (2022) explained the impact of applying the joint audit method on the quality of audit planning in the Egyptian environment and the extent to which the application of the joint audit method can influence the initial audit planning, the comprehensive audit strategy, the general audit plan, and audit procedures as variables to measure audit quality, and a sample was formed. The study included 400 auditors and academics, including professional auditors from different auditing companies and academics from different Egyptian universities. The results of the study concluded that joint auditing has a positive impact on both the initial audit planning as well as the comprehensive audit strategy, the general audit plan, and audit procedures. The study reached a conclusion. (93%) of the research sample supports implementing a voluntary joint audit.

There have also been numerous studies that have dealt with the relationship of financial distress to other external variables, including:

Al-Hasnawi (2017) demonstrated the possibility of predicting the financial distress of economic units listed on the Iraqi Stock Exchange using the financial ratios of the Kida model, as well as revealing the size of the statistical relationship of the ratios of the Kida model on the earnings per share (EPS) of those units. The study used descriptive statistical methods in addition to multiple regression models. To analyze and test the hypotheses, the study sample consisted of 8 contributing economic units for a period of 3 years, and the study reached results that confirmed a statistically significant impact of the profitability ratios (return on investment) and activity ratios (asset turnover rate) on the earnings per share of those units, and it also confirmed The study focused on the very strong and positive relationship between the dependent variable and the independent variable.

Farooq, et al (2018) explained the dynamics of financial faltering in its multiple stages, as well as to reveal the heterogeneous negative events of financial distress that may lead the economic unit to gradually approach bankruptcy. The study sample consisted of 321 sound economic units, 54 suspended units, and 91 written off non-financial units. From the Pakistani Stock Exchange, the study found that the units that were delisted suffered from negative ownership problems and their operations were stopped long before the time of their delisting. It also found that financially sound units are more likely to face a severe liquidity crisis represented by negative ownership if they face moderate liquidity crises.

Tiryaki (2021) compared single-variable financial distress detection models and multivariable models and distinguish the models with greater accuracy in detecting financial distress for economic units. The study took a group of bankrupt Polish economic units as a sample for the study and for a period of five years, and the results were compared for the group of models, where The study found that multivariate models are more accurate and useful than univariate models in detecting the financial problems that economic units may suffer from.

Elewa (2022) determined the impact of using the Altman Z-Score model on predicting financial distress in Egypt. The study sample included 44 economic units for the period from 2016 to 2020. The study used the Altman Z-Score models used to predict financial distress, 1968 and the modified Altman Z-Score 1993, where the independent variable was financial distress and the dependent variable was the ratios used in the Altman Z-Score models. The SPSS program was used in the study, and the most important results that the study reached were that using... Altman Z-Score models have a significant impact on the quality of forecasting financial distress, and the results provided by the modified Altman Z-Score model 1993 are better than the results provided by the Altman Z-Score model 1968.

The problem of the research is the recent increase in financial crises as a result of the failure of the auditing profession to detect signs of financial crises before they occur or to report on the faltering financial conditions of economic units before they completely collapse, which could help in trying to avoid financial crises at the appropriate times, which prompted... Professional organizations to search for solutions to avoid future crises. Professional organizations pointed to joint auditing as one of the proposed solutions to the problem of global crises. Therefore, the research problem was formulated in the form of a question:

- Can the occurrence of financial defaults be reduced if a joint audit method is followed by private banks listed on the Iraq Stock Exchange?

The research objectives are as follows:

1- Reviewing the theoretical aspect of joint auditing and financial distress.
2- A statement of the impact of following the joint audit method on reducing cases of financial distress in private banks listed on the Iraq Stock Exchange.

2. Materials and Methods :

2.1 Research hypothesis :

The research is based on a main assumption in order to seek solutions to the previously posed research problem, which is:

- There is a relationship between following the joint audit method and reducing cases of financial distress in economic units listed on the Iraq Stock Exchange.

2.2 Research population and sample:

The research community is represented by the private banks listed in the Iraq Stock Exchange that are required to apply joint auditing. The research community consists of 44 banks that followed the application of joint auditing. The research sample, consisting of 14 private banks, was chosen from the research community intentionally, and thus it becomes a sample. The research represents 31.818% of the study population, and the reasons for excluding some banks from the research sample were for multiple reasons, which are as follows:

1. Islamic banks were excluded because they follow their own provisions and laws.
2. Some banks were excluded because the financial statements published by them do not cover the research period, which extends between the years 2011-2020.
3. The Tigris and Euphrates Bank for Development and Investment was excluded because it was delisted from the market due to its failure to submit financial statements on time.

As for the duration of the research, it was also chosen intentionally, as the period included five years before the imposition of the application of the joint audit method on private banks, that is, from 2011 to 2015, and after the application of the joint audit method, which is the period from 2016 to 2020.

2.3 Data collection tools:

The data for the research was collected through two tools. The application of the joint audit was measured through a survey form. It was represented by a survey of the application of the joint audit method in the financial statements published by the banks in the research sample during the research period, while the level of financial distress in the banks in the research sample was measured. During the research period, using the Kida Financial Distress Detection Model by applying the model to the banks using the financial statements published by the research sample banks for the research period.

