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ALTINBAŞ ÜNİVERSİTESİ

GRADUATE SCHOOL OF SOCIAL SCIENCES

MASTER OF BUSINESS ADMINISTRATION

THE ROLE OF EXTERNAL AUDITOR IN RISK ASSESSMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

AHMED ALZANKANH

MASTER THESIS

ISTANBUL, 2019

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Bu çalışma **27.08.2019** tarihinde yapılmış olan Tez Savunma Sınavında tarafımızca incelenmiş olup, kapsam ve kalite açısından Yüksek Lisans Tezi olmaya yeterli bulunmuştur.

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AHMED JIHAD

MOHAMMEDAMEN ALZANKANH

DEDICATION

If the gift is even part of the fulfillment, that the gift to the one who extinguished all the candles of her life to illuminate our lives, to the one who was her prayer was the secret of success and her tenderness that fills us, to the sweetest mam in the world, my mother.

To whom I carry his name with all pride, to those who taught me the giving, my father.

To those who share with me the most important stations of my life and by which I draw my strength and determination: my brothers Bayar , Bamo and my sister Shnoo.

ACKNOWLEDGEMENTS

Thanks to God, I give my graduation and my joy to my dear father and to my dear mother for their support and guidance.

I am using this opportunity to express my gratitude to all my teachers and dear colleagues who supported me throughout the MBA period. I am thankful for their aspiring guidance, invaluable constructive criticism, and friendly advice during the thesis and I am sincerely grateful to them for sharing their truthful and illuminating .

I would like to express my sincere gratitude to my supervisor Asst**. Doç. Dr. IPEK TÜRKER** for his support, patience, motivation, and enthusiasm. His guidance helped me in all the time of research and writing of this thesis.

ÖZET

DIŞ DENETÇININ RISK DEĞERLENDIRMESINDE VE IÇ KONTROL SISTEMININ GELIŞTIRILMESINDEKI ROLÜ

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Tarih: Mayıs 2019

Bu bölüm aracılığıyla, yapılandırılmış bir sistematik süreç olarak tanımlanan inceleme, bu iddialar ile belirlenmiş standartlar arasında tutarlılık ve uygunluk sağlamak ve bu standartlar arasında tutarlılık ve uygunluk sağlamak için ekonomik davranış ve olayların iddialarına ilişkin kanıtları elde etmek ve değerlendirmek için kullanılmıştır. ilgili kullanıcıların sonuçları. Bu bilgiler hakkında nihai bir karara varmak için yerleşik bilgilerle ilgili kanıtları toplamak ve değerlendirmek için bağımsız, nitelikli ve tarafsız bir kişi tarafından takip edilen prosedürleri takiben, dış inceleme süreci, yeterli miktarda Uzmana sahip bir kişi tarafından gerçekleştirilmelidir. tecrübe ve özen gerekli ve finansal tabloların geçerliliğini ve kurumun mali durumunu ve bununla kaydedilen sonucu temsil ettiklerini ifade eden tarafsız bir teknik görüş ortaya koymak için bağımsızlık ve tarafsızlık ile karakterize edilmelidir. ve bu ancak, görüşünü almasını sağlamak için kuruluşun metodolojisini izleyerek sağlanabilir, Genel kabulün ötesine geçen kriterler çerçevesinde, kanunla belirlenmiş sorumluluk ve görev altında.

Bu bölümde, iç kontrol sisteminin yalnızca muhasebe sisteminin ve finansal raporların işlevleri ile ilgili hususları ve prosedürleri içermediği, aynı zamanda idari ve organizasyonel yönleri kapsadığı ve hedeflerinin raporlara duyduğu güveni aştığı ve varlıklarını koruduğu sonucuna vardık. Kurum, yasalara ve düzenlemelere uymak ve Verimlilik elde etmek için ve kullanımını rasyonel hale getirmektedir. Bu, belirlenen hedeflere ulaşma olasılığı konusunda güvence vermek ve iç kontrolün etkinliğini güçlendirmektir. Çeşitli işlem ve faaliyetlerin uygun şekilde yürütülebilmesi için genel, idari ve muhasebe prosedürleri geliştirilmelidir.

Kurumsal.

İç kontrol sisteminin incelenmesi ve değerlendirilmesi süreci denetim sürecinin en önemli aşamasıdır. Denetçi, önlemenin açık olmasını sağlayabilir ve kaçınılması gereken zayıf noktaları tespit edebilir. Zayıf sistem, denetçiden testleri artırmasını ve inceleme kapsamını genişletmesini gerektirir, böylece samimiyet ve adalet hakkında sağlam bir görüş belirtebilir. Denetlenen finansal tablolar, bu sistemin gücü ve etkinliği güvenilir finansal bilgilerle sonuçlanırken, Denetim programının kısaltılması.

ABSTRACT

THE ROLE OF EXTERNAL AUDITOR IN RISK ASSESSMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

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Date: May 2019

Through this chapter, the review, which was defined as a structured systematic process, was used to obtain and evaluate the evidence relevant to the assertions of economic behavior and events in order to ensure consistency and conformity between these assertions and established standards and to communicate the results to the users concerned. The procedures followed by an independent, qualified and impartial person to collect and evaluate evidence on resident information in order to arrive at a final decision on such information, the external review process must be carried out by a person who has a sufficient amount of The professional experience and care needed, and must be characterized by independence and impartiality, in order to come out with a neutral technical opinion expressing the validity of the financial statements and the extent of their representation of the financial status of the institution and the result recorded by it, and this can only be achieved by following the methodology of the organization to enable him to obtain his opinion, Within the framework of criteria that went beyond general acceptance, under the responsibility and task established by law.

In this chapter we conclude that the internal control system includes not only matters and procedures related to the functions of the accounting system and financial reports, but extends to the administrative and organizational aspects, and its objectives exceed trust in the reports and preserve the assets of the institution to comply with laws and regulations and rationalize the use of And to achieve productive efficiency. This is in order to give assurance about the possibility of achieving the established objectives and to strengthen the effectiveness of internal control. General, administrative and accounting procedures should be developed to obtain the proper conduct of various operations and activities.

Enterprise.

The process of examining and evaluating the internal control system is the most important stage of the audit process. The auditor can ensure that the prevention is clear and identify the weaknesses to avoid. The weak system requires the auditor to increase the tests and expand the scope of the examination so that he can express a sound opinion about the sincerity and fairness The audited financial statements, while the strength and effectiveness of this system results in reliable financial information and thus a shortening of the audit program.

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CHAPTER 1

1.1 INTRODUCTION

The audit function is quite important within the accountancy profession. It is not only emphasizing the integrity of the information that is published but also it is an indication of professionalism. The role of auditor today is increasing in the business decisions. As of today, there is no doubt that the most valuable currency is information. And in order to ensure that the information that is published to the public is trustworthy is no less than going through audit[1].

The International Auditing Standards are based on the Generally Accepted Auditing Standards, which are rough guideline based on common sense. The Standards however bring more professionalism and order to the profession and the work that is done by the auditor. The auditor is not only responsible within what is written in the standard but also responsible of the set of rules and standards based on the what is to be audited.

In this study, the audit profession’s impact will be researched within the financial institutions and banking. However, a brief study upon the profession will be mentioned throughout the chapters.

As it was mentioned before, the currency of today’s business is information, and it is imperative to know how the information was collected and whom acquires it. Not long ago, founder and CEO of one of the Forbes’ top ten companies Facebook, had released a public apology upon sharing the personal information that was stored with Cambridge University. At this point one might ask the question about how this information was collected or shared; this study is not emphasizing nor searching for answers of that specific question since the information that was mentioned is on the gray area for auditors and accountants. However, another situation that had rose again which is part of the auditing problem. In 2017,[2] during Oscar ceremony, the Best Picture award had been is-announced and the auditors that were responsible let go by their company. However, underneath the main issue the auditor’s job had absolutely nothing to do with the presentation yet the role of the auditor during the Oscar Ceremony had started priory, selection of the nominees, and the voting process. Auditing if that was done fairly, auditor’s job simply never is a notary job, but rather auditing the process from the beginning to the end.

1.2 THE CORE OF THE STUDY

Through the above, we raise the following problem

What is the external auditor's role in assessing the risk of control and improving the internal control?

This main question can be divided into the following sub-questions:

What is the relationship between the control risk and the effectiveness of the internal control system?

Can the internal control system give absolute assurance that there is no level of control risk?

Is the judgment that the internal control system is ineffective as a result of the lack of professional experience of the auditor?

How can the risk of internal control of the inventory cycle be reduced to an acceptable level?

What is the level of control risk related to the size of the improvements required for the internal control system of the inventory cycle?

1.3 THE IMPORTANCE OF THE STUDY

The audit profession is one of the most important topics of the users of the financial statements of the institution, especially the owners and shareholders because these statements provide them the financial and accounting information, that is needed to make their administrative decision, and therefore the audit of the financial statements of the institution is the mirror that reflects the credibility, the validity and objectivity of its results at the end of the financial period.

The objective of the (external or independent) audit is due to its active role as a service is to give a certain assurance to the financial state users in order to make their decisions. The information that are on the financial states are not 100% correct however the critical error risk is acceptable level.

The audit standards are the general principles governing the audit process, using specific procedures to achieve the objectives to be achieved from the audit. The development of the audit concepts and its standards recently, as well as the development of the control system concept and the emergence of what is known as risks. The increase in cases of fraud and errors has led to a great interest in the external audit of the inventory cycle and to highlight the role and efficiency of the external auditor to identify the mistakes, fraud assessment and evaluation of potential risks, not to detect the strengths and weaknesses of the internal control system. Cycle inventory course and propose improvements to it.

The study also interested the researcher to know the extent of the progress achieved by the external audit profession in all its aspects and extent:

The contribution of this development to putting an end to all excesses that appear daily in the financial statements of the institution.

The correlation between the credibility of accounting information and the effectiveness of the internal control system.

To establish the relationship between external audit and internal audit regarding the internal control system.

Clarify the importance of relying on the internal control system by the auditor when performing the audit.

To highlight the evolution of the internal control system and the reasons that led to this development.

Identify the extent to which the external auditor relies on the internal control system to conduct the audit.

Auditing and reporting on the financial and accounting performance of an organization is a global environmental factor for public scrutiny, as the audit provides credibility in the information that is reported or obtained.

This credibility is achieved by assessing the effectiveness of the internal control system in order to plan the audit and collect evidence from auditors that the auditor faces a lot of risk to collect data and information during the audit and submit it on time for the preparation of the report according to the audit plan[3].

In this context, it is important to prepare this research so that it is a practical, realistic study that examines the real risks faced by the auditor during the preparation of the report, which must be highly efficient in light of achieving the desired audit objectives in the public audit manual. Audit the strategy.

1.4 RESEARCH GOALS

This study aims to achieve a set of objectives which are:

- Try to show and highlight the role of external audit in the institution as an effective tool.
- Studying the system of internal control and knowledge of the strengths and weaknesses within the institution.
- To highlight the importance of external audit in supporting the internal control system to achieve good results.
- To know the impact of the evaluation of the internal control system on the external audit process.

1.5 STUDY HYPOTHESES

Through the above sub-questions, we assume the following:

The level of internal control risk is directly related to the nature of the internal control system.

The internal control system cannot ensure a lack of oversight due to certain constraints outside the role of the external auditor.

The experience of the external auditor caused the risk of control to arise despite the effectiveness of the internal control system.

[4] Implementing the internal control system by adhering to the external auditor's proposals reduces the risk of internal control to an acceptable level.

There is a direct correlation between the level of internal control risk and the level of improvements required for the internal control system of the inventory cycle at the level of each audit objective associated with financial operations.

1.6 RESEARCH METHODOLOGY

To achieve the objectives of this study I will follow the following methodology:

Methodology of research in theory

This section will be complete based on the analytical descriptive method of the most important in the books and references Arabic, foreign scientific research, forums, articles, and periodicals issued in the field of research.

Methodology of applied research

The practical aspect includes the case study of one of the Iraqi economic institutions in order to obtain all the necessary information and use it to answer the problem presented in the research.

Depending on the following tools:

- Books, research, articles and scientific meetings.
- Visits and field observations[5].
- Interviews and websites.

CHAPTER 2

Theoretical Framework of the (External) Audit

2.1 INTRODUCTION

External or independent audit; which is most of the time referred as “audit” is the primary independent and impartial tool aimed at verifying the validity and integrity of financial statements through a neutral technical opinion.

The review has based on a set of principles and assumptions that are the very basis for which it was established. It is also based on a set of criteria that guide the auditor in the course of his / her work, as it is phased in to organize its executive side.

2.2 AUDITING CONCEPT IN BROAD TERMS

2.2.1 The Concept of Review

2.2.1.1 Historical Development of the audit profession

The review went through several stages before it became as it is at present. These stages can be defined in the following periods:

- **The period from the old age until the year 1500 AD**

In the early part of this period, accounting was limited to government units and family enterprises especially the royal families. The review was not known and was replaced by two separate sets of accounting records with the same operations. At the same time, two cases are compared to ensure that there is no error, or the accounting process was manipulated by the accountant of each group. The main objective of this period was to be precise and to prevent any manipulation or fraud of the books[6].

In the era of the Pharaohs in Egypt and the ancient empires in Babylon, Rome and Greece were checking the validity of the accounts by listening to references in the public arena, although the review was detailed and its main purpose is to detect fraud and error and accountability of those responsible.

- **The period between 1500 and 1850**

This period marked the beginning of the industrial revolution, and perhaps what can be deduced from this period is the separation of ownership of the institution from its management increasing the need for reviewers.

The dual-entry theory has been applied in the accounting system even if it is not as sophisticated as it is currently used, and the emergence of some form of internal control over institutions.

