



THE ROLE OF EXTERNAL CONTROL IN IDENTIFYING DEFICIENCIES IN THE PERFORMANCE OF THE INTERNAL CONTROL SYSTEM IN SHADE INTERNATIONAL AUDIT STANDARDS

Raid Hassan Ali⁽¹⁾

raidhassan2007@yahoo.com

Al- Muthanna University, College of Administration and Economics

Ali Abdulamer Kadhim⁽²⁾

ali.abdulamer@mu.edu.iq

Al- Muthanna University, College of Administration and Economics

Ahmed Jamal Kadhim⁽³⁾

ahmedjamal@mu.edu.iq

Al- Muthanna University, College of Administration and Economics

Article history:	Abstract:
Received: June 11 ^h 2022 Accepted: July 14 th 2022 Published: August 20 th 2022	The research aims to Provide an introductory framework for independent, dependent and mediator research variables represented by relevant international auditing standards. As well as a statement of the use of relevant international auditing standards in the process of evaluating the internal control system and identifying deficiencies in its performance. The research reached the most important conclusions, which is the existence of interdependence and compatibility between the work of external control and their use of international auditing standards related to examining and evaluating the internal control system.

Keywords: External Control, Internal Control System, International Auditing Standards

INTRODUCTION

The world witnessed radical transformations at the beginning of the nineteenth century, especially in the economic and social field of financial and economic institutions, which were characterized by the emergence of conglomerates according to what is termed multinational companies, as well as the increase in cases of financial and accounting violations in large companies in all countries, developed and developing alike. Either, in addition to the fact that some internal auditors were implicated in the violations attributed to these companies, and its reflection on the loss of confidence of the users of the financial statements in the accounting information and the increasing failure of the financial investments of these companies, which

made all those involved in these institutions look forward to keeping pace with the developments taking place, including Audit organizations and offices that have known a major turning point in the field of institutions, especially giant ones, in which the audit profession has become fundamental and of great importance, and for this reason, countries have been forced to put laws and legislations regulating this profession of oversight and external auditing. And therefore

The research problem is embodied in the following questions:

- How does external control contribute to improving the internal control system, and as a tool for evaluating the



effectiveness of the internal control system in economic institutions?

