

# INTERNAL CONTROL AND AUDIT AND THEIR ROLE IN THE DEDUCTION OF ADMINISTRATIVE AND FINANCIAL CORRUPTION

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## ABSTRACT

Control and auditing play a significant role in detecting financial and administrative deviations, identifying problems and deviations that accompany the work of administrative and economic units, through the process of supervision and scrutiny. More crucially, the supervisory role is based on experience and practice in terms of importance in rules, assets and accounting systems, the accounting standards and the latest scientific theories in the administrative and financial work and the important oversight role that should be played by audit bodies in the internal environment as well as bodies in the external environment. Control has an important leadership role in monitoring the work of the administrative and economic units through the programmed and surprising field visits to ascertain the reality of the administrative and financial processes in the various organs of the state and diagnose the ills, deviations and corruption that may occur in them and take practical and deterrent measures to preserve the integrity of the administrative and financial process, Security of information and thus maintain the state and its organs of administrative and financial corruption. Hence, the attempt to expose these errors is one of the important terms in the work of these bodies and the prevention of fraud and embezzlement and manipulation that can occur in them.

***Keywords:** Control, Auditing, Administrative, Financial, Corruption*

## INTRODUCTION

The audit is necessary for any human activity that has been found in the oldest human civilizations as evidenced by archaeological and historical discoveries. Governmental organizations can perform their duties in best way from the corruption of administrative and financial, this depends on strength of its internal organization in general and a very large extent, it is necessary to find an effective control system that includes the completion of organizations' work on a regular and accurate basis. The most important thing that led us to write this research topic is: Elimination of administrative and financial corruption and try to clear some of the successful remedies for these problems and provide a modest effort in this direction, and we have chosen the subject as we will show its importance and given dependence of audit act itself administrative and economic work and it's closed association with it is not logical to be a working without a censor or else it became a matter of chaos and without a goal. As a first step, we clarify the following: There are multi-level supervisory bodies that supervise, inspect, audit or control internal administrative and financial organizations. And that these foundations are doing their duty to the fullest in order to prevent them from deviating or administrative and financial corruption from the target required and to evaluate or maintain policies of senior management, which set objectives of these branches in general, but this may not apply in a practical and significant, but we tried as much as possible to we deal with the theoretical and practical aspects of its available limits.

## **METHODOLOGY**

### **STUDY PROBLEM**

The auditor is often seeing by public service staff with suspicion, fear, and doubt as being found to monitor errors that public service personnel may have their commitment and quality of performance, therefore, the auditor seeks to perform his work duties in the best possible manner by exercising utmost care for the professional ethics required when expressing a neutral technical opinion that shows the beneficiary parties that financial statements of organization express truthfully, fairly, impartially and distinctly from their current reality of monitoring and auditing.

### **THE STUDY HYPOTHESIS**

The main hypothesis is: (Hypothesis Ho) of the research there are no significant differences between control and audit in the internal environment with the control and audit of external control and that the external audit should identify the strengths and weaknesses of the applicable internal control systems and to give corrective advice and change to decision-makers within the organization and achieve the objectives set in the service of the overall objective and continuous improvement of performance. The auditor's report is a tool of force on management in order to improve the performance of the internal control system of organization and that effectiveness of the internal control system affects the scope of the external audit. While the secondary hypothesis: (Hypothesis Alternative H1) is represented on the existence of significant differences between control and scrutiny in the internal and external environment.

### **THE GOALS OF THIS STUDY**

The main objectives of the study can be summarized as follows:

- A)** To identify the important relationships between control and auditing in the internal and external environment of the administrative or economic unit and confirm the positive features and identify the negative aspects if found and the problems resulting from them in order to contribute in development of appropriate solutions.
- B)** Identify the performance of auditors in detecting or monitoring errors and deviations that may occur in the administrative and economic process as they perform their duty towards society and the society must to cooperate with them and support them by all possible means.
- C)** To develop a comprehensive and integrated framework for determining the factors affecting in quality of auditor's assessment.
- D)** Emphasizing that the auditor is fully independent, since the more independence he enjoys, the greater the ability to practice his work accurately and impartially in detecting the manipulation and mistakes.
- E)** Planning the process of monitoring and auditing before the start of the process of control and auditing to conduct and determine the scope of the inspection and guide the assistants who carry out the process of control and audit and to achieve its objectives properly.

