



RESEARCH ARTICLE

# The Effect of Applying Internal Auditing Standards on The Effectiveness of Internal Control In Service Units: Iraq Case Study

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## Abstract

Internal auditing is one of the functions that characterize the economic unit, as some researchers indicated that one year of internal auditing is equivalent to the work of three years of external auditing. Internal audit is an independent evaluation body located within the organizational structure of the economic unit and is considered one of the means of internal control. The researcher recommends the need to give the internal audit function in government institutions and sufficient attention as the basic function that can provide assurance services (financial audit, performance audit or operational audit, rapid response) and advisory services (evaluation services, facilitation services, treatment services) as well as its importance in Improving and strengthening guidance for service institutions.

Keywords: Internal Control, Internal Audit, Government Institutions

## INTRODUCTION

Today, the world has witnessed major developments in various fields, which in turn affected the expansion of economic institutions, the large volume of their activities, and the multiplicity of their operations. In light of these changes, developing and improving performance in organizations has become a must.

The internal audit function is one of the functions that distinguishes the economic unit, as some researchers indicated that one year of internal audit is equivalent to the work of three years of external audit. There is no doubt that the importance of internal audit lies in the extent to which this function can add value, as the definition described by the Institute of Internal Auditors clearly states that internal audit in its advisory and insurance role aims to add values to the economic unit.

And since the institution seeks to reach rapid growth rates together to ensure survival and continuity, it must take the necessary measures and procedures to avoid falling into potential dangers. For this, we find that the internal audit function has become necessary and inevitable for contemporary institutions, as the internal audit function is an evaluation activity aimed at examining and Reviewing the financial and accounting operations in the institution to achieve accounting accuracy and

preserving and protecting assets, as well as reviewing and evaluating the institution's activities and its various systems.

## Research Methodology:

**Research problem:** The internal audit is a credible investigative tool in revealing the defect in the organization's implementation procedures, which is very important, which generates the reaction of these applicants for fear of revealing things that they do not wish to disclose and may stand inside them. A way to find ways to camouflage and cover.

**Research objectives:** The research objectives can be summarized

- 1- Diagnosing the most important determinants that limit the effectiveness of internal control as a tool for preventing and detecting financial irregularities.
- 2- A statement of the concept of internal auditing and its importance in achieving its institutional goals.
- 3- Determine the role of internal control in reducing the risks of financial corruption.

**The importance of the research:** The importance of the research is highlighted by diagnosing the objective relationship between internal control as an oversight concept and its professional framework in institutions, especially financial ones. It may contain content of financial corruption.

**Research Hypotheses:** The research hypothesis is represented in: The existence of a good and strong internal audit that constitutes a guarantee and a basic pillar for

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institutional work and an effective tool for achieving the objectives of the economic unit.

**The second topic: internal auditing as an effective management tool**

**The concept of internal audit:** Internal audit is an independent evaluation body located within the organizational structure of the economic unit and is considered one of the means of internal control. The aim of its establishment is to audit sufficient and applied means according to what was planned. ) that it is an internal function of the management of the economic unit to express an independent internal activity to establish internal control, including accounting, to provide the extent to which the system is in line with what the administration requires, or to work on the proper use of resources to achieve maximum production efficiency, while others believe that internal audit: is an insurance activity An independent and objective consultant is important for adding value and improving the operations of the economic unit by helping it achieve its goals by providing the organization with an organized mechanism and a disciplined approach to present and improve the effectiveness of risk management, control and corporate government operations. ( Arens, 2016, 346)

**He also defined internal auditing as:** an internal body or auditors affiliated with the economic unit in order to protect the funds of the economic unit and achieve management objectives such as achieving the greatest possible level of administrative efficiency and productivity for the economic unit and encouraging adherence to it. Administrative policies (Abdullah, 2017, 35) as defined by (Al-Quraishi. 2021, 54) is a set of procedures that arise within the economic unit for the purpose of verifying the application of administrative and financial policies, and through the above it can be said that internal audit: It is an independent occasional activity that works mainly in the field of accounting and financial matters, but it is permissible to deal with some issues of interest Interest of a future nature (Al-Wardat, 2014: 21).

