

Evaluation of Internal Control Performance in the Context of Financial Indicators - An Applied Study in the Habbaniyah Municipality Directorate

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ABSTRACT

This current research aims to highlight the role of internal control in evaluating the financial performance of government service institutions, and that the mere existence of an internal control system in any service or non-service institution does not necessarily mean that this system is actually applied to various operations and activities, and the important question remains:

Is the internal control system really implemented? Its time is just a people who play limited roles that do not rise to the role of real oversight? Which maintains the properties of the circuits and monitors their various activities and is the safety valve for these circuits.

In order to answer this question, the auditor must conduct tests by analyzing the financial statements through the use of analysis methods (vertical analysis) for the financial statements of the Habbaniyah municipality directorate, official documents, and personal interviews.

The main objective of analyzing the financial statements is to show the strengths, weaknesses and defects in the various procedures while giving the instructions that would contribute to avoiding these defects and weaknesses in the control system, and to provide information to the relevant authorities that benefit from them according to their different objectives, but the increasing need for information needs to be The process of evaluating the financial performance of the financial statements to compare the performance of the department and its financial position in successive periods of time to evaluate the trends of its financial performance and to identify its strengths and weaknesses, in order to provide additional information on the performance of the financial department in a way that enhances and supports the role of the published financial statements.

The research aims to highlight the role of internal control in discovering errors, strengths and weaknesses in the directorate's financial performance in the field of research.

The research adopted financial analysis tools (vertical analysis), through which the financial performance that was taken by the directorate in the field of research will be evaluated, and during the period between (2016-2019). In the end, conclusions were reached.

The research concluded with a set of conclusions, the most important of which are:

There are several methods that can be used in studying and evaluating the internal control system, including (vertical analysis, horizontal analysis, and financial ratios analysis) as the auditor can use more than one method to obtain an understanding of the institution under study, and the purpose of using the methods of analysis is to know the extent of the efficiency of the internal control system Applied in the unit.

The research summarized the most important recommendations:

Preparing qualified, trained, and specialized cadres in the field of financial performance evaluation to carry out their activities efficiently and effectively.

* Note: The research is drawn from a thesis of a higher diploma equivalent to a master's tagged (Evaluation of internal control performance in the context of financial indicators - an applied study in the Habbaniyah Municipality Directorate).

INTRODUCTION

The control function is one of the four main functions and the last aspect of the administrative process, which is completed by establishing an effective control system that ensures the achievement of a continuous and satisfactory level of performance. This function is when the established plans are achieved and the corrective and necessary measures are taken when the actual performance deviates from the expected performance. The control system in organizations meets The need to be assured of the optimal and proper use of resources and their preservation to achieve the goals pursued by the organization.

And the lesson is not in setting up a sound supervisory system in institutions, but in how to apply it accurately. The emergence of large organizations that employ large numbers of workers has created the need for technical and administrative cadres with specialized expertise to take over the task of managing the activities of these organizations, each according to its competence.

The main objective of the published financial statements is to provide information to the relevant authorities that benefit from them according to their different objectives. However, the increasing need for information requires a process of evaluating the financial performance of the financial statements to compare the organization's performance and its financial position in successive periods of time to evaluate the trends of its financial performance and to determine its strengths and weaknesses including It provides additional information on the financial

performance of companies to enhance and support the role of published financial statements.

The research included four chapters: where the first chapter was a wave to define the research methodology and it also included previous studies. While the second chapter included the theoretical aspect of the research that presented the general framework of control and its stages, the concept of internal control and control, the evaluation of financial performance and the evaluation of internal control within the framework of financial performance. The third chapter includes a historical overview of the researched institution and the analysis of the financial statements of the surveyed committee used the methods of analysis: column analysis, horizontal analysis, and analysis through financial ratios that apply to service departments that do not aim to achieve profits. To determine strengths and weaknesses.

As for the fourth chapter, it included two topics: the first topic the conclusions and the second topic the recommendations. And then lists of sources and appendices. High credibility, and in a manner that explains to the insider the results of the evaluation of financial performance all the important matters.

CHAPTER I : THE FIRST TOPIC: GENERAL FRAMEWORK FOR OVERSIGHT

Preface:

The practice of censorship was not a newborn in the modern era, as man has known it since the emergence of human gatherings. It is a phenomenon that accompanies the gathering of individuals. The control system in organizations meets the need to

ensure the optimal and proper use of resources and their preservation to achieve goals Sought by the organization.