- **Period between 1850 and 1905**

The great economic growth witnessed by this period, especially after the start of the industrial revolution in the United Kingdom and the complete separation between ownership and management, and the emergence of the need for the owners of enterprises and projects for those who keep their money, especially after the emergence of the British Companies Act 1962,[7] which recognized the need for auditors to review joint stock companies.

After all these developments, the field is open for review to emerge as a profession and activity is important, especially after the strengthening of the laws, the objectives of the audit at the end of this period can be summarized in the following points:

  - The discovery of fraud and manipulation of accounting books and records.
  - The discovery of technical errors and errors relating to the application of accounting principles.

From 1905 to the present, what can be observed in this period is the appearance of large companies, the reliance on the internal control systems by the auditor, and the reliance on the audit, ie the use of the method of statistical sampling in the review.

The main objective of the review was to provide an unbiased and professional opinion on the fairness of the financial statements and their safety in representing the financial position of the institution and the recorded results.

2.2.1.2 Definition of Auditing [7]

The definitions of this review varied according to the different bodies and parties that issued them. However, despite the many definitions, they all agree on the objectives of the objectives they seek to achieve. The most important of these definitions are as follows:

- **The Audit Basic Concepts Committee of the American Accounting Association (AAA) has been reviewed as: [8]**

"A structured systematic process to obtain evidence - substantively - related to confirmations and assessments of economic behavior and events with the aim of ensuring a degree of consistency and conformity between these assertions and established standards and communicating the results to the users concerned.

- **Also known as:**

"The process of gathering evidence from the information, which leads to determining the degree of relationship between the information and the measures specified for it before, and must be implemented following procedures chosen by the auditor, and must be completed by independent review.

- **Also known as:[9]**

The verification process for a set of information, based on the intended survey

Check the integrity of the financial statements in accordance with a set of criteria that reflect the needs of users of those lists, with the need to communicate this opinion to the parties concerned to help them to judge the quality and quality of this information and determine the reliability of those lists.

- **The revised French Labor Organization defines:**

A systematic or systematic approach or approach by a professional using a set of information and evaluation techniques to produce an informed and independent judgment, based on evaluation criteria and an assessment of the credibility and effectiveness of the system and regulatory procedures.

2.3 TYPES OF REVIEW

There are several types of reviews that vary according to the angle through which the review is consider. The review process can be classify according to several indicators:

2.3.1 Types of audit in terms of the scope of the audit process: divided into:

Full review:[10]

Under this type, the auditor checks the entries and records by 100%. This is done by small projects and is called a complete detailed review.

The full review with the expansion of enterprises and small enterprises has evolved into a so-called full voluntary review. Under this type, the auditor examines samples of entries, records and documents that are appropriate to the internal control systems in an inverse manner. Full and optional.

Partial review:

The auditor is limited to examining certain operations or items assigned to him only as a cash or commodity inventory review, in which case the auditor does not give an opinion on the financial statements in this type of audit.

2.3.2 Types of audit in terms of the timing of the audit process: divided into:

- **Final review:[11]**

After the end of the financial period to be reviewed and after the final adjustments and the preparation of the final accounts and the statement of financial position, in order to ensure that no revision of the data after review because the accounts have already been closed.

- **Continuous review:**

The auditor performs this type of review on an ongoing basis through multiple visits to the organization in a systematic manner according to a predefined plan and review program.

2.3.3 Types of audit in terms of commitment: include:

- **Mandatory review:**

It is possible to say that all companies, entities, associations and other legal persons in which the property is separate from the administration, the laws and regulations governing its business provide for the need to appoint an external auditor. In such cases where the review is considered mandatory, Auditor of legal irregularities.

- **Optional review:**

Is the review carried out at the will of the owners of the institution without interference or obligation from any party as is the case in companies and establishments where the ownership is not separated from the management such as companies of persons where the management and control in general, according to the partners agreement without legal intervention.

2.3.4 Types of audit in terms of size tests: include

- **Full review:**

Is the review covering all the work done during the fiscal year, so all data recorded in the books and records of accounting must be checked and the fairness of the financial statements, and the extent of their representation of the outcome of work and financial status, but this type is inappropriate and is not economical because it takes time and effort By an external auditor[12].

- **Test review:**

The size of this sample depends on the strength and strength of the internal control in the institution. If the auditor finds mistakes in the books and records, he must expand the size of the sample until he is convinced that the records and books the accounts will reflect his final opinion on the fairness of the financial statements.

2.3.5 Types of audit in terms of the reviewer: divided into:

- **Internal review:**

Is the review carried out by an employee from within the institution where he is subordinate to the management, aims to improve the performance of the institution on the one hand and ensure the accuracy and accuracy of accounting information on the other hand[13].

- **External audit:**

A review performed by a party outside the institution where it is independent of its management.

The scope of the audit is generally a financial audit and a review of the financial statements. The auditor performs the audit in accordance with generally accepted auditing standards.

2.4 THE OBJECTIVES AND IMPORTANCE OF THE REVIEW

2.4.1 Audit Objectives

The objectives of the audit have evolved from the discovery of fraud, manipulation and embezzlement to the emergence of a neutral technical opinion showing the results of the profit or loss and financial position at the end of the financial period. These objectives were the result of the rapid economic development witnessed in our modern world. The following:

- **The primary objective of the audit:[14]**

The primary objective of the audit is to express an impartial technical opinion by an independent external auditor whether the financial statements and statements are present in all material respects in accordance with the applicable financial accounting framework.

- **Secondary objectives for review:**

In order for the auditor to give reasonable assurance that the audited financial statements are free from material misstatement, he or she has to establish secondary audit objectives to meet management assertions and allegations. Secondary objectives include:

    - **Existence and verification:** The auditor of the economic institution seeks to ensure that all assets, liabilities, all items included in the budget and in the final financial statements actually exist[15].
    - **Ownership and indebtedness:** The review of this item completes the previous item by ensuring that all elements of the assets are the property of the enterprise and the liabilities are an obligation.
    - **Integrity and Integrity:** In order to achieve comprehensiveness, the accuracy and correctness of the accounting data should be verify and the data processed in such a way as to provide comprehensive and expressive information about the true status of the institution.
    - **Valuation and Privatization:** The objective of this review is to evaluate accounting events in accordance with established accounting methods such as stock valuation and then allocate this process in the accounts concerned, in accordance with generally accepted accounting principles. Strict adherence to this item would ensure:

* Reduce opportunities for fraud and fraud.

* Compliance with accounting principles.

* The consistency of accounting methods from one cycle to another.

- **Offer and Disclosure:** The parties seeking accounting information seek to obtain reliable and expressive information about the true status of the institution by disclosing the outputs of the accounting information system represented in the information prepared in accordance with the standards of professional practice and properly processed in accordance with accounting principles

2.4.2 The importance of the review

The importance of auditing is that it serves many parties with an interest with the institution, whether internal or external, depending largely on the accounting data to make decisions and draw plans, and among the beneficiaries of the review we find:

- **Organization Management:**

The management of the institution depends entirely on the accounting data in the development of plans, monitoring and evaluation of the performance, and thus be careful that the data be reviewed by a neutral technical body[16].

- **Owners:**

The landlords resort to delegating the board of directors to manage resources and capital in the appropriate manner. Usually, these owners have nothing to do with accounting and financial matters, and it is very difficult for each shareholder to view and verify the financial statements at all times of the year. An independent and impartial authority to ensure the efficiency of the administration by exploiting available resources.

- **Governments:**

Many state agencies rely on financial data. For example, the Department of Statistics needs these data to produce the necessary statistics, determine national income and average per capita income, and the tax administration needs these data to calculate taxes in real terms. The Ministry of Planning needs these data for future economic plans, if they do not have sufficient satisfaction with the truth of these data; it is not reliable in decision making.

- **Trade unions:**

Trade unions are constantly seeking to improve the conditions of workers, while enterprises seek to minimize costs and expenses in order to achieve the highest profits. There is a conflict of interest between trade unions and the management of enterprises. In order for unions to demand more workers, Which is based on the financial statements of these institutions. Therefore, they need to be assured that these financial statements present fairly and honestly the financial position of the institutions[17].

- **Commercial and Industrial Banks:**

Banks rely on financial statements for review by a neutral technical body when reviewing financial centers of institutions that apply for loans and credit facilities.

2.5 THE CONCEPTUAL FRAMEWORK OF THE EXTERNAL AUDIT

External auditing is a fundamental process in economic life, with a theoretical basis that enables the possibility of working in a changing environment through its special characteristics.

The first requirement: the concept of external audit

There are several definitions of external review, including:

- **Defined as:**

"An examination of internal control systems, data, documents, accounts and books of the institution under review is a controlled audit conducted by an independent external auditor, an impartial technical opinion on the fairness of the financial statements of the institution at any given time period, For that period. "

- **Also known as:**

"A rigorous and constructive technical test conducted by qualified and independent professionals in order to give an informed opinion on the quality and reliability of the financial information provided by the institution, the respect for the duties in the preparation of this information and the extent to which the applicable rules, Sincere and financial situation and the results of the institution. "

- **Also known as:**

"The procedures followed by an independent, qualified and impartial person to collect and evaluate evidence of resident information (information by means of quantities or amounts) belonging to a particular institution, for the purpose of taking the appropriate decision on his opinion on the degree of relationship between this information and the bases and rules to be followed by To reach a final decision on this resident information[18]. "

- **Also known as:**

"The process of gathering and evaluating evidence, identifying and reporting on the compatibility of information and predefined criteria, and the review process should be conducted by a neutral, independent professional"

From the previous definitions, we conclude that external auditing is an independent, professional, independent third party process by examining financial statements and accounting records and giving a neutral technical opinion on the outcome of the institution's work over a certain period in the form of a report to the parties concerned.

2.5.1 Principles of External Audit:

It should be note that addressing the principles of external audit requires the identification of its premises, which divided into two types:

- Principles associated with examination and investigation.
- Principles associated with appreciation.
- Principles associated with examination and investigation: These principles are:

- **The principle of integration of control cognition:**

This principle means full knowledge of the nature of the events of the institution and its actual and potential effects on the entity of the institution and its relationship with other parties on the one hand, and to identify the needs of different parties for accounting information on these effects on the other hand[19].

- **The principle of comprehensiveness in the scope of test examination:**

This principle implies that the examination covers all the principal and subsidiary objectives of the institution as well as all financial reports prepared by the institution, taking into account the relative importance of these objectives and reports.

- **The Principle of examining the adequacy of humanity:**

This principle refers to an institution alongside the examination of the efficiency of production because of it[20].

It is necessary to examine the adequacy of humanity in the institution of importance in the formation of the correct opinion of the auditor about the events of the institution, and this sufficient indicator of the behavioral climate of the institution and this climate is an expression of the institution of the system of leadership and power, incentives and communication and participation.

- **The principle of objectivity in the examination:**

This principle refers to the need to minimize as much as possible the element of personal judgment or discrimination during the examination, based on the sufficient evidence that supports and supports the auditor's opinion, particularly with regard to elements and vocabulary considered to be of relatively high importance and those where the risk of error is greater of others.

- **Principle of adequacy of communication:**

This principle refers to taking into account that the reports of the external auditor are a tool to convey a true and fair image of the economic operations of the institution to all clients to trust them, in order to achieve the objectives of these reports[21].

- **The principle of disclosure:**

This principle refers to taking into consideration that the auditor discloses everything that would clarify the extent of implementation of the objectives of the institution and the extent of application of the principles and procedures of accounting and change, and the disclosure of information that affect the significance of financial reports, and highlight the weaknesses found in the internal control systems and documents and books And records[22].

- **Principle of equity:**

This principle refers to taking into account that the contents of the auditor's report and financial reports are fair to all parties involved and interested in the institution, whether internal or external.

- **Principle of causation:**

This principle refers to taking into consideration that the report includes a clear interpretation of any unusual behavior faced by the auditor and to build his observations and proposals on real and objective reasons.

2.5.2 External audit assignments:

The hypothesis is define as a rule that is generally accepted, expresses practical application and is use to solve a particular type of problem and rationalize the behavior. The following are the most important assumptions on which the review process is based:

- **Enforceability of financial statements for examination:**

Means that there should be a possibility to examine the financial data and information prepared by the administration, because if it is not possible to examine them, there is no need for the audit. In order for the external auditor to examine the financial statements, Standards such as:

  - **Relevance:**

    The accounting information prepared and submitted to the external auditor should be appropriate to its users and meet their needs and related to its financial period[23].

  - **The dimension of bias:**

    The preparation of financial information and data without prejudice to any party, in the sense that reflect the existing facts.

  - **Check ability:**

    The financial information can be examined and the same results are obtained if the examination is performed by more than one person.

  - **Quantitative measurement:**

    Financial information should be quantifiable and digitally expressed in order to be useful to relevant parties[24].

  - **Imposing the absence of an inevitable conflict between the interest of the external auditor and the administration of the institution:**

    It is clear that there is a mutually beneficial relationship between the management of the institution and the external auditor. The management relies on most of its decisions on the financial information that is relate to the opinion of the external auditor. Therefore, it takes advantage of the information that has been reviewed largely.

- **The imposition of a sound internal control system:**

The existence of a sound system of internal control reduces the possibility of error, but not the possibility of occurrence, errors are still possible to occur despite the integrity of internal controls and the existence of this requirement makes the review process as practical as economic assumptions.

- **The application of appropriate accounting principles to the proper presentation of the financial statements of the financial position and results of operations:**

This assumption implies that external auditors are guide by the generally accepted accounting principles as an indicator of the fairness of the situations in question, while at the same time supporting their views.

External Auditor When these principles are deficient or non-existent, the judgments must be largely personal to impose the stability of the facts of the past in the future unless there is a change in the situation.