2.4 Joint audit :

2.4.1 The concept of joint auditing:

Joint auditing is defined as two or more independent auditors auditing the work of the economic unit, by dividing the audit work and tasks between them in a balanced manner, providing communication and coordination between them throughout the audit process, and each of the auditors auditing the work of the other partners in the audit process, and finally Issuing an audit report signed unanimously by all auditors participating in the audit process (Saleh, 2019).

It is also defined as when auditors from different audit offices audit the accounts of a specific economic unit, and they issue a joint audit report bearing their signature together. Responsibility for the report is jointly held between the auditors. They often participate in the planning process for the audit process, and field work tasks are distributed between them

(Faris et al, 2020).

There are other concepts that are not included in joint auditing, including:

1- Double auditing: This means that two separate auditing companies audit the financial statements of a specific economic unit and issue audit reports separately (Nashwan, 2017).

2- Parallel audit: Two auditors audit an economic unit, so that each auditor audits specific parts of the economic unit, and each auditor issues his own report on the parts he audited separately, so that the audit process produces two separate reports (Elhamdi, 2016).

3- Other cases: such as adopting or benefiting from the work of other auditors, as this is not considered a joint audit because in this case the other auditors are not appointed as auditors for the economic unit, but rather one auditor is responsible for the audit and issuing the report, as well as bearing all responsibility for the audit report. (Severus, 2007).

2.4.2 Types of joint auditing:

The joint audit process can be divided into two types in terms of mandatory auditing (Al-Asadee and Al-Taie, 2021):

1 - Mandatory joint audit: Mandatory joint audit means that economic units are obligated by law to assign two or more independent auditors or audit companies to audit their financial reports.

2-Voluntary joint audit: This means that the economic unit implements the joint audit voluntarily and by choice of the unit itself, without restriction or binding law. The voluntary joint audit is one of the solutions that enable it to overcome the magnitude of the work and the multiplicity of branches of the economic unit subject to the audit, and also for the reason that the audit period is not prolonged. Financial Statements.

2.4.3 Steps for joint auditing:

The joint audit method is based on following a number of steps that represent the details of the joint audit process, starting from the assignment of the joint auditors until the joint auditors issue the joint audit report. These steps consist of the following:

1- Appointment of joint auditors: Assignment letters are sent to each of the auditors whom the economic unit intends to appoint as joint auditors separately, whether they are independent auditors, offices or independent audit companies. This process is supervised by the audit committees in the economic units, and fees are agreed upon at this stage. Auditing, and a letter of acceptance of the audit process is received from the independent auditors or from the audit offices separately, as at this stage there is not supposed to be communication between the auditors or offices who will participate in the audit process for the economic unit (Mahmoud, 2016).

P-ISSN 2518-5764
E-ISSN 2227-703X

2- Distributing the audit work and tasks among the participating auditors: Before starting the audit process, the audit work and tasks must be divided and the responsibilities of each of the parties involved in the audit must be determined, with the aim of ensuring the efficiency and effectiveness of the audit process (Ibrahim and Yaqoub, 2020), and it is assumed that these works and tasks will be divided among the auditors. In a balanced manner to achieve the process of mutual supervision (Deng, et al, 2014), and after distributing tasks and work among the joint auditors, they should document this distribution, sign the distribution by all auditors, and inform those charged with governance of the result of the distribution (Ibrahim and Yaqoub, 2020), and they should It takes into account the percentage of control that one of the auditors has, such that it does not enable one of the auditors to control the issuance of the audit report (Mahmoud, 2016).

3 - Planning the joint audit process: The audit planning process takes place through participation between the joint auditors. The planning process includes collecting information about the laws and activities to which the economic unit under audit is subject, and implementing analytical and exploratory procedures to understand the accounting system and the internal control system of the economic unit, as this Information and procedures help auditors conduct a joint assessment of audit risks and determine the materiality and audit program (Severus, 2007). The joint auditors should also form a comprehensive audit strategy, through joint work, in which the timing, scope and direction of the audit process are clarified and guidance is provided to develop a comprehensive audit plan. Planning the joint audit process requires the participation of all joint auditors and other key members of the audit team in developing the appropriate audit plan, as their experiences can be useful and through it the efficiency and effectiveness of the planning process can be enhanced (Ibrahim and Yacoub, 2020).

4- Communication and coordination: Communication and coordination between the joint auditors is one of the most important elements of the success of the joint audit process. If difficulties are encountered in solving fundamental and complex problems that require a joint decision, this calls for the necessity of having a flow of communication and coordination, and it is preferable to document the ideas, discussions, and decisions that the discussion results in. In writing, for the purpose of determining responsibilities and adjudicating disputes that may occur in the future (Al-Quraishi, 2011).