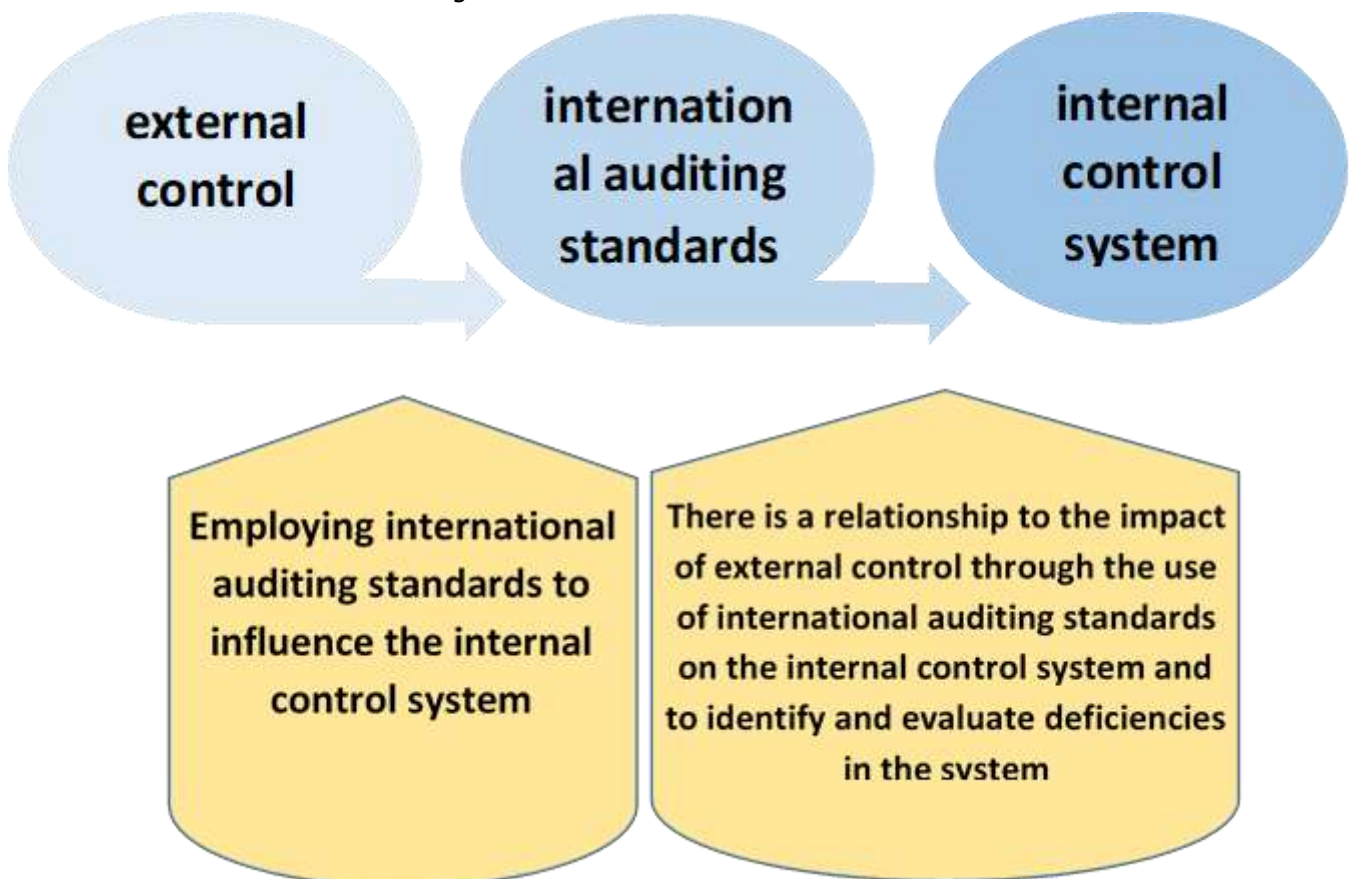
- What is the relationship between external control and the internal control system in light of the relevant international auditing standards?

research aims: The research seeks to achieve the following objectives:

- Provide an introductory framework for independent, dependent and mediator research variables represented by relevant international auditing standards

- A statement of the use of relevant international auditing standards in the process of evaluating the internal control system and identifying deficiencies in its performance.

research importance: The research gains its importance through the effective role and the great contribution of external control through the use of international auditing standards in raising the efficiency of the performance of the internal control system in the public and private sectors and preventing manipulation and fraud in the process of disclosing financial statements.



the frame theoretical for relationship between for variables search (The Independent – Mediator – subordinate)

First: External control: External control is exercised by specialized bodies that are independent of the management of the economic unit, and these bodies are

