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## USING MODERN STRATEGIC AUDIT TOOLS TO DEVELOP AND IMPROVE INTERNAL AUDITING IN THE IRAQI ENVIRONMENT

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## ABSTRACT

It is necessary to take into account the development that occurred in the business environment of organizations, which required the internal audit function to evolve to include aspects of operational auditing and providing administrative and technical advice. This is done by expanding the scope of audit to include the study of the external environment in addition to the internal environment of the organization. Strategic audit and the use of its tools.

The problem of the research is the incompatibility of the traditional internal audit programs for organizations with their internal and external environment, and it also aims to identify the concept of strategic auditing for business organizations, as well as design a proposed work program for the development of internal audit procedures that includes procedures and steps for strategic auditing . The research reached a set of conclusions and recommendations , where the most prominent conclusions were : The research revealed that internal auditing devices can be developed by adopting an audit program that includes steps and procedures for strategic auditing by internal auditors , and this was evident through the descriptive analysis of the research variables, and that Internal audit does not add value to the company without taking into consideration the study of its objectives and strategies when planning and implementing the internal audit process. The most important recommendations of the research are: The need to use strategic audit tools by internal auditors and work to expand the scope of the internal audit work to include the external environment of the facility in addition to its internal environment and to adopt the proposed internal audit program . The internal auditor must also audit the company's strategic goals and verify its consistency with the company's vision and mission as well as with the plan In addition to the necessity to involve internal auditors in training and qualification courses in the field of strategic auditing methods such as the SWOT analysis tool and to develop their scientific and practical skills.

## INTRODUCTION

Because of the changes facing organizations from developments in the business sector and the emergence of globalization and intense competition to reach leadership, which prompted many organizations to adopt best practices to reach their goals.

Follow up on those plans and strategies except through the strategic audit process, which is one of the methods of strategic control and implemented by the upper and middle administrations, as its intellectual and cognitive framework includes a mixture of fields of strategic management, accounting and auditing. Taking into account the developments that have occurred in the business environment, which

requires the development of the internal audit function and the expansion of its scope to include the study of the external environment in addition to the internal environment, and this can be achieved through the adoption of strategic auditing and the use of its tools.

## THE FIRST STUDY

### First: The Methodology of the Research

#### *Research : Problem*

Organizations suffer from continuous changes and instability in their internal and external environment, which requires keeping pace with these changes that may cause the emergence of many obstacles and obstacles that prevent the

implementation of the organization's plans and strategies, and the results of the organization's strategic performance do not appear in the short term, but rather need long periods of time. Waiting for these results to be achieved due to its oversight and scrutiny, makes the importance of oversight and scrutiny for it few but not effective. The research problem is the incompatibility of the traditional internal audit programs for organizations with their unstable internal and external environment

**Research Hypothesis :**

In order to reach the goal of the research, the following hypothesis was formulated

The use of an internal audit program that includes the steps and procedures of the strategic audit leads to the development of the work of internal audit

**Research Objectives :**

The research aims to achieve the following

- Recognize the concept of strategic auditing for business organizations
- Designing a proposed work program for the development of internal audit that includes strategic . audit procedures

**Research Importance :**

Importance of research lies in addressing the weaknesses found in the internal auditing devices in business organizations to develop its performance by improving its procedures and programs. Expanding the scope of his work and using modern methods and trends in .auditing

**Research limits :**

• **:Spatial Boundaries**

The General Company for Rubber Industries and Tires in Najaf .Governorate

**Second: Previous Studies**

**:Arabic Studies**

- i. A study ( Al- Afifi , 2007) entitled : **Obstacles to the work of internal audit units and the proposed mechanisms to increase their .effectiveness**

It is a master's thesis submitted to the Faculty of Commerce at the Islamic University, examining problems and obstacles In the internal auditing bodies for institutions The governmental sector in the Gaza Strip, and then dealt with the ways and methods that would increase the of efficacy Internal auditing devices, and three types of problems and obstacles were diagnosed

These are the organizational, technical and .legal obstacles

It is the problem of the study by asking about the problems and obstacles that hinder the work of the internal audit agencies and limit their ability and ability to implement business and tasks entrusted to her, as well as mechanisms and ways proposed. To increase its effectiveness, the study revealed the existence of several problems and obstacles that hinder the effective work of internal auditing agencies, including the directions and behaviors of senior management, as well as the absence of instructions and laws that work to organize work and the supervisory duties of these agencies, and also revealed the lack of expertise and competencies of internal .auditors

The study made several recommendations, the most important of which was the necessity of strengthening the independence of the internal auditing agencies and activating them, and working to issue laws that clarify the tasks entrusted to them, their powers and competencies in a way that activates their role and reduces the problems and obstacles they may face, and then work to increase the expertise and skills of internal auditors through Put them in .training courses in their field of work

**ii. A study (Abdullah, 2012) entitled :  
The extent of commitment to the  
Six Sigma approach in controlling  
. the quality of internal auditing**

It is a master's thesis submitted to the Islamic University of Gaza, which deals with identifying the extent to which the banks of the Gaza Strip adhere to the SEKMA approach (6) and controlling the .quality of the internal audit unitsSix Sigma approach and quality control of internal audit units, and the study assumed that there is a statistically significant relationship between the extent of commitment of Gaza Strip banks. With the standards of the SEKEM approach (6) and controlling the quality of the internal audit units, the study concluded that there is a statistically significant relationship between the extent to which the banks of the Gaza Strip adhere to the standards of the SEKEM curriculum and the quality control of the internal (6) audit units. Due to the scientific importance, the approach reduces the percentage of potential errors and works to improve the quality of banking service, which is in line with the requirements of customers, which is reflected in the quality of the internal .audit units

**iii. A study ( Al- Shaabani and Al - Jumaili, 2012) entitled : Features of the application of strategic auditing in Iraq for a sample of companies in Nineveh Governorate.**

A study published in the Journal of Anbar University for Economic and Administrative Sciences, dealing with a survey of the opinions of a group of workers in a sample of companies and industrial factories, to determine the extent to which the application of strategic auditing is possible in those companies. The study aimed to present a general and brief introduction to auditing and examining the extent of the application of strategic auditing in Iraqi industrial companies

The study also represented (the lack of sufficient interest in strategic auditing and its failure to apply it in most of the public sectors in Iraq, whether production or service, and the problem revolves around whether Iraqi companies apply strategic audit to contribute to achieving and implementing the set strategies), and the study concluded that there is a relationship between efficiency and effectiveness.

