



IMPACT OF INTERNAL AUDIT EFFECTIVENESS IN IMPROVING THE COMPANY'S PERFORMANCE

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| Article history: | Abstract: |
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| Received: October 11 th 2022 Accepted: November 11 th 2022 Published: December 28 th 2022 | The study examines how internal audit improves industrial company performance. A questionnaire was created to assess internal audit effectiveness and firm performance improvement. (55) forms were distributed to the Chairman and members of the Board The study reached several results, including: internal audit contributes to improving the company's performance by activating its internal control systems by providing all the means and procedures used in the company to protect its assets from all types of losses. Internal audit contributes to supporting corporate governance through the relationship between internal audit and senior management, such as coordinating activities and communicating information, in addition to providing the necessary advisory services and suggestions. The study recommended working on the establishment of an internal audit committee in the company to activate this function, conducting continuous audit of all financial and non-financial operations without focussing only on financial aspects. |

Keywords: internal audit, performance, performance optimisation

INTRODUCTION:

The size of industrial and commercial economic institutions has grown, as have the problems they face and the range of their operations as a result of theoretical and applied scientific advancement in all areas of economic activity. This is especially true at the level of industrial companies, which play a variety of organizational and transformative roles in various sectors of any economy. They must enhance their performance in order to assure their strong performance and control, which has As a result, the idea of internal audit has undergone enormous change. The conventional idea, which strives to uncover fraud, deception, and errors, has evolved into the modern idea, which aims to broaden the internal auditor's purview of work to include anticipating problems. The effectiveness of the internal auditor consists in the degree to which he complies with the requirements of attributes for performance, in addition to assessing and dividing the efficiency of internal control and arbitration procedures and enhancing performance. In order to build and develop an internal control system, as well as to assess how effectively a business uses its resources, one crucial function that institutions rely on is internal audit. The purpose of the

study is to clarify how internal audit affects the effectiveness of the company's internal control system. In addition to acknowledging the contribution internal audit makes to strengthening corporate governance.

First: The concept of internal Audit

There are several definitions of internal auditing related to the work that will be audited. According to (Amqran, 2021:7-8) "it is a set of activities, systems or an independent internal Functions established by the company's management to examine and evaluate its activities and providing services to the company, as a type of administrative protections works continuously to ensure the accuracy of the financial statements as well as function to provide assurance to the company's managers from internal sources to the operations that they are responsible". The aim of auditing is reducing the possibility of errors, ineffective or any fraud practices, that's why the internal Audit has been defined as one of the organs of the economic unit. its job is to review and audit the operations that took place within this unit to ensure the implementation of



policies and to correct the Internal Control System of the unit in order to protect the property from any danger, Also to provide assistance to the management in order to achieving the sets goals (Al-Hayali and Jambury, 2022:5). In addition, The internal audit in its modern concept includes an independent & evaluation activity within the economic unit , The internal audit activity also extends to all types of administrative control and others. It is also considered as a consoling function (Rashwan, and Arab, 2022:9). Auditing is also defined as "an independent evaluation activity established within the company in order to examining , evaluating and achieving the accounting , financing and administrative aspects of the company and the other operational aspects".

This is carried out by an independent internal device of the company's management , for the purpose of providing guarantees and reassurance to the management regarding to the sufficiency of the procedures taken and the implementation of the specific policies , as well as measuring performance , evaluating the effectiveness of the procedures .In addition , to evaluating the effectiveness , procedures and means of internal control in the company and the adequacy of their design (Al-qadi,2016:45).

The importance of internal audit

The importance of internal audit of the accounts in the company is highlighted to ascertain the authenticity of the data extracted from the financial records, as well as to ensure adequate protection of the company's assets, compliance with internal control plans, policies, procedures and means, as well as to measure the efficiency and effectiveness of the performance of the various company departments and people, as well as to ensure the success of the company's management in achieving the requirements of the targeted quality system. In addition to preserving the environment, it is important to eliminate bad practices and promote positive practices. Study quality assurance and compatibility activities in line with established standards, and adequacy and adherence to policies and legislation (Kawthar and Sumya, 2020:9). And (Al-Zubaidi, 2017:43), notes that the importance of internal audit comes from being an in-house activity by management-appointed individuals for certain purposes, as well as being a monitoring tool that helps workers perform their jobs effectively and efficiently, as well as assisting management in evaluating performance and preserving the company's property and assets.