5 - Joint audit report: The joint auditors should reach an agreement on the overall evaluation of the audit, and this is after the audit evidence of the other joint auditors is subject to review and mutual scrutiny by the other joint auditors, and is evaluated and weighted according to their best estimates, and if the auditors are able to reach agreement On a comprehensive and unified evaluation, which is the goal of the joint audit method, they jointly sign the clean audit report or notes regarding the refusal to express an opinion in the report (Severus, 2007). Some differences of opinion may occur between the joint auditors due to the personal diligence that characterizes the audit process. Which requires arriving at a unified opinion, provided that the differences do not extend beyond the work environment and do not reach the entity subject to the audit. It is possible to refer to the generally accepted auditing rules and the rules and etiquette of professional conduct. However, in the event of disagreement, one can resort to an external audit office to decide on the disagreement between the auditors or resort to the relevant professional organizations to seek their opinion (Al-Quraishi, 2011).

6 - Responsibility for material misstatements after issuing the audit report: In the joint audit process, all joint auditors sign the entire audit report and not just the work done by each auditor (Deng et al, 2014), and the joint auditors are responsible for the audit process as well The audit report is joint and interdependent, as they are responsible for all the work and the joint auditors are not allowed to plead their ignorance of the work entrusted to the other partners (Ibrahim and Yacoub, 2020). The researcher summarizes the steps for applying the joint audit method in Figure (1):

P-ISSN 2518-5764
E-ISSN 2227-703X

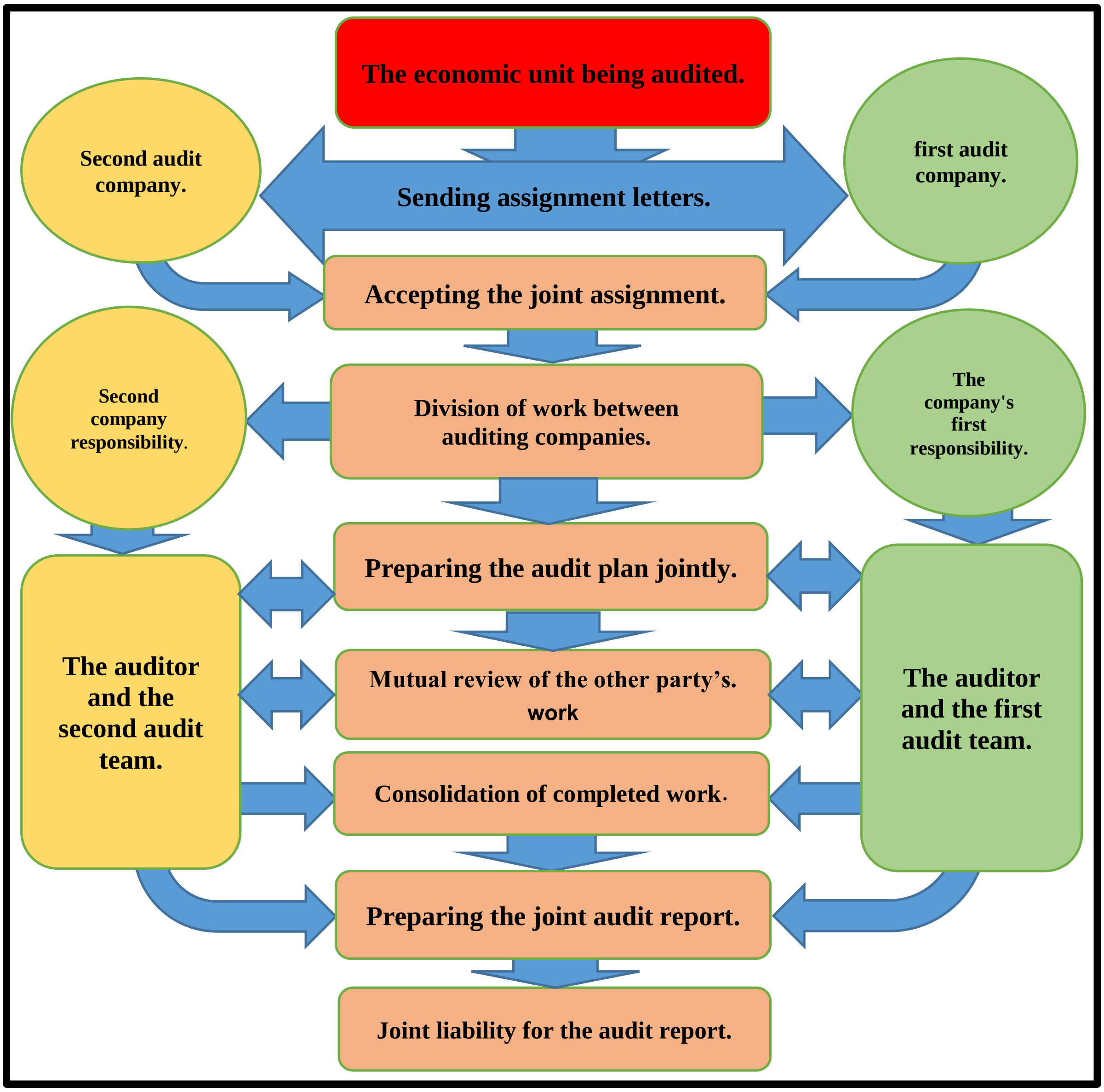

Figure 1: Steps for applying the joint audit method.
The Source: Prepared by the authors.

