

The Effect of Internal Control System on the Performance of an Internal Auditor: A Field Study of Private University in Iraq

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Abstract: The aim of this study is to outline the effect of the internal control system on the work performance of internal auditor independence and the impact on the effectiveness of the private universities. Through the determination of the nature of the relationship between the internal auditor performance and the effectiveness of the internal control system (such as: information and communication and monitoring procedures), the study is useful of the management of Iraqi private universities. The study also aimed to evaluate the level at which these private universities are responsible to provide the internal control system an effective system. The gap, weakness and strengths are identified in order to guide the future efforts of the administrations of private universities to take some corrective action in the internal control system.

Key words: Control procedures, information and communications, internal auditor, system, performance, efforts

INTRODUCTION

The internal control system of any organizational economy is very paramount as the system provides a formidable means of control and procedures during any ongoing activities within the same organization. Protection of the institutional assets and validity and accuracy of statistical information and accounting is the benefit of the existence of this system to achieve adherence to policies and administrative plans and maximum productivity efficiency. The internal control is not only found in the overall activity of economic unit but also in the financial and accounting aspects.

In addition to achieving the required operational and strategic objectives and taking a timely manner decision, one of the important tools through which universities are managed is the internal control system as their roles are important in organizing and protecting universities and in preventing and detecting cheating. For reference in terms of judgment and evaluation, the control system has a number of international guidance standards.

To investigate the rate at which the internal auditor is responsible for determining the internal control system in of private universities in Iraq is the problem of this study and to examine the level of implementation of information and communications and control measures in the private university of Iraq. The significance of this study is to reveal the efficiency of internal auditor and roles of internal control system in private university of Iraq and

the effect of the association between the components of internal control system and its effectiveness on the internal audit performance in the universities.

Literature review: Fadzil *et al.* (2005) investigated in their study to determine whether the activities of the internal control division of companies listed on Bursa Malaysia are in accordance with the professional standards of the internal auditor. The study also investigated if abiding with the rules of SPPIA affects the quality of the internal control system of the company. The sample and population of this study are all listed in the 2001 Bursa Malaysia. From the conclusions of this study, the most important of them is that the audit, professionalism and objectivity and the management of the internal control department significantly affect the control aspect of the internal control system. The audit work performance and work scope significantly affect the aspects of communication and information of the internal control system while the environmental parts of internal control system is affected significantly by the professionalism, objectivity and audit work performance.

Furthermore, Al-Qudah (2011) determined the effect of accounting information system on the internal control performance in commercial bank of Jordan by examining the both effects of internal examination and administrative control. The sample of this study shall comprise all the workers in the control departments of the commercial banks in Jordan. The population of this study comprises

87 workers of the control departments of the commercial banks in Jordan. Specifically, a questionnaire was developed to achieve the study's objectives and to give answers to the research questions through the test of hypothesis using descriptive method of analysis. It is concluded by the study that there is positive relationship between accounting information systems and accounting control effectiveness in Jordanian commercial banks. Also, in Jordanian commercial banks, there is a positive impact of accounting information systems on the administrative control effectiveness.

The study of Alshbiel and Al-Zeaud (2012) attempted to identify the effect of management support on the internal auditor performance through improvement in the Jordanian joint stock companies. The population of the study comprises all the selected registered companies on the Amman Stock Exchange. The populations of the companies with internal auditors in this study are 143. The study concluded with many results with the most noticeable being the positive correlation between the dimensions of the support under this study as provided by the management of the companies in order to improve the auditor's performance. In addition, the support of the management dimensions such as material and non-material incentives and professional development are positively correlated to performance improvement of internal auditors in the selected companies of this study.

Mohamud (2013) evaluated the relationship between internal control system and internal audit practices in addition to the level of the internal control system and internal audit in the Somali remittance firms. The population of the study comprises 12 money transfer companies. The units of analysis of the study are: financial managers, accountants, executive and treasurers of 69 companies in Somali remittance firms. The study found that the money transfer companies using internal auditing practices are effective with some limitations on division of labour. Also, there is the internal auditing has positive effect on the internal control system.

Moreover, Saidin (2013) studied the effect of internal control system on the internal audit effectiveness in the Malaysian local government level. In order to achieve the objective of the study, a descriptive approach of analysis was employed with the use of questionnaire. From the different outcomes of the study, it is concluded that the efficiency of the internal control system has impact on the auditing and internal auditor's effectiveness as the Malaysian local government level.

In another vein, Ayagre *et al.* (2014) through the use of COSO's principles and trends investigated the regulatory environment and control activities in the

internal control systems of Ghanaian banks. The populations of the study are 30 audit managers from 50 directors of auditing. Many results were found which include strong control in the components of regulatory activities and control environment in the internal control systems of the Ghanaian banks.