### **THE IMPORTANCE OF THIS STUDY**

The relative importance of the study can be illustrated by the following:

- A) Examine factors that affect quality of performance auditor's and taking into consideration performance of audit.
- B) Contribute seriously to give a true picture of quality of the relationship between control and auditing in the internal environment with its counterpart in the external environment.
- C) The study is a modest practical contribution to the presentation of moral and behavioural theses of observers and auditors in the internal environment and their surroundings and their clients.
- D) The importance of the auditor in performing the tasks entrusted to him better by expressing a neutral technical opinion on the conformity of the financial statements prepared by the administrative or economic unit in line with the quality standards of its performance.
- E) The monitoring and auditing process aims to detect cases of irregularities, errors, fraud, manipulation, fraud and theft that may be caused by some employees of the administrative or economic unit, especially that the control and auditing procedures depend on the comprehensive and complete examination of all administrative and economic events within the unit.

## THE STUDY METHODOLOGY

To validate the hypothesis, the researcher relied on comparative descriptive analysis.

## THE STUDY MODEL

Figure 1 shows the research model that was selected to show the search variables on the internal audit and to clarify nature of the interrelationships that link the search variables with each other as follows:

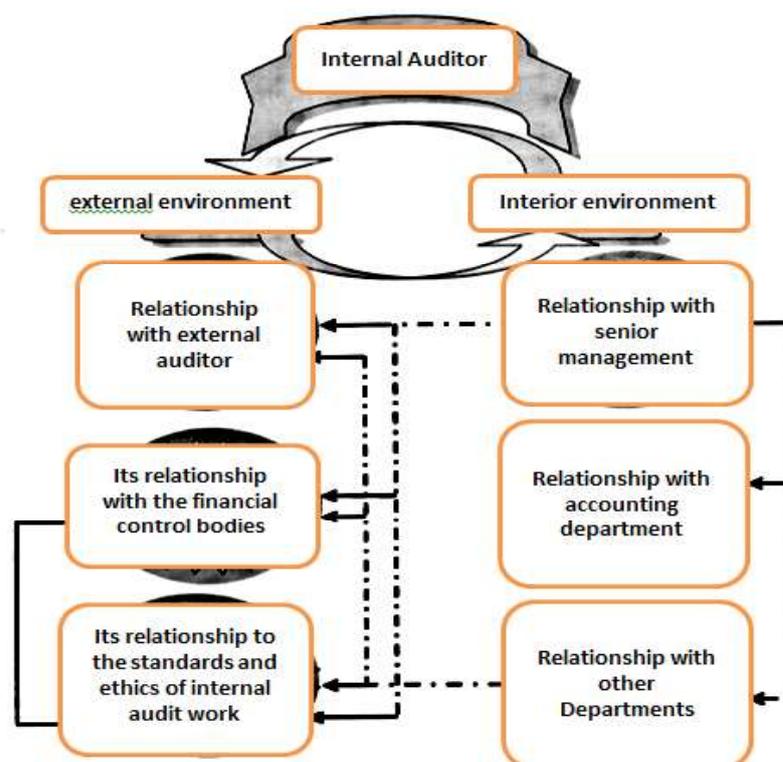


Figure 1 Internal Audit and Audit Performance

Source: Zeina,2013 [15]

## **THE PROPOSED STUDY CONCEPTS**

### **CONCEPT OF CONTROL:**

Control is an independent evaluation activity and effective means of management, which are established by the administration to serve and assist in managing its business well and to ensure the adequacy of the precautions taken to protect the assets of the organization, in order to measure and evaluate the various means to ensure the correctness and good performance and propose the necessary improvements and evaluated to ensure the validity and good performance of the organization.