**Importance of internal audit:** The function of internal audit is one of the functions that characterizes the economic unit, as some researchers indicated that one year of internal audit is equivalent to the work of three years of external audit (Othman, 113, 2021). . There is no doubt that the importance of internal auditing lies in the extent to which this function can add value, as the definition described by the Institute of Internal Auditors clearly stated that internal auditing in its advisory and insurance role aims to add values to the economic unit, and described the Institute as a final and strategic goal for the internal audit function, The institute pointed out that adding value takes place through increasing and improving the chances of achieving the organization's goals, improving procedures and processes, and reducing risks. to acceptable levels. (Al-Wadat, 2014: 23.)

**Audit objectives:** The goals and cases of internal audit differ from one unit to another due to the difference in the size and structure of the economic unit as well as the requirements of management. Nevertheless, the objectives of internal audit are practiced in all or some of the following aspects: (Naeem, 2013, 192).

1. Studying the efficiency and effectiveness of operation, including non-financial control over the facility
2. Evaluation of performance at the level of responsibility centers

3. Checking the accuracy of the accounting data
4. Ensure the appropriateness and effectiveness of approved policies and internal control procedures for the work environment and conditions, and investigate their implementation.

**Types of internal auditing:** Many writers believe that there are several types of internal auditing, the most important of which are: (Jarboua, 2010, 128).

1. Control audit (conformity audit): This type of audit is to ensure that the data and instructions set by a specific entity have been applied correctly.
2. Technical Review: It focuses on the research on the establishment of the economic unit and its failure to apply generally accepted accounting principles.
3. Documentary audit: It aims to verify the formal, objective and legal aspects.

**Factors that led to interest in internal auditing:** (Friday, 128, 2019)

1. The large size of the economic unit and the multiplicity of its operations, and the administration had to replace the authorities and responsibilities to some of the sub-departments of the economic unit
2. The economic unit management need to protect and maintain the economic unit, and the economic unit management need accurate periodic data.
3. The need of government agencies and others for accurate data (for economic planning and government oversight) and the development of audit procedures

**Internal auditing and its role in economic units**

By the internal environment, we mean everything that the economic unit includes in terms of departments, sections, and activities, that is, everything that it includes internally, and the internal environment "is the variables that exist within the economic unit and that have the ability to affect the whole unit or a part of it." Evaluating the work of other individuals in the economic unit in which he works, as well as evaluating the efficiency of the performance of the various departments in the economic unit for the activities he is responsible for. and accordingly, relationships are established between internal audit and these individuals and divisions in the internal environment of the economic unit. Below, these relationships will be reviewed.

**The relationship of the internal audit department with senior management:**

The internal audit relationship with the department stands out well as a result of the tool's interest in performance results first-hand and working to follow them up, due to the inspection of production processes and the development of technological methods, in addition to the department's need for accounting and statistical data and cost and analytical studies that guide them to judge the results of implementation In order to ensure the validity of this data, there was a need for it to be examined by an independent internal body from among the employees of the economic unit that has sufficient knowledge of the various operations of the unit. This body is represented by the internal audit department, and in order for the internal auditor to ensure a good relationship with the higher

management of the economic unit, he must (ALTEMEME2016.24.23)

1. The internal auditor should be independent of all programs, businesses, and activities that are subject to his audit, in order to ensure impartiality and credibility in his work.
2. The internal auditor respects and maintains the confidentiality of any information obtained or received in the framework of the audit process, and does not use that information except to the extent necessary to conduct the audit.
3. The internal auditor is mainly concerned with verifying the implementation of the prescribed financial laws, regulations, decisions, systems and procedures.
4. The internal auditor shall be free to act with regard to any task entrusted to him, and he shall also avoid any conflict of interest, whether it is between the interests of the shareholders and management or his own.

