

# ROLE OF INTERNAL AUDIT IN IMPROVING THE PERFORMANCE OF UNIVERSITIES IN IRAQ

Mohammed YaseenMousa Al Doori<sup>1</sup>  
Dr Rana Zehra Masood<sup>2</sup>

## Abstract

The theme of this study is that the internal audit and the performance of universities in Iraq are closely related and that it has a varying impact on the performance of various institutions in the country. It sheds light on the various dimensions of internal auditing and their relative impact on institutional performance. The specific features of the study include (a) bringing together the two diverse fields which have not been touched upon much till time. Mostly the analysis of performance through internal as well as external auditing has been carried out for business entities. The performance of non-business entities especially higher education sector has been rarely examined through the prism of internal as well as external auditing; (b) the explicit introduction of various characteristics of internal auditing as four important explanatory variables into an equation;(c) the adoption of regression analysis. The results suggest that internal audit plays a significant and positive role in the development of universities' performance in Iraq.

*Keywords: internal audit; auditing characteristics; university performance; regression analysis*

## 1. Introduction

The human civilizations have always relied on professionals who have to accredit goods and services. These professionals have earned the trust of the people to whom they serve over time. These professionals are not only trusted for their knowledge of the job but also for carrying their job in an efficient and professional manner. Among these professionals, one of the highly relied upon class is the auditors. Auditors perform auditing of financial statements of any organization, whether for profit or not. Auditing is a process of systematic evaluation and examination of records of an organization to verify that the records are a true and fair representation of transactions they claim to represent. This is done to prevent any kind of fraud or irregularity in the transaction records and documentation.

<sup>1</sup> Research Scholar, Department of Commerce, Aligarh Muslim University, Aligarh, India

<sup>2</sup> Assistant Professor, Department of Commerce, Aligarh Muslim University, Aligarh, India

## 2. Literature Review

Amy Colbert (2002) in his studies “Internal audit in Italian universities: An empirical study,” shows the dimensions and implications of the updating and amendment of the internal audit standards in December 2000 by the Institute of Internal Auditors in the United States of America to the management, internal auditors and investors. The study concluded that external auditors are positively affected by the good role assigned to them by the amendment and update. They should distinguish between advisory services to ensure the integrity of financial operations and that the various tasks entrusted to them. Within the general framework of internal control systems that external auditors are interested in evaluating before testing. The study also showed that investors and other parties benefit from the auditor's compliance with the accepted internal standards.

Allawi, A. (2007), in his research “The Occupation of Iraq” depicts harmful effectiveness of a new Law of De-Baathification (issued in May 2003 by the US civil governor in Iraq, Paul Bremer, who was entitled to uproot the Baath). This law barred certain levels of Baathists from working in universities. As a result, thousands of able and qualified staff lost their jobs. In Baghdad University alone, around 300 members of the academic staff were sacked. More harmful was the introduction of a new Law of De-Baathification (issued in May 2003 by the US civil governor in Iraq, Paul Bremer, who was entitled to uproot the Baath). This law barred certain levels of Baathists from working in universities. As a result, thousands of able and qualified staff lost their jobs. In Baghdad University alone, around 300 members of the academic staff were sacked

Newman, M. (2007), he reveals in his studies that Dr. Abed Thiab al-Ajili, the former minister for higher education, did the same by continually changing the deans of the university. University administrators and professors all agreed in an interview that the violence continued there because of ties between some of the officials in Mr. Maliki's Shiite party, Al-Dawa, and the Students League, which was loyal to the al-Sadr faction controlling the university. They also said that the university administrators were shielding the latter from prosecution. ‘Political parties are causing most of the problems in the universities,’ the minister declared at that time. League members are shown marching through campus wearing black masks and waving bright yellow flags. Sana'a al-Tamimi, who teaches educational psychology, said that in 2008, shortly after she was named an assistant dean, Students League members came to her campus office and threatened to kill her, telling her to quit. She resigned after just twenty days.