Economic units and the audit method used, in addition to the fact that the efficiency and effectiveness of economic units increase by using the strategic audit method. The study made several recommendations, the most important of which was seeking to

effectively implement strategic auditing to take advantage of its advantages for companies in general and industrial ones in particular

**iv. A study ( Suncor, 2015 ) entitled “ Strategic Audit and its Role in Improving the Future Expectations of Iraqi Crude Oil Prices Using SWOT Analysis”**

It is a doctoral thesis submitted to the Higher Institute of Accounting and Financial Studies that aims to find an appropriate mechanism through which to improve future expectations of Iraqi crude oil prices and their reflection in the process of making appropriate pricing decisions through the use of strategic audit tools

The problem of the study was also summarized in the neglect of some important aspects of a strategic dimension bySOMO the General Oil Marketing ) Company), where the strategic audit is one of the most important aspects. Because of its role in improving the process of future forecasts in prices Crude oil so as to use Forecasting methods do not cover all factors . Interior and exterior

The study tried to prove or disprove Strategic audit is an the hypothesis appropriate method in improving the future expectations of crude oil prices in the best way through employing theSWOT tool, due to the multiplicity of internal and external

factors. The organization in the current situation and the extent of the ability to anticipate the future situation of the organization, as well as the possibility of increasing the chance to improve expectations process futuristic for prices Iraqi crude oil by crafting Framework Appropriate to evaluate Factors internal organization and external and events past and the present to affect in those area the prices. To find possible events (future) leading to protection from Risks possible and avoided. The study recommended the adoption of strategic audit procedures and steps to ensure the organization's ability and effectiveness in developing the efficiency of completing future business in light of its .current and past situation

***:Foreign Studies***

**i. ) : Study2000 Modi et al, (Strategic AuditStrategic audit**

) It is an analytical study conducted for Barnes & Nobel company. Specialized in ( book retail, where it addressed the possibility of using strategic auditing as a tool for analyzing the objectives, strategy and performance of the company. In order to find out the reasons for the decline in its sales for the past five years from the date of this study, the study tried to present the proposed solutions as it relied in its analysis on the five strategic forces model identified

) byPorter which are (alternative ( companies, new entrants, competitors Existing, buyers, suppliers) and also relied on the analysis of the internal environment of the organization, which includes resources, technical capabilities, ) .(competitive advantage, strategy

The study concluded that the company was late and weak in its participation and presence in the world of the Internet and modern communication methods. And its services provided were limited to traditional methods, which allowed competing companies to take advantage of their absence in the e-commerce markets and to attract a large number of their customers. The study recommended the need to restore confidence to its customers, enhance the status of its commercial relationship, and devise new methods to secure the customer's desires, while securing its needs in terms of distribution capabilities, and finding .programs that suit those desires

**ii. ) Study2010 ,Lenz (Harley-Davidson, Inc.: A Strategic Audit**

**Harley's Strategic Audit Davidson**

) It is an applied study submitted toHonors Thesis magazine at the University of ( Michigan Western aims to verify the safety of Harley's strategies Davidson Motorcycles and their compatibility with the company's environment, by studying the strategies of

the previous years and making a comparison between them. The study dealt with analyzing the company's vision, market strategy and conducting financial analysis. It also used the SWOT method in analyzing the internal and external factors of the company's environment

The study concluded that the company is successful and has information Finance strong, but need to me to treat some sides Such as Reliance on debt long The term in financing and taking into account the development of the brand commercial and base development clients

The study recommends the adoption of strategy stability and evaluation the situation Present for the company to be able to predict her future, which helps her continue to succeed. It also recommends working to increase efforts made in the marketing process to be able to maintain on me Sales level, as well as the company can use agreements License to enter in Markets foreign New in the limit lowest From Investments and risks to help in expansion in the outside

And through the analysis of the previous studies that were presented, the most important differences that distinguished this study from the previous studies were identified, which is the development of internal audit devices in organizations through the preparation of an audit program

that includes the steps and procedures of strategic auditing

## **THE SECOND RESEARCH : (THE THEORETICAL SIDE)**

### **First: A Theoretical Introduction to Strategic Auditing**

#### *A. Define strategic audit*

There are many definitions of strategic auditing by researchers and writers, as it has been defined as “ a process of systematic examination and evaluation of a situation .”

Strategist for an organization The work, which is comprehensive, in terms of analyzing the internal and external environment factors, and the processes of selection and strategic implementation, to provide the necessary recommendations and suggestions to the management when it undertakes the process of making strategic decisions, to support the strategic position, and to ensure that the organization continues to add value by verifying the efficiency of The effectiveness of the organization's management in using its economic resources and achieving its strategic goals . (Sulaiman, 2015: 70), as well as defined as “a comprehensive, organized and periodic audit or review of human resources and their management. The strategy or its implementation, that is, in the management of human power, to develop the necessary recommendations to improve the organization's strategic performance in the

field of human power” ( Al- Sabbagh and Abu Naba’a, 1990: 294 ).