The external auditor assumes that the management is consistent in its principles if it is proven through its previous experience in the institution that the management is rational in its conduct. If, however, the external auditor becomes aware that management tends to manipulate or weaken the control system, it should be careful in future periods.

2.6 COMMON AUDITING STANDARDS

The accepted and accepted auditing standards are generally accepted into three main groups:

a. General standards: a set of standards relating to self-training or personalization of those who will consult the audit profession, and in this sense, some have called personal standards.

b. Field work standards: a set of criteria for procedures for the implementation of the audit process[25].

c. Criteria for the preparation of the report: the set of criteria for the preparation of the report and the terms of that report.

2.6.1 General standards:

- **Scientific and practical qualification criteria:**

Scientific and practical qualification is not linked to a certain level of knowledge and experience, but it is necessary to raise the level of qualification through continuous training and access to modern theories and what is issued by the scientific and professional councils in this area.

- **Independence criteria (neutrality):**

Independence is often referred to as the cornerstone of the review. Without independence, the value of the auditor's certification function will be nothing. Auditors should not be independent in their intellectual direction when performing the review process (independence in fact). Their independence from the client should be aware of Road.

Users (independence in appearance), and requires substantive independence and freedom from bias, when the collection of evidence and the evaluation and fairness of the financial statements must not bias references whether the interest of the client or the third party.

- **Standard Care Professional:**

This level defines many factors, including the provisions of the various legislations that define legal responsibility, which represent the minimum professional care required of the auditor. This is in addition to the rules and standards issued by the professional bodies For the purpose of maintaining a distinguished level of performance for the professionals of the profession whether in the performance of the required tests or for the preparation of the report and the final opinion in the financial statements under examination.

2.6.2 Fieldwork standards:

- **Planning and supervision standards:**

The importance of verifying that the work has been well planned for audit performance adequately and provides proper supervision of the assistants' performance is appropriate and that adequate supervision is necessary in the audit, as many fieldwork activities are carried out by assistants whose practical expertise is limited[26].

- **Evaluation criteria for the internal control system:**

Field work standards require auditors to evaluate the internal control system. This assessment aims to achieve two different objectives:

  - Total risk assessment in the organization or specific procedures to address risk or flow of operations[27].
  - Identify key controls that can support the review process.

The auditor should examine and evaluate the internal control system of the institution under review as a basis for its reliability and to determine the required range of tests to establish appropriate audit procedures[28].

- **Evidence and Evidence Standard:**

This standard means that the auditor should collect sufficient and appropriate evidence to enable him to express his opinion on the financial statements through examination, observation, inquiries and certifications to provide him with a reasonable basis for his opinion on the audited financial statements.

2.6.3 Criteria for preparing the report:

- **Preparation of Financial Statements In accordance with generally accepted accounting principles:**

According to this standard, the auditor should indicate in his report the results of the audit that the financial statements have been prepared in accordance with generally accepted accounting principles. Such reference does not require the preparation of a list of accounting principles and policies used in the preparation of the financial statements, Principles and policies are necessary to clarify some of the figures in the financial statements, such as the methods of valuing investments, stocks and the like. Of course, if the auditor does not have the information to enable him to express his opinion, he must explicitly indicate this and show antiques Certain data in his report[29].

- **Stability in the application of generally accepted accounting principles:**

This standard requires that the auditor's report indicate whether the generally accepted accounting principles are consistently and consistently applied. The report should also mention inconsistencies in the application of accounting principles generally accepted between the current and prior periods.

- **Appropriate disclosure:**

This standard requires the auditor to disclose in the report any financial information necessary for the accuracy and fairness of the offer, whether this information has been removed from the core of the attached lists or notes the disclosure is presumed unless the audit report indicates otherwise, and this standard is based on the auditor's own decision arising from his or her technical judgment to identify important information that is required to be disclosed.

- **Opinion:**

The issuance of the auditor requires a report stating his impartial, independent technical opinion on the validity of the financial statements as a whole. This report shall be void of reservations if the data provided are in conformity with all audit rules[30].

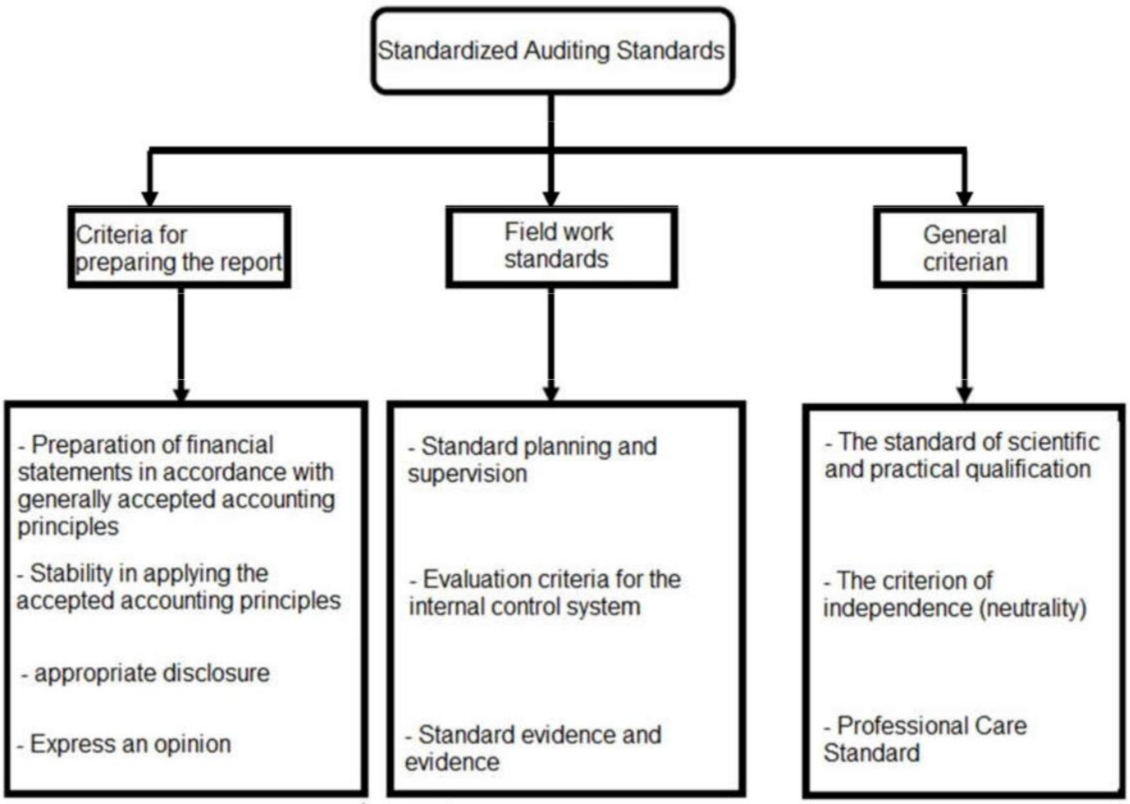


Figure (2.1): Summary of accepted auditing standards.

Source: Shreiki Omar, Professional Organization for Review - A comparative study between Algeria, Tunisia and Morocco, unpublished doctoral thesis, in economic sciences. 2013, p. 20, Setif University 1

It is noted from the above figure that the review was divided into three main groups, the first group concerned with the person reviewing and his characteristics while the second group performing the review procedures, the third group concerned with the auditor's report in terms of form and content.

2.7 THE BASICS OF EXTERNAL AUDITING:

2.7.1 Evidence of external audit:

First: Know the evidence:

- The international standards for the conduct of auditing, assurance and ethics are known as the evidence obtained by the auditor to reach conclusions on which to base his final opinion[32].
- It can also be defined as: eating that would affect the referee's judgment and appreciation in relation to reading the financial information presented to the economic reality.

Second: Types of evidence:

- There are various types of evidence that the auditor seeks to obtain in order to strengthen his view and draw his opinion, including:

Actual existence: The method is intended to verify the actual existence of certain tangible assets of the enterprise, since the observation is dependent on trust and confidence. The actual existence of the element reviewed by the auditor is considered one of the most powerful evidence in the references; therefore, this method should be applied wherever possible and acceptable.

Authentications: A written or oral response from a third party to verify the accuracy of the information requested by the auditor. Since the certificates are obtained from a source independent of the references, they are considered to be strong evidence and are frequently used by reviewers.

Analytical procedures: Comparisons and relationships are used to determine the logical balance of an account or other statement, and may be the only evidence required in the case of accounts that are not of relative importance.

Documentation: The auditor examines the documents and workbooks that support the information included in the financial statements, and includes documentation that the auditor examines all the records used by the client to provide information indicating that the work performed was organized[33].

Note: It is used to evaluate certain activities. Throughout the review, it is assessed to a large extent, so observation is not sufficient. It is necessary to obtain other types of support. However, the observation is useful in most audit procedures.

Reboot: Reactivation of re-operation Reconsideration of a sample of processes Sensitivity and conversion of information performed by the customer during the period reviewed. Recalculation includes calculation of the customer's computer accuracy and includes procedures such as the transfer of inventory sales invoices Collection operations in books Daily.

Inquiries from the client: This means that questions and answers are discussed as oral and written discussions between the auditor and the worker. Although it is reasonable to arrive at a reasonable amount of evidence by inquiry, the inquiry can not be viewed as conclusive evidence because it is not accessible The mechanism is neutral and can be biased in favor of the client[34].

2.8 FUNCTIONS AND RESPONSIBILITIES OF THE EXTERNAL AUDITOR

Before addressing the tasks and responsibilities of external auditors, first know the external auditor.

The External Auditor of Iraqi Law No. 10-01 defines in article 22 that every person who regularly solves in his own name and under his responsibility the task of validating and regularizing the accounts of companies and bodies and their conformity with the provisions of the applicable legislation.

Article 715 bis 4 of the Commercial Code is defined as: "a person who investigates the books and securities of the Corporation, monitors the regularity and accuracy of the accounts of the accounts of the Corporation, verifies the correctness of the information provided in the report of the Board of Directors and the documents sent to external parties on the financial position of the

Corporation Their accounts, and certifies the regularity of the inventory and the balance and validity. "

2.8.1 Responsibilities of the External Auditor:

- **Civil liability:** The responsibility of the external auditor for the direction of the parties he serves as a result of his negligence or failure to perform his duties, which results in harm to them, whether or not they are third parties who rely on the auditor's report. Under the law as an agent for these parties for failure to exercise reasonable professional care[35].
- **Criminal liability:** The commission of the external auditor for a crime beyond the moral or natural person harm to the damage to the community, and this type of crimes determined by law in each country where the auditor exercise his task. The Iraqi legislature, for example, provides the following penalties:

  To impose a fine for anyone who practices the profession of external auditing illegally ranging from 500,000 to 2,000,000

  In case of reinstatement, the perpetrator shall be punished with imprisonment for a period of six (6) months to one year, and the fine shall be doubled.
- **Disciplinary responsibility:** It is accountable to the professional bodies that regulate the profession in the event of violation of their duties and rules of professional conduct on the recommendation of the court or the disciplinary committee and the penalty imposed by the control bodies between warning and reprimand and then suspended for a period of time and then withdraw the license and not to practice the profession and separation from Membership.

2.8.2 Functions of External Auditor:

The functions of the references are many and varied, as follows:

- **certifies that the annual accounts are organized**, correct and fully consistent with the results of operations of the previous year, as well as the situation of the financial and property of companies and bodies.

- **Examines the validity of the annual accounts** and their conformity with the information contained in the management report submitted by the Messengers to shareholders, partners or share holders[36].

- **He shall express his opinion in a special report** on the internal prevention measures approved by the Board of Directors and the Board of Directors or the Director.

- **It assesses the conditions for concluding** the agreements between the Corporation and its institutions or bodies or between the Foundation and the Authority in which the directors or managers of the institution concerned are directly or indirectly in favor.

- **The directors, the General Assembly** or the Commission shall inform the qualified deliberation, but a deficiency which may be discovered or revealed, and of the nature of which it may impede continued exploitation of the institution or body.

- **When a company or entity prepares consolidated accounts or accounts**, it also certifies the validity and consistency of the consolidated and consolidated accounts and their correctness, based on the accounting documents and the report of the external auditor at the branches or entities of the same decision center.

- **The External Auditor's task is to prepare:**

  A report of ratification with reservation or without reservation on the regularity and validity of the annual documents and their correct copy or, if necessary, rejection of the justified ratification[37].

  - Approval report of the supporting accounts or consolidated accounts, as appropriate.
  - Special Report on the Organized Conventions.

- Special report on the details of the top five compensation.
- Special Report on Privileges granted to users.
- Special report on the development of the result of the last five years and the result according to the share or by the social share.
- Special report on internal control procedures.
- Special report in case of potential threat to continued exploitation.

2.8.3 Requirement: Methodology for implementing external audit:

The review methodology requires that the audit process be designed to facilitate and organize the audit process. The external auditor is required to follow three main steps:

Get general knowledge about the institution:

These steps are considered one of the most important steps for the implementation of the external audit. It is not possible to imagine a task to review the institution without allocating time to collect information and general data about this institution. Therefore, the external auditor begins its implementation of his mission to obtain general knowledge about the institution under review. By collecting The general information and information about it, because in the light of the results of this step limits the external auditor details of the subsequent steps to accomplish the task of the quality and amount of this information to be collected by the general[38].

This main step includes sub-steps illustrated in the following table:

Table (2.1): Getting general knowledge about the institution

1.Initial work and contacts with the Foundation	- Identification of external documents of the institution - Comparative elements between institutions

	- Dialogue with officials - Field visits - Identification of internal documents
2. Starting business	- Permanent file configuration - Preparation of the initial review program

Source: Mohamed Putin, Auditing and Control of Calculations from Theory to Practice, University Publications, Ben Aknoun, Algeria 2003, p. 68

The following sub-steps, contained in the figure above, are explained below:

1. Preliminary work and contacts with the Foundation: In this sub-step, the auditor collects information that enables him to identify.