“It has several meanings of Anglo-Saxon, meaning the ability of control and control of management science, it means: the ability to cope with changes in the constantly moving environment and adapt to the developments taking place or the ability to assess behaviours and improve performance” [9].

### **INTERNAL CONTROL AND AUDITING DEFINITION:**

Control, in general, is meant by which to ensure the extent to which the goals are achieved in a timely and efficient manner and thus aim to measure the effort for the objectives to be achieved.

“Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. Besides complying with laws and regulations, and preventing employees from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting” [13].

“Internal control traditionally has been defined as all the policies and procedures management uses to protect the firm’s assets and to ensure the accuracy and reliability of the accounting records” [7].

“Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person” [3].

### **INTERNAL CONTROL SYSTEM**

Control of this concept is not limited to the executive work but is related to all the functions that make up the administrative process and are not intended to catch errors as much as to follow the completion of the work accurately and quickly work to rectify them with correcting the deviations that may involve errors.

“Any system to be effective and give the results for which it must be based on the elements to help in the success and the internal control system as any system of the elements that help in its effectiveness, these elements must be linked to each other and there is no conception so as not to reflect the control system and limit its effectiveness” [8].

The components or elements of the system are physical supplies, communications system, human supplies, and software requirements.

## ACTIVITIES OF CONTROL

“Control activities are actions (generally described in policies, procedures, and standards) that help management mitigate risks in order to ensure the achievement of objectives. Control activities may be preventive or detective in nature and may be performed at all levels of the organization” [6].

“It is a set of audit policies and procedures that help to ensure that management's instructions are implemented. The policies and procedures are related to:

Examination of the performance of organization.

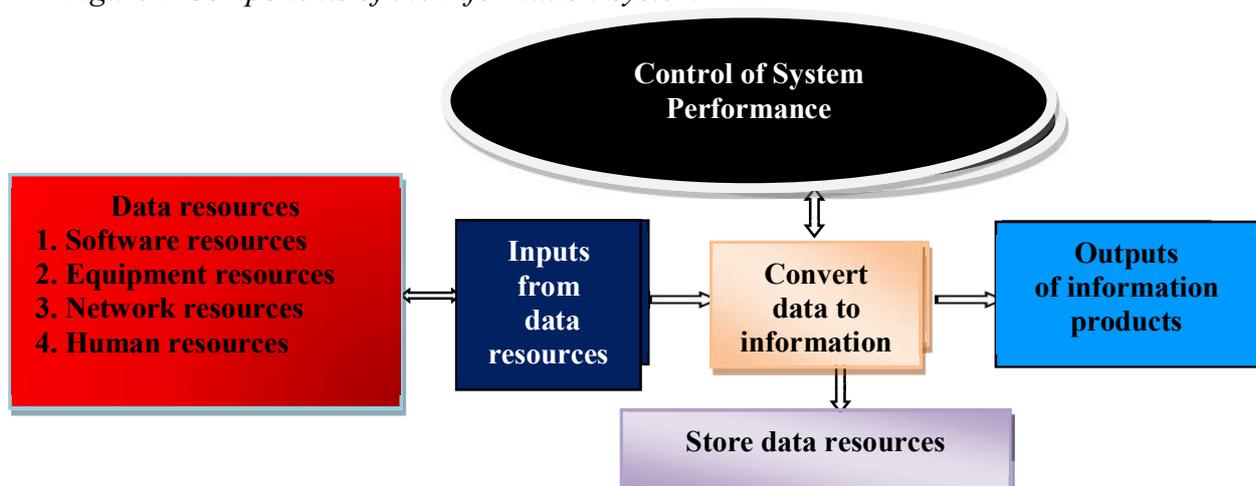
Processing of information.

Control procedures based on actual presence.