2.4.4 Objectives of the joint audit:

The main objectives of the audit in general are to express an opinion on the truth and fairness of the financial statements presented for a specific unit (Yousif and Mohammed, 2022). The objectives of the joint audit consist of the following:

1. Strengthening the independence of auditors in the face of pressure from the companies being audited, as the company being audited must deal with two or more auditors in all matters related to the audit process (Al-Jabr and Al-Saadoun, 2014).
2. Providing an environment in which mutual oversight of audit work can be enhanced, enabling each auditor to verify that the other auditor or auditors have exercised the required professional care in the audit process (Fakir and Abdullah, 2020).
3. Submitting a joint audit report that includes expressing a unified and neutral technical opinion that expresses the accuracy of the information in the financial reports (Taroush and Ramadan, 2021.)

4. Enhancing the effectiveness and efficiency of the audit process by relying on integrated and diverse audit skills and experiences, as well as covering any shortcomings of any audit team (Saleh, 2021).
5. Enhancing the reliability of the financial reports submitted by the economic unit under audit (Nashwan, 2017), as there have been many frauds in the twenty-first century, such as Anorn and WorldCom (Bediwi et al, 2022).
6. Reducing the phenomenon of market concentration, restricting auditing to specific auditing offices and companies, and enabling local auditing offices to participate in the auditing process (Saleh, 2021).

2.4.5 Advantages of joint auditing:

Studies have shown many advantages provided by applying the joint audit method, including:
1. Through joint auditing, it is possible to improve the independence of the auditor by weakening the economic relations between the auditor and the unit being audited because the joint auditors divide the audit fees among themselves (ElAssy, 2015).
2. Joint auditing increases the level of accounting conservatism, which reduces earnings management practices (Fayed, et al, 2022), as the flexibility available in accounting standards provides opportunities to pave the way for management to reduce profit fluctuations as a result of actual income and expenses (Altaie et al, 2017), as manipulation of profits within possible limits by management is considered distortion (Hameed et al, 2019).
3. The efficiency of auditors can be improved through joint auditing as a result of the pool of experiences resulting from auditors' meetings (ElAssy, 2015).
4. Joint auditing increases the value of future economic units by increasing shareholder confidence, which helps create new investment opportunities and also increases the share prices of economic units. (Fayed et al, 2022)
5. Joint auditing increases the good estimation of future achievable profits, as this is more reasonable in countries that apply the joint auditing method than in countries that follow the individual auditing method (Mahmoud, 2016).
6. The joint auditing method enables avoiding bottlenecks resulting from time constraints at peak times, because under joint auditing tasks are not completely duplicated (Mahmoud, 2016).
7. The joint audit method helps in reducing the reformulation of financial statements and achieving the quality of the financial report, which results in increasing the accuracy of the audit report and the speed of response to amended opinions in the report (Metwally, 2013).
8. The joint audit method helps increase the legal and ethical responsibility of the joint external auditors for the results of the audit process before the management of the economic unit, investors, and financial and economic public opinion (Metwally, 2013).
9. The joint audit method helps to enhance professional skepticism in the audit process through each of the joint auditors monitoring the other auditors (Abdel Halim, 2019).
10. Joint auditing helps reduce the expectations gap in the field of auditing (Abdel Halim, 2019).
11. By appointing more than one independent auditor by the economic unit, this enables the unit being audited to rotate auditors while the remaining auditor maintains understanding, knowledge and experience of the operations of the unit being audited and thus the negatives resulting from the rotation of auditors can be avoided (Zerni et al, 2012).

2.4.6 Disadvantages of joint auditing:

Although there are many positives to the joint audit method, there are those who argue about the negatives of this method, and the most important negatives that some studies attribute to the joint audit method are the following:
1. The joint audit method helps in the occurrence of what is called (dependence), as under the joint audit method, audit companies have incentives to provide their own audit resources at the expense of free use of the other partner's results, and this leads to a decline in the quality of the audit (Garcia-Blandon et al, 2021).
2. It is difficult for competing audit firms to cooperate with each other in an appropriate way that helps in conducting joint audits, and this results in a weakness in the adequacy of information exchange. In addition, it may lead to competition between auditors that aims to obtain a larger

market share of audit work in the coming years. To weaken cooperation between joint auditors, which leads to weakening the quality of the audit as a result of weak information exchange (Zerni et al, 2012).

3. Accounting standards that contain a large portion of personal or discretionary judgment make the process of cooperation between auditors difficult and may sometimes lead to conflicting opinions (Zerni et al, 2012).

4. In the event of a difference of opinion between auditors that prevents reaching a unified opinion, which causes a delay in issuing the audit report (Ghali, 2018).

5. Joint auditing may be transformed into a formal phenomenon only if the same team of joint auditors audits more than one client's data. Then an informal agreement may occur between them that each of them audits lists for a particular client alone, with the other auditor signing with him. The audit report without performing joint audit procedures involves dividing tasks and mutual review, and thus the essence of the audit is individual and its form is joint (Mandour, 2016).