On the nature of the institution and its administrative, financial and legal systems, through the following[39]:

- Review and study financial statements for sufficient number of previous years.
- Studying a number of the minutes of the Board of Directors and the general assembly of shareholders.
- Study and study some financial statements of similar institutions that have the same conditions and same activity.
- Study and analyze internal audit reports, and identify the internal audit management structure and responsibilities.
- Study the administrative structure of the institution and analysis of communication lines, authorities and responsibilities.

- Studying the working papers of the review of previous years.
- Studies and analysis of management policies of the institution, through the Special Policies Guide.
- Review the internal laws, regulations and regulations in the institution.
- To visit the institution to be reviewed, to identify and identify the various circumstances and conditions under which the institution operates, including (financial conditions, economic, social, public, and some of the accounting rules of the institution)[40].

2. Getting Started: Once the auditor completes the previous sub-steps, he or she will have full knowledge of the institution, through the information and data that he collected, and through which he prepares the permanent file for review. This file must be kept in the subjects of continuing interest. And to be able to prepare the initial audit program, which is a "work plan for the review, which is drawn up by the auditor with his assistants, including all the procedures Necessary to carry out its mission in the form of successive steps up to achieve its objectives and during the audit process, the planning machines that love to be studied and tested.

Analytical procedures help identify unusual transactions and events that may indicate that auditors also perform analytical procedures to draw attention to the essential definitions in the financial statements. Analytical procedures performed during the audit planning process may be used to identify fraud risks.

2.8.4 Examination and Evaluation of the Internal Control System:

International audit standards require that the auditor have sufficient understanding of the accounting system and internal control system and the risks involved in the planning and arrangement of operations. The auditor seeks two objectives to be examined and submitted to the internal control system:

- Identification of reliable control methods (so that it can determine the nature, scope and scope of the basic tests for review).

- Identify the fundamental weaknesses of the system that must be reported to the management of the institution.

2.8.5 Examination of accounts and financial statements:

This phase includes the examination of the accounts of the institution and this according to the relative importance of each account, as well as examining the financial statements of one unit in terms of form and content[41].

1. Examination of accounts:

The goal of this stage is to gather sufficient evidence and evidence to allow the auditor to give an opinion on the annual accounts.

2. Examination of financial statements of one unit:

The evaluation of the internal control and control system is not sufficient for the auditor to express an opinion on the financial statements as a single unit. Therefore, the auditor is obliged to conduct an analytical examination of the annual accounts.

2.8.6 End of mission and final report:

Before issuing a final assessment of the audit function, the auditor performs several end-of-task tasks that allow him to verify that he has not completed any important stage of his work, then compiles the audit results, and finally decides the nature of his opinion on the financial statements as a unit[42].

Four types of views have traditionally been issued in the report of the External Auditor:

a. Clean (non-conservative) opinion:

The report of the External Auditor, in which no reservations or references to any limitations on the scope of the examination is referred to, is a clean report or an unqualified report, which is the outcome of the external auditor's conviction in the light of the evidence he has gathered and evaluated that the financial statements and statements give an opinion And are fairly presented in all material respects in accordance with the applicable financial reporting framework.

b. Reserved Opinion:

The auditor may not be able to express a clean opinion when the following situations exist that may or may have a material impact on the financial statements:

- There is a limitation of the scope of reference work[34].
- There is no agreement with the management on the financial statements (acceptance of accounting policies or method of application or adequacy of disclosures in the financial statements).

  The situation in (a) above may lead to a conservative opinion or withholding of opinion, and the situation described in (b) above may lead to a conservative opinion or an opposing opinion.

  A conservative opinion is issued when the auditor determines that it is inappropriate to issue an unqualified opinion. At the same time, the impact of disagreement with the management or the scope of the audit is not so fundamental and comprehensive as to require the blocking of opinion or an opposing opinion. The reserved opinion is expressed as an "exception" , And the auditor's report should include a clear description of all significant reasons and significant impact in the financial statements, if possible, usually included in a separate paragraph preceding the opinion paragraph.

c. Opinion of rejection (abstention):

The opinion is rejected by a clearly justified refusal by the external auditor to approve the financial statements and is not prepared in all respects considered in accordance with the applicable accounting rules and principles.

The external auditor must clearly state in a paragraph before expressing the opinion that he or she has refused to ratify it and, where possible, to quantify it, in order to highlight its impact on the outcome and financial position of the institution[44].

d. The opposite view (negative):

Generally issued by the External Auditor in cases where the financial statements do not represent the fair results of the business of the Corporation and its financial position in accordance with generally accepted accounting principles. In order to issue this opinion, reservations must be of significant relative importance to the financial statements. The auditor shall obtain the necessary evidence and evidence To justify the opposing opinion.

CHAPTER 3

Basic Concepts of the Internal Control System

3.1 THE INTERNAL CONTROL SYSTEMS

Internal auditing is one of the basic elements that should be provided for any sound management organization in the institutions. The greater the scope of the institution's activity and the greater the need for an integrated internal control system that helps the administration achieve its objectives efficiently and effectively. From the achievement of the desired goals and is the starting point for him and the basis on which the basis of the preparation of the audit program and to determine the amount of tests that will be to address it was divided into three chapters as follows:

3.2 BASIC CONCEPTS ABOUT THE INTERNAL CONTROL SYSTEM

In this section we will address generalities about the internal control system. In the first requirement, we will address the concept of the internal control system, the definition and the characteristics, while the second requirement presented to the objectives and the importance of the internal control system, while the third requirement is the types and elements of the internal control system.(45)

3.2.1 Concept of Internal Control System

3.2.1.1 Definition of the internal control system

There are many definitions that dealt with the system of internal control and this is because of the multiple stages of development that passed through, including:

- The Audit Procedures Committee of the American Internal Auditors has defined internal control as: "the organizational plan and all the methods, methods and methods set by the management of the institution, which aims to preserve the assets and ensure the accuracy and validity of the accounting information and increase the degree of reliability and achieve operational efficiency and Enterprise.
- defined by the French Institute for Internal Audit and Control as a "system in the institution defined and defined and placed at its disposal a set of responsibilities, which includes a set of resources, behaviors, procedures and actions commensurate with the characteristics of each institution, And ensures the efficient use of available resources on the one hand and enables it to take into account in an appropriate manner all the risks affecting it, including operational and financial.
- The Institute of Internal Auditors has defined internal control as the organizational plan, records and procedures aimed at preserving the assets of the Corporation, ensuring the efficiency of its use, and ensuring the accuracy and accuracy of accounting records, in order to prepare reliable and prepared financial statements in accordance with generally accepted accounting principles.(46)

There are several factors that helped to develop the internal control, the most important of which are:

- The size of the institutions and the multiplicity of operations.
- The administration has to delegate the authorities and institutions to some of the subsidiary departments of the institution.
- The need for management and government agencies to provide accurate periodic data.

- Development of audit procedures.

3.2.1.2 Characteristics of the internal control system

For internal control systems to achieve their objectives effectively, they must have a set of basic characteristics:

- **Identify lines of authority and responsibility:**

It is important in any institution where a large number of individuals need to clearly define each of the lines of authority assigned to each individual and the lines and limits of their respective responsibilities. In this definition, each person is accountable and accountable for the performance of his or her duties. These powers and responsibilities in the institution helps to increase the effectiveness of the control of the various functions and functions.(47)

- **Separation of responsibilities:**

In preparing the organizational chart of the organization and preparing the manual of regulations and procedures, the importance of separating the responsibilities of the personnel working at different administrative levels should be taken into account because this principle is one of the most important characteristics of the internal control system. This system should be successful and effective in achieving its objectives. , It is important to minimize the possibility of fraud or unsupported errors, especially in accounting statements that are recorded on a judgmental basis on the assumption that there is no collusion between one or more employees to conceal a particular process or to make unsupported errors.To include the separation of the following tasks:

  - Preservation or possession of the asset.
  - Registration and evidence in the records.
  - Authority of accreditation, authorization or certification.

- **Staff efficiency:**

The efficiency of the internal control system depends on the degree of efficiency of the employees working in the institution and who are responsible for implementing these systems. Although the lines of authority, responsibility, health and integrity of the distribution of competencies are in accordance with the internal control system, this system may not succeed in achieving its objectives due to inefficiency Or the secretariat of the staff in the performance of their duties and responsibilities and therefore must be necessary qualifications of the staff of the institution.

- **Safety of records and process certification procedures:**

Information is obtained on the tasks and responsibilities performed for the purpose of evaluation, accounting and accountability of accounting and non-accounting records and books, which demonstrate the success of achieving the objectives and responsibilities assigned to the institution's specialists, so that the financial statements are the accounting tool for the achievement of the objectives as well as the estimated budgets and analytical tools The process of certification and accreditation of processes is of particular importance in evaluating and determining the responsibility of implementing the steps of any operation on a number of specialized personnel and also helps in the process of Decisions.(48)

- **Protection of assets and records:**

The organization must have the necessary procedures to protect and protect the assets and records from misuse, damage, theft, corruption, loss. For example, there should be a policy for the maintenance of machines and equipment to avoid losing their benefits at an early date. And are well connected and organized for easy access, and for records, they must be stored in appropriate and secure places to minimize the possibility of any modifications or damage.

- **Follow-up to compliance with the internal control system:**

The above characteristics will not achieve any benefits if the employees of the organization do not comply with the instructions and the principles of internal control. Therefore, institutions must establish procedures to verify the compliance of their employees with the instructions of the internal control system, for example, Be fully independent of other functions so that you can evaluate other functions properly and effectively.

3.2.2 The objectives of the internal control system

- **Enterprise Control:**

The control of the various activities of the institution, its factors of production, its costs, costs and revenues, and the various policies that have been established in order to achieve the objectives of the institution, should define its objectives, structures, methods and procedures in order to identify reliable information reflecting its true Create control over the various elements to be controlled.(49)

- **Asset Protection:**

The main objective of the internal control system is to protect the assets of the institution by imposing physical and accounting protection on all elements of assets (investments, stocks, rights). This protection enables the institution to maintain and preserve its assets from all possible risks. To achieve the goals set within the general policy of the institution.

- **Accuracy and reliability of accounting data:**

The accuracy and degree of reliance on accounting data, their suitability and integrity should be tested to ensure a good quality of information. This is under an information system that handles the data in order to obtain information results. The processing of these accounting data is carried out through the accounting information system for the operations resulting from the various activities of the institution. Operations through a series of steps including the authorization of operations, implementation and recording of the books and accounting for their results.

- **Promote work efficiently:**

The internal control system, with all its means within the organization, enables the efficient and efficient use of the organization's resources. It can be effective in controlling costs by reducing them to a minimum. However, the internal control system does not give the administration certain guarantees and only gives an improvement in the profitability of the institution.

- **Encourage adherence to management policies:**

The objectives of the institution are translated into a set of integrated policies covering the different aspects of the institution's activity, and the degree of commitment to these policies will be reflected in the achievement of the objectives of the institution.(50)

3.2.3 Types and elements of the internal control system

3.2.3.1 Internal control types is divided into three sections:

A. Administrative control:

The Audit Standards Committee oversees administrative oversight as the organizational plan and associated procedures and methods that specialize in the operations of the government, which lead the administration to impose its authority and control over these operations.

B. Administrative control elements:

- Define the main general objectives of the institution as well as the sub-goals at the departmental and departmental level, which help in achieving the objectives of the general public.
- Setting the control system organizational plan in the institution to ensure the achievement of the actions and steps and thus achieve the objectives set.
- The establishment of a system to assess the elements of activity in the institution of different types periodically at the beginning of each financial year to be the basis of these

estimates in the contract of comparisons and identify the negative deviations in particular, including:

  - Rules and bases of sales estimation.
  - Rules and bases of production estimation.
  - Rules and bases for estimating the elements of other expenses.
  - Rules and bases for estimating other revenue components.

- The establishment of a special system of policies, procedures and various elements of the institution to guide them, including:
  - Purchase policies and procedures.
  - Sales policies and procedures.
  - Production policies and procedures.
  - Employment policies and promotion for employees.
  - Pricing policies and procedures for the company's products.(51)
- The establishment of a special system for the decision-making process that ensures the safety of its implementation in a way that does not conflict with the interests of the institution and the objectives it aims to achieve, and on the basis that any decision is taken only on the basis of the relevant criteria and criteria and after thorough study justifies the necessity of taking such the decision.

C. Means of administrative control:

To achieve the objectives of administrative control, many tools can be used, the most important of which are the following:

- Statistical analysis and study of time and movement.

- Employee training programs and performance reports.
- Estimated budgets and quality control.
- Graphs and knowledge of typical costs (standard).

3.2.3.2 The elements of the internal control system:

The existence of a sound internal control system depends on the availability of a set of key elements and bases. These elements are divided into accounting and administrative components.

Accounting parameters of the control system:

These elements are in the presence of a sound accounting system that ensures accounting for all the activities of the institution and the preparation of financial statements and control of the various operations, including the following elements:

Accounting Manual:

Is a calculation plan that shows the main accounts and the subaccounts that fall under them, with an explanation of each account and the nature of the transactions that are recorded. There is no accounting guide for all institutions, but the guide varies according to the nature of its activity.

Integrated set of documents and books:

Documents and books shall be considered as one of the elements that constitute the accounting system of any institution, although different from the institution of others in terms of number and forms, but there are common standards must be taken into account when designing the most important of which are the following:

- The need to meet the legal requirements in terms of keeping the journal inventory at least and then hold from other books as required by the nature of the activity and size of the institution.
- The need for the document or book to serve a specific purpose, for example, it is wrong to hold a commercial bank daily sales.