**The relationship of internal auditing with the accounts department:** the auditor begins his work after the end of the accounting work for the relevant accounting period, and he has the burden of examining the work of the accountant and reporting on all financial, economic and legal matters that relate to the work in general. The form of final accounts represented by the statement of the financial position and the income statement, and the field of work of each of the accounting and auditing can be distinguished by the following points: (Abdullah, 2017, 41)

1. In terms of the nature of the work: Accounting performs a construction process by collecting and analyzing information related to economic operations, events and activities, and communicating the results to the beneficiary parties. As for auditing, it is an analytical process that starts from where the accounting ended. The auditor begins his work by verifying the integrity of the financial statements prepared by the accountant. In the last stages of his work, and to ensure the correctness of the data and information included in it.
2. In terms of inputs and outputs: accounting has its inputs, documents and primary data supporting operations, while auditing has its inputs, financial statements prepared by accounting, and accounting outputs are the financial statements, while auditing is the auditor's report that contains the impartial opinion on what was included in the financial statements.
3. In terms of the work system: Accounting measures the financial events in the economic unit by preparing a list of blades and communicating the financial conditions to the concerned parties. As for the audit, it examines the accounting measurement and the financial information that was disclosed about the result of the economic unit's work.
4. In terms of knowledge and interest: the accountant may not have information about auditing and some of its procedures, while the auditor must have knowledge of accounting principles and methods.

**The relationship of internal auditing with the ethics of audit work:** "Ethics in general" refers to the values and standards upon which members of society rely for the purpose of distinguishing between what is right and what is wrong. The media, its development, and the scientific and practical experience of society are all sources that contribute to the formation of business ethics in any society. (Imports, 2014, 40).

### The applied side of the study

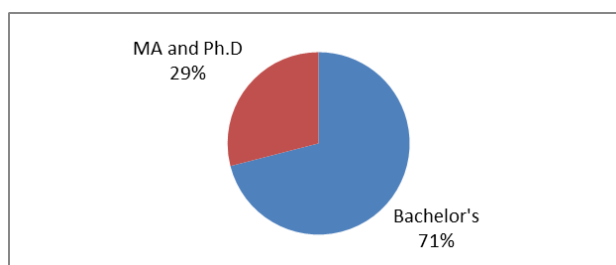
**Study sample:** The sample of the current study consisted of (31) workers in oversight in government departments in Wasit, and they were chosen by the intentional random method. Tables (1, 2, 3) show the distribution of the study sample according to its variables

**Table (1) Distribution of the study sample according to the educational qualification variable**

Qualification	fi	%
Bachelor's	22	71
MA and Ph.D	9	29
<b>Total</b>	<b>31</b>	<b>100</b>

It is clear from the previous table and figure .1 that 71.0% of the respondents hold a bachelor's degree, 29.0% hold a master's degree, and the following chart shows the distribution of the study sample according to the educational qualification variable.

**Figure.1 that the educational qualification variable**

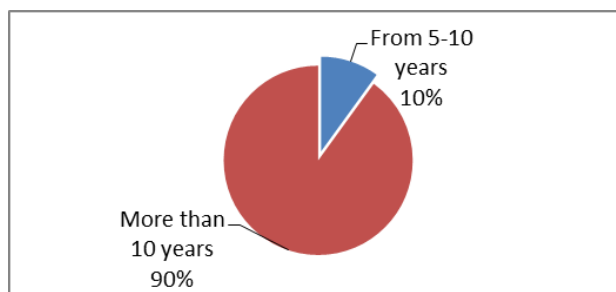


**Table (2) Distribution of the study sample according to the variable years of experience**

Years of Experience	fi	%
From 5-10 years	3	10
More than 10 years	28	90
<b>Total</b>	<b>31</b>	<b>100</b>

It is clear from the previous table and figure .2 that 9.7% of respondents have experience of 5-10 years, 90.3% have experience of more than 10 years. The following chart shows the distribution of the study sample according to the variable years of experience.

**Figure.2 that the variable years of experience**



**Study tool:** The researcher developed the study tool (form) after reviewing previous studies on the subject of the study, the role of internal control in reducing corruption in government departments in Wasit, as well as the literature of the personnel office and the code of conduct for employees.