He ( Tony Grundy ) was also known as A systematic, structured and comprehensive approach to operations The strategy And the organization’s strategy to determine the weaknesses and strengths affecting business organizations, determine the reasons for the failure of the organization, and the failure to reach the expected levels of profits and performance, and the search for new areas that could be the reason for adding tangible value to it ” (Tony, 2007: 1).

From the foregoing, the researcher believes that the definition of strategic audit for (Suleiman) is the most comprehensive and clearest of the previous definitions, as its definition included an examination of the internal and external environment factors, which enables the administration to take strategic decisions in a manner appropriate to the environment of the organization.

### **B. Strategic audit objectives**

The strategic audit has many goals, as most of them focus on diagnosing unnecessary activities and avoiding them and strengthening the necessary activities of the organization, as well as identifying and benefiting from the untapped resources in the organization. The objectives of the

strategic audit can be summarized as follows (Sulaiman, 2015: 71)

Review the management philosophy regarding reconsidering many areas such as the general structure of the industry in the organization and its competitive position . and the requirements of its main customers

Determining the competitive position of the organization and the extent of its objectivity and its position by studying and evaluating . the best practices of similar organizations

- In the organization's strategy by conducting evaluation its current performance, as well as evaluating its future vision, identifying its products, its markets, its geographical nature, competencies, and ways of development, in order to achieve long -term stability of the . organization
- Determining and studying the financial and administrative resources to be utilized to ensure the success of the organization in the .future
- Evaluating the efficiency and effectiveness of the administration in implementing the organization’s strategy and managing its competitive advantages, identifying the problems it faces and recommending necessary improvements based on the

information provided by strategic information systems on the internal and external environment (Hussain .(and Al-Sir, 2014: 170

### **C. Strategic Audit types**

Researchers have classified strategic auditing into internal and external audits. Strategic internal audit requires identifying the strengths and weaknesses within the organization, in order to verify the extent to which strengths are utilized, identify ways to enhance them, address weaknesses, and develop recommendations and procedures to address them ( Sipilä & Lehtonen, 2007: 30 ). .

The internal audit of strategic management enables the organization to determine its position in its field of work, so it is a necessary process to build and maintain a sustainable competitive advantage (Al Kaabi, 2016: 44).

As for the external strategic audit, it is represented in examining the external environment surrounding the organization to determine the opportunities available to the organization and the threats it faces (Hohmann, 2013: 22) and this is done through a detailed examination of all the external environment factors surrounding the organization, including markets, competitors and suppliers, as well as economic, political, technological and social

factors (Sipilä & Lehtonen , 2007: 21), and (Kotler) believes that management should monitor environmental changes and understand the overall environment and mission environment of the organization in the external strategic audit.

### **D. Procedures and Steps of Strategic Audit**

To achieve the strategic audit process requires the implementation of three main and logically sequential procedures and steps, namely diagnosis, focused analyzes and recommendations, and the following is a brief explanation of each step:

1. This step includes the process of collecting information to identify the organization's strategy and objectives, as well as identifying the level of expected performance and the results that must be reached and how the organization's activities are implemented
  - a. Access to all the basic documents of the organization, such as the strategic plan and operational plans, and access to files, reports, its organizational structure, and all instructions and policies that control activities such as resource allocation and performance measurement (Al Douri, 2005: .(330
  - b. Conducting focused interviews and questionnaires with a selected sample of current and potential customers to get to know their point of view towards the

organization (Al-Shaabani and Al-Jumaili, 2012: 386).

c. Comparing the levels of performance (individual, group, organizational) with the pre-determined levels, to determine any deviations, if any, and their causes (Albert, 1893: 82).

d. awareness regarding the following matters (Sunkour, 2015: 37)

- Responsibilities, Relationships, Reporting
- Strategic decision making processes
- Resources, financing operations, capital, management, technology
- Seeing the nature of relations between members of the functional cadres and business units

Therefore, we believe that the strategic auditor must accurately determine the steps and procedures that are more appropriate to the activity of the organization in order for him to collect the largest amount of information and data about the organization

2. Focused analysis: This step includes studying and identifying the strengths, weaknesses, opportunities and threats in the organization's strategic plans, and then arriving at the results and formulating conclusions
3. Recommendations: These are done by developing ways and measures to reduce the problems facing the

organization, as well as developing and testing alternative solutions. It is worth noting that these recommendations are applicable and contribute to improving the strategy.

#### ***E. Strategic Audit Instruments***

Strategic audit depends on many tools where one or more tools can be used due to the fact that its procedures included a large part of organization's environmental analysis processes. In the practical side of this study for reasons that will be mentioned later, as follows:

#### **Resource audit**

The organization's management seeks to achieve a competitive advantage to ensure its continuity and survival, by working on owning various and multiple resources and then exploiting them (Ali, 2010: 28).

The process of auditing the organization's resources is an important matter because of the organizations' dependence on them to achieve and increase their revenues. The organization may have resources of high values, but it does not have the possibility to exploit them effectively, which makes its competitive position very critical compared to the rest of the organizations that have the same resources and which improve the use of their resources (Suncor, 2015: 28). Resource audit is defined as the process of ascertaining the available resources

associated with the organization's business, some of which are included in the organization's property ( Riley, 2012: 1 ). These resources include: tangible resources such as financial, organizational, material, technological, and intangible resources such as human resources, reputation, creativity.