The concept of performance optimisation

Utilizing all available resources to boost operational outputs and productivity or implementing the best technology to maximize capital is what is meant by performance improvement. Any company's performance must be balanced in order to be improved. The harmony of these factors demonstrates that the needs and expectations of the company's management have been taken into consideration. The basic principles of performance improvement are: Awareness of the internal and external needs and expectations of customers, working to remove obstacles and encourage the participation of all employees, focussing on systems and processes, continuous measurement and follow-up of performance in the company (Aemen and Shams Al-Din, 2020:44).

Steps to improve performance in the company

Performance in the company is improved by what follows: (Shouk, , & Ja 'eja,, 2018:41; Kaddour and Al-Arabi, 2018:190).

1. Performance analysis: In this step, the company is selected to analyse performance among its priorities and ability to define the financial situation and expected for business performance and competition.
2. Searching for the roots of the aetiology: through which the aetiology is analysed in the gap between the target and actual performance, and the problems are always failed because the proposed solutions are only aimed at addressing the external effects without the real causes of the problems, but when the problems are addressed from their roots, they will lead to better results.
3. Choosing the means of intervention or treatment: This is one of the most crucial and effective approaches to address performance issues and their causes. It is a complete, ongoing, and integrated approach. Based on the intended interest, appropriate procedures are adopted for the company, its financial state, and anticipated costs. Additionally, the evaluation and success of the company are determined by how much the performance gap is closed, which is determined by better performance. Before executing the strategy, it is also important to consider how the organization's goals have changed in order to guarantee that it will be adopted and used by all administrative levels.
4. Implementation: Following the selection of the best strategy, implementation is followed by the creation and design of a system for monitoring the change's effects, both direct and indirect. This is done to guarantee the



organization operates efficiently and effectively.

- Monitoring and evaluating performance: This process needs to be ongoing because some of these techniques and answers may directly affect how performance is developed and improved. In order to provide feedback and early feedback on the results of applying these strategies and to assess their influence on closing the performance gap, there must also be ways of monitoring and follow-up based on assessing the change in performance.

- Verifying and reporting on regulatory activities to measure the achievement of objectives have been developed and are appropriate and sufficient'.
- Internal control auditors can assist management in setting public and private objectives by identifying appropriate basic assumptions, whether accurate information is used, and if appropriate control procedures are introduced in operational processes or programs (Shouk, , & Ja 'eja,, 2018:44; Hafiza, 2018:57).

Internal audit in improving the company's performance

The role of auditing in improving performance includes the following:

- The processes of examining the validity and completeness of financial and operational data and the means used in identifying, measuring, disaggregating and disclosing information, as well as examining information systems because they provide information for decision-making.
- Verify the protection of assets in the company from all types of losses.
- Work to improve the actual performance at various administrative levels of the work assigned to them and make appropriate suggestions to improve and develop the company's operations.
- The existence of the necessary standards to measure the efficient use of resources.
- Operating standards are understood and adhered to.
- Deviations are identified, analysed, and reported to the administration to take appropriate corrective action.
- Determine whether there are standards that have been set by the administration to determine whether public and private goals have been achieved. In the absence of sufficient standards, the internal auditor can assist the department in formulating sufficient and appropriate standards for performance development.
- Check the factors that hinder performance improvement have been identified, evaluated, and controlled in an appropriate manner.

In the light of the above, the researcher concludes that the traditional role of internal audit has changed and changed from the stage of examining and evaluating the internal control system to evaluating and improving efficiency and effectiveness, controlling the quality of performance and governance in the company. A major role has taken place in developing and modifying the main performance indicators in the company. Therefore, companies must be developed awareness of the importance of the corporate governance system and the importance of the role played by the internal auditor in implementing and establishing the governance system effectively and capable of raising the quality of performance in the company.