Nor: Control Concept

Supervision is one of the basic pillars in institutions through which institutions are able to perform their duties properly and specifically, and to preserve the assets (assets) of institutions from misuse, fraud and embezzlement, as they contribute to the planning process, decision-making, performance evaluation and optimal use of resources.

Censorship in the Arabic language:

It is the preservation, waiting and seeing the conditions, and the watchdog in the language is the conservative guard and anticipation and anticipation in the sense of waiting (Mukhtar Al-Sahih, 1981: 252), as well as in the verse in the Almighty saying: ((When you died, you were the watcher over them)). (Surat Al-Ma'idah, Verse 117).

From the above definitions, the researcher believes that monitoring can be defined as "a set of procedures that the higher management takes on an ongoing basis to measure actual performance and compare it with pre-prepared standards, to identify strengths and weaknesses, diagnose deviations and their causes, and find appropriate solutions to them."

Second: The Importance of Control: The Importance of Control:

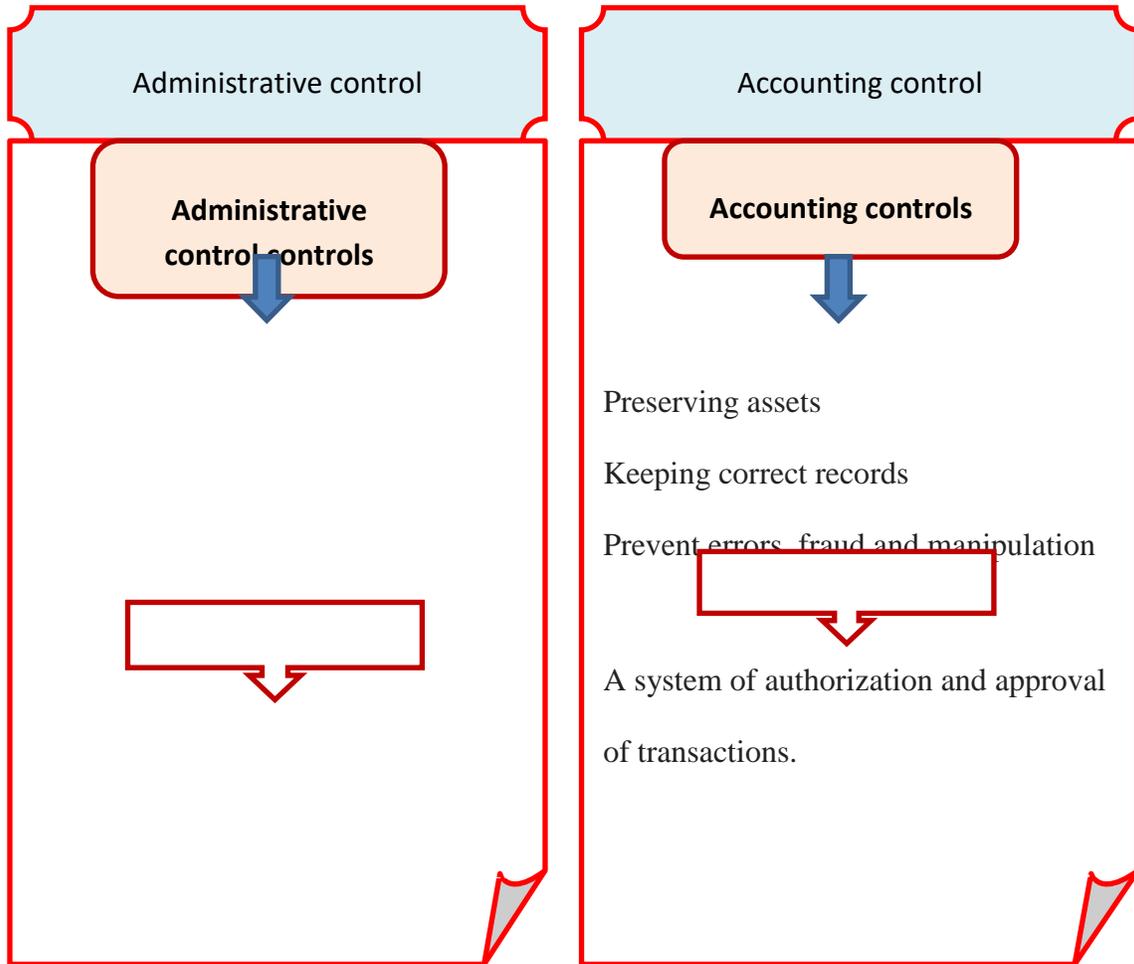
The importance of internal control is closely related to the basic administrative functions (planning, organizing, and leadership). Control is linked with the