Additionally, Al-Zubi *et al.* (2014) examined the rate of compliance among employees with internal control systems in commercial banks of Jordan. The population of the study comprises all employees working in Jordanian commercial banks. The sample of the study consists of 100 randomly selected workers of commercial banks in Jordan. Most notable results from all the findings is the positive effect of internal control system of commercial banks in Jordan due to variables such as age, occupation and sex. In most cases, it is due to the limited internal control systems approved by the administration.

Mary *et al.* (2014) examined the effect of internal control system on the financial performance of the Kenyan sugarcane out-grower companies. The population of the study consists of nine companies and the units of analysis are: financial heads and managers of the internal audit departments of the nine companies with 18 individuals. The results showed that there is significant and positive relationship between the internal control system and the financial performance of the Kenyan sugarcane out-grower companies.

Also, the study of Shamsuddin and Johari (2014) determined if the internal auditor's work affects the internal control system efficiency of higher institution of education. The results showed that the effectiveness of internal control is affected by the internal auditor and control disclosure actually works for reporting of illegal acts.

In addition to the study on the relationship between the internal auditor and the financial performance, Alala and Paul (2016) analyzed the effect of internal control system on financial performance in the public health sector. The Matongo Hospital was chosen for the selected population and questionnaires were distributed. From the targeted population, the response rate was 30%. The study revealed that there is a very weak internal control system used in meeting all the issues faced by the hospital financial performance and there is a delay by the government in providing supplies due to poor government policy.

Sari *et al.* (2017) investigated the impact of internal auditor and internal supervision on the public services responsibility of Indonesian university. Survey questionnaire was used and there are 90 participants from financial management in universities to attend to the questionnaire throughout Indonesia. The findings show

that while the responsibility cannot be improved, the internal auditor being the independent variable has no effect on the relationship. It is possible to improve the responsibility by taking advantage of the internal control system in making a correct decision due to its impacts.

The theoretical framework

The concept of internal control system: The internal control is defined as a set of principles used in controlling an organization in order to attain the aim of protection assurance, performance improvement, asset retention, application of management instructions and quality of information. This is further achieved by applying and organizing procedures and methods of the organization's activities for element maintenance (Collins and Valin, 1992). In accordance with International Auditing Standard 315, the internal control systems are composed of five main components: regulatory environment, control procedures, risk assessment, information and communication system, delivery, supervision and guidance.

Regulatory environment: Regulations are procedures, policies and actions that portray the organization's direction of the owners, senior management and managers of any unit as regards its importance and control. The general overview includes the sub-components of ethical values and integrity, an audit committee, merit, technical competence commitment, operating styles, responsibility and authority, human resources management procedures and policies and management philosophy (Arena *et al.*, 2006).

Supervisory procedures: These are the insurance procedures on assets against risks in all its forms and insurance for employees dealing with cash and transferable assets, contracts and documents, the use of a sound system for keeping records and continuous and uninterrupted inventory. In addition, the procedures are followed to obtain data from more than one source and to prove the process from more than one document in different person and to compare the results by verifying the registration and proof validity (Abu Bakr, 2017).

Risk assessment: The management's definition and analysis of the risks are represented by the risk assessment of the financial report to the introduction of financial statement in accordance with the Generally Accepted Accounting Principles (GAAP) on the account of financial statement, the associated risks and other activities. Other activities and associated risks are risk of

violation of laws, disaster risk, process identification, credit risk, market risk and technology risk (Arena *et al.*, 2006).

Information and communications: According to Porter *et al.* (2008), the system of account is a well-arranged and incorporated set of means, procedures and methods developed to deal with economic challenges which affect the results of an organizational activities and financial position in a way that is suitable to the nature of its work with economic contribution to protect the assets to beneficiaries in a timely manner in accordance with the accounting rules and standards. The internet and modern development in information technology have channeled a way to new potential for locally and internationally transfer of information and efficient rapid delivery in such a manner that support importance and rapid access to information (OECD., 2001).

Delivery, supervision and guidance: Delivery, supervision and guidance include the important steps to be followed in the implementation of many aspects of the monitoring and investigation working in compliance with the goals set.

The concept and contribution of internal audit: Internal control system consists of internal audit. The Internal control system comprises: internal control, administrative control, internal audit and accounting control. In order to determine the procedures to be followed and the number of assistants to be assigned to control and auditing, the auditor relies on the strength or weakness of the internal control system. Thus, the less the actions taken by the office or audit firm, the stronger the internal control system; Fadzil *et al.* (2005) added that the more internal auditors are equipped with necessary knowledge and skill, the more they understand the factors that lead to management bias and the efficiency required to perform their responsibilities. This in turn can reduce their ability to manipulate accounting figures and certainly reflects positively on the quality of financial statements.

