
Role Of Internal Audit In The Public Sector In Kurdistan Recion Of Iraq

Nawzad Majeed Hamawandy¹, Abdul Jalil Omer², Houshyar Abdulrahman Salih³, Ranjdar Mustafa Ali⁴, Zaito Awla Abubakr⁵, Diyar Abdulmajeed Jamil⁶, Dana DLawar Heayyiz⁷

¹Department of Business Administration, Administration Technical College, Erbil Polytechnic University and Universiti Tun Hussein Onn, Malaysia.

²Universiti Tun Hussein Onn, Malaysia.

³head of tourism administration department at Lebanese French University

⁴Soran University, Kurdistan Region of Iraq and Department of Business School, University of Wolverhampton.

⁵Accounting Department, College of Administration & Financial Sciences, Knowledge University, Kirkuk Road,44001, Erbil, kurdistan region- Iraq.

⁶Accounting Department, College of Administration & Financial Sciences, Knowledge University, Kirkuk Road,44001, Erbil, kurdistan region- Iraq.

⁷Com Senior accountant Hewa Holding Company.

email: ¹nawzad.hassan@epu.edu.iq

Abstract: *The main purpose of this study is to investigate the role of internal audit in the Kurdistan public sector. This investigation is focused on ministries and organisations in Arbil, the capital and largest city of Kurdistan, as these are representative of all other sectors. The internal auditors of the selected public sector offices were the sources of the data, collected via a questionnaire. The findings of this study show a direct relationship between internal audit effectiveness and such factors as management perception, management support, organisational independence of internal auditors, adequate and competent internal auditor's staff, and the presence of an approved internal audit charter. According to the regression output, management support, the existence of adequate and competent IA staff, and the availability of an approved IA charter contributed to the internal audit effectiveness in the public sector significantly and positively. The public sector offices should understand that the contributions of these variables were collectively significant in identifying non-compliance activities in their offices and adding value to internal audit effectiveness. One of the major motive behind changes in internal control is surrounded with vast activities of gross corporate misconducts (Mahmood et al., 2020). This study details the importance of public sector audit activity to effective governance and seeks to define the key elements needed to maximize the value the public sector audit provides to all levels of the public sector (shezad , hamawandy, 2020). Corporate governance mechanisms are one of most important factors which have effects on the firm performance because the managers have their own interests which are sometimes different from shareholders' interests (Al-Kake & Hasan, 2019).*

Key words: *internal audit; Kurdistan public sector; internal audit effectiveness; determinants of internal audit effectiveness*

1. INTRODUCTION

It has become a widely acknowledged fact that the internal audit function (IAF) has a substantial impact on the progress of every organisation. Indeed, organisations that do not have effective internal audit (IA) will face serious problems in achieving their aims. In short, organisations need internal auditors (IAs) (Dittenhofer, 2001; Goodwin, 2004). When carrying out an audit there is usually an unlimited division of duties and limited formal controls since auditing is a difficult and time-

consuming process (Ismael et al., 2020). Hence the role of the strategic audit comes, which contributes to assessing the strategic direction of companies and ensuring that the operational processes are performed effectively, as well as the optimal use of resources, which enhances the rationalization of expenditures, and this would contribute as an input to improve the quality of the audit (Karim et al., 2020). Of notable use is in government departments of Kurdistan Region of Iraq (KRI) (Omar & Hasan, 2020). One of the most important information is the accounting information that is the product of the accounting information system (Hamawandy et al., 2020). Globalization has had very diverse and different effects on the lives of people today, and it all depends on how each individual looks at it and chooses to work with it (Othman et al., 2020). The disclosure of the sustainable development dimensions aims to make financial reports more reliable, transparency and comparable, which improves the quality of financial reports (Abdullah et al., 2021). The Recession that hit the Turkish economy during the late 1970's as a result of the problem in balance of payment forced the government to adopt a new industrialization strategy which made it able to alleviate this problem (Hasan et al., 2019). Part of this reason is in the fact that computers have turned out to be versatile and flexible in doing what regular employees are assigned (Jabbar et al., 2019).

Foreign direct investment (FDI) acts as a scaffold too many a countries' economies, shielding these economies from experiencing a severe boom-bust cycles that characterize modern capitalist economies. (Hamawandy et al., 2020). The most important factors in the economic growth processing of any country are the commercial transactions and foreign direct investments (FDI) (Adl.Nawzad, 2020). They believe can be that the differences in the quantity and quality of the services provided by financial institutions will tell an important part of the difference in growth rates between countries (MIR et al., 2020). Restatement of financial statements to the market contains new information (Sulaiman et al., 2020). Linkage provides opportunities for technology transfers (Baban & Hasan, 2019).