planning function, which is considered one of the higher management functions in the organization, and control is the management tool to ensure the extent to which the goals that have been planned are achieved, and the control provides information. Which contributes to uncovering the obstacles that stand in the way of implementing plans in a timely manner for the purpose of modifying them or adopting alternative plans (Jawad, 2010: 421).

Third: Types of Control:

1. Administrative Control: It includes the organizational plan of the economic unit, means of coordination, and procedures that are intended to be investigated.
2. Accounting Control: It includes the organizational plan and all means of coordination and procedures aimed at testing the accounting data fixed in the books and accounts and the degree of reliance on them. This type includes multiple means, for example: - (Iraqi Audit Manual No. 4, 2000: 2).
 - A. Follow the double entry method.
 - B. Recording of transactions and their daily posting.
 - C. The use of total and sub accounts.
 - D. Preparing periodic review scales.
 - E. Follow the system of approvals and approval of settlement restrictions by an authorized employee. And. Provide the administration with financial and accounting data on a regular basis

achieve its goals



Source: Prepared by the researcher based on (Al-Amiri, 2003, 39) .

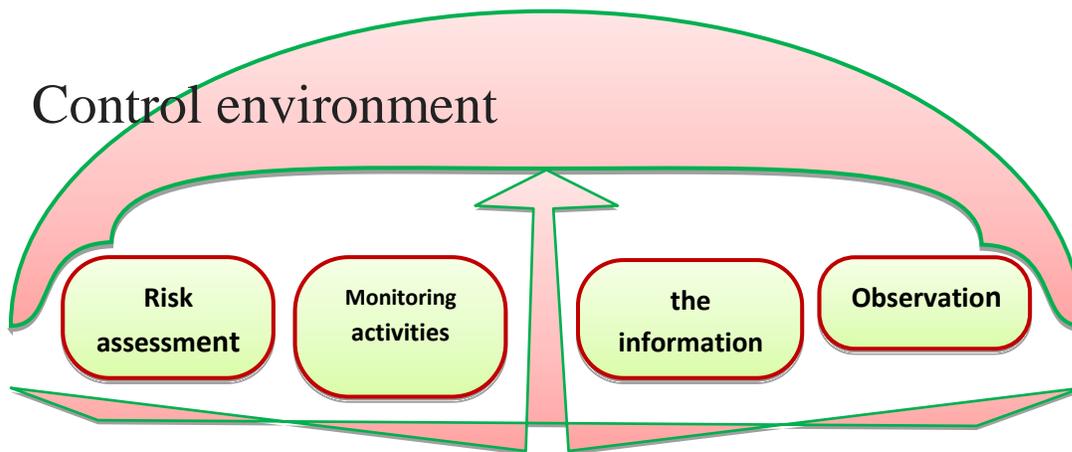
Tenth: Component of Internal Control:

Consisting of five interrelated parts, it forms a highly efficient framework for investigating and evaluating internal control that is put in place for use in business. (Roses, 2014, 350). The American Institute of Certified Public Accountants (COSO), which is a committee consisting of (AICPA) and (AAA), the Institute of Management Accountants and the Institute of Internal Auditors, issued Statement No. (78) which indicated that control activities consist of a group of components, namely: (Alvin, James K. 2002).

- A- Control environment
- B - assessing the risk.
- C- Monitoring activities.
- D - Information and delivery.
- E- Monitoring.

The following figure summarizes the five components of internal control:

Figure (2-5)



Source: Adapted (Alvin, James, 2001: 383).

THE SECOND SEMESTER / THE SECOND TOPIC

Performance evaluation in its general framework

The concept of performance appraisal:

The performance evaluation deals with the various types of activity in the activity in the project and to ensure the efficient use of the available production elements, as well as to ensure the efficiency of achieving the targeted results in every aspect of the activity. Achieving them within the limits of the available resources, then setting a plan or a specific timetable aimed at varying how to achieve the goals, then conducting a follow-up process so that the performance evaluation process can determine the efficiency with which the work is carried out in each of these stages.