- The need to digitize documents and pages of books before using them serially to facilitate the control of lost documents, and as a means to access documents when needed (eg at the time of review).
- The need to register at the time of the occurrence of the process or shortly thereafter since the existence of a time gap between the date of the operation and the date of registration of books lose credibility and increase the chances of errors.
- In the design of documents and books, the clarity and simplicity in order to be easy to understand for everyone who uses it.

Use of automated means:

The use of automated means leads to the completion of accounting work accurately and at a lower error rate and increases the efficiency of accounting work.

Actual inventory of assets:

All elements of an organization's assets are characterized by the possibility of their actual inventory, comparison with the accounting inventory, and the inventory and comparison process, which provides protection for these assets and ensures their conformity as accounting records.

Planning budgets:

Planning budgets are a control tool, on the basis of which what has already been achieved is compared to what is planned, and the management should analyze the significant deviations resulting from this comparison and take the correct measures necessary to prevent deviations and benefit from positive deviations.

Administrative components of the internal control system: The administrative components of the internal control system include the following:

A. Organizational Structure:

In order for the organizational structure to serve the objectives of monitoring the work of the institution, to ensure the proper functioning of the work and to eliminate the possibilities of misinformation and opportunities to exploit the power to tamper with the capabilities of the institution, it is necessary to clearly define the powers and separation in the performance of work as well as the separation of the retention of the asset and accounting in everything related to it.

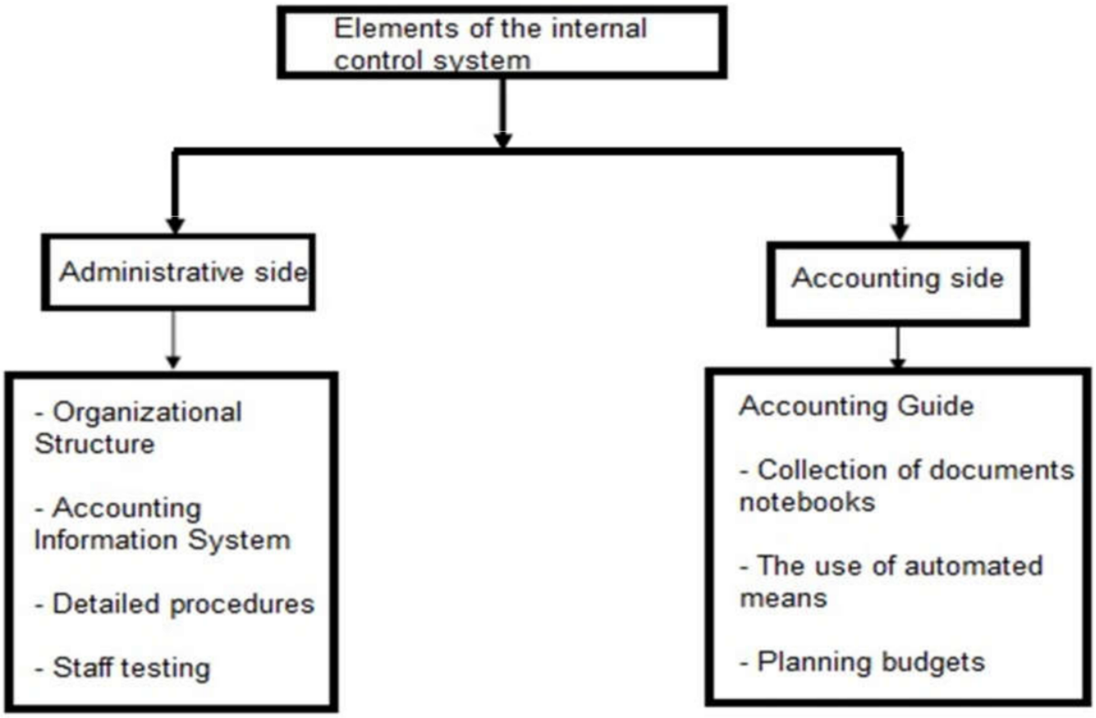
B. Selection of competent individuals:

Requires the presence of individuals with a degree of scientific qualification to carry out responsibilities, since the human element is important in the success of the internal control system, what is the benefit of a good organizational plan and good internal controls and there are no competent staff to implement them, therefore requires the involvement of staff training programs in their field to raise And new employees must be carefully chosen after appropriate tests on appointment.

C. Accounting Information System:

The accounting information system is one of the most important elements of the effective internal control system. The accounting information system operates in clear and legally prescribed ways and responds to the status and nature of the institution's activity. It ensures the type of automated control process and relies on a comprehensive set of accounting books and records. It is designed to facilitate the preparation of financial statements in the least effort possible and with the most accurate possible support of the internal control system.

Figure (3.1): Accounting Information System



Source: Boubaker Omiroush, Role of External Auditor in Risk Assessment and Improvement of Internal Control System for Inventory Operations within the Corporation, Master Thesis, Published, University of Setif, 2011, p. 88

It is noted from the form that the elements of the internal control system were divided into two parts. The first concerns the accounting aspect, which is based on the existence of a sound accounting system, and the second relates to the administrative aspect.

3.3 EVALUATION OF THE INTERNAL CONTROL SYSTEM

The review process starts from the study and evaluation of the internal control system in the institution because the result of this evaluation determines the scope and scope of the auditor's examination. Based on this evaluation, if the auditor finds that the internal control system is sound and effective, The auditor will be obliged to expand the scope and scope of the examination to perform the tasks entrusted to him. Therefore, this topic will discuss the components of the internal control system first, then the steps of evaluating the internal control system, as well as the evaluation methods of this system.

3.3.1 Components of the internal control system.

The components of the internal control system are considered as the basis for assessing the efficiency and effectiveness of the internal control structure of the organization.

1. **Control environment:**

The control environment means the procedures provided by the management of the institution, which in its general framework constitute the appropriate atmosphere for the audit work and enable the internal control body to perform its duties within a reasonable vision.

The positive regulatory environment is the basis for all standards, as it gives a system and an environment that affects the quality of the control systems and there are many factors affecting them, the most important ones.

- Integrity of management, staff and ethical values that they maintain.
- The commitment of the management to the efficiency of the research, maintaining a certain level of efficiency, allowing them to carry out their duties in addition to understanding the importance of developing and implementing effective internal control systems.
- Management philosophy, which means the management approach to accounting information systems and the management of individuals and others.
- The organizational structure of the institution, which defines the framework of the organization to plan, direct and control operations in order to achieve the objectives of the institution.
- The management of the institution in the delegation of powers and responsibilities.
- Effective human resources policies in terms of employment policies, training and others.

- Ownership relationship with the institution as well as stakeholder relationship.

2. Risk Assessment:

The risk assessment of the financial report represents management's definition and analysis of the risks inherent in the preparation of the financial statements in conformity with generally accepted accounting principles, not only financial statements and associated risks but also all activities. Risks can arise and change due to circumstances such as:

- Changes in the operational environment that can lead to significant changes in risks.
- New employees whose focus and understanding of internal control can be different.
- New or refurbished information systems can increase risks by internal control.
- New technology.

3. Oversight activities:

Policies and activities that help to ensure that the management instructions are implemented and the necessary actions have been taken to meet the risks related to achieving the objectives of the institution. The supervisory activities have many objectives and are applied at various organizational and functional levels. The auditing activities are policies and activities related to:

- Examination of the performance of the institution.
- Data processing.
- Separation of responsibilities depends on the actual presence.

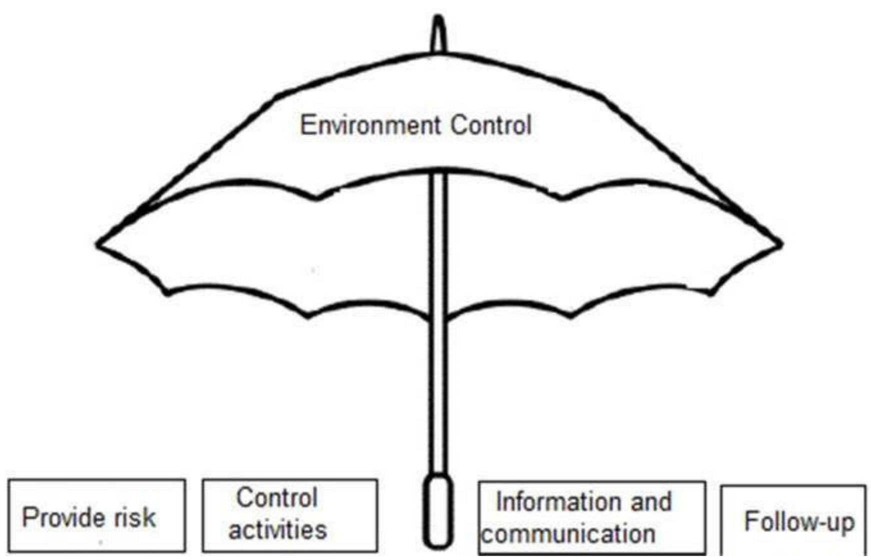
4. Information and communication:

Each institution must have permanent and relevant information about both internal and external events and activities in both financial and non-financial models. They should be appropriately identified by management and must be communicated to the individuals who need them in the form of a specific time frame that is appropriate to the performance of their functions, The information relevant to the financial report is recorded in the accounting system and is subject to the procedures of entry, registration, operation and reporting on the operations of the institution Information obtained through the system affects the ability of management to make appropriate decisions in monitoring the activities of the institution and preparing effective financial reports thereon.(52)

5. Continue:

Continuous monitoring and periodic evaluation of various parts or components of the internal control system to verify the efficiency, intent and effectiveness of the system. The frequency of follow-up and evaluation depends on the results of continuous follow-up and the risks associated with the control system and the nature of the institution's activities.

Figure (3.2): The following figure illustrates the five components of internal control:



Source: Alvin Owens, James Lubeck, Review Integrated Entrance, Dar Al-Marikh for Publishing and Distribution, Riyadh-Saudi Arabia, 2002, p

3.3.2 Study of internal control system

It can be said that the study of the internal control system takes the form of a multi-pronged program that complements each other. These main steps include:

3.3.2.1 Collection of procedures:

The internal control system is a comprehensive system and according to the general theory of systems, it consists of partial systems for various operations carried out by the institution and each partial system. According to the same theory, It is divided into partial systems and an example of the process of selling to customers. The auditor collects the written procedures if there is written about the sale process (such as the existence of a manual) to write a summary after a dialogue with those who have completed it.

It also draws up sequence maps and charts of used documents, information flows and interests. Open forms can be used that include questions that require an explanation of all aspects of the process.

3.3.2.2 Understanding Tests:

In this example, the auditor tries to understand the system and must make sure that he understands it by conducting understanding and matching tests, that is, making sure that he understands all of their parts and summarizes them after following them. In the example given (a process of selling to customers), the auditor takes some customer orders , Compare them with the goods delivery bonds, compare them with the sales invoices released and the inventory movements through the places concerned. This test is of limited importance. The purpose of this test is to make sure that the procedure is present and that it is a concept and is best summarized.(53)

3.3.2.3 Initial assessment of internal control:

Based on the previous two steps, the auditor is able to give an initial assessment of internal control and to extract in principle points of strength (safeguards that allow for good recording of operations) and weaknesses (defects resulting in the risk of errors and forgery), often using closed forms, (Yes yes, yes, no negative), so at the end of this step the auditor can identify the strengths and weaknesses of the system, in terms of any theoretical conception of the system in question.

3.3.2.4 Continuity tests:

Through this type of testing, the auditor makes sure that the strengths of the initial evaluation of the system are indeed strengths, which are applied in practice, on a continuous and permanent basis. Continuity tests are of paramount importance compared to understanding and conformity tests because they allow the auditor to be certain that the actions he has monitored Procedures that are applied continuously and do not carry the imbalance and renew the size of these tests after identifying the potential risks falling into the study of previous steps, and is a proof of good walking during the session and everywhere.

3.3.2.5 Final Evaluation of the Internal Control System:

Based on the above-mentioned continuity tests, the auditor is able to identify the weakness of the system and its malfunction when it detects the misapplication or non-application of the strengths. In addition to the weaknesses that were reached at the initial evaluation of the system, based on the results obtained, , Showing the implications for financial information with suggestions to improve procedures, this document is usually a report on internal control provided by the auditor to the Department, and is a positive aspect of his mission.

Sources of information that enable the auditor to understand the internal control system:

In order to understand the internal control system and to verify that the system is adequately and appropriately designed, the auditor performs the following procedures:

- Studying the previous working papers provides important information about the strengths and weaknesses of the internal control system and the use of his professional judgment and previous experience.
- Ask staff about internal controls and procedures for doing business.
- Examination of evidence, documents and records for transfer, retention and registration.

- Note the activity steps from beginning to end in order to gain an understanding of the internal control system.

3.3.3 Methods of evaluation of the internal control system

After the auditor understands the internal control system, the system is documented in different ways in order to refer to it when needed. One of the methods that can be used in this area is the following:

3.3.3.1 Survey questionnaire:

The auditor prepares a written list that includes separate sections for each type of activity and operations (such as cash operations) and elaborates the questions of this list so that he or she can analyze the answers received from the organization's employees about these questions.

The following table illustrates the internal control inspection list:

Table (3.1): Internal Control Inspection List on the regulatory body and the accounting system.