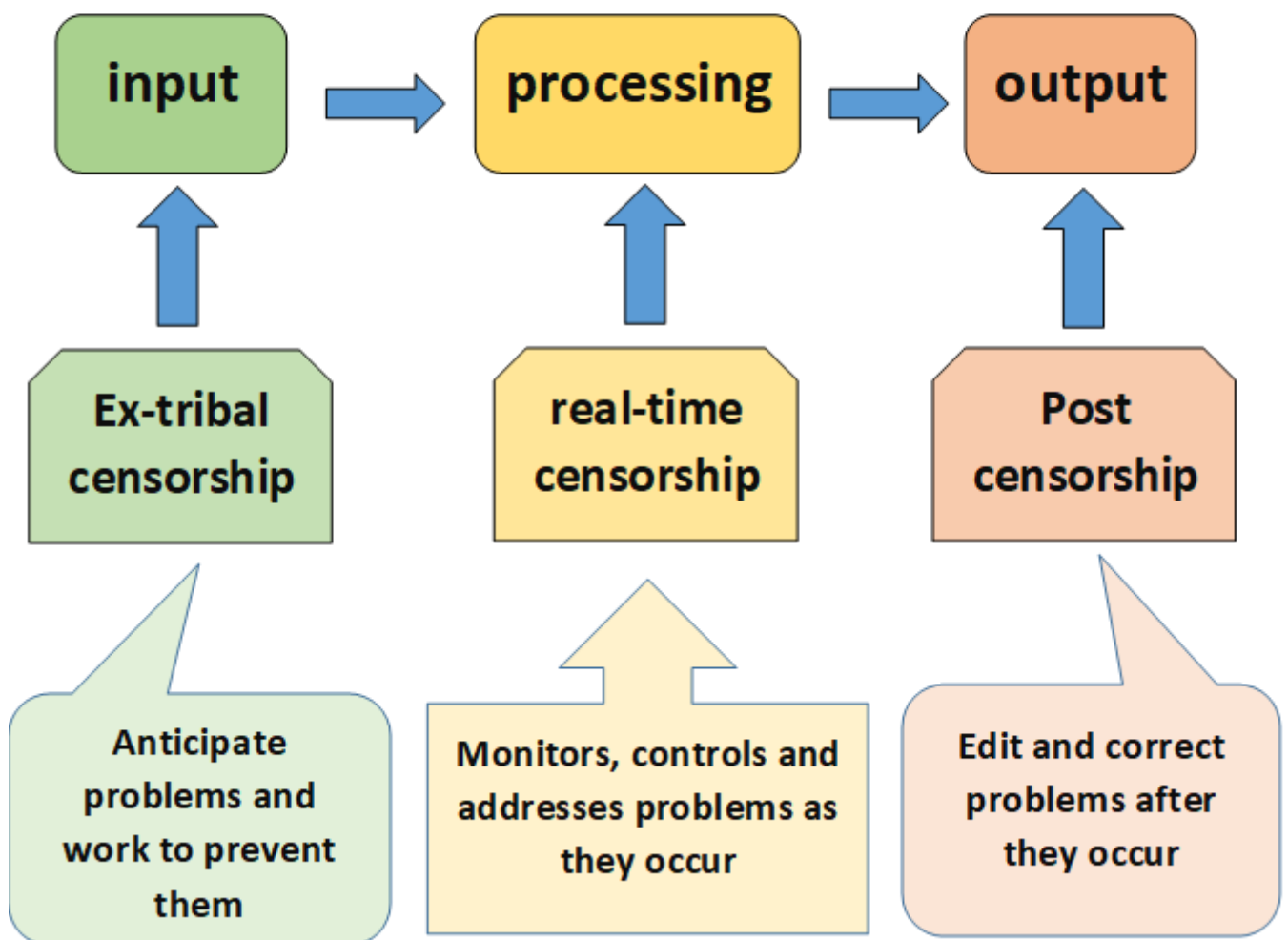
financially and administratively independent of the executive authority. The most important types of external control are: (James, 2002)



- Previous control: Prior control represents a type of legality control that examines financial transactions and behaviors before issuing the decision on financial disposition or before its implementation and before concluding the contract or before its implementation, in order to prevent violations, errors and extravagance as much as possible on the one hand and before the obligation is imposed on the issuing authority, to dispose of or entered into a contract on the other hand.
- Subsequent control: is the control that takes place after the implementation of financial operations and is considered the basic method by which external financial control is exercised, whatever the form of the control system taken by the control body, whether it is judicial or administrative. It also helps to compensate for damages and prevent re-committing errors, violations and deviations.
- Simultaneous control: It is the control that accompanies and synchronizes with the implementation, which leads to the discovery of the error or deviation within a short period of its occurrence and thus contributes to its rectification, treatment and non-continuity. Or follow-up contracts from the legal, financial and material aspects. As shown in the following figure.



Components of the internal control system





2- External Control Objectives:

External control has many objectives: (The Archbishops, 2009)

- Discovering errors and shortcomings so that those responsible can be held accountable and work to prevent these errors from occurring in the future.
- Financial control (on the budget and financial affairs) such as the supervision of the Ministry of Finance on the disbursement of financial allocations.
- Evaluation of an internal control system, as the reason for the repetition of errors and deviations may be due to the existence of gaps in the internal control system, which requires the supreme control bodies to provide the necessary recommendations regarding the treatment of these gaps.
- The objective of financial control is to verify that the implementation of the plan by the economic units is carried out in accordance with what is decided in the plan and in light of the instructions and rules established, with the aim of discovering weaknesses and errors, treating them and avoiding their recurrence.