MATERIALS AND METHODS:

The community and sample of study:

The study sample consists of the chairman, board members, and auditing staff of the industrial companies that are included in the study community and are traded on the Iraqi Stock Exchange. To ensure that the sample size is kept to a minimum, 55 questionnaire forms were created and distributed; the researcher received (50) valid forms for analysis.

Results and Discussion:

A random sample was selected from the study community. The study targeted the head, members of the board of directors and employees in the field of auditing in the companies. The study sample was distributed (55) copies, as it contained three main axes. 53 copies valid for evaluation were retrieved and (3) forms for lack of seriousness in response were excluded and statements were left unan answered, as they represented (50) forms valid for analysis, i.e. 90%. The researcher used the SPSS program, and the following tables show

Table (1): duplicates and percentages of demographic variables

| Variable | Class | Repetition | The ratio |
|---------------|-------------------|------------|-----------|
| Qualification | Bachelor's Degree | 33 | 66% |
| | Master's | 17 | 34% |



| | | | |
|----------------------------|-----------------------------|----|------|
| Total | | 50 | 100% |
| Specialization | Accounting | 29 | 58% |
| | Business management | 14 | 28% |
| | Other | 7 | 14% |
| Total | | 50 | 100% |
| Years of Experience | Less than 5 | 6 | 12% |
| | Between 5 years – 10 years | 23 | 46% |
| | Between 10 years – 15 years | 15 | 30% |
| | Over 15 | 6 | 12% |
| Total | | 50 | 100% |

Table (2): Pearson Correlation Transactions for Internal Audit Effectiveness Hub Ferries

| No. | Paragraph | Correlation coefficient | Probability value |
|-----|---|-------------------------|-------------------|
| 1 | An audit plan is prepared covering the various areas of activity in the company | 0,703** | 0,000 |
| 2 | The internal auditor has experience and familiarises with the components of the internal neck system in the company | 0,705** | 0,000 |
| 3 | The auditor's performance is checked by the company's audit committee | 0,482** | 0,000 |
| 4 | Information is provided to management by the internal auditor to make decisions correctly and regularly | 0,750** | 0,000 |
| 5 | The auditor works to protect the company's assets from waste and waste | 0.206 | 0.089 |
| 6 | The internal auditor works on the strengths and weaknesses of internal control systems | 0.869** | 0.000 |
| 7 | The internal auditor contributes to the process of evaluating and measuring the performance of the administrative levels in the company | 0.605** | 0.000 |
| 8 | The work of the internal auditor includes important mistakes that are determined by the administration | 0.766** | 0.000 |
| 9 | Internal audit contributes to maintaining the balance, efficiency, and effectiveness of governance within the company | 0.846** | 0.000 |
| 10 | The auditor proposes appropriate solutions to correct the situation in the future, which will improve the company's performance | 0.555** | 0.000 |
| 11 | The internal auditor's reliance on performance standards and independence improves the company's performance | 0.814** | 0.000 |
| 12 | The auditor verifies the credibility of the financial and operational information and his performance is objective | 0.751** | 0.000 |
| 13 | The internal auditor makes sure of the efficient use of the resources available in the company | 0.845** | 0.000 |
| 14 | The principles of governance are applied based on internal audit to achieve the efficiency of organisational processes | 0.768** | 0.000 |
| 15 | The auditor makes recommendations to the management related to improving performance in the company | 0.565** | 0.000 |



| | | | |
|-----------|--|---------|-------|
| 16 | Internal audit contributes to improving the quality of the company's financial information | 0.831** | 0.000 |
|-----------|--|---------|-------|

The correlation coefficients of the majority of the statements in the axis are a function at a moral level of 0.05, as can be seen by glancing at the table above. The bulk of the research axis' paragraphs, it should be noted, are very honest, which supports the strength of the internal correlation between those paragraphs