Questions	**Yes**	**No**
1. Is there a recent fee for the organizational structure? **2.** Is there a description of the jobs and the regulations of those responsible for them that indicate the following: **a.** Responsibilities and powers given to senior officials in the Corporation. **b.** Persons entitled to enter into transactions and implement them. **c.** Persons responsible for fixed assets. **d.** Persons responsible for financial control functions		

3. Are financial reports prepared periodically (eg one or three months) to allow comparison of account balances with estimated or estimated budgets? **4.** Is the budget estimates prepared in a way that enables effective comparison with the actual results, and is the decline of important deviations and explain the reasons? **5.** Are there regular meetings of the Governing Council to develop policies and objectives and review the achievements of the institution to take appropriate decisions, and whether to prepare a lecture for these meetings and are retained? **6.** For those responsible for cash possession: **a.** Are they being investigated before being nominated? **b.** Are they insured against bad faith? **c.** Is there cash on the way? **7.** Does the organization have accounting policies and procedures? **8.** Does the General Accountant's accounts hold persons whose duties do not include: **a.** Treatment of cash receipts, receipt of goods purchased, and shipment of finished goods. **b.** Signature of approval checks on invoices, approval of purchase orders. **c.** Keeping ledgers and supporting records.		

Source: Mohamed Mustafa Soliman, The Scientific and Practical Basis of Auditing, University House, Alexandria, Egypt, 2014, pp. 123-124

3.3.4 Flow charts:

Representation of the internal control system of any organization's operations in the form of a flow map (expressed in the form of symbols or drawings) showing the departments the departments responsible for performing the process (the source of the document and the person to whom it is sent), the documents prepared at each step, Tracking To process and complete, symbols can be added to the map illustrating conflicting functions and authorization and approval of the process.

3.3.5 Descriptive Report:

The descriptive report identifies and calculates the strengths and weaknesses used. The drawback is that it is difficult to follow the lengthy explanation of the control system and the difficulty of ensuring that it covers all the control system in that report.

3.4 THE RELATIONSHIP BETWEEN THE EXTERNAL AUDIT AND THE INTERNAL CONTROL SYSTEM

Extended the role of the external auditor to increase the effectiveness of the internal control system through the preparation of a report on the effectiveness and efficiency of this system rather than just a shortcut role on the assessment to determine the extent of reliability for the design of the audit program.

In this section, we discussed the first requirement of the auditor's responsibilities towards the internal control system. The second deals with the procedures of the internal control system, while the third relates to the relationship between the auditor and the internal control system.

3.4.1 The first requirement: the responsibility of the external auditor for the direction of the internal control system:

Since the internal control system is composed of accounting control, administrative control, and internal control, the auditor's responsibility for these systems is illustrated by the following:

3.4.1.1 Accounting Control:

The External Auditor is fully responsible for the examination and evaluation of the internal audit system because of its direct impact and close association with the nature of the work of the External Auditor. Undoubtedly, the reliability and error of the accounting data affects the degree of disclosure of the final accounts and financial statements, Which is a primary objective to be achieved from external audit, and the absence of the means of such accounting control or the failure of one of them, will lead to the increase of references from the quantity of tests and expand the points of review.

3.4.1.2 Administrative control:

As for administrative control, the auditor is not responsible for the study and evaluation, as this type of control aims to implement administrative policies according to the plan that has been developed. Therefore, the auditor's obligation to examine the internal control system will expand its responsibilities and put a heavy burden on it, The existence of an administrative control system that does not affect the audit program that it is developing.(54)

3.4.1.3 Internal settings:

The External Auditor is responsible for the examination and evaluation of internal control systems. The internal control system is known as the control and control systems for the day-to-day operations of the organization, which leads to the completion of any employee's completion and verification by another employee as this leads to the discovery of errors and fraud. And embezzlement. Since the external auditor is responsible for the detection of errors, fraud and embezzlement, he is responsible for examining the internal control system.

3.4.2 The procedures of the internal control system:

Internal controls are based on a set of procedures that assist in the good conduct of operations within the organization, mainly in both organizational and administrative procedures, accounting procedures and general procedures.

3.4.2.1 Organizational and administrative procedures:

To define the terms of reference of the department and the different departments so as not to interfere.

- The distribution of duties among employees so that one of them does not work from the beginning to the end, where the work of each employee under the control of another employee.
- The distribution of responsibilities clearly helps to determine the liability of error and negligence.

Division of labor between departments and employees so that the following functions are separated:

- The authorization function for approved operations.
- Operation function.
- Asset retention function.

Constraints and accounting function:

- Organize departments so that staff members who do one work meet in one room.
- Find a specific routine that includes the steps of each process in detail so as not to leave any opportunity for any employee to act personally to the consent of another responsible person.
- Give explicit instructions that each employee sign the documents as proof of his / her work.

- The movement of staff from time to time to interfere with the proper functioning of the work.
- The need for each employee to take the annual procedures at once, in order to find an opportunity for those who do his work during his absence to discover any manipulation in that work.

3.4.2.2 Accounting procedures:

These procedures are designed to avoid errors and fraud and provide useful and appropriate information. These procedures are as follows:

- Immediate and accurate recording of the transactions after obtaining the documents indicating them and confirming their authenticity.
- Issue instructions not to prove any document unless it is approved by responsible officers, accompanied by other supporting documents.
- The use of accounting machines, which facilitates calculation and reduces the probability of error and leads to the speed of completion of work.
- The use of periodic accounting balance instruments such as general audit balances and gross observation accounts.
- Procedures for periodic reconciliations between statements received from abroad and balances in books and records as in banks, suppliers and customer certifications.
- Conducting a sudden, periodic inventory of cash, goods and investments and matching it with the carrying balances.

3.4.2.3 General procedures:

These procedures are complementary to previous procedures, which are:

- Property insurance against all risks that may be exposed to it by nature.

- Insurance of employees who have a cash covenant or goods or securities against breach of trust.
- Develop a sound system for monitoring incoming and outgoing mail.
- The use of dual controls in respect of important operations in the organization such as signing checks, custody of cash safes.
- The use of the inspection system by a special section of the institution in cases where the nature of the assets required to be subject to manipulation and embezzlement and often require this authority in the Internal Audit Department.

3.4.3 The third requirement: the auditor's relationship with the internal control system:(55)

It is important to determine the basis of the relationship between the internal control system and the external audit, on the basis that the audit is concerned with measuring the effectiveness of internal control from achieving its objectives. For his part, the auditor is particularly interested in the extent of his certainty of the possibilities of internal control methods and tools in preventing material errors or tampering with Financial Statements.

The auditor's relationship with the internal control system is summarized in the following main elements:

3.4.3.1 Initial examination:

The auditor is interested in the initial examination of the internal control system in the institution in order to know the background and sufficient information about the environment in which the internal control system operates and the nature of the flow of financial operations through the elements of the accounting system in the institution.

3.4.3.2 Examination Result:

After the initial examination of the institution, the auditor may reach one of the following conclusions:

The first conclusion: not relying on the system of control: This after reaching the following results:

It is pointless to examine and evaluate the existing system in detail, and as such it is not generally appropriate in determining the scope of the basic tests for review.

Any detailed assessment or additional study of the system involved in the compliance test will cost much of the expected benefits of this test.

Based on these results, the auditor will rely on any new study or evaluation of the internal control system and thus design the basic testing program without completely relying on any of the internal control procedures followed by the institution.

3.4.3.3 Reliance on the control system:

The auditor reaches this conclusion when he considers that the internal control system applicable to the organization is reliable in the development of its audit program and should therefore continue to examine and evaluate it to determine the adequacy of the control methods and procedures in providing reasonable assurance that there are no material errors and irregularities.

3.4.3.4 Final Evaluation of the Internal Control System:

The auditor makes the final assessment in the light of the initial evaluation of the system and the results of the compliance tests of the control procedures and policies, and can therefore judge two elements of the audit:

- Determine the amount of detailed evidence relating to the balances of the financial statements to be obtained and this amount is of key importance for the audit process.
- Identify the weaknesses of the system, which must be communicated to the management of the institution.

3.4.3.5 Risks surrounding the audit process:

By evaluating the internal control system and preparing an appropriate audit evidence collection plan, the auditor aims to provide some assurance about the risks involved in expressing an opinion on the financial statements:

- Risks of material errors in accounting records.
- Risk of inadequate audit tests to detect these errors.

Where the auditor relies heavily on the internal control system to ensure that there are no fundamental errors or any irregularities in the accounting records, where we find the following:

- Minimizes the possibility of errors and irregularities if the components and the different internal control system are sound and strong and able to provide reliable accounting data.
- The discovery of risks and errors depends on the degree of professional care required by the auditor in the implementation of the examination procedures. Therefore, the auditor should adjust the nature and timing of the scope of the accounting and balance sheet tests to compensate for the weaknesses discovered when examining the system.

3.5 RESTRICTIONS:

There are many restrictions that restrict the extent of the auditor's reliance on the internal control system, the most important of which are:

- Errors may occur due to lack of understanding of some employees in the organization instructions and procedures for the internal control system.
- Errors may occur due to poor judgment and personal judgment of individuals working on certain processes and procedures and how to implement them.

Errors or deviations may occur as a result of collusion between two or more persons in order to manipulate accounting records and records. If this happens, the auditor can not rely on the control system to ensure that there are no irregularities or validity of the values presented in the financial statements.

Because of such constraints, the auditor should take them into consideration during the performance of the audit functions and when preparing the report, and his interest is on the elements, methods and tools of accounting control, although it is in the interest of the auditor to give some attention to administrative control, which helps to detect some of these errors.

CHAPTER 4

Field study in the Iraqi Islamic Bank in Baghdad

4.1 PREFACE

The establishment of the framework of the audit is not sufficient to enable the auditor to express neutral technical opinion. Rather, it depends on the integrity of the internal control system through its design and the proper operation of its subsidiary systems.

After we obtained the knowledge related to external audit and internal control and the relationship between them in the theoretical part of this study, we saw the need to employ this knowledge through dropping it on the ground and especially the Office of promotion and management in the Iraqi Islamic Bank due to the large volume of transactions.

This is through the study and evaluation of the internal control system in the institution based on various tools to understand and document this system to discover and analyze strengths and weaknesses on the one hand, and finding appropriate solutions on the other hand, in coordination with the Office of the External Auditor supervising the review of the institution, so that the study more credible and clear.

Based on the above, this chapter has been divided into three sections, namely:

The first topic: generalities about the historical development of the Iraqi banking system.

The second topic: The reality of the internal control system of the Sharia Supervision Office in the Islamic Bank in Baghdad.

The third topic: The role of external auditing in the evaluation of the internal control system.

4.2 GENERALITIES ABOUT THE HISTORICAL DEVELOPMENT OF THE IRAQI BANKING SYSTEM

The Iraqi banking sector has emerged since the 19th century as a private sector comprising a group of Iraqi banks and branches of 17 Arab and foreign banks. Later, the establishment of a government banking sector was established, with the establishment of the Industrial and Agricultural Banks in 1935; the Rafidain Bank in 1941. And the Central Bank of Iraq in 1947, the Real Estate Bank in 1948 to operate government banks and private banks on a competitive basis to provide the best service to the public.

This was followed by the nationalization of private banks in 1964 and the formation of four banking groups that were attached to the Commercial Bank of Iraq, which was merged with Rafidain Bank in 1974. And then the establishment of the Rashid Bank in 1988 to rid the first bank from facing the problems of external indebtedness guaranteed by the first bank and inability to repay.

Law No. 12 of 1991 amending the Law of the Central Bank of Iraq No. 64 of 1976 to allow the private sector to re-establish private banks that started in two banks in 1992 and ended in 36 banks in 2010 along with seven government commercial and specialized banks.

A new Banking Law No. 94 of 2004 was issued allowing foreign banks to operate in Iraq according to the following banking forms:

The establishment of a banking entity owned by the full achievements and treated the Iraqi banks in terms of rights and obligations The number of foreign banks in Iraq four banks:

- Participation in the capital of Iraqi banks and without borders.
- Opening representative offices to identify the services provided by the parent bank and promote these services and study the local market.

The Bank was established as a private shareholding company under the establishment license issued by the Central Bank of Iraq and numbered 26073 on 5/5/2005 with a capital of JD (25) billion fully paid. The approval of the Central Bank of Iraq The bank intervened in the sale and purchase of foreign currencies according to the license issued No. 9/3/2641 on 26/9/2005, but the security conditions prevented the practice of actual banking activity until April 2010 after the change of owners and the relative improvement of security conditions in the country, The bank's money increased from (25) billion dinars to (50) billion dinars on The bank completed its capital increase to (251) billion dinars on 29/8/2013, and to (100) billion dinars on 14/8/2011 and then to (150) billion dinars on 22/10/2012. According to the time limits stipulated in the instructions of the Central Bank of Iraq .. on the capital of the paid bank.(57)

4.3 THE REALITY OF THE INTERNAL CONTROL SYSTEM OF THE SHARIA SUPERVISION OFFICE IN THE ISLAMIC BANK IN BAGHDAD

4.3.1.1 The concept of Shari'a supervision and its objectives:

The purpose of Shari'ah supervision is to follow, examine and analyze all acts, behaviors and behaviors of individuals, groups, institutions, units and others to ensure that they are carried out in accordance with the provisions and rules of Islamic Shari'a by using appropriate legal means and methods, Development for the better.

The previous concept includes the main features and objectives of the Shari'a supervision, the most prominent of which are the following:

1. Shari'a Supervisory operations are as follows:

- Follow-up of all actions and behaviors of individuals, groups, institutions and others.
- Examined and reviewed in light of the provisions and rules of Islamic law.
- Analysis and statement of violations, errors and shortcomings and make recommendations to correct them.
- The general opinion and evaluation of the extent of compliance with the provisions and rules of Islamic law.

- Finally, make the necessary suggestions and recommendations for treatment and determine the appropriate penalties for the cause of violations and mistakes for development for the better.