Sharma defined performance evaluation as "a necessary process that the organization should implement to measure its performance through auditing and following up on the progress in its performance towards achieving the goals." The institution should include in its accounts past performance and focus on improving performance by conducting the evaluation process.

From the foregoing, the researcher sees that the government financial performance is "what is included in the financial position of the current

governmental organization represented in the paragraphs of each of the balance sheet, the income and expenses account, the operating budget and the final accounts, which depict a real situation about the work of the governmental organization for a certain period of time, which is an accurate identification of the activities and programs that The organization used it to reach its goals. "

Second: The importance of evaluating financial performance: -

The process of evaluating financial performance provides a measure of the success of the organization through its endeavor to continue its activities in order to achieve its goals, as success is a composite measure that combines effectiveness and efficiency, and then it is more comprehensive than either of them in enhancing the performance of organizations to continue to stay and continue to work. Big or small has great importance according to the following:

- 1- Following up and knowing the organization's activity and its nature.
- 2- Following up and knowing the financial and economic conditions surrounding the organization.
- 3- Help in conducting the analysis, comparison and evaluation process

Third: There are many goals for financial performance that the corporation seeks to achieve, the most important of which are

1. Financial balance: The financial function seeks to reach the financial balance because it affects the financial stability of the institution, as it contributes to providing liquidity and financial ease for the institution and the importance of achieving the goal of financial balance lies in the following points:

a. Securing the funding of the institution's needs with permanent funds.

B. Ensure the consolidation of financial ease.

C. The financial independence of the institution towards others.

2. Enterprise growth: The growth of the institution is one of the basic factors to maximize its value. Therefore, growth decisions are distinguished as strategic decisions. Growth is a very important strategic function for the organization as it reflects its success, development and continuity. Thus, growth is a strategic function formed by specific policies, and defining growth goals in developing the energies available to the institution.

3. Profitability and cost-effectiveness: Profitability represents the results of a large number of policies and decisions in profit-oriented institutions, while in service institutions it measures the efficiency and effectiveness of the institution's management from its outputs.

4. Liquidity: Liquidity for the institution is its ability to meet its obligations through the available resources. The lack of liquidity or its insufficiency leads the institution to the inability to fulfill or meet its obligations.

5. The balance of the financial structure: the financial structure is the vessel or framework with which all the variables related to the institution and its work interact, as through it the methods of powers and responsibilities and methods of exchanging activities and information are determined, and the balance of the financial structure means that it is the permanent resources that cover the uses, meaning that the financial cost plays An important role in the optimal allocation of financial resources.

We will discuss a set of common indicators according to their importance with non-profit service departments that do not apply to all other indicators:

Financial indicators: the ratios by which the organization's efficiency in using its funds is studied in a good way so as to achieve the goal of investing these

funds in meeting the demand for services by citizens, and there are many of these financial ratios that can be used by linking two or more budget numbers. General or final accounts or cost accounts.

THE THIRD CHAPTER / PRACTICAL FRAMEWORK

Smoothing

This chapter aims to strengthen the theoretical aspects with an applied study through which it is possible to identify strengths and weaknesses using methods of assessing financial performance by providing an overview of the study sample (Habbaniyah Municipality Directorate) and how to analyze the financial data obtained to reach a set of results using methods and indicators Evaluating financial performance, in addition to providing a program that can be used in evaluating the financial performance of various departments in the future.

The chapter dealt with the following discussions according to the format below:

An overview of the Habbaniyah Municipality Directorate.

The Habbaniyah Municipality Directorate was established in 1952, to be administered by Habbaniyah, the law governed by the Municipal Administration Law No. 44 of 1960 and the Law on Engagement of State Employees 14 of 1991

Nature and specialization of its activity: Service activity (providing service to citizens)

Methods of Financial Analysis:

It has already been said that the financial analysis of the accounting data published in the balance sheet and income statement will provide the management with important information and data about the nature of the financial and monetary position of the enterprise and the center of its operations, and the discovery and identification of strengths and weaknesses in the form of performance, and therefore this information and data are the basis for making financial decisions. And in drawing up various operational policies.

1- Vertical Analysis:

The vertical analysis includes the ratio of any number in the financial statements to another major number in

those lists to reach a meaningful significance. On the assets side of the general budget, a specific asset may be attributed to the total assets.