Table (3): Pearson correlation coefficients for performance optimisation axis phrases

| No. | Paragraph | Correlation coefficient | Probability value |
|------------|---|--------------------------------|--------------------------|
| 1 | The company is keen to make continuous improvements in its operations and activities | 0.715** | 0.000 |
| 2 | The company continuously refines its products to customers to ensure that competitors in the market are met | 0.745** | 0.000 |
| 3 | The company evaluates and compares actual performance to planned performance to identify weaknesses in the products offered and make improvements | 0.765** | 0.000 |
| 4 | The company evaluates the performance of employees periodically | 0.582** | 0.000 |
| 5 | The company's improved performance boosts confidence and guarantees shareholders' equity | 0.383** | 0.001 |
| 6 | The company seeks to exploit its available resources to reach its goals at the lowest costs | 0.752** | 0.000 |
| 7 | There is compatibility between the company's products and customer requests | 0.668** | 0.000 |
| 8 | Financial incentives contribute to improving the performance of the company | 0.233 | 0.089 |
| 9 | The company's management uses its available resources effectively and efficiently | 0.832** | 0.000 |
| 10 | Internal audit helps reduce financial, administrative and operational risks | 0.745** | 0.000 |
| 11 | Internal audit helps raise the quality of production and thus increase the company's sales | 0.756** | 0.000 |
| 12 | The auditor detects and discloses deviations that have occurred | 0.656** | 0.000 |
| 13 | The auditor only audits financial operations | 0.726** | 0.000 |
| 14 | The scientific and practical qualifications of the internal auditor contribute to the effectiveness and efficiency of the company's performance | 0.855** | 0.000 |
| 15 | The company's audit committee is in place to follow up the work of internal auditors | 0.373** | 0.001 |

The correlation coefficients of the majority of the statements in the axes are a function at a moral level of 0.05, as can be seen by looking at the table above. The majority of the study axes' paragraphs, it should be noted, are very honest, which supports the strength of the internal correlation between those paragraphs

Table 4: alpha kronbach coefficient for measuring the stability of the resolution

| The hub | The number of paragraphs | Cronbach's alpha coefficient |
|---|---------------------------------|-------------------------------------|
| The effectiveness of internal audit and its role in improving | 16 | 0.926 |



| | | |
|---------------------------|--|--|
| the company's performance | | |
|---------------------------|--|--|

We can see from the table above that the study axis's AlphaCronbach coefficient is high at As a result, we can rely on the questionnaire paragraphs to perform statistical analysis and test the study assignments because they are highly stable

Table (5): arithmetic meanness and standard deviation of the paragraphs of the focus of the effectiveness of internal audit

| No. | Paragraph | Arithmetic mean | Standard deviation |
|-----|---|-----------------|--------------------|
| 1 | An audit plan is prepared covering the various areas of activity in the company | 2.98 | 0.974 |
| 2 | The internal auditor has experience and familiarises with the components of the internal neck system in the company | 3.26 | 1.052 |
| 3 | The auditor's performance is checked by the company's audit committee | 3.29 | 0.638 |
| 4 | Information is provided to management by the internal auditor to make decisions correctly and regularly | 2.77 | 0.786 |
| 5 | The auditor works to protect the company's assets from waste and extravagance | 3.14 | 1.004 |
| 6 | The internal auditor works on the strengths and weaknesses of internal control systems | 3.33 | 1.006 |
| 7 | The internal auditor contributes to the process of evaluating and measuring the performance of the administrative levels in the company | 3.24 | 1.044 |
| 8 | The work of the internal auditor includes important mistakes that are determined by the administration | 3.48 | 0.778 |
| 9 | Internal audit contributes to maintaining the balance, efficiency, and effectiveness of governance within the company | 3.26 | 0.928 |
| 10 | The auditor proposes appropriate solutions to correct the situation in the future, which will improve the company's performance | 3.25 | 0.775 |
| 11 | The internal auditor's reliance on performance standards and independence improves the company's performance | 3.26 | 0.941 |
| 12 | The auditor verifies the credibility of the financial and operational information and his performance is objective | 3.28 | 0.889 |
| 13 | The internal auditor makes sure of the efficient use of the resources available in the company | 3.13 | 0.977 |
| 14 | The principles of governance are applied based on internal audit to achieve the efficiency of organisational processes | 3.71 | 0.842 |
| 15 | The auditor makes recommendations to the management related to improving performance in the company | 3.38 | 0.756 |
| 16 | Internal audit contributes to improving the quality of the company's financial information | 3.22 | 0.713 |
| 17 | Internal audit improves the quality of the company's financial information | 3.19 | 0.787 |