1.1. Background of the study

For a long time IA was a simple procedure to assist accounting, in line with checking documents and reporting on past events to management. Some forces in the past, continuing until now, have led to a revolution in IA responsibility, role, time, scope etc. Nowadays, the role of internal audit (RIA) is totally different and not fixed – it changes to meet specific requirements. The requirement of most governments is to be accountable in their use of public money and in providing efficient, effective and economical service delivery (Gansberghe 2005). Large and complex organisations, in particular, require the internal audit function to be highly competent, professional and skilled. Technology, especially in developed countries, assists by tracking and analysing large volumes of data much faster and more easily. It is widely believed that governments, in order to be well informed about the risks and improvements in public finance management and service delivery, should pay attention to the IA role in the public sector and ensure that it is effective and efficient. Every democratically administered country recognises that one of the significant keys to adding value to the public sector is IA activity (Public Sector Internal Audit Standards 2012).

In addition, developments in the IA profession have brought changes in the scope and functions of IA customers. Previously, as mentioned above, IAs were regarded merely as assistants to accountant, but currently IAs are considered to offer an independent, objective and professional service, which plays a substantial role in the internal control of the organisation and in helping the management of organisations. The independence of the profession is one of the main elements of good governance (Rupšys 2005). Therefore, it is important to have an effective IA unit as part of a modern governance system in public sector offices. IA issues in the public sector and the private sector have received increasing attention in recent years, for different reasons. To mention some of them, IA links to the internal control-risk management system; improves organisational efficiency and effectiveness through providing constructive criticism and recommendations about an organisation's status; reduces information asymmetry during decision-making; and serves as important internal assurance in the business and financial reporting process of corporations (Yismaw 2007).

Iraq and Kurdistan governments also recognise that IA plays a significant role in government. In 2004 a new law was issued about the performance and objectives of the IA, designed to improve the role of IA in the public sector. The elements of the law consist of:

- a number of regular procedures for efficiency and to activate the decisions issued by the ministries to reduce risks, in addition to the process of internal control
- reporting on the versions of important internal controls and improving the control processes and information system to reduce risks in the decision-making process
- reviewing the effectiveness and efficiency of the use of existing services, and suggesting effective ways to provide those services
- communicating with the external audit institution and periodically providing information on the status of implementation of the annual audit plan.

Additionally, the Minister of Finance decides the methods and procedures performed by the IA in ministries and public institutions, and has responsibility to ensure that the IA process matches the rules and procedures (Financial management law and public debt law 2004)

Public sector offices are part of the public body, which is mostly financed by government and is concerned with providing basic government services to the whole society. The composition of the public sector offices varies according to function and purpose, but in most cases public offices are designed to enable the public sector to achieve its goal to serve society. The public sector in Kurdistan provides services such as education, banking, healthcare, communication, policing, electricity, security and so on (Internal control 2010), which aims to serve and benefit all sections of society and encourage equal opportunity (Yismaw, 2007). This research will focus on the RIA in the selected public sector offices in Kurdistan Regional Government (KRG) offices. IAs, which are the focus of this study, are expected to work objectively and independently to achieve high-quality public services, enhance good internal control systems, avoid corruption, ensure a good corporate governance system, and promote accountability and greater transparency (Coram, Ferguson and Moroney, 2008; Van Peurse, 2005).

2. LITERATURE REVIEW

2.1 Introduction, history and development of the role of internal auditing

Public sector offices are primarily responsible for economic development because of their engagement in various economic activities. To become effective and efficient in all economic activities, the performance of management should be absolutely impeccable. The leaders should regularly measure and assess, in different ways, the net results in order to take corrective contingency action when underperformance is found. This is where auditory measures come into practice, in order to maintain an organised calculation and collection of necessary real examples for future reference. (Mahzan, Zulkifi and Umor 2012). In this system where everything is a resource for something else, the notion of waste disappears (Aziz & Hamawandy, 2021). Improve the ecological efficiency of the organization and its associates throughout the supply chain (Harouache et al., 2021). In the organizational context, performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization (Bashar et al., 2021). Profitability is the main goal of all establishments, and it is the embodiment of the results achieved by the establishment, which are of interest to multiple parties and different groups (Al-shatnawi et al., 2021). Corporate scandals have happened in line with the current worldwide financial crisis, and IA has fuelled these in some cases. Consequently, serious questions have been raised about IAF – specifically, about whether IA is being carried out properly. Questions as to what extent it is discharging its responsibilities are being asked with greater frequency. Therefore, to meet shareholders' expectations, it was necessary to change the RIA from only ensuring compliance to a range of controls to which organisations are subject, to involving the role in risk assessment management. Consequently, IAF has been enhanced to focus on corporate governance processes and to link robustly with governance in order to be capable of responding to all regulatory requirements effectively.

