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Impact of Strategic Audit on Enhancing the Efficiency of the Internal Control System: A Study of Industrial Companies in Iraq

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Abstract. The study aims to provide a general and brief introduction to the audit process, demonstrate traditional and modern performance measurement tools and methods that are compatible with strategic auditing, and provide a conceptual framework for strategic auditing and the internal control system. And the relationship between them. It helps the concerned establishments increase their performance and achieve their goals in light of the results of the study. The research sample consisted of the General Company for Textile Industries in Iraq, which is the Baghdad Laboratory, the Nineveh Laboratory, the Diwaniyah Laboratory, and the Babylon Laboratory (according to the SPSS statistical program). The purpose of the study was to know the extent to which industrial companies in Iraq apply strategic audit mechanisms, what their impact is on the internal control system in companies, and how to benefit from the application of these strategies in the audit process. The study found a relationship between the efficiency and effectiveness of strategic auditing and improving the efficiency of the internal control system. Increasing the efficiency of the internal control system using the strategic audit method. The study recommended implementing the strategic review system effectively to benefit from its advantages in increasing the efficiency of the internal control system in companies in general and industrial companies in particular and trying to use advanced techniques to measure the internal control system.

Keywords. Strategic audit, internal control system, Iraq

1. Introduction:

Recently, global economies have witnessed a state of interconnection and tremendous development in the technology used in the auditing process and the intensity of competition, in addition to the use of new, more complex financial tools, and with the emergence of bodies specialized in setting standards, as well as the introduction of changes and improvements in the quality of information. The need for sound, relevant, effective and reliable information is increasing. Managing internal audit strategies is considered one of the most important control tools, as the extent of its success and effectiveness depends to a large extent. There is no doubt that the presence of an effective and strong internal audit system in any institution helps to discover any errors and any deviations before they occur in order to avoid them, and this is the basis. Develop proper auditing strategies; (Ohta, 2009 : 59)

On the other hand, effective control is necessary to ensure the achievement of the best results for the institution's various activities, whether production or service, and it also has a direct impact on the institution's management in implementing its tasks in the proper and appropriate manner. The interest in the issue of internal audit strategies and the internal control system is due to the necessity of activating the role of internal audit, by tracking the deficiencies and gaps that lead to weak internal control to work to raise the efficiency and improve the internal control system for accounting information systems in the institution in this sound manner and in accordance with Institution objectives. The success or failure of economic units depends on the extent of their ability to achieve their mission, goals and objectives. (Ashutosh Deshmukh , 1999: 189) This requires the economic units to develop a specific strategy and strive to implement it in a complete and accurate manner in light of the various variables that affect the economic unit, whether internal or external, and that one of the most important means for unity is To follow up on the full and accurate implementation of its strategy or to amend it, lies in the possibility of it carrying out the strategic audit process. Since the economic units originally existed to achieve a specific goal, therefore all their plans and policies, especially the strategic ones, must be aimed at achieving this goal. Therefore, all organizations must adhere to the strategies established for the audit process and follow up on their implementation in the required manner for the purpose of reaching the required goals and indicating the extent of the impact of these strategies on the system Internal control The success and failure of economic units depend on their ability to achieve their mission, goals, and objectives. This necessitates the development of a specific strategy and its implementation, considering various internal and external variables affecting the economic unit. One crucial way for economic units to monitor the implementation of their strategies or modify them is through the strategic audit process. Economic units exist to achieve specific goals, and all their plans and policies, especially strategic ones, should be geared towards achieving these goals (Al-Shabani and Al-Jumaili, 2012)(Eberhartinger et al, 2020) .

2: Theoretical Framework of the Study

First Theme: Strategic Audit

The Concept of Strategic Audit

Strategic auditing is a comprehensive type of management audit that provides a thorough assessment of the overall strategic situation. It involves not only formulating goals, strategies, and policies as strategic decisions but also implementing, evaluating, and controlling them using programs, budgets, and procedures. The external business environment guarantees opportunities that companies can exploit and threats they should avoid. To effectively exploit opportunities and respond to threats, businesses need resources and capabilities in the right place and time. Strategic auditing plays a significant role in evaluating and understanding these resources and competencies, a process crucial for successful business strategies (www.karpedium.com)(Eissa et al, 2019)

There are various definitions of strategic audit. Some define it as a system to identify the extent of the implementation of an economic unit's strategies, comparing actual implementation with planned strategies, and modifying the strategy based on the results of implementation to enhance the unit's ability to achieve its goals and objectives (Abdul Latif and Turkman, 2005, 2). Others define it as the examination and evaluation of the operations of an economic unit affected by the processes of strategic management. This audit can comprehensively cover all aspects of the strategic management process or focus on specific parts, such as environmental analysis. The strategic audit can be formally committed to

established regulatory laws and procedures or be informal, allowing managers to take metrics as needed (Al-Douri, 2005, 327).