In other words, the vertical analysis of the financial statements is achieved by expressing each paragraph or group of paragraphs in the financial statements, as a percentage of the total, such as total assets (assets) or total liabilities and property rights (liabilities) in the balance sheet, and this total is called an amount The base which is equal to 100%.

Usually this type of analysis is characterized by static because of the absence of the temporal dimension, as this type focuses on studying the relationship between the items of the financial statements, with a specific date, and thus it helps in evaluating the performance of the facility in that period and discovering the weaknesses and strengths but it still needs to be supported In other analyzes, she supports the financial analyst's opinion on his findings.

With regard to the balance sheet, the vertical analysis of it is called the Percentage Balance Sheet, or the Common Size Balance Sheet, because its size has been reduced from absolute numbers to one hundred parts. This analysis aims to follow up the developments that took place in the items of one aspect of the balance sheet, which is the asset side (assets), or the liabilities and equity side (the liabilities side), or partial side items such as the current assets component or current liabilities.

This vertical analysis helps to present a number of advantages to the financial analyst and to the management of the organization, including:

- 1- Focusing on the financial period in question.
- 2- Study the change in the relative importance of each paragraph to the total attributed to it.
- 3- In the case of a multi-year vertical analysis, it is possible to observe the change of this relative importance over time and to study the causes and effects of this change, with an indication of whether the changes are big or small.
- 4- It is also possible to compare the results of the vertical analysis of a given establishment with another facility of the same specialty.

Table No. (3-1)

Analyzing and studying the results of the applied test:

1- Analysis of the financial statements of the Habbaniyah Municipality Directorate:

In this topic the researcher discusses his evaluation of the financial statements (the balance sheet) after classifying them with the appropriate classification and using specific analytical methods, and that does not highlight the links that occur between the elements of these lists and the changes that occur to these elements, at the time when the outputs of the accounting system are considered, i.e. the end of the day. The accounting cycle, as it is considered the beginning of the road in the process of financial analysis, as the internal control depends on the financial statements in the Directorate, through which the changes that have occurred will be monitored, as well as the relative importance of each element of the financial statements, during the time series to be analyzed, which is the extended period. Between (2016-2019) the following financial statements will be analyzed: -

Below, the researcher reviews the main financial statements of the Habbaniyah Municipality.

A - Balance Sheet: -

It is one of the most important financial statements at all, and it is a summary of the practical application of accounting principles, as it reflects the financial position of the facility in the plan from moments, through what it contains of assets and liabilities and the right to prepare them. It is a static description of the financial position of the organization consisting of two aspects. One aspect in which all the assets of the organization are included and the other and the other is called the Liabilities side, and its obligations towards its owners are called the Equity Owner.

Whatever it is that the balance sheet is prepared and appears in, there are several considerations that must be taken into account when preparing it, and one of the most important of these considerations, in addition to the formal conditions that must be met, is the necessity to apply the relative importance, whether in the area.

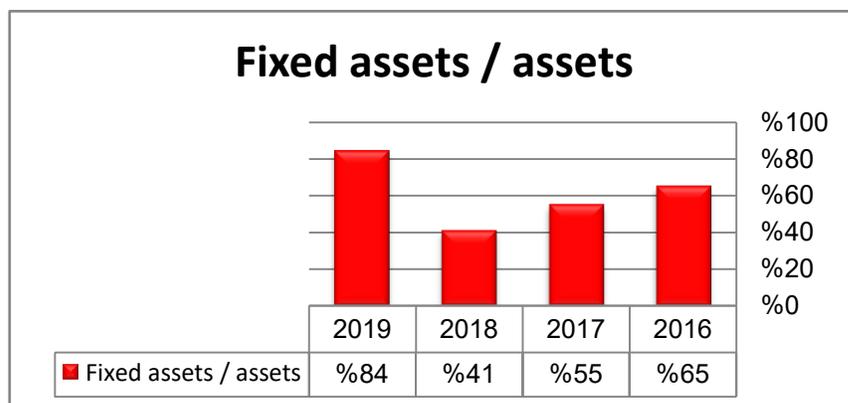
VERTICAL ANALYSIS THE RELATIVE) IMPORTANCE OF THE (PARAGRAPHS				ASSETS SIDE OF THE BALANCE SHEET OF HABBANIYAH MUNICIPALITY DIRECTORATE				
2019	2018	2017	2016	2019	2018	2017	2016	The findings
% 84	% 41	% 55	% 65	5345473095	3502660718	5578049354	5921198882	Fixed assets / assets
	% 1		—	—	80000000	—	—	Projects in progress / assets
% -8	% 4	% 15	% 2	512842082	314178331	1441559292	145284445	Current assets Money / assets
% 8	% 54	% 30	% 33	542918124	4400234076	3016004300	3016004300	Stock / assets
%100	%100	%100	%100	6401233301	8217073125	1003561210	9082487627	Total assets
% 21	%25	%27	%27	8491476661	9988088861	10568623961	10568623961	Capital /liabilities
% 36	% 22	% 20	%21	180955361	111282082	102091176	106071678	Creditors /Liabilities