### ValueChain Analysis

The value chain model is a technique or a means used to analyze the main and ) supporting activities in the organization David, 2011: 119 as the organization from ( the perspective of the value chain is a series of activities that add value to its products or services, and this analysis enables the organization To better identify its strengths and weaknesses through comparison with competitors' value chain analyzes (Al Kaabi, 2016: 64). Thus, the organization can avoid all activities that do not add value and in return enhance the activities that add value. It should be noted that not just as an activity generates value, it can be considered an efficient activity, but rather that activity is compared with the target performance of good practices and identification of areas for ) improvement (Thabit, 2010 : 34), and Porter classified the activities of the ( organization into two basic groups of ) :activitiesArjan, 2010: 5 :(

a. PrimaryActivities: These are the activities that directly contribute to the physical formation and distribution of the .product

b. SupportingActivities: These are activities that do not directly contribute to the formation of the product, but help improve the efficiency and effectiveness of the .basic activities

### Balace Scorecard Analysis

The balanced scorecard is one of the management tools presented byKaplan & Norton as a new concept of strategic management. This model provides a complete solution to the weakness and ambiguity that the old administrative system suffered from, which was limited to financial performance only. This model added other dimensions that transform the plan the strategy into actions and tangible results linking the goals, means and standards to the required performance level, programs and initiatives with the strategic plan (Al-Obaidi, 2009: 33). The balanced scorecard is defined as a comprehensive management system that contributes to measuring and controlling the performance of the unit through the performance and implementation of the strategy at all organizational levels in a manner that leads to linking goals, standards and initiatives to the organization's strategy (Al-Issawi et al., .(678 :2011

The balanced scorecard is a complete and clear picture for the senior management of the organization's performance through the

interaction of four axes, one of which is financial, which refers to the regular activities practiced by the organization, and the other three axes are represented by customers, internal processes, learning and growth, which are non-financial measures and are considered as directives for the future financial performance of the organization (Al-Bishtawi, 2001: 106)

### SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats)

The process of identifying the organization's features, opportunities, external threat and defects is known as (SWOT) analysis , which provides a good overview to clarify the extent of the strength and position of the commercial company or its weakness . The capabilities of the organization's resources, resources and external position, and a good understanding of the organization's sources, defects, opportunities and external threats to its safety is a basic necessity for making the new strategy (Thomson and Strickland, 2006: 125), so I consider it ( Raj, 2007: 3.16 ) as an important tool in auditing the organization's environment and its strategic position.

This analysis includes four main aspects, whose vocabulary constitutes the word ( SWOT ) and my agency:

**Strengths:** It includes all the capabilities that the organization possesses, including

resources and capabilities, and distinguishes .it from others

a. **Weaknesses.** These are all the defects and deficiencies that the organization suffers from and that hinder the ability to take advantage of opportunities and .reduce the advantages beside others

b. **Opportunities**Any external conditions and trends that have a positive impact that enable the organization to develop and .grow

c. **Threats**Any circumstances or trends that may negatively affect the organization or are a threatening factor that causes loss or damage to the organization, such as obstacles that stand in the way of the .organization's success

From the foregoing, the researcher believes that the most appropriate tool that will be used in the practical side of the research is theSWOT analysis tool being , It is useful in checking what will happen in the future, as it provides us with a mixture of quantitative and qualitative information expected to occur by studying the environmental conditions surrounding the .organization

### Theoretical Framework of Internal Audit Internal Auditing Definition

The definitions of internal audit have undergone several changes according to the

developments that have taken place in the business sector

It was defined in the past as “the audit performed by an employee in the facility other than that performed by the external auditor” (Al-Jazzar, 1987: 60), and this definition did not include an essential meaning of internal audit, as it was limited to the apparent aspect of describing the internal audit of the organization

It is also defined as “a group of systems or aspects of independent activity within the project established by the administration to carry out its services in realizing the operations and restrictions on an ongoing basis to ensure the accuracy of the accounting and statistical data and to ensure the adequacy of the value of the reserves taken to protect the assets and property of the project and to ensure that the project employees follow the policies, plans and administrative procedures set for them and in measuring the validity of those plans and policies and all other means of control in the performance of their purposes and suggesting improvements to be made to them, until the project reaches the degree of maximum productive efficiency” (Abdullah, 2000: 181).

Looking closely at this definition, we see that the internal audit provides two types of services, **preventive services**, which play the role of protecting the company’s funds

and administrative plans from deviation, **and construction services** that ensure the accuracy of the accounting data necessary in drawing up the general policies of the facility (Othman, 1999: 128)

In 2001, the American Institute of Internal Auditors (AIA) introduced a definition of internal auditing as “an independent and objective confirming and advisory activity designed to add value to the organization to improve its operations, and it helps the organization achieve its goals by creating a systematic and rigorous approach to assessing and improving the efficiency of risk management, control and corporate governance processes” (Makhlouf, 2007: 73)

Where the above definition focused on the fact that internal audit provides two basic services, namely (Juma, 2011: 47)

**a. Objective assurance**

The internal audit provides an objective evaluation of the evidence to provide an opinion or conclusion regarding a financial operation, a specific performance, commitment, or regulatory regulations ... etc., provided that this confirmation is submitted to the higher management

**b. Consulting Activities**

It is the process of providing advice, advice and guidance by the internal

audit to organizational units inside or outside the organization, such as the Board of Directors and the Audit Committee, and it is assumed that agreement with those units regarding the nature and scope of these operations in order to add value to the unit and improve its operations

### Internal Audit Scope

The scope of the internal audit is determined according to the requirements and conditions to which the economic unit is exposed, and the size and structure of the economic unit and its requirements affect the scope of the internal audit in the organization (Al-Ziyadi, 2015: 43), and the scope of the internal audit can be summarized as follows (Al-Thneibat, 2009: 23)