Some view strategic auditing as a system to ensure that an economic unit achieves its objectives by setting target performance levels, measuring actual performance, and comparing it with set standards to identify the extent to which strategic performance objectives have been achieved. This definition emphasizes the need for an information and communication system as a component of the strategic audit system (Abdullatif and Turkmen, 2005, 4).

(Boynton et al. 2001) defined strategic auditing as the approach used by an auditor in planning an audit to collect and evaluate evidence. are the gateway that results in the completion of audit tasks with high efficiency. Defined by (Gay and Simnett 2003), an audit strategy is a means of detailing the audit evidence required to form an auditor's opinion. (Boynton et al. 2001) outline different types of strategic auditing: Basic Direct Testing Strategy, Strategy for analytical actions, Low risk strategy for internal control, and Business risk strategy.

Types of Strategic Audit

Auditing the Company's Position, Including:

(1) Corporate Identification Audit: This involves determining the company's identity based on the behaviors of its management and employees, which are influenced by their philosophy and beliefs. It assesses the need to change and develop the company's identity and future directions. (2) Corporate Longevity Audit: This ensures that the company's management not only maximizes the value of its current products and services but also works to increase income and supports the expected value of the company in the future through due development in all systems, processes, and activities of the company. (Al-Shabani and Al-Jumaili, 2012)

Auditing the Internal Environment, Including:

(1) Marketing Audit: It involves a comprehensive examination of the marketing environment, objectives, strategies, and marketing activities to identify potential problem areas and future opportunities. The results guide the improvement of the company's marketing performance when developing strategic plans. (2) Productivity Audit: This aims to examine productivity from the design stage to the final product, identifying current and expected difficulties, and evaluating performance in the context of the company's strategy to enhance production growth and operational efficiency. (Al-Twaijry, 2003 : 509) (3) Ancillary Services and Facilities Audit: This audit examines and evaluates best practices in ancillary services and facilities systems globally, proposing methods and tools to enhance the company's performance in this field compared to leading companies. (4) Cost of Quality Audit: Quality cost audit examines and audits the efficiency and effectiveness of the methods used to improve the quality of the overall performance of the company. It ultimately reflects on improving the quality of the final product within the framework of the lowest possible cost, providing a competitive advantage in the market. (5) Information Security Audit: Given the increasing reliance on automated information systems, this audit aims to continuously examine and evaluate information security systems, providing regular reports to the company's management on examination and evaluation results. (Sinha& Arena,2020: 82)

External Environment Audit, Including:

(1) Environmental Audit: Compliance with environmental standards is mandatory in many countries worldwide. The environmental audit examines the company's success in meeting these obligations and provides recommendations to the executive management to

develop models for evaluating the overall performance of the company under these standards. (2) Strategic Alliance Audit: This audit involves examining and evaluating alliance or merger projects between the company and other companies, determining their suitability with the company's strategic objectives, and making recommendations regarding the renewal and modernization of existing alliances.

Stakeholder Audit

This audit aims to evaluate the company from the perspective of stakeholders, including shareholders, employees, suppliers, and customers. It involves assessing returns (shareholders), the continuity and survival of the company (employees), quality and price (favorable quality) for customers, and growth and expansion of activity for suppliers. (Whittington et al. 2003)

Second Theme: Internal Control Systems

Introduction: Internal controls encompass a set of measures implemented by managers to ensure confidence in the correct execution of affairs and compliance with regulations and policies. This is crucial for enhancing efficiency, achieving predetermined goals, and safeguarding assets (Mohammadi, 2008). In essence, internal controls involve an organization's plan and coordination of actions to protect assets, ensure accuracy and reliability of accounting data, and encourage effective management processes in adherence to administrative procedures (Ghorbani, 2007). Since many management decisions rely on financial information from the accounting system, a robust internal control system ensures the reliability of this information, forming the foundation for such decision-making. Moreover, strong internal controls influence the way audits are conducted; stronger internal controls decrease the risk of distortion and consequently reduce auditing risk (Bagher Shanzzadeh¹ & Narges Zolfaghari², 2015).