2. The application of the supervision of the legitimacy of individuals, companies, institutions and government units .. And others that belong to Islam doctrine and Sharia and the system and application is not limited to apply to the field without a field or people without people.
3. The reference to the Shari'ah control in the set of rules and provisions derived from the Koran and the Sunna and other sources of Islamic law as well as fatwas issued by the mosques jurisprudence and Fatwa legitimacy in the newly created.
4. The forensic observer shall use the means and methods to enable him to act when he is legitimate. The choice shall depend on the circumstances of time and place and the nature of the observed thing.
5. The purpose and purpose of the Shariah supervision is to assist, direct and guide those who are concerned about the commitment to the law of Allah and help them in this regard and correct the irregularities and correct the error first.
6. The supervision of the legitimacy of a group of jurists, scholars and experts are independent and impartial and the decision is binding and enforceable.

Scope of application of Shari'a supervision:

Shari'a supervision is applied to individual Muslims or groups or institutions according to the system of Hesba. But recently, after the establishment of Islamic financial institutions and institutions, the issue of Shari'a supervision has emerged in front of people. It has become known that Shari'a supervision is associated with Islamic financial institutions only. Application to individuals and governments, to acts of worship and transactions, to institutions and corporations, to bodies and organizations.

It is noted that in the Islamic State, the supervision of the Sharia was one of the most important functions and responsibilities of the ruler, and was carried out by various organs, including the system of Hesba, which is based on the idea of the promotion of Virtue and Prevention of Vice and was one of the most important reassurance that people adhere to the law of Islam in the field of worship and transactions.

The objectives of Shari'a supervision in Islamic financial institutions:

The main objectives of Shari'a supervision in financial institutions are as follows:

1. Statement of the solution or inviolability of transactions carried out by Islamic financial institutions to apply halal and avoid haraam.
2. Stimulate the Islamic financial institutions for all its clients and others to abide by the provisions and rules of Islamic Sharia.
3. Assure that the policies, plans, basic systems and various internal regulations have been prepared in accordance with the provisions and rules of Islamic law and the absorption of everything that opposes and consider it void that happened and call for accountability of the deliberate violation.
4. Ensure that the selection and selection of employees have been in accordance with Islamic standards and these standards relate to personal training and scientific and practical qualification for them.
5. Ensure that the development of contracts and the design of systems and forms, records, cards and others have been in accordance with the provisions and rules of Islamic law.
6. To achieve continuous follow-up and review and analysis to ensure the implementation of the work is in accordance with the provisions and rules of Islamic law and to identify problems and difficulties and ways to overcome them.

4.3.2 The Regulatory Status of the Sharia Supervisory Board in Islamic Financial Institutions:

The subject of the administrative and functional organization of the Shari'ah Supervisory Board in the Islamic financial institutions is still a study and research solution. It varies from institution to institution and from country to country.

1. There is no legal oversight body within the organizational structure, but there is a legal advisor from abroad who resorted to it when necessary according to the legal advisor and economic advisor. This model exists in the very small Islamic financial institutions.

2. The presence of a legitimate control within the organizational structure, but meets periodically at the request or need, and there is no legitimate observer is in the institution all the time, and the supervision of the Sharia Department of Internal Audit, this model exists in medium-sized financial institutions, Internal Audit has the responsibility of auditing the financial, administrative and legal together, and the head of this section to contact the Shari'a Supervisory Board when necessary or necessary through the Director General of the institution.

3. The presence of a legitimate oversight within the organizational structure and appoint a legitimate observer and his assistants all the time to do all the functions of the supervision of the legitimacy as we will clarify shortly, and this model exists in the large Islamic financial institutions old, and on the next page an organizational chart to receive further clarification on This model, which we favor in the field of practical application.

4.3.3 Duties of the Sharia Supervisory Board in Islamic Financial Institutions:

We have already explained that the formation of the Shari'a Supervisory Board in the Islamic financial institutions consists of:

1. Board of the Shari'a Supervisory Board.

2. The legitimate observer.

3. Assistants of the forensic observer.

The following is a brief summary of the nature of the functions of this composition

First: Functions of the Board of the Shari'a Supervisory Board:

The most important functions of the Shari'a Supervisory Board include the following:

- Determining the financial and other matters to be presented to them to issue the fatwa against them or refer them to the mosques and jurisprudence centers.
- Review the fatwas in force before, and follow-up practices and activities in the Islamic financial institutions to ensure their conformity, and may request all the data to be assigned to the performance of its mission, through reports received from the Controller and his collaborators.
- Consideration of any Muslim progress in regard to what he sees the legitimacy of a particular transaction of Islamic financial institutions.
- Submit an annual report to the Board of Directors showing the extent of compliance with the provisions and rules of Islamic law in transactions that took place during the period.(60)
- Submit an annual report to the General Assembly of shareholders or the like in the form of a certificate showing the extent of compliance with the provisions and rules of Islamic law in transactions.
- Cooperation with the various regulatory bodies in achieving the interests of the Islamic financial institution.
- Responding to the statement of the legal provisions in the economic issues that were found and forwarded to the specialized jurisprudence councils.
- Find an Islamic alternative to transactions that are found to be contrary to the provisions and rules of Islamic law.

- Offering new formulas for Islamic transactions, to enrich the experience of Islamic financial institutions.

Second: Among the most important tasks that can be done by the assistants of the legitimate observer are the following:

- Checking and reviewing documents, books, records, files, contracts and agreements to ensure that they are in conformity with the rules and rules of the Islamic Shari'a and the fatwas issued by the new transactions.
- Statement of observations, irregularities, errors and shortcomings in the implementation of the provisions and rules and advisory opinions and inform them to the executors through the legitimate observer.
- Provide recommendations, guidance and advice necessary to rectify violations and errors to avoid future occurrence.
- Compilation of issues that need answers or fatwas and raise them to the legitimate observer to take necessary towards them.
- Attending some meetings related to the issue of fatwa and Sharia supervision such as meetings of the Internal Audit and External Audit Section.
- Assist the forensic controller in certain matters of a special nature if requested by them.
- Prepare periodic reports to the legitimate observer on the results of the Shari'a monitoring process and evaluate performance in general from the Shari'a perspective.
- Follow up on the implementation of decisions and recommendations of the Shari'a Supervisory Board and the Shari'a Supervisory Board.
- Any other work entrusted to them and within the scope of the advisory opinion and supervision.

The stages and procedures of Shari'ah supervision in Islamic financial institutions:

Shari'a supervision in Islamic financial institutions is carried out in three basic stages:

- Prior supervision before implementation.
- Synchronized control (utilities) with implementation.
- Subsequent control after implementation.

The following is a brief summary of the implementation procedures for each phase.

- The previous control: It is the study and research issues referred to the Commission before implementation to express the opinion of the Islamic and indicate the extent of its approval of the provisions and rules of Islamic law and this is a real implementation of the principle of consultation in Islam, which achieves preventive censorship.
- Concurrent control: (Accompanying) is to follow up the Shari'ah Supervisory Board business first-hand and on its own to verify that the financial institution adheres to the rules and provisions of Islamic Sharia and the fatwas issued by it and others and respond to questions and clarify the practical aspects of fatwas and thus able to pursue the deviation in The time of occurrence and prevention before it is overflowing, and therefore called the simultaneous or accompanying control.
- Subsequent control: The Shari'a Supervisory Board supervises the operations carried out by the financial institution after completing and completing them in order to ensure that they comply with the rules and provisions of the Islamic Shari'a and that these works have already been presented to the Authority and issued the fatwa.

In order for the Shari'a Supervisory Board to perform these tasks, the following are required:

1. Develop sound planning that includes the policies and plans of the Authority in the control work such as:

- Planning meetings of the periodic supervision of Sharia.
- Planning the work of forensic monitoring and the work of his assistants.

2. The legal supervision program for the forensic observer and his assistants shall include the following:

   - Program of monitoring activities by departments and sections of the Islamic financial institution.
   - Timetable that includes the timing of the control process.

3. Developing data and information collection models to facilitate the process of Shari'a supervision.
4. Forming the forms of the Shari'a Supervisory Reports, which includes what is shown on the following page:

   - Processes that have been legitimately reviewed.
   - Observations that emerged during the review process.
   - What has been done about these observations?
   - Recommendations, instructions and advice to deal with irregularities and errors and punish the culprit.

4.3.4 Examples of Reports of the Sharia Supervisory Board in Islamic Banks:

The contracts for the establishment of Islamic banks as well as the statutes and regulations stipulate that the bank shall have a Shari'a Supervisory Board. It shall prepare at the end of the financial year a detailed report submitted to the Board of Directors and a brief summary submitted to the General Assembly with the annual report of the Board of Directors and the annual report of the auditor.

There is no unified model for the Shari'a Supervisory Board, but it differs from one body to another and from one country to another, but the content is one. The most important thing that should be mentioned in this report is the following information:

- Whether the Islamic Bank has a guide to the fatwas and the legitimacy on which it is going to work or not.
- Whether the Shari'a Supervisory Board of its organs has reviewed the procedures, transactions, acts and other acts done by the Bank and ascertained that they are in conformity with the provisions and rules of Islamic Shari'a and fatwas issued in this regard.
- Whether the recommendations and observations of the Commission during the year have been taken into practice.
- Offers the Commission contracts and agreements consistent with the recommendations and advisory opinions and that all this is in accordance with the provisions of Islamic law.
- The Commission has been briefed on the budget papers and discussed with the management of the bank and it has been evaluated according to the rules of the calendar in Islam and they represent the present in the present.
- The Authority has reviewed the terms of the profit and loss account reflecting the costs and expenses specified in accordance with the provisions and rules of Islamic Sharia.
- The distribution of profits between depositors and shareholders has been in accordance with the Islamic Mudaraba contracts and this is in accordance with the provisions of Islamic Sharia.
- The system of calculating the Zakat for both depositors and shareholders has been in accordance with the agreed bases and notified to them.

4.4 THE ROLE OF EXTERNAL AUDITING IN THE EVALUATION OF THE INTERNAL CONTROL SYSTEM

4.4.1 The first requirement: Evaluation of the internal control system at the Shari'a Supervisory Board in the Islamic Bank of Iraq:

In order to evaluate the internal control system of the Promotion Bureau, we have prepared survey lists for the regulatory body, the accounting system and the procurement cycle, which are considered methods of evaluating the internal control system. They contain closed questions where the answer is "yes" or "no" Both the Human Resources Department, the Finance and Accounting Department and the Public Utilities Department.

4.4.1.1 First: A special survey list The regulatory body and the accounting system:

Answered by the Human Resources Department and the Accounting Department.

The questions were in the following table:

Table (4.1): Survey of the regulatory body and the accounting system.

Number	Questions	Yes	no
1	Is there a recent chart of the organizational structure?		X
2	Is there a precise identification of relationships within the institution?		X
3	Are budget estimates prepared and compared to account balances?	X	
4	Is there sufficient insurance on the institution's assets in accordance with the management's instructions?	X	

Number	Questions	Yes	no
5	Are there regular meetings of the Board of Directors to formulate policies and objectives, and review the achievements of the institution to make the appropriate decision?	X	
6	Does the organization have written accounting policies and procedures, and are those policies and procedures communicated to employees?	X	
7	Does the management of the institution discuss the internal control system to determine its accuracy and suitability?		X
8	Are the hardware and software used to generate accounting information consistent with the organization's internal control system?	X	
9	Are other ledgers and records stored in a safe place?	X	
10	Does the general ledger hold persons whose duties do not include the following: - Receipt processing. - Signature of checks. - Record keeping assistance.		X
11	Are accounting books kept by qualified and experienced persons?	X	
12	Are daily restrictions reviewed and approved by specific individuals and at the appropriate level of the institution's apparatus?	X	
13	Are the persons designated to review and approve daily entries independent of their processing?	X	

Number	Questions	Yes	no
14	Do you explain all the accounting restrictions and supports the extender?	X	
15	Are all accounting restrictions subject to certain controls to ensure that the accounting cycle is complete?	X	
16	Are the data subject to a comprehensive review, including a comparison with the prior period by the responsible levels of the organization prior to the release of such data?	X	

Source: Ghassan Falah Al-Matarna, Contemporary Theory Auditing, Dar Al-Masirah Publishing and Distribution, 2006, p. 218

Evaluation: Based on the responses of the regulatory and accounting system survey, the internal control system can be assessed as the "yes" responses represent strengths for the internal control system, while the "no" answers are weak points.

Strengths: These are:

- To prepare estimates each year and compare them with the actual results, in order to detect deviations in time and work on their knowledge to reach the desired results.
- The presence of security coverage on the assets of the institution, which helps them to protect their assets from the losses that may be incurred.
- Regular meetings of the Board of Directors to periodically develop policies and objectives and to inform employees about them, and review the achievements of the institution with a view to making the appropriate decision, which makes the internal control system flexible to adapt to developments.
- The presence of sophisticated devices and programs and the provision of accurate accounting information, which makes the system of internal control efficient and effective in the institution.

- Accounting books and accounting documents by qualified and experienced persons, as it is a very important task because it increases the quality and performance of the internal control system, where the greater the ability and qualification of the people entrusted with the process of keeping books, the less errors and defects in this system.

Weaknesses: These are:

- The absence of a modern drawing of the organizational structure of the institution, which indicates the lack of separation between functions and functions as appropriate.
- There is no precise identification of relations within the institution, which leads to the failure to separate responsibilities in the appropriate manner.
- Do not discuss the internal control system by the management of the institution to see the accuracy and suitability.
- The General Ledger shall hold persons from the Accounting Department whose duties are to deal with receipts and to maintain records. These functions are sensitive.
-

4.4.1.2 Second: A survey list related to the procurement system:

It was answered by the Public Utilities Authority, the Finance Department and the Accounting Department.