- a. Verify the extent of the administration's commitment to specific policies, laws and legislation
- b. Auditing the efficiency, effectiveness and economy of the financial and non-financial operations of the facility
- c. Reviewing the procedures of the internal control system adopted in the facility and making recommendations for its improvement
- d. Auditing the financial statements of the facility with an examination of the approved accounting system through the detailed and analytical procedures

of the accounting operations and balances

### Internal Audit Types

There are many opinions of researchers in determining the types of internal auditing, due to the diversity and overlapping of internal audit functions among them. Internal audit has been divided into two main types: operational internal audit and financial internal audit (Al-Omari and Abdel-Mughni, 2006: 347), and some added two other types of internal audit They are the compliance audit and the special task audit (Ibrahim, 2009: 23) and (Arns and Lubeck, 2009: 11), and the following is a detailed explanation of each type of internal audit

#### a. Operational Audit

This type of audit arose due to developments in the field of internal auditing and is based on auditing non-financial activities (production, marketing, engineering ... etc.), so this type of audit represents the unconventional aspect of internal auditing (Al-Kashef, 2000: 257) (Al-Madhoun, 2011: 17) defined this type of audit as “a comprehensive review of the various functions within the facility, to ensure the efficiency, effectiveness and suitability of these functions through the analysis of organizational structures and evaluation of the efficiency of other

methods used to judge the extent to which the objectives of the facility are achieved through these functions.” Operational audit aims to identify weaknesses and defects in the adequacy of performance, as well as to present the necessary proposals to management to improve the level of the organization’s performance. Therefore, this type of audit needs a cadre of qualified and specialized expertise (Roehl and Bragg, ) and sees ,(60 :2001Moeller & Brink ). , 1999 that there was a strong desire in the ( sixties of the last century to call the traditional internal audit process audit, due to the focus of internal auditors largely on the activities of the various operations of the .organization (Al-Ghurban, 2009: 27)

#### **b. Financial Audit**

This type of audit is defined as examination of the internal control “ systems, data, documents, accounts and books of the project under audit, a critical and systematic examination with the intent of obtaining an impartial technical opinion on the fairness of the financial statements’ expression of the financial status of that project at the end of a known period of time and the fairness of its portrayal of the results of its work from profit or loss for that .period” (Al-Awsi, 2008: 20)

The financial audit includes both the pre- and post-process audits (Khalaf, 2004, 20),

so the financial audit represents the traditional entrance to the internal audit (Al-Mudallal, 2007: 55), and (Abdullah, 2000: this type of audit is divided into two (14 :parts

#### **i. Vouching Audit**

It includes checking all formal and legal aspects of the documents, as well as ensuring the validity of the registration processes For financial events and arithmetic operations included in the document such as addition, subtraction, .multiplication and division

#### **ii. Technical Audit :**

It is to ensure the organization's commitment to applying the generally accepted accounting principles for the purpose of showing the financial statements in a more realistic manner, as well as verifying the existence of assets in the organization and protecting them from and examining the ,embezzlement or misuse strength and adequacy of accounting control .(Makhlouf, 2007: 88)

#### **c. Commitment Audit**

It aims to verify the extent of compliance with the applicable laws and legislation and the regulations and procedures previously established by the organization’s Dahmash and Abuzer, 2005: ) management and the internal audit is responsible for ,(4

verifying the extent to which the administration applies its internal system .(Al-Ziyadi, 2015: 44)

#### d. **Private purpose audit**

This type of audit is based on assigning the senior management to the internal auditor with surprising tasks that are not included in the plan and work program of the Internal Audit Department, and its scope often revolves around issues and matters related to corruption, fraud detection and investigations. It differs in terms of timing, as its timings are often not specified (Al- .(Mudallal, 2007: 58

### **THE THIRD RESEARCH: APPLICATION SIDE**

This topic represents the applied aspect of the research, where it will study the reality of internal auditing in the General Company for Rubber and Tire Industries and identify its shortcomings, as well as determine the extent of application of the strategic audit method by the company's internal audit department, and then design a proposed audit program that includes strategic audit . steps and procedures

#### ***An introduction to the General Company for Rubber and Tire Industries***

The General Company for Rubber and Tire Industries was established In 1997,

according to the provisions of Article (6) of the Companies Law No. (22) of 1997, located in the Najaf Governorate , it is one of the formations of the Ministry of Industry and Minerals that aims to contribute to supporting the country's economy through its products of car tires, bicycles and other rubber products in accordance with specifications The approved international standards in order to achieve the objectives of the development plans, and it has made an effective contribution to compensating for the shortage of these products in the local markets . The company includes the :following plants

**First: Babel Tire Factory:** The plant aims to produce various types of car tires ( saloon, light load, heavy radial type, and traditional agricultural tractor tires) with a production capacity of (2) million tires . annually

**Second: Inner tubes lab:** This plant is designed to produce (3) million car tire tubes annually to cover the needs of the local market, and because of the conditions that the country has gone through Which prevented the supply of the entire production equipment and machinery to the factory, the factory was forced to rely on Part of its production lines in the Babylon tire factory, and it is now

suspended due to the lack of economic . feasibility to operate it

**Third: Rubber Revitalization Plant (Al-Riklim):** And it's a lab To produce recycled rubber through the use of traditional used large tires with a capacity of (750) tons annually, and it is now working with a planned capacity of (400) tons annually, feeding part of the a product For the Babylon tire factory, the other part is marketed to sister companies and the private sector, where it is involved in the manufacture of many products and rubber . goods

**Fourth: Rubber Products Factory:** The factory was established in 1996 in the center of Najaf governorate, where it was initially limited to the production of bicycle tires to cover the requirements of the market , then expanded to produce triangular cross-sections for cars and industrial uses, and rubber hoses for automobile heat radiators , and the .foundations and the chips

#### ***Studying the reality of internal auditing in the company***

By achieving field visits to the company's internal audit department, conducting personal interviews, directing inquiries, tracking the department's work, studying its structure, management and human energies, as well as reviewing the department's files and work papers, studying its internal

system and strategic plans, and examining its issued reports and memos submitted to management, the reality of internal audit was identified. It will be presented :according to the following axes