Elements of the Internal Control System:

Control Environment: The control environment represents the organization's climate and provides the system and structure for all other internal controls. Key principles of the control environment include integrity, ethical values, management philosophy, organizational structure, commitment to financial reporting competencies, authority, responsibility, and human resources. **Risk Assessment:** Risk assessment involves identifying and analyzing risks that affect objective achievement and establishing the basis for effective risk management strategies. (Li et al, 2020: 70) **Control Activities:** Control activities encompass policies and procedures facilitating management's implementation of guidance. These activities include approval, delegation, verification, reconciliation, performance monitoring, asset protection, and segregation of duties. **Information and Communication:** Every business requires appropriate financial and non-financial information about internal and external events, available to those who need it in the appropriate form and time frame. **Monitoring:** The internal control system and application of controls change over time due to various factors such as new employees, changes in procedure effectiveness, supervision, time and resource constraints, or alterations in circumstances for which the internal control system was designed. Management needs to determine the effectiveness of the internal control system's implementation (Ghanbarian, 2011).

Types of Internal Control Systems:

Administrative Control: This involves organizational plans, coordination means, and procedures to maximize production efficiency while ensuring compliance with administrative

policies and decisions. (Kalthoum, 2013) **Accounting Control:** Accounting control comprises organizational plans and procedures focused on preserving assets and ensuring the reliability of financial statements. **Financial Control:** This process involves continuous organizational control to efficiently implement company plans and achieve goals without excessive use of material, financial, and human resources, providing accurate information about the company's operational activities. (Bowlin, 2020:3) **Internal Control:** This entails the organizational plan for separating tasks and departments, defining processes, and employing coordination measures to protect the project's assets from embezzlement, loss, or misuse. **Internal Audit:** Internal audit is a control tool aimed at examining accounting data and records, ensuring data validity and accuracy, and expressing the company's financial position through investigation and subsequent reporting for more credible financial reports, (Al-Juwaifel, 2011).

Third Theme: The Relationship between Strategic Audit and Internal Control Systems

Evaluation of the effectiveness of the internal control system is a crucial part of strategic audit tasks within an organization (El-Mahdi & Park, 2014). An effective and reliable internal control system is essential for achieving audit objectives and providing a credible opinion on the validity of financial statements (Sami, 2009). Audit committees play a significant role in supporting internal control systems and improving the quality of external audits (Kalthoum, 2014). They oversee and evaluate the internal control system, follow up on financial reporting activities, appoint external auditors, and support the internal audit function (Kalthoum, 2014). Effective regulatory systems should align with the organization's activity, achieve a cost-benefit balance, have clear objectives and reporting mechanisms, and adapt to changing circumstances (Al-Juwaifel, 2011).

3: Data & Methodology:

First: Research Problem:

In the local Iraqi context, the auditing profession faces significant challenges due to the inconsistent professional practices and insufficient monitoring of professionals' adherence to professional standards. Additionally, there is limited interest among professionals in market-focused approaches and trends in business. This situation calls for governmental pressure or a response driven by the growth of audit companies. Ultimately, this necessitates attention to competitive strategies by these companies. The Iraqi auditing profession is characterized by the predominance of small organizations (offices) managed by a single partner, highlighting the limited material and human resources of these offices and companies. Moreover, there is a lack of established systems, standards, specific procedures, or local/international quality control methods officially endorsed by the Iraqi profession's management. Most of these professional organizations provide limited services, primarily focusing on traditional audit services. This is evident in the inadequate and inconspicuous role of these organizations in the business environment's development and economic activation, coupled with the lack of substantial confidence in the profession and the services it offers. This lack of confidence is reflected in the limited or weak adoption of its outputs by many stakeholders, including government bodies and tax authorities. The weak reputation of the profession among other disciplines and its diminishing standing compared to various global environments pose significant questions about the quality of audit in private audit offices and companies operating within the Iraqi business environment and the factors influencing it. These factors serve as indicators for evaluating the audit quality of these offices and companies, underscoring the importance of organizations that

can elevate the audit quality and the profession at large, consequently fostering the development of the Iraqi business environment. Based on the above, the research problem is articulated through several research questions:

1. Is there a relationship between audit strategies and the internal control system?
2. How can the relationship between audit strategies and the internal control system be measured?
3. Does the research sample use traditional methods when conducting the audit?
4. What weaknesses are revealed by indicators of the internal control system?
5. How can the efficiency of the internal control system be enhanced?