The level of achievement of the internal auditor determines the performance of the internal auditor in order to achieve the aims connected with the auditor's role and responsibility and the tasks mandated on him (Zureigat and Al-Moshaigeh, 2014). Generally, the audit's quality is in compliance with the GAAS as reasonable assurance that audited financial statements and related disclosures: in accordance with the GAAS and devoid of material misunderstanding due to fraud or errors (Fadzil *et al.*, 2005). At the beginning of the second millennium, the importance of high quality auditing has

been strengthened by different set of accounting scandals. These scandals related to legislations have led to stronger control of corporate governance and preparation of financial statements. Corporate bodies on oversight such as oversight board on accounting of public companies in the United Kingdom and United States Public Control Board are all established due to the scandals (Fadzil *et al.*, 2005).

MATERIALS AND METHODS

In the year 2017, the population of this study included the 22 Iraqi universities in Baghdad. The units of analysis from the five universities are financial managers, accountants, internal auditors and audit committees. These universities are: Baghdad College of Economics; University of Science City; the Degla College; Imam Sadiq University and Al-Mustapha College. From the forty questionnaires distributed, each university received eight questionnaires. Thirty two of the questionnaires were recovered and analyzed.

Using descriptive statistical tools such as arithmetic mean and standard deviation, the results of the field study were analyzed through the five-point Likert scale. In respect to the computational circles, this study determined the level of responses by acquiring which class they belong to. The internal control system and the internal auditor performance are the two variables included in the form. The study addressed two dimensions of the first variable, namely: control measures, information and communication. Therefore, the main hypothesis of this study is: there is a significant relationship between the internal control system and the internal auditor performance.

This hypothesis was tested under the simple linear regression equation in accordance with the hypotheses restructured from the questionnaire. The internal auditor performance is the dependent variable while the internal control system is the independent variable. The following section presents the analysis of the results.

RESULTS AND DISCUSSION

Results of descriptive analysis: The result of the descriptive analysis of the research variables is presented by Table 1. Notably, the results of the questionnaire have no missing value while the arithmetic mean values for the information, the connection, the control procedures and the internal audit performance are 4.06, 3.97, 4.37 (3) and the values of the standard deviation are 0.56, 0.76 and 0.60, respectively. From the results of the standard deviation, it is revealed that there is low dispersion in the response rate of the selected population.

Table 1: Results of descriptive analysis of the research variables

Details	Internal auditing	Control procedures	Information and communications
Samples	36	36	36
Missing	0	0	0
Mean	4.06	3.97	4.37
SD	0.56	0.76	0.60

Table 2: Relationship between correlation and regression between the research variables

Models	Coefficients β	Correlations			R ²	F-value	Sig.
		R	Sig.	Sig.			
Explanatory variable							
Information and communications	0.23	0.61	0.000	0.33	8.35	0.001	
control procedures	0.33						

Measurements of correlation and regression between the research variables: The results of the relationship between the correlation and regression between the research variables are presented in Table 2.

According to Table 2, the value of R-squared is 0.33. That means in the internal audit performance, the internal control system accounted for 33% of the changes. The other contributions that have not been addressed before accounted for the remaining 67%. The study found that the value of the beta coefficient is 0.23%. Thus, a change in the performance of the internal auditor by 23% is due to increase in information and communication. Also, for the control measures, the value of the beta coefficient is 0.33%. This indicates that result in a change in the performance of the internal auditor by 33% is achieved by any increase in the control procedures. The calculated value of 8.35 shows that the internal control system has effect on the internal audit performance as it is higher than the value of F extracted from the statistical table with 4.19 sample size. The mean of the model teacher was 0.001 which is smaller than the moral level of 0.05. Therefore, the result confirms the relationship to be effective as it is statistically significant.

The coefficient of correlation is a positive value of 0.61 which indicates a mean correlation between the variables. The significance of the correlation (0.000) indicates that the correlation was less than the level of significance (0.05). The results above show the acceptability of the research hypothesis. It shows that there is significant correlation and relationship between performance of internal auditor and internal control system.

CONCLUSION

For all institutions, the first major line of defence is the internal control system. In accordance with the outcomes of this study, private universities in Iraq should

endeavor to improve their sophisticated programs and robust monitoring, develop their review and follow-up and ensure that the programs work as planned and be adjusted to meet the change appropriately in all circumstances. The internal control system should be simplified, understood and written in terms of application and practices in the private universities of Iraq without complexity. Also, there is need to provide flexibility in order to make modification in accordance with the job function in the Iraqi private universities without forfeiting the efficiency. The employees of the internal audit departments should be focused on in order to have certificate in accounting and be diligent with their duties. With the provision of scientific and practical experience, employees are more compatible with the work. To identify the weaknesses and deficiencies in the system and procedures used and make the necessary modification and improvement, the employees are connected with various departments to senior management directly to ensure their independence roles.

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