The questions were in the following table:

Table(4.2): Inspection list for the procurement system.

Number	**Questions**	**Yes**	**no**
1	Is there a special interest in procurement that meets the purchase orders of different departments and interests in the institution?		X

Number	Questions	Yes	no
2	Is there a record of purchases received?	X	
3	Are purchase orders prepared based on the approval of a responsible person?	X	
4	Are orders pre-numbered and monitored for physical and numerical use?	X	
5	Are purchases over a certain amount subject to tender?	X	
6	Are registered purchases supported by documents authenticated by certain parties?	X	
7	Are the Receiving Receivers independent of the purchasing department?		X
8	Are the delayed purchase orders being followed up on the date of receipt?	X	
9	Is each receipt done by the Receiving Department?		X
10	Is a receipt for each entry? Are they sued, dated, pre-numbered, and monitored?	X	
11	Does the Receiving Authority keep a copy of the receipt of the receipt?	X	
12	Does the receipt show information indicating the partial receipt of the order?	X	

Number	Questions	Yes	no
13	Does the form of the invoice be monitored formally and conform to legally recognized standards?	X	
14	Are invoices delivered as soon as they reach the storage department and to the persons charged?		X
15	Is there a continuous follow-up to the suppliers' course by registering in the Help Journals, Payment, and Settlement?	X	
16	Do you compare statements of accounts sent by suppliers to individual documents or accounts?	X	
17	Are checkers independent of: - Purchase interest. - Who hold the payment diary?	X	
18	Are purchases registered with the Accounting Department as soon as they occur?		X
19	Is there a comparison between physical inventory results and accounting inventory results?	X	

Source: Mohamed Putin, Audit and Control of Calculations from Theory to Practice, University Publications, Ben Aknoun, Algeria, 2003, pp. 109

Evaluation: Based on the responses of the procurement system survey list, the internal control system can be assessed as the "yes" responses represent strengths for the internal control system, while the "no" answers are weak points.

Strengths: These are:

- Identification of the requirements of supplies that are pre-defined and approved by all departments, departments and departments.
- Use pre-numbered, validated and monitored orders.
- The existence of effective procedures for selecting suppliers through tenders, and the study of the proposed prices to ensure that their selection was sound, and this allows to obtain purchases at the right price and the best quality.
- Consolidate purchases recorded by documents (application receipt, invoice, receipt ...) approved and approved by certain entities in order to support and prove all operations performed by them.
- Follow-up purchase orders late receipt, this helps to know the needs that are not covered and make appropriate decisions.
- A receipt for each dated entry, dated and prepaid, to ensure that the incoming quantities are the quantities shown on the invoices.
- The partial receipt of the order through the information shown on the receipt, in order to avoid repeating the payment again when receiving the remaining parts of the order.
- Checking the form of the invoice in terms of formality and conforming to the legally recognized specifications, which must be prepared according to the conditions specified in Decree 468/05.
- Comparison of the accounts sent by the suppliers with the documents and their individual accounts, as well as the continuous follow up of these accounts through the registration in the supporting diaries, payment, settlement.
- A comparison between the physical inventory results and the accounting inventory, leading to the discovery of the differences between what actually exists and what is

recorded in the books in order to achieve the efficiency and effectiveness of the internal control system.

Weaknesses: These are:

- There is no special procurement department. Any employee from the General Authority can make the purchase.
- Disabling the functions of departments and interests, and this is because of the lack of at least three offers to choose suppliers because the lack of this requirement paid the Office of Promotion to the announcement of a tender or consult or identify three suppliers and to address them to submit their bids, this may delay the purchase.
- The employees of the Receiving Department shall not be separated from the workers of the purchasing department.
- Storage department is responsible for the receipt and this is evidence of overlap and lack of good separation of tasks in this system.
- Non-delivery of invoices as soon as they reach the storage department and to the persons charged, this is evidence of poor control.

Not to register the accounting of the financial process as soon as it occurs, and register at the end of each month, provided that the Accounting Department obtains all supporting documents.

4.4.1.3 Survey results:

Through the surveys designed to evaluate the internal control system in the Office of the promotion and management of real estate and try to stand on the strengths and weaknesses, as the answers that are "yes" reflect the strengths of the system, and the answers that are "no" reflect weaknesses in the system, That there is a lack of separation between some functions and functions, which may expose the Promotion Board to the risk of embezzlement and manipulation of the existence of overlap in some of the tasks to be separated, in addition to some weaknesses and to take appropriate action and adjustments, but this does not deny the existence of strengths in the system The institution should increase the Reliance upon.

4.5 THE RELATIONSHIP OF THE EXTERNAL AUDITOR WITH THE INTERNAL CONTROL SYSTEM

After reviewing and evaluating the internal control system of the BSC, we conducted an interview with the external auditor supervising its audit by asking a number of previous questions in order to give credibility and clarity to this study. The results of this interview were as follows:

1. Yes, the adoption of an external audit based on accepted and generally accepted standards will improve the usefulness of the financial statements:

   This is done through the auditor's opinion on the fairness and expression of the financial statements on the financial reality of the institution and the extent to which accounting principles are applied in the preparation of these lists. Therefore, the decisions taken by the users of these lists will be based on this report, making these decisions beneficial to their owners.

2. Yes, the presence of the external auditor in the institution improves the quality of the audit process:

   The frequent presence of the external auditor of the institution under review enables him to obtain a great deal of information about the institution and makes his impartial technical report on the internal control system more credible.

3. Yes The report of the External Auditor contains a neutral technical opinion:

   The availability of independence, impartiality and the attention of the auditor in the performance of his duties ensures the quality of the information contained in his report and thus meet the needs of the users of the accounting information and this is represented in the honest expression of the information contained in the financial statements.

4. Yes The External Auditor in his report refers to all abuses, manipulations and errors:

   Because these signals help users of accounting information to make the most effective and sound decision.

5. Yes The process of studying and evaluating the internal control system is essential when conducting the audit:

   This is in order to determine the efficiency of the system, since the good review process of the system makes it an effective system in the institution and enhance the effectiveness of its performance. The internal auditor is obliged to submit the internal control report to the external auditor because the external auditor relies on the internal auditor's report on the internal control system. Internal Control Report We noted the following:

   - Material inventory mismatch with inventory accounting for both investments and inventories.
   - Some accounts such as Account 300058 and 411060 appear to be any negative credit, since they can not be credit because they are accounts by nature.
   - There are many accounts without names, as well as the use of accounts in some cases only.

6. Yes The auditor follows a systematic plan in evaluating the internal control system:

   This is in order to access the information he wants about the institution and to gain time in the review process and give a fair report about the institution.

7. Yes The external auditor shall verify the efficiency of the accounting body of the institution:

   The goal is to feel comfortable once he knows an acceptable degree of organization in the interest of accounting and this will inevitably help him and reduce the difficulty of searching for the information he will need in the review process.

8. Yes The External Auditor is responsible for assessing the internal control system of the institution under review:

   This has an important impact on the design, planning and execution of the audit process in an effective manner as well as protecting the institution's monetary and non-monetary assets from embezzlement, manipulation and error detection.

9. Points of focus of the External Auditor on his examination of the internal control system:

9.1 The External Auditor, when examining the internal control system, focuses on respect for legal and legal forms:

The external auditor must verify the keeping of the signatures and the continuous updating of the legal and legal books and records, for example the public journal, the inventory book, all the records imposed by the applicable law, and the regular record of attendance of the board of directors.

9.2 In evaluating the internal control system, the External Auditor focuses on the key components of the internal control system:

- Regulation: The external auditor checks the definition of responsibilities and the division of tasks based on the mutual implementation of the task, as well as the professions, which are based on the lack of consensus between two acts such as storekeeper and treasurer.
- Information and Documentation System: The existence of written procedures is established daily and clearly defined, as well as that the information documents are printed and semi-numbered in a manner that allows exploitation.

Evidence system: This system should only allow recruitment, implementation and registration of regulatory and appropriate transactions.

- Physical means of protection: checks the existence of means related to protection against theft, waste.
- Staff: The auditor should evaluate the initial and ongoing renewal and configuration procedures, the wage policy, the periodic monitoring and evaluation of the activity.

9.3 In evaluating the internal control system at the internal control level, When examining and evaluating the system, the auditor assesses the ability of the systems and procedures of the audited institution to generate financial conditions that provide a high level of credibility.

10. The auditor works to discover the strengths and weaknesses as well as cases of fraud and errors in the internal control system:

    The external auditor studied and evaluated the system of internal control in order to identify the strengths and weaknesses of the system, in order to guide the institution to increase reliance on the strengths and verify the progress and continuity of these points, and avoid their weaknesses, as well as detect the areas of fraud and errors, The credibility of the problematic elements of the financial statements, but if the excesses are of a degree of gravity and affect the property of the institution, the external auditor refuses the certificate and lodges a complaint with the agent of the Republic.

11. The External Auditor shall not prepare a final report on his evaluation of the internal control system:

    He only gave a general report on the validity of the accounts and financial statements, although he studied the internal control system of the institution. This was due to its reliance on the internal control report prepared by the internal auditor, because they both had the same points in evaluating the internal control system.

CHAPTER 5

5.1 CONCLUSION

After our analysis and analysis of the various aspects of the subject in its three chapters, we reached the following results:

- The main objective of the external audit is to give an opinion on the reliability of the accounts and financial statements.
- The audit profession requires the external auditor to exercise proper professional performance in accordance with generally accepted accounting principles, generally accepted auditing standards, and professional codes of conduct.
- Proper planning and supervision of the external audit process provides adequate assurance to users of the information on their certification.
- The external audit test the compliance with the policy and regulations and laws established, and review the various activities and all procedures and processes to verify their adequacy and regularity.
- Internal control is a set of procedures, instructions and laws developed by the management to ensure control of the functions of the institution in order to achieve effective management of financial and administrative operations, which the latter of the internal control system is a tool for governance and control.
- The main objective of internal control is to ensure the accuracy and accuracy of financial and accounting information necessary for decision making, as well as the ability of the institution to protect its property.
- It is not the responsibility of the auditor to establish or maintain the system of internal control, but the management of the institution is responsible for establishing a proper

system of internal control, and it is its duty to maintain this system and to be observed by all employees of the institution. Inform the management of strengths and weaknesses.

- The neglect of the process of studying and evaluating the internal control system by the external auditor of the institution is a failure in the performance of its duties because it has an important impact in the design of the audit program of the tests and procedures intended by the auditor.
- There are steps to assess the internal control system that the external auditor follows, including the initial understanding of the internal control activities to assist in planning and performing the audit, and when the evaluation process for the internal control system is appropriate for the external auditor to be relied on.
- The results of the study and analysis showed the weakness of the internal control system in the institution. The reason for this weakness is:
    - Do not accurately describe the relationships and responsibilities within the institution as appropriate.
    - Do not discuss the internal control system by the management of the institution to see the accuracy and suitability.
    - Interference and lack of good separation of tasks in accordance with the activity of the institution.
    - Non-delivery of invoices as soon as they reach the storage department and to the persons charged.
    - Immediate recording of financial transactions.
    - The External Auditor has not prepared a final report on his evaluation of the internal control system.

In the case of testing hypotheses, the processing of the research led to the following:

The first hypothesis: External audit is to discover and highlight the strengths and weaknesses of the internal control system. The purpose of evaluating the internal control system is to demonstrate its effectiveness.

The second hypothesis is that the internal control system is evaluated by appropriate methods and tools, including the survey lists. In the second and third chapters, the study concludes that the internal control system is evaluated through survey lists, written descriptions and flow maps.

As for the third hypothesis, we find that the effectiveness of the internal control system is the main determinant of the scope of the review process and the size of the sample being studied.

5.2 RECOMMENDATIONS

Through our study of the subject, we propose the following recommendations:

- The need to adopt the external audit as a control tool, in order to verify the validity and validity of the financial statements and financial statements of the institution.
- The need for scientific and practical qualification of the auditor, which leads to the implementation of the audit process efficiently.
- In order to achieve audit objectives, the auditor must ensure that there is an effective internal control system.
- The importance of the external auditor's compliance with field work standards so that he can perform the audit efficiently.
- The need to pay attention to the examination and evaluation of the system of internal control, as the examination of the system is the cornerstone of the work of the External Auditor.
- The need to establish a precise identification of relations within this institution in order to determine the responsibilities of each individual or party and know the gaps in each level.

- The necessity of equal physical inventory with the accounting inventory, and this allows to provide protection for these assets and ensure their conformity as registered accountant.
- The necessity of naming accounts and this is to facilitate their understanding and knowledge of their intention.
- The management of the institution must meet to analyze the system of internal control and identify deviations to address the mistakes of the present and to benefit from them in the future in order to avoid falling where they strengthen the strengths of the system and exit procedures.
- Correcting weaknesses in order to reach an effective control system.
- Strengthening the principle of separation of duties and division of labor and not to collect more than one of the conflicting functions in the same person to avoid fraud and manipulation.
- The need to deliver invoices as soon as they reach the storage department and ensure that there is control on arrival, and avoid duplication of payment based on a replica without being the origin.
- The need to register accounting for financial operations as they occur, and this to avoid omissions.
- The external auditor should prepare a final report on his evaluation of the internal control system. The results of the study and evaluation of this system should be recorded in a report addressed to the institution's managers, highlighting the significant deficiencies and deficiencies, as well as suggestions for improvement and advice whenever necessary. The result and effect of this weakness on annual accounts.

5.3 PROSPECTS OF STUDY

There are some important and relevant aspects that we propose to be topics for future studies:

- Integration of external audit and internal audit to improve the system of internal control in economic institutions.
- Role of the External Auditor in the evaluation of electronic information systems.
- The impact of the IT environment on the evaluation of the internal control system.

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