6. The joint audit is seen as increasing audit fees without providing any benefits in exchange for this increase (al-hadi et al, 2017).

7. Complexity in the work and additional work in that the economic unit being audited must communicate with two audit companies instead of one, and sometimes the company being audited may have to be in the position of separating the auditors in cases of disagreement. In addition, the business may It is doubled if there is duplication in the joint audit work (Abdel-Qawi et al, 2018).

8. When the client intends to cover up some material misstatements through auditors, the joint audit process provides more than one opportunity to market the internal opinion, due to the presence of more than one audit company. This provides more than one opportunity that the client can exploit to convince one of the companies to misrepresent that misstatement, and it may expose the independence of the company. Risk auditing (Deng et al, 2014).

The two researchers agree with Al-Wakeel that most of these negatives are due to the absence of laws and provisions that regulate the work of the joint audit, as well as the lack of clarity of procedures and the lack of clear lines that specifically define the responsibilities of each partner in the joint audit process (Al-Wakeel, 2020).

2.5 Financial distress:

2.5.1 The concept of financial distress:

Financial distress is defined as the state that the economic unit has reached due to financial problems that may cause it to declare bankruptcy due to the unit's inability to fulfill its obligations or achieve losses for consecutive years, or both problems that force the economic unit to stop its activities (Qureshi, 2017).

It is also defined as the inability of economic units to settle their obligations towards others. These obligations may consist of interest, loan installments, or meeting the desires of interested parties in the economic units, which would reduce the confidence of those parties in the economic units and contribute to the production of imbalances. Financial and non-financial, which could lead to bankruptcy or liquidation (Kamouche, 2020).

Financial distress is also defined as the shortage of cash that afflicts economic units, causing them to lose the ability to pay the current obligations they owe due to insufficient cash flows from operational operations to pay those obligations. Financial distress is considered a situation that passes over the economic unit and makes it Unable to fulfill its obligations on their due dates (Abu Al-Futouh et al, 2022).

The two researchers agree with Kamoush's definition, which represents a group of aspects that most studies have agreed upon in describing the concept of financial distress.

There are multiple concepts and terms at the academic and professional levels related to financial distress, and these terms include:

First: Financial insolvency: Financial hardship is defined as the inability of economic units to pay their obligations, or the situation in which the liabilities of those units exceed their assets (Adam, 2016). Financial hardship is divided into two types (Ross et al, 2019):

1. Flow insolvency: Or what is known as technical financial distress, in which case it is unable to pay its obligations to others, but it possesses fixed assets that exceed its liabilities, but it suffers from a liquidity crisis.
2. Equity insolvency (ownership): Or what is known as real financial distress, as this type of distress occurs when the total of an economic unit's liabilities exceeds its total assets, and thus the value of equity has a negative value.
Second: Failure: The concept of failure, as defined by Altman, is achieving a rate of return on invested capital, taking into account the risks in which the economic unit operates, that is significantly lower than the prevailing rates for similar investments (Geng et al, 2014), and there are two types of failure:
1. Economic failure: represented by the failure of the economic unit to achieve the targeted investment return on the capital invested in that unit compared to other similar units in the market, or the fact that the unit achieves a return that is less than the cost of the invested capital (Fallouh et al, 2009).
2. Financial failure: In this case, the economic unit is viewed as a financial failure when the unit is unable to pay its obligations on their due dates (Shaheen and Matar, 2011).
Third: Bankruptcy: From a legal perspective, this concept refers to the state of judicial bankruptcy to which economic units are exposed due to their cessation of paying their debts on their due dates. Thus, their bankruptcy is declared by a ruling from the competent court for the purpose of taking procedures for liquidating the unit and preparing to pay the unit's debts and obligations (Al-Sharif, 2005), The above concepts can be illustrated in Figure (2):