#### **a. The structure of the internal audit :department**

The department is administratively linked to the general manager of the company, which is the highest administrative and technical body in the Internal Control Department at the headquarters of the Ministry of Industry and Minerals, which gives it the status of independence. The department includes three divisions, namely, the Audit Division, the Control .Division, and the Inventory Division

From the above, we note that the company did not distinguish between the internal audit department and the internal control system, as the department in the company's organizational structure was named the **(internal control)** department instead of the **(internal audit) department** . Internal control is a system that guarantees a set of procedures and policies set by the company's management, in Whereas the internal audit is a device that consists of a group of auditors assigned to the internal audit process, and the internal audit is part of the internal control system and monitors the

extent of compliance with the procedures and policies of that system

The company's internal audit department is managed by an employee who holds a preliminary university degree in banking and finance, and the work of the internal auditors is based on Article No. (8-L) of the company's internal system No. 32 of which includes the following , 1998 :aspects

- Checking the receipt and exchange documents
- Follow up the work of the inventory committees and the measures taken in their regard
- Monitor the implementation of laws, regulations and instructions related to the work of financial control
- Completing monthly reconciliations with banks
- Carry out daily matching with the fund
- Auditing contracts concluded with the company and others from the accounting and financial aspects
- Check monthly audit balances
- Checking the forms for employee salaries and allowances
- Submit the necessary reports on the activities of the internal control and audit department to the company's general manager

From the foregoing, we note that the aforementioned internal system was not in

line with the modern trends in internal auditing, which were contained in international internal auditing standards, but focused on auditing the financial aspects of the company represented by accounting and accounting operations, record documents and records, while its scope did not include subjecting all the company's activities to a comprehensive audit. It also did not include a review of the company's strategic objectives and determine their compatibility with the plans set, nor was it allowed to assess the risks of the internal control system, provide advisory services to management, contribute to making and evaluate strategic decisions, as well as contribute to improving the performance of the company as a whole

#### **b. Managing the Internal Audit :Department**

The Director of the Internal Control Department undertakes the process of managing his employees' affairs and organizing their work, as well as distributing their tasks in a manner commensurate with their experiences and skills. Urging employees to abide by the rules of professional and functional conduct such as honesty and integrity and maintaining the confidentiality of the information he sees by virtue of his work. We will discuss in detail the department's

management according to the following axes

**- Administrative and technical staff of the department**

The number of human capacities of the Internal Control Department is (12) employees, including the director of the department, (3) division managers and (8) auditors distributed in the department according to the organizational structure and the following table showing that

the number	Academic achievement	Specialization	Number of years of service
1	Master's	Insurance management	18
1	BA	Banking and Financial Sciences	27
3	BA	Accounting	24-16
1	BA	Business Administration	25
1	diploma	Accounting	24
1	diploma	warehouse management	20
4	middle school	-	32-24

From the above table, it is clear that only employees are specialized in (5) accounting, financial and banking sciences, which are suitable for internal audit work, and that the years of service for the majority of auditors have been spent in areas other than auditing, as they are not considered experience in the field of auditing, and most auditors are close Their age from retirement, as they have

more than (24) years of service, which exposes the department to a sudden drop in its staff

**- Planning and designing audit programs**

There are no strategic plans for the Internal Control Department, and no audit programs have been prepared for it. Rather, work is done according to the tasks assigned to the auditors and according to the job description

The researcher believes that it is necessary to draw up strategic plans for the department, prepare audit programs to facilitate the work, determine the responsibilities of the auditors and the scope of their work, as well as update the completed work and the percentages of completion in accordance with international internal auditing standards, and the plans and audit programs should be updated periodically according to the changes that occur in the organization

**- Supervising the internal auditors and following up on their work**

The work of the auditors in the department is monitored and evaluated by the department manager, in addition to providing information and technical assistance, and the necessary directions for them, and working to solve technical problems and difficulties that may face their work for the purpose of enabling

them to perform their duties as required, as well as examination and review The reports prepared by the employees and the preparation of the final reports on the . completed activities

**- training and development**

The absence of a training and qualification plan for the audit staff in the department, and you were not involved in training courses to develop and improve their performance and raise their professional level, which limits the development of .their capabilities and professional skills

**c. Implementation of the audit process**

The department performs the traditional audit of the accounting operations represented in the documentary and accounting audit, auditing of records, conducting periodic and sudden inventory, and making reconciliations for cash and bank accounts to verify the correctness of financial information, as well as the extent of compliance with the internal control system and the laws, regulations and .instructions in force

The department also performs many tasks outside the framework of its work, such as providing advisory services at the request of the senior management through expressing an opinion on financial matters, contracts and problems that the company may face, as well as the presence of the audit director in the meetings of the board

of directors and their participation in making some strategic and important decisions by expressing his opinion on Some decisions related to marketing methods and pricing methods ... etc. The internal control department sometimes looks at the prices of raw materials in the market to obtain information that helps it in auditing purchases, for example, which helps the auditor to own a small part of the .future vision

**- Preparing reports and following up on compliance with reports**

The department prepares quarterly reports by the auditors, and they are supervised by the department manager by putting the final touches, after which they are .submitted to the higher management

The researcher found several shortcomings in the internal control department and my :agencies

- Some actions of the department are inconsistent with international internal :audit standards, as shown below
  - a. Failure to develop an annual plan for internal auditing that includes dividing the work and duties on the members of the department and determining the time period required to complete the tasks entrusted to them to determine the tort responsibility and percentages of . work completion