Source: Prepared by the researcher based on the financial statements of the Habbaniyah Municipality Directorate.

The following is noted from the table above:

A. Through the analysis of the years of research, it becomes clear that the department is interested in its fixed assets at an average of more than 60% of its assets, indicating that it invests in non-current assets at rates ranging between (41%) and (84%) during the years of the study of the total assets, since the assets are not Circulating in the department is considered as revenue-generating assets and providing services at the same time, so the volume of these assets must be evaluated continuously with the volume of activity. Therefore, the researcher believes that these ratios are a good indicator, because the service departments depend mainly on the size of their fixed assets, which are represented by the service machinery, buildings and shops that represent a source of revenue for these departments. The following figure shows that: (fixed assets / assets ratio).

Figure No. (3-1)



B - From the analysis of current assets it was found that the cash ratio is low during the four years, as the percentage of cash from fixed assets reached (2%, 15%, 4% and 8%) and this is not a good percentage, meaning that the liquidity is weak and this requires the administration of the department to stand at it and enhance imports The department in a way that guarantees greater liquidity. As for the stock, the researcher believes that there are three policies with regard to stock:

- A conservative policy, in which stocks are higher and at the highest level and risk.
- A risk policy, in which the stock is at a lower level and has a lower risk.

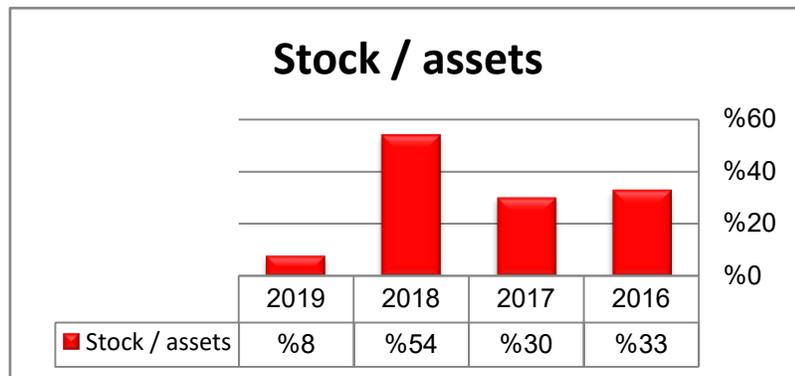
Moderate policy, and be in between.

As for service institutions, especially those that are not-for-profit, such as ours (Habbaniyah Municipality Directorate), this is different, as (increasing the stock is not considered a positive indicator) (conservative policy). Because the rise in inventory to higher levels may lead to a greater percentage of damage, and the financial manager must not think of raising the stock as an abstract number.

Consequently, the financial manager must classify the stock according to the size of the automated need and the speed of deterioration, so that it is balanced between them.

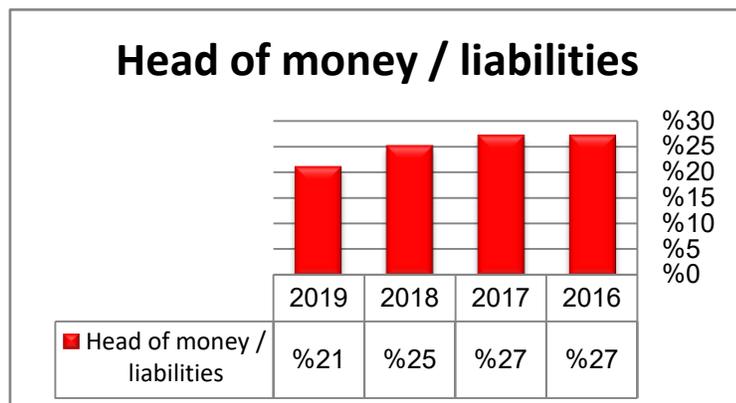
The percentage during the years where the percentage of inventory of assets reached (33%, 30% and 54%) was high, and this is a not good indicator because, in the fourth year, it is very low, and this is a good indicator, because the department is not productive and does not seek to achieve profits because the stock has A relationship with achieving profits and production, and this is not found in the service departments that use the stock, not the bulk of maintenance and according to need, and the increase in stock is not considered a health condition in the service departments because the stock is exposed to damage as a result of the bad storage process. The figure below shows that, (cash / assets ratio) and (stock / assets ratio).