Organisations in recent years have changed rapidly, becoming more complex with expanded regulatory requirements and technological advancements. In addition to these changes, the current corporate scandals and the global financial crisis have pushed the public and regulatory bodies to review the position of IA in corporate governance for internal assurance services. These changes have increased the focus on IA and given it a more effective role in organisations. The RIA has expanded. It identifies internal control system efficiencies, evaluates risk exposures related to the organisation's

governance, generates direct reporting links to the audit committee and shareholders, and offers consultancy services for management etc.

The auditing system in Iraq and Kurdistan was established by the national government in 1921. The system, characterised by centralisation in all actions and work requirements, existed until very recent years. However, after they were lifted international Sanctions, there was a significant increase in expenditure and income in the federal budgets of Iraq and Kurdistan region. Consequently, great attention was required to develop the IAF and control financial performance to maintain the safety of the use of public money (Almahaini and Salloum 2007) According to this, the research has focused on the determinants of the RIA in the KPS offices. Hence, the managers of the public offices are responsible for implementing economic policy and procedure, and submitting reports on the performance of the economy, for its general and categorised betterment. However, the RIA requires a much higher level of existence to assist the respective managers.

2.2 Internal audit in Kurdistan

Theoretically, the internal audit function in the public sector of Kurdistan and Iraq is independent. It is considered a means of effective internal controls established by the Administration to serve organisations. Through a set of controls and procedures, it achieves operational constraints and continuously ensures the statistical accuracy of accounting data, to protect the organisation's funds and assets, and verify facility staff. Policies and plans are drawn from administrative procedures (Internal Audit Guide 2000), although in Iraq the RIA function and mission is routine and does not require the provision of qualified staff, who do not have the autonomy necessary to perform this function.

The system in the KPS is divided into two formal systems:

1. Central auditing system
2. Decentralised auditing system (Almahaini and Salloum 2007).

Basically, the central auditing system means that all organisations following this system do not have an independent accounting and auditing department. They work under an organisation called Ganjina, which looks like an audit committee but is quite different. The organisation is one of the organisations of the Ministry of Finance and the Economy. The natural activity of that organisation is to re-audit all documents of those organisations belonging to it. From the above, we can understand that auditors in this system do not need to have high skills and experience because all documents relevant to auditing have to be sent to Ganjina for re-audit.

The second type of audit system in the KPS is the decentralised auditing system, which is new. After public sector offices in Iraq and Kurdistan started to become big and take on more responsibility, the old system was not suitable for all organisations, especially those that had big budgets and were independent such as Perlman. The nature of this system gives more independence to carry out accounting and auditing activities without the need to go back to Ganjina. The system demands skilled and experienced auditors to carry out auditing activities (Internal Audit Guide 2000).

Both systems generally mention audit reports and the quality of such reports, but they do not clarify who is responsible for receiving audit reports.

2.2 Role of internal audit

In recent years, there has been a significant increase in the expenses, incomes and size of public sector offices in all Iraq and Kurdistan. As a consequence, attention to IA has increased as well, requiring systems to be developed to control financial performance and ensure use of state funds in the best way. The IA department in the public sector is a safety valve executive process to protect the general budget from misuse and financial corruption. The most important role in the performance audit is to verify the integrity of the optimal use of financial allocations and make its service units economically efficient and effective. Nevertheless, the reality of IA performance is different. The IAF in the public sector is mostly just a routine process. Auditors do not have a significant role in organisational processes. Almahaini and Salloum (2007) found in their research that the audit function in Arab countries and Iraq has not sufficient support and has not sufficient independence. From the point of view of the ministries, IA is a department carrying out a routine mission. This research will try to find out what is RIA in the organisations and to understand the nature of some factors in the KPS that are affecting auditing.

2.3 The role of public sector auditing

To understand what capability entails for internal auditing within the public sector, the evolution of the profession must be understood, as well as the current challenges faced by the role of public sector auditing. Initially, public sector IA efforts were mainly directed at the review of financial controls (financial audits). Subsequently, IA's focus shifted to all organisational processes, initially from a compliance audit point of view. Over the last two decades, attention has shifted to the evaluation of the efficient and effective economic allocation and use of public resources, exclusively referencing generic collections of previous auditory data. In addition, aspects such as public sector performance, budgeting, accrual accounting and the accountability of reported results have surfaced. The reason for this re-emphasis can be ascribed to the limited resources within the public sector and the restrictions in the allocation of such resources.