By examining the table above, we can see that the sample trends are generally positive for the questionnaire's paragraphs because their arithmetic averages are higher than the average measurement instrument (3), which is closer to approval. This shows that internal audit has an effect on the company's performance through the control systems that the company uses to enhance its performance. The table above makes it abundantly clear that analysis of the questionnaire reveals that management is not regularly and accurately provided with the information it needs



to make decisions. where the standard deviation was 0.786 and the average arithmetic value of the respondents' responses was 2.77—below the measurement tool

Table (6): arithmetic meanness and standard deviation of performance improvement pivot paragraphs

| No. | Paragraph | Arithmetic mean | Standard deviation |
|-----|--|-----------------|--------------------|
| 1 | The company is keen to make continuous improvements in its operations and activities | 2.57 | 0.884 |
| 2 | The company continuously refines its products to customers to ensure that competitors in the market are met | 3.55 | 1.071 |
| 3 | The company evaluates actual performance and compares it with planned performance to identify weaknesses in the products offered and make improvements | 3.32 | 1.021 |
| 4 | The company evaluates the performance of employees periodically | 3.27 | 0.798 |
| 5 | Improving the company's performance enhances confidence in it and guarantees shareholders' rights | 3.21 | 1.007 |
| 6 | The company seeks to exploit its available resources to achieve its goals at the lowest costs | 3.23 | 1.005 |
| 7 | There is compatibility between the company's products and customer requests | 2.88 | 0.657 |
| 8 | Financial incentives contribute to improving the performance of the company | 3.34 | 0.897 |
| 9 | The company's management uses its available resources effectively and efficiently | 3.26 | 0.885 |
| 10 | Internal audit helps reduce financial, administrative and operational risks | 3.21 | 0.785 |
| 11 | Internal audit helps raise the quality of production and thus increase the company's sales | 3.51 | 0.752 |
| 12 | The auditor detects and discloses the deviations that have occurred | 3.31 | 0.979 |
| 13 | The auditor scrutinises financial operations only | 3.52 | 0.777 |
| 14 | The educational and practical qualifications of the internal auditor contribute to the effectiveness and efficiency of the company's performance | 3.71 | 0.951 |
| 15 | The company's audit committee is in place to follow up the work of internal auditors | 3.35 | 0.975 |

By examining the table above, we can see that most of the survey paragraphs' sample trends are favorable because their arithmetic averages are higher than the average measuring instrument (3), which is closer to approval. This finding suggests that internal audit has an effect on enhancing the company's performance through the control systems that the company employs. Additionally, it is evident from the table above that the analysis of the questionnaire yielded results with a standard deviation of and average arithmetic value of the respondents' responses being lower than the measurement device, reaching (2.88) (0.657).

II. Hypothesis test results

The questionnaire axis's paragraphs were analyzed using a sample test. We accept the hypothesis that internal auditing has a statistically significant impact on improving a company's performance if the value of t is less than 0.05.

Table (7): hypothesis test

| Hypothesis test | t Value | Possibility |
|---|---------|-------------|
| There is a statistically significant impact of the effectiveness of internal audit in improving the company's performance | 46.73 | 0.000 |



CONCLUSION:

Internal audit contributes to improving the company's performance by activating its internal control systems by providing all the means and procedures used in the company to protect its assets from all types of losses. Internal audit contributes to supporting corporate governance through the relationship between internal audit and senior management, such as coordinating activities and communicating information, in addition to providing the necessary advisory services and suggestions to the administration to address problems. Auditing plays an essential role in improving performance in the company by paying attention to measuring and evaluating performance within the company and thus reducing problems. Internal audit is an essential function within the company because of its objectives such as protecting assets or in construction. It plays an important role in improving performance by following the applicable and recognised auditing standards.

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