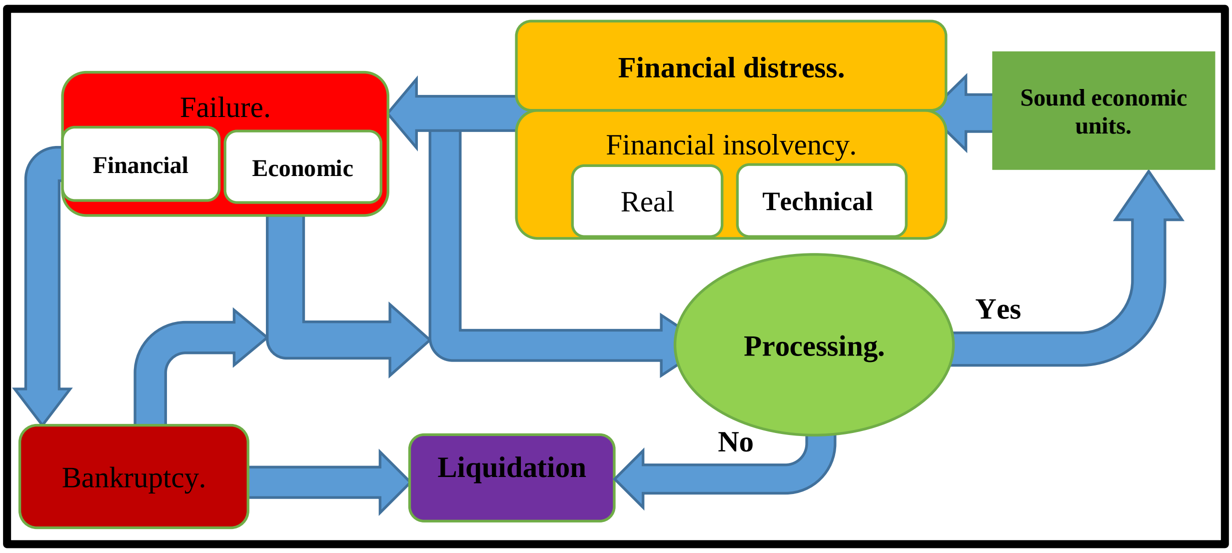

Figure 2: The concept of financial distress and other concepts.
The Source: Prepared by the authors

2.5.2 Indicators of financial distress

The symptoms of financial distress are phenomena that can be observed in the economic unit that may face financial problems. Therefore, management must identify the causes of these manifestations and take remedial measures in a timely manner. These manifestations include the following (Al-Ansari, 2006):
1. Paying the cost of medium-term loans through short-term borrowing.
2. Using loans to pay dividends to shareholders.
3. Postponing obligations from notes payable and medium-term loans.
4. Low return on investment.
5. Decrease in working capital, as well as current assets, debtors, and inventory, without a noticeable decrease in current liabilities.
Al-Khudair also added the following aspects (Al-Khudair, 1996):

P-ISSN 2518-5764
E-ISSN 2227-703X

6. Economic units face problems in selling their products and a decrease in their ability to market those products.
7. The inventory turnover rate of finished goods prepared for sale decreases and increases year after year.
Buthaina added the following aspects (Buthaina, 2021):
8. A kind of tension occurs between workers and management due to the economic unit’s failure to pay workers’ dues.
9. Deterioration of the economic unit’s reputation among customers.
10. Difficulty in obtaining raw materials for the economic unit as a result of the loss of suppliers due to the unit’s violation of payment terms.

2.5.3 Stages of financial distress:

Financial distress does not end the life of the economic unit suddenly, but rather it goes through several stages until it reaches a point where the life of the economic unit is ended and this point is the point of no return (Fallouh et al., 2009), and that there are no specific stages of financial distress that can be applied to All cases of financial distress, because the stages differ according to the reasons that led to this distress, the various administrative procedures, or the sizes of units and types of their activity (Slimani, 2016), and the stages of distress can be represented in the following three stages (Farooq et al, 2018):

The first stage: This stage is characterized by the economic unit facing problems in profitability represented by a decrease in the net profit of the economic unit.

The second stage: This stage is characterized by the economic unit facing liquidity problems that become clear when the economic unit fails to pay its obligations or the unit is unable to pay its obligations through the current year’s profits with a positive value of property rights.

The third stage: This stage is characterized by the problem of the negative value of property rights in that the economic unit possesses assets that are unable as a whole to cover the entirety of its obligations.

2.5.4 Detection of financial distress:

Detecting financial stumbles in economic units in a timely manner is extremely important in order to be able to rectify matters, try to get rid of that stumble, take appropriate corrective measures at the appropriate time, and try to avoid the effects resulting from that stumble or bankruptcy that the unit may reach (Al-Ammar and Qasiri, 2015).

2.5.5 Financial distress detection forms:

Many studies have been conducted to determine indicators indicating faltering economic units or the unit's approaching faltering since the sixties of the twentieth century, and researchers have used statistical models to determine financial ratios through which economic units can be classified into two faltering and non-faltering groups (Ko et al, 2001), and multivariate models are among the best types of models, the most famous of which are the following:

First: Altman Model: This model was designed by the scientist Edward L. Altman in 1968 and based its design on a sample consisting of 66 industrial companies, half of which were faltering and the other half were financially sound companies (Qadir, 2020). Altman’s study ultimately reached the formulation of the following model (Altman, 1968):

$$Z = 0.012*X1+0.014*X2+0.033*X3+0.006*X4+0.999*X5$$

Whereas (Abdullah and Ebadi, 2022):
X1: Working capital to total assets.
X2: Retained earnings to total assets.
X3: Earnings before interest and tax to total assets.
X4: Market value of equity to total liabilities.
X5: Total sales to total assets.
The economic units were classified according to the test result into three categories depending on the value of Z and my agencies (Alamry, 2020):

• The first category is the units that are described as not defaulting and are not expected to default in the future, where the value of Z=3 or more.