2.4 Necessity for and development of internal auditing processes

Changes have been taking place in the public sector over the last few years, particularly in terms of an increased focus on accountability, effectiveness and efficiency. Citizens are demanding more transparency and better services, while resources are growing at a slower pace than required. This represents a unique set of risks for the public sector. (Rensburg and Coetzee 2016)

2.5 Internal audit activities

Government Internal Audit Standards defined internal auditing as an objective assurance, independent and consulting activity designed to add value and develop an organisation's processes. It helps an administration accomplish its objectives by bringing a systematic, disciplined approach to evaluate and develop the efficiency of control, governance processes and risk management.

According to a recent Institute of Internal Auditors (IIA) survey, it is predicted that the current focus of IA activities will be significantly different over the next half decade. It is predicted that auditors will place less emphasis on operational and compliance audits, auditing of financial risks, fraud investigations and evaluation of internal controls. Additionally, participants noted IA would have a greater advisory role in governance matters such as: more involvement in non-financial reporting matters; a more focused role in the risk process; and a sharper focus on emerging risks. In terms of internal auditing activities, IAs in KRG are required to report on the versions of important internal controls, and improve the control processes and information systems, to reduce risks in the decision-making process.

2:6 Interactions between internal audit and external audit

Cooperation and coordination between external and internal audit functions to carry out the audit process will result in a variety of benefits for both in matters such as the audit fee, audit scope, sharing experience and audit time. Professional bodies have confirmed that a relation between both types of audit is necessary and potentially can contribute to improved auditor activities, thereby improving the efficiency of the employer organisation. Some organisations encourage their external auditors to depend on IA and borrow IA staff resources in order to decrease the cost of external audit and audit time. However, borrowing IA staff resources might reduce the assurance that the audit committee obtains from both sources. On the contrary, depending on IA work without testing its reliability might cause a deficiency of assurance, as it is necessary for the external auditory body to be sure of the objectivity and quality of the IAF.

3. RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study is to evaluate the role of internal audit in the Kurdistan public sector. In this process, the factors that might affect the IA are also presented and analysed. For a research project to be effective, it must be designed in a way that will make it possible to draw reasonable links between the data and the conclusions, through data analysis. This chapter explores the strategies, approaches and several research paradigms that are available and explains the particular strategies chosen for this study.

3.2 Research approach

Irrespective of the type of research approach employed, the purpose of any research is to explain phenomena. The important decision is to choose the right research approach, because this will affect

research findings (Creswell 2013). A research approach as well helps to identify how the approach can help or limit the achievement of research objectives, so it is crucial for the researchers to use an appropriate research approach in order to fulfil the requirements of the study (Salkind, 2010). Researchers widely adopt two main types of research approach: inductive v deductive, and quantitative v qualitative.

An inductive research approach is usually adopted to add new information to a current theory, while a deductive research approach is adopted to verify a theory (Curwin and Slater, 2008). The deductive research approach has been chosen for this study.

Many studies in different countries have been carried out to analyse the RIA and several academic studies have clarified the necessity of internal audit effectiveness (IAE) in local governments and the public sector. IAE links with many elements. The objectives of this study are to examine management support, IA independence, adequate and competent internal audit staff, and whether an IA has an impact on KPS operations and efficiency.

The quantitative research approach will mainly be adopted in this research study to find answers to the research questions, and to test two research hypotheses, the first hypothesis is about the nature of auditing in Kurdistan to find out role of internal audit and what IA activities were being carried out and the second hypotheses about testing factors such as management support, organisational independence and objectivity, adequate and competent internal audit staff and the approved internal audit charter to highlight to what extent each factor supported role of internal audit. A quantitative research approach usually produces data that employ numerical indicators to ascertain the relative size of a particular communication phenomenon that can be subjected to data analysis using different statistical methods (Wyse 2011). It is used to quantify opinions can help formulate facts. At the same time, a qualitative research approach is adopted to achieve a broader understanding or insight into underlying opinions or reasons.

The reasons behind choosing a quantitative research approach for this study are as follows: limited time for this study – a quantitative research approach to collection and analysis of data is quicker; several variables allow the study to create cause-and-effect relationships, which help with the analysis and provide accurate numerical data; and it allows the study to reach a large sample of people (Matveev 2002). Adopting a quantitative research approach for RIAKPS appropriately analyses the variables mentioned earlier, and is able to achieve good results for this research study. However, several quantified aspects might affect the RIA data. So the data will be subjected to different quantitative analysis techniques to provide accurate results.