Second: Importance of the Research:

The significance of this research lies in advocating for the adoption of strategic auditing, which demonstrates the effective implementation of a set strategy and underscores the strategy's integrity. Furthermore, it emphasizes the necessity to modify or alter the strategy in line with internal and external variables affecting the institution's internal control system. The research also stresses the importance of considering both financial and non-financial measures when designing the control and audit system.

Third: Research Objective:

This research aims to achieve the following:

1. Provide a comprehensive and succinct introduction to the audit process.
2. Describe traditional and modern performance measurement tools and methodologies compatible with strategic auditing.
3. Establish a conceptual framework for strategic auditing, the internal control system, and their interrelationship.
4. Investigate the extent to which strategic audit is applied in Iraqi industrial companies.
5. Propose recommendations to assist the concerned institutions in enhancing their performance and achieving their objectives based on the study's findings.

Fourth: Hypotheses of the Study:

There is a statistically significant relationship between strategic audit and the efficiency of the internal control system.

Fifth: Research Methodology:

The research adopts a descriptive approach to present its theoretical foundation by referencing relevant books and scientific journals that address the research subject. Subsequently, a deductive approach is employed through field application on the research sample, utilizing the following statistical methods:

- Descriptive statistical method: calculation of frequencies and percentages based on the sample items.
- Inferential statistical method: a comparison between the opinions of employees at the upper and middle administrative levels (within the State Company for Textile Industries in Iraq).

Sixth: Research Plan:

In order to effectively address the research problem, test its hypotheses, and ensure the coherence of the research, the study was organized into the following sections: Part One: The methodological framework of the study. Part Two: The conceptual framework. It is divided into:

1. Strategic audit
2. Internal control system
3. Relationship between strategic audit and the internal control system

Part III: Statistical Analysis

The third part, the practical and analytical aspect, and the fourth part: conclusions and recommendations.

Seventh: Previous Studies:

The study of Narges and Bagher (2015) focused on finding the effect of effective internal controls on the audit process, which was conducted through a survey of Iranian auditors. The research used a specific questionnaire and analyzed the collected data using the statistical software SPSS and LISREL. The results indicated that although internal controls may not reduce audit time and costs, moreover, the study revealed that effective internal controls can enhance audit quality, increase the detection of errors and significant deviations, and enhance the credibility of data and financial statements.

There is another study by researchers, Hussam, Rana, and Abdel Hadi (2013) investigating the factors that affect the quality of auditing in Jordanian commercial banks (JCBs). The study included obtaining the opinions of a group of internal and external auditors within the central banks. And so do financial managers. The results indicated a positive and significant relationship between audit quality, audit efficiency, reputation of the audit firm, audit fees, size of the audit firm, and audit efficiency. These results contribute to the existing literature on the factors affecting audit quality, especially in East Asian countries such as Jordan, Which provides valuable opinions about audit efficiency, reputation of audit firms, audit fees, size of the audit firm, and auditor competence regarding audit quality.

Eighth: Analysis and Diagnosis of Strategic Audit Dimensions in a Sample of Industrial Companies in Iraq

In this section, we will identify the extent to which Iraqi companies apply strategic auditing through the analysis of the data obtained from the research sample consisting of the State Company for Textile Industries in Iraq, namely Baghdad Laboratory, Nineveh, Diwaniyah Laboratory, and Babylon Laboratory (depending on the statistical program SPSS). This theme will address the following:

1. Presentation of the Questionnaire Form through which the Data were Collected from the Research Sample

Questionnaire Form: Strategic auditing is a description of how goals, strategies, and policies are formulated as strategic decisions and how to implement, evaluate, and control them with programs, budgets, and procedures. Strategic audit can be formal or committed to fixed regulatory laws and procedures or informal so that managers are allowed to take measures whenever they want. Whether the audit is comprehensive, focused, formal, or informal, it must work to make the related functions interrelated, A questionnaire form was distributed to

employees, and each form contains 12 questions, as shown in the form below, and the results are explained in Table No. 1.