**Validity and reliability of the tool:** The researcher made sure of the validity of the tool by presenting it to a number of colleagues who specialize in oversight. As for the stability, (Cronbach's Alpha) equation was used, and the following table shows the stability of the questionnaire fields:

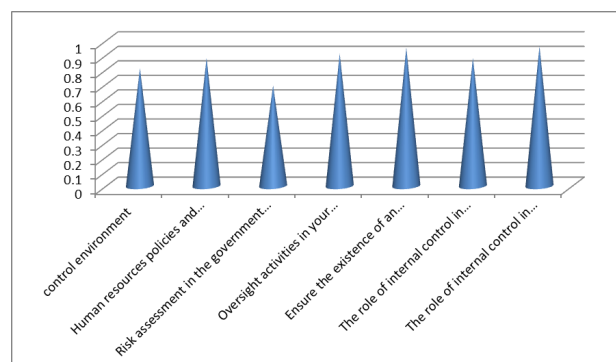
**Table (4) the stability coefficient of the questionnaire fields**

the field	stability coefficient value
control environment	0.81
Human resources policies and practices in the government department	0.88
Risk assessment in the government department	0.69
Oversight activities in your government department	0.91
Ensure the existence of an effective control system that limits corruption	0.95
The role of internal control in detecting fraud or corruption	0.88
<i>The role of internal control in reducing corruption in government departments in Iraq</i>	<b>0.96</b>

It is clear from the previous table and Figure.3 that the stability coefficient of the questionnaire ranges between 0.81 and 0.95, and the stability coefficient of the

questionnaire in general is 0.96, which is a good stability coefficient that meets the purposes of the study:

**Figure.3 that the stability coefficient**



### Study results and discussion

This study aimed to identify the role of internal control in reducing corruption in government departments in Iraq. It also aimed to identify the role of the variables of the study. Using the Statistical Package for Social Sciences (SPSS), the following are the results of the study according to the sequence of its questions and hypotheses. To test the hypothesis, the researcher used the One Way test, ANOVA, the results of which are shown in Table (5).

**Table 5. One-way analysis of variance test**

the field	source of contrast	The sum of squares of deviation	degrees of freedom	average deviation	F	indication
control environment	between groups	.002	1	.002	.007	.933
	within groups	8.782	29	.303		
	total	8.784	30			
Human resources policies and practices in the government department	between groups	.015	1	.015	.025	.876
	within groups	17.301	29	.597		
	total	17.316	30			
Risk assessment in the government department	between groups	.041	1	.041	.122	.729
	within groups	9.712	29	.335		
	total	9.752	30			
Oversight activities in your government department	between groups	.052	1	.052	.124	.728
	within groups	12.243	29	.422		
	total	12.295	30			
Ensure the existence of an effective control system that limits corruption	between groups	.002	1	.002	.007	.935
	within groups	10.005	29	.345		
	total	10.007	30			
The role of internal control in detecting fraud or corruption	between groups	.109	1	.109	.263	.612
	within groups	12.018	29	.414		
	total	12.127	30			
The role of internal control in reducing corruption in government departments in Iraq	between groups	.036	1	.036	.101	.753
	within groups	10.282	29	.355		
	total	10.318	30			

It is clear from the previous table that there are no statistically significant differences in the averages of the role of internal control in reducing corruption in government departments in Iraq in all its fields due to the educational qualification variable. This is because the significance is greater (0.05).

### Conclusion:

The importance of auditing has emerged since ancient times in ancient civilizations and has evolved down to our present era. Many attempts have been made by

scientific and professional bodies and organizations in various countries of the world to set rules and standards that govern the profession of internal auditing in a way that guarantees a certain level of performance that keeps users of the financial statements and gives them confidence in what they do. Judgments are issued by the auditors, just as the internal audit process in government hospitals is limited to the financial aspects and does not exceed it to the evaluation aspects, not the other technical and administrative aspects of activity, meaning that it does not achieve its humanitarian goals represented by making

sure that every part of the hospital's activity is subject to examination and control, and the evidence for that is that He did not emphasize the protection of hospital stores and supplies from theft, misuse, or damage.

The researcher recommends the need to give the internal audit function in government hospitals and sufficient attention as the basic function that can provide assurance services (financial audit, performance audit or operational audit, rapid response) and advisory services (evaluation services, facilitation services, treatment services) as well as its importance in Improving and strengthening guidance for service institutions.

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