P-ISSN 2518-5764
E-ISSN 2227-703X

• The second category is the units that are described as faltering or expected to falter in the future, where the Z value = 1.80 or less.
• The third category is the units that are difficult to determine whether they are in trouble or not and whose continuity in the future is doubtful in a sound condition, where the value of Z ranges from 1.81 to 2.98.
Second: Kida model: The Kida model represents one of the multivariate models for detecting and predicting financial distress, which was discovered by Kida in 1980 (Al-Saad and Al-Sunaidi, 2021), Kida study included 20 financial ratios and a sample of 40 economic units, half of which were in default and the other half were not. Faltering, and the data collection period was relatively short, from 1974 to 1975 (Saida, 2021). The model was built based on five financial ratios (Al-Hasnawi, 2017), and the model was formulated as follows (Al Amry, 2020):
$Z= 1.042*X1+0.42*X2- 0.461*X3- 0.463*X4+0.271*X5$
As (Hijazi and Ghader, 2021):
X1: Net profit after interest and tax to total assets.
X2: Total equity to total liabilities.
X3: Liquid assets to current liabilities.
X4: Sales to total assets.
X5: Cash to total assets.
The units are classified as distressed or non-distressed according to the Z-score. If the result is negative, the units are distressed, and if it is positive, the units are non-distressed (Al-Rifai, 2017), and the accuracy rate in the model reached 90% (Al-Sheikh, 2008).
The Kida model will be used to measure financial distress in the research sample.

2.6 The practical side :

2.6.1 Measuring the application of the joint auditing method in the research sample:

The application of the joint audit is measured by conducting a survey of the external auditor's audit reports for the research sample units. Table (1) shows the results of the survey for the application of the joint audit during the study period, which extends from the year 2011 to 2020. My agencies:

Table 1: Results of the joint audit method application survey.

the years / Economic units	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
North Bank for Finance and Investment	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Sumer Commercial Bank	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Bank of Baghdad	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Bank of Babel	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Mosul Bank for Development and Investment	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Al-Mansour Investment Bank	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Economy Bank for Investment and Finance	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Iraqi Investment Bank	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied
Union Bank of Iraq	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Credit Bank of Iraq	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Ashur International Investment Bank	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
United Investment Bank	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
Commercial Bank of Iraq	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied
National Bank of Iraq	not Applied	not Applied	not Applied	not Applied	not Applied	Applied	Applied	Applied	Applied	Applied

The Source: Prepared by the authors.

It is clear from Table (1) that most of the banks in the research sample began applying the joint audit method in 2016, based on the decision of the Central Bank, and the percentage of observations in the research sample reached 140 observations, where the observations applied amounted to 73 out of the total observations of the research sample, while the observations amounted to 140 observations. Applied 67 observations, and the research sample is relatively balanced in terms of applied and non-applied observations, which provides accuracy in stating the impact of the application in the research.

2.6.2 Measuring the financial distress of the research sample:

The financial distress of the research sample is measured using a multivariate model to detect cases of financial distress (KIDA) in the banks in the research sample. Table (2) shows how to apply the (KIDA) model to the North Bank for Finance and Investment in order to show the financial condition of the bank over the research period, as shown:

Table 2: Application of the Kida model to the Northern Bank for Finance and Investment

The years	x1*1.04	x2*0.42	-(x3*0.461)	-(x4*0.463)	x5*0.271	(Z)	Financial condition
2011	0.040317	0.130406	0.297763	0.047125	0.128072	-0.04609	distress
2012	0.03687	0.08701	0.316344	0.038299	0.152439	-0.07832	distress
2013	0.02578	0.102465	0.329659	0.037572	0.146738	-0.09225	distress
2014	0.012927	0.120768	0.351378	0.029054	0.150318	-0.09642	distress
2015	-0.00677	0.265152	0.258275	0.026039	0.071802	0.045875	non-distress
2016	-0.03911	0.4308	0.230496	0.026052	0.052682	0.187823	non-distress
2017	-0.02827	0.726593	0.276163	0.011991	0.041358	0.451524	non-distress
2018	-0.03784	0.845545	0.172843	0.00458	0.014024	0.644304	non-distress
2019	-0.03272	0.835496	0.178791	1.35E-05	0.012121	0.636093	non-distress
2020	-0.00909	0.666954	0.169873	0.013089	0.022058	0.496965	non-distress

The Source: Prepared by the authors.

Table (2) shows that the Northern Bank for Finance and Investment was suffering from faltering for the period from 2011 to 2014, as the financial conditions of the bank improved from the year 2015 until the end of the research period. The result of the possibility of faltering in the financial condition of the rest of the banks was tested by applying the KIDA model in the same way applied to North Bank for Finance and Investment, Table (3) shows the results of measuring the financial distress of the research sample during the research period:

P-ISSN 2518-5764
E-ISSN 2227-703X

Table 3: Results of measuring stumbling for the research sample during the research period.