- b. The absence of a prepared audit program that includes steps and procedures for internal auditing of financial, operational, administrative and technical activities
- Failure to engage internal auditors in training and qualification courses to develop their skills and keep pace with developments in international internal auditing standards, which limits the development of their scientific and practical capabilities and capabilities
- The failure of the director of the internal control department to evaluate the performance of his employees or the performance of the department as a whole, as we did not notice the department has any reports regarding the evaluation of the performance of the internal auditors or the evaluation of the activity of the internal control department as a whole
- The department did not have any activity regarding the risk assessment of the internal control system, but its work was limited to traditional auditing
- Most of the department's employees are not aware of international auditing standards and the guiding guide issued by the Federal Financial Supervision Bureau regarding internal audit and indicators related to the company's activities

- The absence of a unified structure for the presentation of the department's reports, including, the title of the report, the scope of the audit, the objectives of the audit, the time period specified for the audit, the results and recommendations of the report

### ***Suggested internal audit program***

By searching and learning On Arab and foreign scientific sources, including books, dissertations , theses, and scientific research in the fields of internal and strategic auditing, as well as international internal audit standards and audit evidence programs issued by the Federal Financial Supervision Bureau. Upon reviewing the reality of internal auditing in the company under study , a program To audit the proposed strategy to assist internal auditors in verifying the organization's strategic plans and their suitability to the current situation, as well as verifying their compatibility with the company 's current environment . This program will be presented through three main axes , namely diagnosis, focused analysis, : recommendations and agencies

### **First, the diagnosis**

It includes the steps of the diagnostic process B. The internal auditor collects all data and information about the organization to identify its strategic goals

and the results that the organization seeks to reach , including administrative, financial, technical, and legal aspects :through the following

- a. View comprehensive and detailed planning budgets at the level of each .department
- b. Conducting surveys, field visits, observation in kind, conducting questionnaires and personal interviews with relevant officials and employees to identify the nature of the organization's .activity
- c. Ensuring the knowledge of human energies, experiences and skills, as well as their cognitive and technological .capabilities
- d. View the organizational structure of the organization as well as its internal system .and job description
- e. Examine the administrative and statistical systems, their mechanism of .action, and their records
- f. Access to all tangible assets owned by the organization, both fixed and current, as well as intangible assets represented .by goodwill, patents, trademarks...etc
- g. View all long- and short-term liabilities and obligations, creditors, reserves, the amount of capital, and the number of .shareholders
- h. Familiarize yourself with the accounting system and the approved costing system

- i. View the approved inventory system .and all inventory records and documents
- j. Viewing The actual production quantities for all the organization's basic . and incidental products
- k. Visit all production lines to learn about production methods (orders/stages) and raw materials involved in manufacturing and to identify production capacities (designed, .(available, planned, actual
- l. Familiarize yourself with the production control systems in the .organization
- m. View all laws, instructions, and regulations that govern and regulate the .work of the organization
- n. Access to all important documents and contracts such as the articles of incorporation, licensing contracts, lease . contracts and all important contracts

### **Second: Focused Analysis**

It includes all procedures Related to identifying, studying and analyzing the internal and external factors of the organization's environment and identifying the strengths, weaknesses, opportunities and threats and their impact on the organization's strategies, to verify that the strategies developed are consistent with the organization's internal and external situations and its strategic position :as follows

**a. Studying the internal environment of the organization** and diagnosing

its strengths and weaknesses through the following procedures

- Studying the organization's mission and vision, verifying its clarity, and determining its consistency with strategic and operational objectives
- to which strategic objectives are translated into linear budgets and detailed plans
- Verify the extent to which all administrative levels are involved in formulating the organization's plans
- Studying and evaluating the internal control system and identifying its strengths and weaknesses
- Conducting a performance evaluation of the organization by making comparisons between the expected performance and the current performance on the one hand, and between the current performance and the performance of previous years on the other hand, to determine the future trends of the organization such as comparing (profits, sales, production, market share, revenues, expenses, ...). (etc
- Studying the human capacities in the organization, including administrators and technicians, and determining the extent of their competency and skills,

preparing certificates, and the cognitive and intrinsic capabilities that they possess

- Studying marketing methods and marketing outlets and the extent to which they are updated in a manner appropriate to the developments of the current situation
- Studying all the financial resources of the organization and its tangible and intangible assets, as well as all its obligations and liabilities
- Studying and evaluating the most important periodic reports of the organization's financial departments, such as the financial department, the sales department, and purchases, ... etc by preparing tables showing the most important activities and preparations, and comparing the implementation of them with their planning budgets, and comparing the rates of their development and growth
- Study the system of control over the complete and incomplete production stock, methods of the stock of raw materials, the its evaluation, and the method of storage and processing
- Study the consumable and damaged materials and the extent to which they are used through recycling
- Studying all revenues and their development and all operational and incidental expenses of the organization

- Study the preparation and types of machines and equipment used in production lines and their suitability to technological developments

**b.** Studying the external environment of the organization, both public and private, and diagnosing the available opportunities and potential threats therein. This is done through the following procedures

**i. Procedures for studying the general external environment**

The analysis is carried out to determine the general external factors as follows

- Studying economic factors such as economic crises, inflation, deflation, and changes in supply and demand
- Study of social factors such as changes in living patterns, customs and traditions
- Study of technological factors such as emergence of new technologies, inventions, emergence of new products and services
- Studying the political and legal factors represented in the financial and monetary policies of the state, and the restrictions imposed by the state on the activities of the organization

- The study of environmental factors such as climatic and nature of the geological factors, the soil and the available natural resources that affect the organization

**ii. Procedures for studying the special external environment**

- Study the preparation of competitors for the company and determine the type of competition, competition in the price of the product or competition in its quality
- Studying the nature of consumers, their tastes, desires and needs through conducting market studies
- A study of the suppliers, their preparation, the availability of raw materials, their quality, the extent of their continued availability, and the processing problems that the organization may face
- Studying commercial intermediaries or companies specialized in organizing the movement, storage and transportation of goods, as well as agencies for providing marketing services and advertising and publicity agencies