3.4 Data-collection instrument

Primary data were mostly used for this study, collected from questionnaires. Secondary data from the literature were used as well. Google Docs was used to design the questionnaire. This type of questionnaire is reliable, not complex, and easy for respondents to use and to send back. Most of the auditors approached for this study asked the team that implemented the questionnaire and the researcher not to identify them. This undertaking was given, which encouraged the auditors to participate. The questionnaire was the only data-collection method used to collect primary data because of factors out of the researcher's control (mentioned earlier). Secondary data were obtained from different publications, journals, books and the Internet. The secondary data collected consisted of the latest developments in the field of IA, such as what is RIA in the public sector and the reasons behind the weaknesses and effectiveness of the IA role in the public sector. Since there is a wide range of issues in dealing with IA, especially recent crises focusing on IA, both secondary and primary data consisted of relevant information on the role of IA in the Kurdistan public sector.

A conceptual-based and standard set of questions was transformed into a questionnaire for the purpose of data collection. The questionnaire contains 20 questions. The first four are about the profile of the auditors and the fifth is an objective-type question about what activities IAs carry out in their organisations. Other questions cover all the aspects pertaining to RIA, effectiveness, independence, management support, IA staff and skills, and the internal audit charter. Most of the questionnaire is organised in the form of a Likert scale. The reason behind designing such a questionnaire was to make the data specific and clear, and to eliminate duplication and redundancy in

the answers. Since a questionnaire is the main method of undertaking a survey, it is important to administer it correctly.

All the questionnaires were delivered to respondents through the Internet after the team and auditors met via e-mail, Viber and Facebook to discuss suitable delivery options. Respondents did not need to send completed questionnaires back to us – they could submit the answers automatically and we received them in our Google account. The sample size for the research study was 120. Respondents from ministries and organisations of KRG were selected. KRG consist of 19 ministries: Agriculture and Water Resources; Culture and Youth; Education, Electricity, Endowment & Religious Affairs; Finance & the Economy; Health; Higher Education & Scientific Research; Housing and Reconstruction; Justice; Interior; Labour and Social Affairs; Martyrs and Anfal Affairs; Municipalities and Tourism; Natural Resources; Peshmerga Affairs; Planning; Trade and Industry; Transport and Communications. Those ministries and organisations belong to them have about 370 an IA departments in Arbil and around 2000 employees work as auditors.

A large number of the internal audit departments and auditors, the research were targets only all the ministries and one organisation belonging to the ministries. Collecting data from a variety of ministries and organisations added more value, due to the different views in the different ministries that participated. However, it also caused some difficulty in analysing the data because the nature of IA may be different from ministry to ministry. All respondents were IAs who worked in the KPS. The researcher and the team that carried out the questionnaire met with the respondents beforehand. At the meeting we explained the purpose of the study and how they preferred to be sent the link to the questionnaire. The aim of formulating this sample size was to keep the sample more relevant and diverse.

3.5 Ethical issue

Researchers should follow ethical principles and practices. Respondents should have confidence that the information they share will be used appropriately (Quinton and Tersea, 2006). Strict anonymity was maintained in order to ensure uniformity of data and maintain confidentiality. Respondents' names, profiles and roles were completely anonymised to ensure respondents agreed to participate in the survey.

All the respondents were given enough time to decide whether they would participate in the questionnaire or not. The aims of this study and the reasons behind it were clarified in English and Kurdish in writing for the respondents. All the respondents were told that they had the option to skip any questions they did not want to answer. Moreover, the quantified data in no way constituted a right or wrong set of data. Rather, the data were used to generate aggregates of opinions, based on which research question was being answered.

4. CONCLUSION

It is important to think of the internal auditor as the organisation's critical friend – someone who can challenge current practice, champion best practice and be a catalyst for improvement, so that the organisation as a whole achieves its strategic objectives. These are the key activities an IA does: evaluating controls and advising managers at all levels, evaluating risks, analysing operations and confirming information. One of the objectives of this study is to find out what audit activities are carried out in the Kurdistan public sector (Auditors, 2012).

The importance of the internal audit function in the public sector is highlighted by this increased focus on and need for more accountability. However, to address this need, public sector IAF should be sufficiently capable in order to provide the required level of assistance. Capability is a prerequisite for the achievement of any objective. Without the ability to perform a function, it cannot be executed effectively. The role of internal auditing is to follow the continuous measurement of capability as much as it is required.

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