The years / Economic units	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
North Bank for Finance and Investment	distress	distress	distress	distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Sumer Commercial Bank	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	distress	non-distress	non-distress
Bank of Baghdad	distress	distress	distress	distress	distress	distress	distress	distress	distress	distress
Bank of Babel	distress	distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Mosul Bank for Development and Investment	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Al-Mansour Investment Bank	distress	distress	distress	distress	distress	distress	distress	distress	distress	distress
Economy Bank for Investment and Finance	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Iraqi Investment Bank	non-distress	distress	non-distress	non-distress	distress	distress	distress	non-distress	non-distress	non-distress
Union Bank of Iraq	distress	distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Credit Bank of Iraq	distress	distress	distress	distress	distress	non-distress	non-distress	distress	distress	distress
Ashur International Investment Bank	distress	distress	non-distress	non-distress	distress	distress	distress	distress	distress	distress
United Investment Bank	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress	non-distress
Commercial Bank of Iraq	distress	distress	distress	distress	distress	non-distress	non-distress	non-distress	non-distress	distress
National Bank of Iraq	distress	distress	distress	distress	distress	distress	distress	distress	distress	distress

The Source: Prepared by the authors.

It is clear from the results of the faltering test for the research sample, as shown in Table (3), that during the research period there were 140 observations, and those observations were distributed between faltering units and others that were not faltering, as the faltering observations of the units from the research sample during the research period were 65 faltering observations, and the healthy observations were Financially for the units during the research period 75 views.

3 Discussion of results:

The work in the research focused on explaining the impact of applying the joint audit method on cases of financial distress for units listed on the Iraq Stock Exchange. To achieve this, the application of joint audit was measured by surveying the application in unit’s representative of the research sample. The financial distress of those units was also measured, and the results came. As detailed in Table (4), where the relationship between the two variables and their agencies was clarified:

Table 4: Results of measuring the research variables.

Total study observations	140	**Faltering observations**	65	**Distress and not implementing a method for joint auditing**	37
				Stumbled and applied the method of joint auditing	28
		Non- Faltering observations	75	**Non- distress and not implementing a method for joint auditing**	30
				Non- distress and implementing a method for joint auditing	45
		Total	140	**Total**	140

Source: Prepared by the authors.

The results of measuring the variables and the relationship between them are shown in Table (4). The number of Faltering observations under the application of the joint audit method reached only 28 views out of the troubled observations in the research sample, which amounted to 65 views, which represents 43% of the total troubled observations, while the number of troubled views in the research sample reached 37 observation under the application The individual audit method, which represents 57% of the total number of troubled observations in the research sample, as well as in the case of financially sound observations in light of the application of the joint audit method, their number reached 45 observation out of the 75 observations observation in the research sample, which thus constitutes a percentage 60% of the total valid observation, while the financially sound observations under the individual audit method amounted to 30 observations, which constitutes 40% of the total financially sound observations of the research sample.

Accordingly, the research hypothesis can be proven, which states that there is a relationship between following the joint audit method and reducing financial distress in economic units listed on the Iraqi Stock Exchange.

4. Conclusions:

The investigation reached a conclusion, are:

- There is a direct relationship between applying the joint audit method and reducing financial distress in economic units.
- Following the joint audit method helps reduce the number of financially distressed units in the economic units listed on the Iraqi stock market.
- Following the joint audit method helps increase the number of financially sound units in the economic units listed on the Iraqi stock market.

Authors Declaration:

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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Journal of Economics and Administrative Sciences
2024; 30(141), pp. 565-585
P-ISSN 2518-5764
E-ISSN 2227-703X

دور التدقيق المشترك في الحد من حالات التعثر المالي في الوحدات الاقتصادية المدرجة في سوق العراق للأوراق المالية

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Received:26/10/2023 Accepted:3/12/2023 Published Online First: 30 /6/ 2024

مستخلص البحث:

ان أسلوب التدقيق المشترك ليس حديث الظهور ولكن دعت الحاجة اليه في الوقت الحالي لحدوث العديد من المشاكل والأزمات العالمية، تمثلت مشكلة البحث في ازدياد حالات التعثر المالي للوحدات الاقتصادية وخاصة ما جاء في الازمات العالمية الأخيرة من انهيار الوحدات الاقتصادية، ولقد قام البحث على فرضية ان تطبيق أسلوب التدقيق المشترك في الوحدات الاقتصادية يساعد في الحد من حالات التعثر المالي، اذ هدف البحث الى قياس مدى إمكانية التدقيق المشترك في الحد من حدوث حالات التعثر المالي في الوحدات الاقتصادية المدرجة في سوق العراق للأوراق المالية، واخذ البحث 14 مصرف من المصارف الخاصة المدرجة في سوق العراق للأوراق المالية كعينة ولمدة عشرة سنوات من عام 2011 الى 2020 واستخدم البحث أسلوب الاستقصاء في قياس تطبيق أسلوب التدقيق المشترك واستخدم نموذج kida لقياس التعثر المالي في عينة البحث، ولقد توصل البحث الى نتائج تدل على ان الوحدات المتعثرة ماليا قد انخفضت مع تطبيق أسلوب التدقيق المشترك أي كلما كان هناك تدقيق مشترك انخفضت حالات التعثر المالي في الوحدات الاقتصادية.

نوع الورقة: ورقة بحثية
المصطلحات الرئيسة للبحث: التدقيق المشترك، التعثر المالي، حالات التعثر.