Secondly: Concept censorship interior:

Internal control is a scientific approach carried out by a group of people in an economic unit to provide management with reasonable assurances about achieving the goals expressed in the credibility of financial reports, ensuring the application of laws and regulations, and detecting and addressing errors. These goals are represented in the credibility of financial reports, the efficiency and effectiveness of operations, compliance with laws and instructions and their application, and that the purpose of designing and implementing

internal control and documenting information obtained in a useful way is to collect sufficient evidence, through a set of procedures, which are: "Inquiries from working individuals Reading laws, regulations and instructions, examining documents and books, noticing, documenting understanding. (Thomas, 2009)

Methods documentation censorship interior

Internal control is documented in several ways that can be clarified as follows:

(Abdullah, 2004)

- 1.The method of surveying the internal control system: which includes asking questions to the employees of the economic unit and answering them yes first, as the answer is without shortcomings or weaknesses in the system, which distinguishes this method is the speed in the evaluation process.
- 2.The descriptive report method: which is in the form of a report explaining the procedures followed for each of the operations of the economic unit, with a description of the control system and the documentary cycle, with the aim of identifying the weaknesses partially and completely.
- 3.Reminder summary method: which is represented by a general statement of the ways and means that are available in an ideal internal control system, with the aim of identifying weaknesses in the internal control system under audit.
- 4.Flow mapping method: It is one of the methods used in evaluating the internal control system, represented by a graph showing the flow and follow-up of documents for the party subject to the audit, and the most important feature of this method is that it provides an easy-to-read and updateable overview of the system.

Goals System censorship interior:
(Champlain, 2003)

- Ensure that the necessary measures are taken to protect



- assets from fraud, embezzlement and misuse.
- Ensure the accuracy of the accounting data and the extent of reliance on it for making future decisions.
 - Ensure optimal use of available human and material resources.
 - Ensure the development of an organizational structure and the operation of a clear system of powers and responsibilities.
 - Ensure the selection and appointment of senior and junior employees according to a tight job description prepared in advance.
 - Ensure that the executive procedures are defined in a manner that ensures the flow of activities and operations with high efficiency. With the aim of ensuring the improvement of the efficiency of the work of the audit committees emanating from the boards of directors, and thus enabling the members of the boards of directors as a whole to carry out their duties and responsibilities and exercise their powers entrusted to them in accordance with the Companies Law, the Securities Law and any related legislation.



Sections System censorship interior:
The internal control system is divided into the following:

- **Accounting Control:** It includes the organizational plan and all the means, coordination and procedures aimed at testing the accounting data installed in the books and accounts and the degree of dependence on them. This type includes several means, for example: Following the double-entry method. Recording transactions and their daily posting. Using the aesthetic and sub-accounts. Preparing periodic audit balances. - Following the approval system and approving settlement entries by an authorized employee. - Providing the management with financial and accounting statements on a regular basis. (Collier, 2009).
- **Administrative control:** It is a set of systems and methods that help in examining and evaluating all aspects of the activity in order to diagnose administrative problems and know the shortcomings and errors that lead to suggesting appropriate



solutions. Multiple means, for example: estimated budgets, cost accounts, etc...