Figure No. (2-3)



C - It is noticed that the ratio of capital to total liabilities amounted to (27%), (27) and (25) (21), which is almost constant during the study years due to the correlation of capital change with central ministerial decisions. The figure below shows that (the ratio of capital / liabilities).

Figure No. (3-3)



THE FOURTH CHAPTER

CONCLUSIONS AND RECOMMENDATIONS

The first topic / conclusions:

Presenting the topic of evaluating internal control performance within the framework of financial indicators, in addition to the conclusions reached in the body of the study, a set of theoretical and practical conclusions can be identified as follows:

First: theoretical conclusions:

1. The function of evaluating the financial performance in institutions occupies an important position due to its role in identifying the strengths and weaknesses of their performance and the speed of treatment.
2. After the development and transition of the concept of internal control from a narrow view that is limited to procedures that preserve assets to a broader concept that includes a set of interrelated components that are a measure of Walt through which to evaluate the effectiveness of the internal control system, and these elements have been identified by the American Institute (AICPA)) Which were defined in five elements (control environment, risk assessment, information and communication system, control activities, and follow-up).
3. The aim of evaluating the internal control system is to determine the effectiveness of the system, in light of which procedures are planned as well as providing recommendations to achieve the goals in an economic and rational manner. The evaluation process goes through stages, starting with the initial survey, then collecting data, classifying data, determining control

standards, and comparing actual performance with standards. And identifying and analyzing deviations, identifying weaknesses and taking corrective actions.

There are several methods that can be used in studying and evaluating the internal control system, including (vertical analysis)

1.

Second: practical conclusions:

1. The use of analysis tools in the process of evaluating the financial performance of the Habbaniyah municipality directorate led to the identification of strengths and weaknesses by using financial analysis tools and some financial indicators to enhance strengths, correct and address weaknesses.
2. Through the researcher's experience in the field of auditing and internal control, and through the study, research and field interviews of divisions and divisions of the Habbaniyah Municipality Directorate, he found that there is a significant shortage in the cadres of the Audit and Internal Control Division, as there are no worse two employees who manage all the work of the division's units, and weakness in the ability Technical personnel, and not to use methods and analysis procedures for the financial statements to reveal strengths and weaknesses.
- 3- In light of the results of the financial performance evaluation using vertical analysis, the following appeared to us:
 - a. Increasing the stock-to-assets ratio, especially during the first years, to reach (54%), i.e. to its highest level during the school years, but in 2019 the ratio decreased to (8%).

B. Decrease in the cash-to-assets ratio in general during the school years.

C. The stability of the capital in the institution throughout the years of study, because its modification requires central ministerial decisions.

The second topic

Recommendations: -

1. Through the study and evaluation of the internal control system, it became clear that the one who does this is a specialized team of auditors and observers, to whom responsibilities and tasks are distributed, and in order to achieve this, the researcher recommends choosing the audit staff and observers who have scientific and professional qualifications to ensure that they perform the tasks assigned to them with high efficiency, and implement Auditing tasks in light of professional standards.
2. It is possible to benefit from the standards issued by the American Institute of Certified Public Accountants,

and consider them as one of the foundations on which to evaluate the internal control in institutions to determine the strengths and weaknesses and to present proposals to raise the efficiency and effectiveness of the institution.

3. Preparing qualified, trained, and specialized cadres in the field of financial performance evaluation to carry out their activities efficiently and with high credibility, and in a manner that explains to the person familiar with the results of the financial performance evaluation all the important matters.

4 Attention to the rise in the stock to the assets, especially in the early years of research, and this is not a good indicator because it is exposed to spoilage.

5. More attention should be given to the audit / internal control division, including daily or monthly reports, or semi-annual reports, due to their importance in setting the institution's policy.

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Fixed assets / assets