### iii. Analysis of the internal and external factors of the organization

After studying and diagnosing the internal and external environment factors of the organization and identifying the strengths, weaknesses, opportunities and threats, we will analyze these factors using the SWOT analysis tool according to the traditional method and the unconventional method as follows

#### a. The traditional (descriptive) style

This method is done by organizing two tables, the first includes a presentation of the strengths and weaknesses in the organization, and then all of the strengths and weaknesses of the internal factors of the organization are collected. As for the second table, it includes a presentation of the available opportunities and potential threats in the external environment of the organization, as well as grouping the numbers of opportunities and threats. Indicates the possibility that the organization will be exposed to risks that can be avoided

#### b. Unconventional (quantitative) style

This method depends on the use of matrices in analyzing the internal and external factors of the organization, which

provide qualitative data and then convert it into quantitative data to be of moral significance. Style according to the following steps

- Identify all important strengths, weaknesses, opportunities and threats in the organization's internal and external environment
- A relative weight is determined for each of the specific factors between (0% - 100%) and the weights are determined according to the relative importance of the factor
- All factors (strengths, weaknesses, opportunities, threats) must be arranged separately according to the degree of response of the current organization to this factor
- Multiply the relative weight of each factor by its order to obtain the weight of each factor
- Calculating the total total weight of the organization by aggregating the weights extracted
- The comparison between the total weights of the organization with the average weighted total score of (3), as it is calculated from the equation below

**Weighted average total score = the sum of the digits of the order of the factors of the strategic organization ÷ the number of the factors of the strategic organization**

Since,  $(1+2+3+4+5) \div 5 = 3$ , and the table below shows the evaluation of the organization's internal and external strategic factors

**Evaluate internal and external strategic factors for the organization**

Strategic factors (internal/external) (1)	weight relative (2)	order (3)	Weighted Weight (3×2) (4)	Comment (5)
strength point				
Weak points				
total				
opportunities				
Threats				
total				

**:Third: Recommendations stage**

At this stage, the internal auditor prepares a brief report that includes a presentation of the most important conclusions that have been reached in the light of the results of the study and analysis of the internal and external strategic factors of the organization. Present or prospective, and then comes the formulation of recommendations towards developing ways and measures to reduce the problems facing the organization, as well as developing and testing alternative solutions, and these recommendations must be applicable and contribute to .improving the strategy

 :Research hypothesis testing

For the purpose of identifying the impact of using the proposed program in developing the main research , the internal audit work

hypothesis was tested and the researcher the descriptive analytical approach relied on describe the research variables and to determine the level of influence between -:them as follows

**: Hypothesis test**

The research hypothesis was tested, which is **that the use of an internal audit )) program that includes the steps and procedures of strategic auditing leads to the development of internal audit work))** :and we found the following

proved consequences The research found that there are many weaknesses in the internal audit apparatus of the General Company for Rubber and Tire Industries, and that the internal audit does not add value to the company unless it takes into account its objectives and strategies when auditing, as well as informing it of the organization's environment, to enable it to own the future outlook of the organization,

and thus increase its ability to detect Deviations from the plans and strategies that the company may be exposed to in the future in order to be able to avoid or treat them, and the researcher believes that this process was consistent with the content of the strategic audit, so an audit program was designed that includes all the steps of the strategic audit and expands the scope of the internal audit work to include the external environment of the organization in addition .to its internal environment

#### **THE FOURTH RESEARCH: CONCLUSIONS AND RECOMMENDATIONS**

This research reached a set of conclusions :and recommendations, which are

##### **:Conclusions**

- a. The study revealed that the internal audit agencies can be developed through the adoption of an audit program that includes the steps and procedures of strategic auditing by and this was , the internal auditors evident through the descriptive .analysis of the research variables
- b. The internal audit does not add value to the company without taking into consideration the study of its objectives and strategies when planning and implementing .the internal audit process
- c. The department's failure to audit the main and detailed strategic

objectives of the company and verify its consistency with the company's detailed plan on the .other hand

- d. The department's failure to review and study the external environment of the organization and determine the external factors affecting the company's performance such as economic factors, political factors, ) technological factors, legal factors) and then analyze them and determine their impact on future .plans to avoid potential problems
- e. The internal control department's work is inconsistent with international internal audit standards, as no annual plan for internal audit has been developed that includes dividing the work and duties on the members of the department and determining the time periods required to complete the tasks entrusted to them to determine the tort responsibility and percentages of work completion , but relied on the job description of each employee and .audit Random daily chores

##### **Recommendation**

- a. Audit tools by internal auditors and working to expand the scope of the internal audit work to include the

- external environment of the facility in addition to its internal environment, and the adoption of the proposed internal audit .program
- b. The need to take into account the study of the company's objectives and strategies when planning and implementing the internal audit .process
  - c. The need to audit the company's strategic goals and verify their consistency with the company's vision and mission, as well as with .its detailed plan
  - d. It is necessary for the department to know the external environment of the organization and study it and identify the external factors affecting the company's performance such as (economic factors, political factors, technological factors, legal factors) and then analyze them and determine their impact on future .plans to avoid potential problems
  - e. The commitment of the Internal Control Department to international internal auditing standards and guiding evidence regarding the development of an annual plan for the department that includes dividing the work and duties on the members of the

department and determining the time periods required to complete the tasks entrusted to them to determine the tort responsibility and percentages of work . completion

- f. The necessity of involving internal auditors in training and qualification courses in the field of strategic auditing methods, such as theSWOT analysis tool and , developing their scientific and .practical skills

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