- **Internal control:** It includes a set of organizational and accounting procedures and means that seek to automatically and continuously control the operations of the facility by making the work of one person to be reviewed by another to ensure the proper functioning of the work and prevent errors or manipulations from occurring or discovering them shortly after their occurrence through the automatic application of the system. The system is based on the distribution of work, responsibilities and powers for each department and employee, and avoiding any employee carrying out a process completely from beginning to end. (Dauber, Levine, & Qureshi, 2008)

- **Internal audit Department:**

It is an independent appraisal device within the establishment's formations. It is one of the effective internal control methods established by the administration to carry out its service and reassure it that the established controls are applied and sufficient through a set of controls and procedures to achieve operations and restrictions on an ongoing basis to ensure the accuracy of accounting and statistical data and to ensure the protection of the assets and funds of the establishment

and verify that the following Establishment employees to the policies, plans and administrative procedures set for them. (Coderre, 2009)

Relationship between a job censorship external according to Standards audit International and select palaces in performance System censorship interior

The external control should take into account the examination carried out by the internal auditor, so that this examination is a complement to his work and not a substitute for it. The external control has shown the ineffectiveness of the performance of the existing internal control system in the economic unit, so it must present the suggestions it deems appropriate, and the examination of the internal control in is considered a duty on the external control, as well as the study and evaluation of the internal control system, which enables the external control to take decisions about the extent The possibility of relying on it, or expanding the scope of the tests Analytical and detailed on the financial statements of the economic unit, therefore we note the link between the tasks of each of the external control and the internal control system in the economic units. From here it can be said that the internal control system has an important role in obtaining financial data with a high degree of transparency, disclosure and credibility to serve stakeholders from shareholders, bond holders, banks and lenders through a system of performance of departments, committees and councils, which lay the foundations for the administrative, technical and professional performance of oversight work. (Duijm, 2006)

And from most important Indications that explain palaces in performance System censorship interior in Shade Standards audit International she following:

Deficiencies in a system of internal control exist when the control is designed and implemented in such a way that no timely prevention, detection and correction of



errors in the financial statements or control necessary to prevent, detect and correct errors exists at all. Significant deficiencies are deficiencies or a set of deficiencies that the auditor considers to be of sufficient importance to draw the attention of those responsible for governance. Examples of matters that must be taken into account by external control when determining whether the deficiency is significant or not: (Kadhim, 2020)

- Susceptibility to loss or deficiency in the assets or liabilities of the economic unit.
- Amounts of financial statements that are prone to defects.
- General oversight of controls.
- The volume of activity that has occurred or may occur in the account balance or the category of transactions that are prone to shortfalls.
- The cause and frequency of exceptions discovered as a result of deficiencies in the controls.
- Lack of control over transactions such as non-recurring journal entries, particularly at the end of the period.
- Lack of control over transactions with related parties.
- Lack of control over significant transactions outside the normal course of business of the economic unit.

The above are just a wide range of examples of significant deficiencies and auditors may encounter other deficiencies specific to their clients' circumstances.

Indications typical for palaces Great in performance System censorship interior : (Abd, 2021)

- A restatement of previously issued financial statements to reflect the correction of a material misstatement resulting from a deficiency or error.
- Management's lack of cooperation in improving the deficiencies previously identified in internal control by auditors.
- Lack of internal controls and lack of interest on the part of management to ensure that important transactions are properly screened.

- Fraudulent activity on behalf of management regardless of materiality or willingness to accept petty inconsistencies.
- The auditor's identification of errors in the financial statements that were not detected by existing internal controls.
- Management's inability to properly supervise the preparation of financial statements.

CONCLUSIONS AND RECOMMENDATIONS OR NOT: CONCLUSIONS

1. It is the existence of interrelationship and compatibility between the work of external control and their use of international auditing standards related to the examination and evaluation of the internal control system
2. The adoption of the external control system in the Iraqi government institutions increases the efficiency of the performance and effectiveness of the internal control system and enhances the community's confidence in the supervisory authorities in preserving public money to achieve the interests of stakeholders.

SECONDLY RECOMMENDATIONS:

1. The external control bodies must know the international auditing standards related to the process of examining and evaluating the internal control system
2. Raising the performance of the internal control bodies, reconsidering their systems, and setting the necessary standards for this, with the need to coordinate with the Office of Financial Supervision in order to seriously confront the scourge of administrative and financial corruption in state agencies, while raising the performance of government institutions to allow achieving their goals and upgrading the institutional reality.
3. Persons charged with external oversight must take their decisions, keeping the public interest in mind, and make the necessary efforts to achieve their objectives objectively, while setting controls and mechanisms that enhance their independence.



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