Table (1) Frequency Distributions, Percentages, Frequencies and Standard Deviations of the Answers of the Research Sample Members

		I strongly disagree	I don't agree	neutral	Agree	I strongly agree						
No.	Variables	Iteration	Iteration	Iteration	Iteration	Iteration	Total	Arithmetic mean	Relative importance %	Standard deviation	Coefficient of variation	variance
1	I have already seen On the concept of sift Strategic	1	4	8	18	24	55	4.9090	81.82%	1.0232	0.250139	0.6694
2	Your circle Applying the audit Strategic	0	3	6	24	22	55	4.1818	83.64%	0.8408	0.20107	0.6995
3	Do you think there is Necessity to apply sift Strategic	1	5	11	18	20	55	3.9272	78.55%	1.0515	0.2677	0.6169
4	Audit affects Strategic Ali Unity Tool Economic	0	5	8	19	23	55	4.0909	81.82%	0.9674	0.2364	0.6694
5	Method affects Approved in Use auditing Strategic Ali Performance Efficiency	3	9	12	17	14	55	3.5454	70.91%	1.1990	0.3381	0.5028

6	Affect Fit Information on Audit task Strategic	0	3	13	21	18	55	3.9818	79.64%	0.8921	0.2240	0.6341
7	Affect Available) Availability (information) On a mission sift Strategic	0	6	10	16	23	55	4.0181	80.36%	1.0272	0.2556	0.6458
8	The administration resorts to Non-means Official) as espionage Administrative (To get Important information	0	5	7	19	24	55	4.1272	82.55%	0.9633	0.2333	0.6813
9	Related to the theme sift Strategic In the plans Strategy only	0	6	6	18	25	55	4.1272	82.55%	1.0010	0.2425	0.6813
10	Audit is affected Strategic With data Foreign Affairs and the interior on Both	2	7	8	16	22	55	3.8909	77.82%	1.1812	0.3035	0.6055
11	Does the internal control environment affect audit strategies?	1	4	6	19	25	55	4.1454	82.91%	1.0077	0.2430	0.6873
12	To what extent internal control activities are applied within a department	0	1	9	22	23	55	4.2181	84.36%	0.7862	0.1863	0.7117

13	The organization's internal control system is affected by external and internal data and thus affects the application of strategic audit	0	3	14	14	24	55	4.0727	81.45%	0.9594	0.2355	0.6634
14	The application of audit strategies is closely linked to the organization's internal control system	1	6	7	18	23	55	4.0181	80.36%	1.0799	0.2687	0.6458
15	The accuracy of the available information is considered one of the most important factors for the success of the organization's internal control system and thus positively affects audit strategies	1	3	12	24	15	55	3.8909	77.82%	0.9363	0.2406	0.6055
	Overall Index	10	70	137	283	325	825	4.0218	80.44%	1.0046	0.2497	0.6470

2. Data Analysis

Table (1) shows a positive agreement rate regarding the application of strategic auditing by the research sample companies and informs the individuals working in these companies about the concept and mechanism of applying strategic auditing. Strongly agree in total is (325), with agree at (283) and neutrals at (137), and I don't agree at (70) disagreement at (10). The total arithmetic mean is (4.0218) The relative importance of the answer at (80.44%) with a standard deviation of (1.0046), The coefficient of variation was (0.2497), And variance (0.6470) indicating a small percentage of dispersion. Among the most important indicators that enhanced the positive agreement are indicator X12 (To what extent internal control activities are applied within a department) with an arithmetic mean of (4.2181) and Relative importance or intensity of the answer (84.36%) a standard deviation of (0.786), The

coefficient of variation was (0.1863) And variance (0.7117), indicator X2 (Your circle Applying the audit Strategic) with an arithmetic mean of (4.1818) and Relative importance or intensity of the answer (83.64%) and a standard deviation of (0.8408), The coefficient of variation was (0.20107) And variance (0.6995) as well as indicator X8 (The administration resorts to Non-means Official " as espionage Administrative " To get Important information) with an arithmetic mean of (4.1272) and Relative importance or intensity of the answer (82.55%) and a standard deviation of (0.9633), The coefficient of variation was(0.2333), and variance(0.6813)

4: Conclusions and Recommendations

The previous study proved the validity of the studied hypotheses, and the results were as follows: There is a relationship between the efficiency and effectiveness of strategic audits and the upgrading of the internal control system. The efficiency and effectiveness of the internal control system are increased using the strategic audit method. There is a relationship between the level of performance and the type of technique used to measure performance. There is a relationship between the information system used and the effectiveness of strategic auditing. The strategic audit method is not used effectively in all the companies studied. All the tools used to measure performance in the research sample companies are traditional tools. Complaining and dissatisfaction among most employees of the studied companies may have a negative impact on their opinions regarding the questionnaire. Seek to implement the strategic audit system effectively to take advantage of its advantages in increasing the efficiency of the internal control system for companies in general and industrial ones in particular. Attempt to use advanced techniques to measure the internal control system. The need to connect the different units (departments) in each of the companies surveyed in general to a computer network to distribute the necessary information for control purposes.

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