Separation of responsibilities” [4].

One of the purposes of internal control is to ensure that the data will be used as the basis for judging the validity of performance. This can be elucidated in Figure 2 as below:

*Figure 2 Components of the Information System*



Source: *Abdul Fatah et al., 2004 [1]*

“The objectives of internal control are protection, accuracy, efficiency, and commitment. However, strong and effective system leads to the possibility of fraud and irregularities in organization. Without meaningful control, errors are easy to make, therefore, making it difficult to produce achievable documents that help to create conflicts of interest. The existing internal control system or approved in organization” [10].

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” [11].

**SIMILARITIES BETWEEN EXTERNAL AND INTERNAL AUDITOR:**

“The function of the internal auditor is established with the work of the independent external auditor and it can be argued that there are mutual benefits between the parties. The external auditor during his independent audits is able to express his opinion on the adequacy, the validity of the internal control system and the appropriateness of policies and procedures followed. The internal auditor is omitting or unable to express his opinion openly and clearly, in addition to the fact that internal auditor benefits from experience of the external auditor and thus increases his competence and experience” [14].

“Internal auditors oversee the entire control system, rather than the controls related to financial statement representations. They are often concerned with engineering, marketing, distribution and personnel issues that require backgrounds beyond a basic understanding of accounting and auditing. The continuous nature of the internal audit calls for an in-depth knowledge of total operations not asked of the external auditor who performs periodic reviews and audits of the financial statements of the entity” [12]. “The similarities can be identified as follows:

- A) Both seek to ensure an effective system of internal control in a project and to prevent and reduce the occurrence of errors and manipulation.
- B) Each of them shall work on the existence of an effective accounting system to provide them with the necessary information which will help in the preparation of correct and reliable financial statements.

The likelihood of cooperation between them. The External Auditor may rely on work and reports of Internal Auditor, in light of the degree of independence of Internal Auditor” [1]. This can clarify in Figure 3 as below:

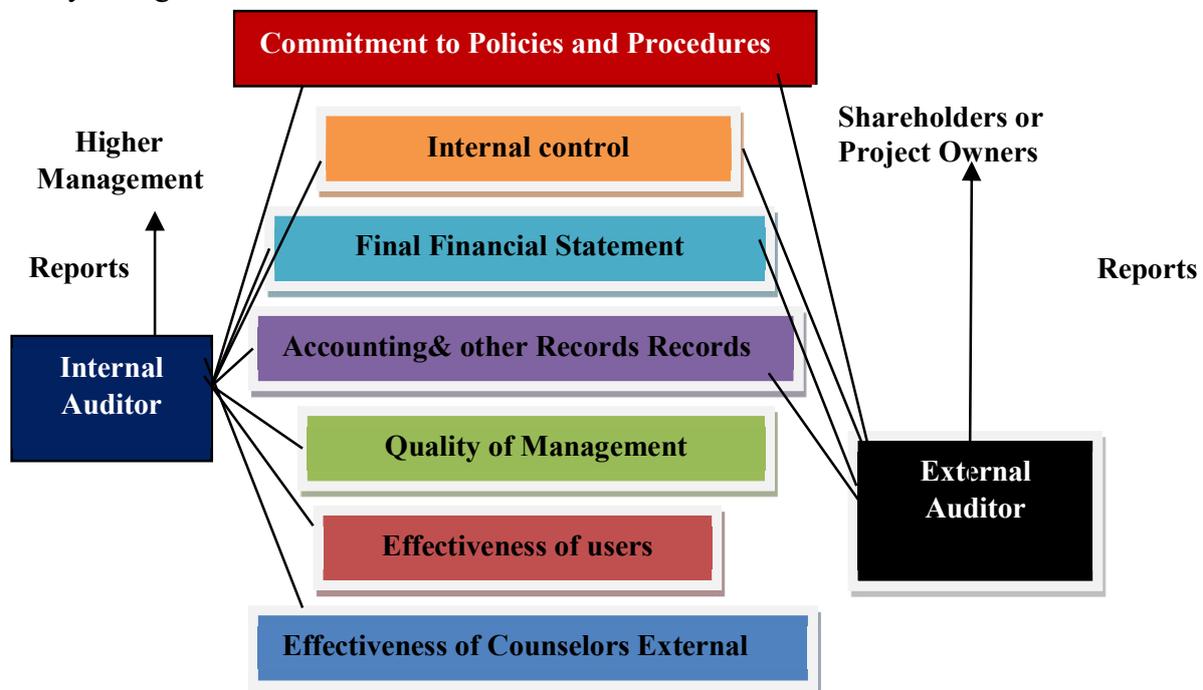


Figure 3 The Common Areas between Internal Auditor and External Auditor

Source: (Ahmed, 1990) [2]

## **INTERNAL AUDIT EFFECTIVENESS AND ACTIVITIES .**

“The effectiveness of internal audit function is to be able to achieve the objectives assigned. Internal audit objectives should be consistent with objectives of organization and appear to support the management's efforts towards achieving the policies and objectives set. Therefore, objectives of internal audit function include seeking assurance of the following:

- The economy, efficiency and effectiveness of organization operations.
- Records accuracy.
- Prevent loss and reduce the commission of errors and irregularities.
- Commitment to the policies and objectives of organization.
- Compliance with regulatory procedures.
- Safety and effectiveness of control systems” [5].

## **FRAUD AND TYPES OF FRAUD**

“Fraud is the act of knowingly making a material misrepresentation of fact with the intent of inducing someone to believe the falsehood and act on it and, thus, suffer a loss or damage. Through both fraud and aggressive financial reporting, some companies have caused financial statements to be misstated, usually by (1) overstating revenues and assets, (2) understating expenses and liabilities, and (3) giving disclosures that are misstated or that omit important information. Fraud that affects financial (or other) information and causes financial statements to be materially misstated often arises from the perceived need to get through a difficult period may be characterized by cash shortage, increased competition, cost overruns, and similar events that cause financial difficulty. Management fraud is deliberate fraud committed by management that injures investors and creditors through misstated information. Because management fraud usually takes the form of deceptive financial statements, management fraud is sometimes referred to as fraudulent financial reporting. Embezzlement is a type of fraud involving employees or nonemployees wrongfully misappropriating funds or property entrusted to their care, custody, and control, often accompanied by false accounting entries and other forms of deception and cover-up. Larceny is simple theft; for example, an employee misappropriates an employer’s funds or property that has not been entrusted to the custody of the employee. Defalcation is another name for employee fraud, embezzlement, and larceny. Auditing standards also call it misappropriation of assets. Errors are unintentional misstatements or omissions of amounts or disclosures in financial statements. Auditing standards require that auditors specifically assess the risk of material misstatement due to fraud for each engagement” [11].

The role of the audit process to detect and identify fraud and embezzlement, and the manner in which it is carried out, is determined by the commissioning of a supervisory person that performs its work, where there is suspicion of fraud or manipulation.

## **CONCLUSION**

The inferiority of censorship and scrutiny remains prevalent in developing societies, including Iraq.

Administrative and financial corruption are found in organizations where there is no proper method of internal control in organizations that are administratively organized, the occurrence of manipulation and administrative and financial corruption in them is possible but is small and usually needs to be completed by several staff specialized in different aspects.

The opinion of many observers and auditors is not neutral because of the impact of the internal and external environment.

The manifestations of administrative and financial corruption are still dominant in the public service. Corruption continues to hit its branches in the organs of the state because of the lack of transparency and interference between the three powers: legislative, executive and judicial.

Weak control and scrutiny due to the effects of quotas and party and the overlap of the three authorities.

Administrative and financial corruption for example in Iraq plays a dark role in the underdevelopment of Iraq at all levels.

The politicization of the law and the judiciary played a negative role in Iraqi society.

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