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008), in their study “Mandatory IFRS reporting around the world: Early evidence on the economic consequences”, showed a problem could be presented in the question format as follows. Every organization is important to auditing. If the organization wishes to achieve performance, the organization has to control properly. The internal audit is important to achieve their tasks. In the current situation in the modern world, every organization competes with other organization. What is important is earning good performance. The Results were, the success of Jaffna University and any institutional organization depends on the functioning of the management system in a particular organization. Therefore the management system according to the staff response is not satisfied with the revision of the management system in the internal audit branch to take action to recover from this problem. Because Jaffna University is the province's higher education provider as well as in Sri Lanka, thus the management system will help to achieve a lot of Jaffna University.

Ranjan, R. K. and Jain, P. C. (2009), in their paper “The decline of the educational system in Iraq,” showed that the Iraq-Iran war and the strict sanctions affected all fields of life, health, social and economic prosperity. In the field of higher education, research was most affected in the sense that grants to study abroad were suspended. The universities and their staff were prohibited from traveling abroad or importing any materials, books, scientific journals, research papers or anything else related to new scientific materials needed by universities. Even subscriptions of Iraqi academics to the various scientific journals were suspended by the countries that publish them. The given reason was that these materials could help in producing weapons of mass destruction. Most harming was the financial difficulties which hit the universities’ staff. Their salaries sharply dropped in value, mainly due to the sharp depreciation of the Iraqi currency, the Dinar. The value of one Iraqi dinar equaled almost three dollars until 1980, after the Iraq-Iran war and during the sanctions, one US dollar was exchanged for 2000 and sometime 3000 Iraqi dinars.

Jinan HatemIssa, Hazri Jamil (2010), in his paper “Overview of the Education System in Contemporary Iraq” mentions that Iraq enjoyed a long and proud reputation for its distinguished universities and the quality of its education. However, a sequence of wars and sanctions severely damaged its education system. Due to the invasion by the U.S troops in 2003 and till the time being, 84% of the infrastructure in Iraqi higher education institutions has been burnt, looted or severely destroyed in some form. Besides, the assassinations campaign which harvested hundreds of Iraqi academics' lives and the on-going daily threats represented the situation in Iraq's today. His paper explored the education system in Iraq from

its foundation until the present time. The paper also sought to accomplish some if not many improvements in the Iraq education sector which is characterized by a centralized policy.

Madawaki, A. (2012), in his paper, “Adoption of international financial reporting standards in developing countries: The case of Nigeria,” determined the awareness of this process in Maltese Internal Auditing units, its perceived major benefits and limitations and also major barriers in its implementation. This study concludes that Maltese Internal Auditing executives have a weak grasp of the benchmarking process and that current IA evaluation techniques are mere rudimentary comparisons essentially backward- and inward-looking in nature. Maltese Internal Auditing executives appreciate the benefits of benchmarking as an effective IA quality tool but are divided as to its limitations. Also, there are organizational and cultural barriers preventing them from attaining their potential benefits.

Mahmud, Sabah. (2013), in his paper “The higher education in Iraq,” argued that without adequate higher education and research institutions providing a critical skilled and educating people, no country could ensure endogenous and sustainable development. Hence well organized and fully supported and good quality of higher education and scientific researchers are considered as the heart of any country to get access to the progress in the daily live.

Marika Arena (2013), in her paper, “Continuous auditing: Building automated auditing capability. Auditing” provided additional insights about Internal Auditing in Europe through the case study of Italy, where this research was carried out. The study argued that even though in Europe the situation is still diversified, there are several signs of the internal auditing attempting to extend its area of involvement even in public sector organizations, following the shift which has already occurred in the USA and Australia. The study provides a picture of Internal Auditing in Italy. The results reflect the specificities of the Italian higher education system though the reform process that characterized Italy is similar to many other EU and non-EU countries.

Abdul Ghafour, H. and al-Hajaj, A. H. (2014), in their paper, “The Strategy of Higher Education in Iraq” presents the situation in the Iraqi education system. The research paper shows the efforts of those Iraqis working in the higher education system that the percentage of tutors was less than the percentage of students. This created a twofold crisis. First, it made the tutors teach for extra hours and sometimes different subjects to cope with this problem. Second, it made them spend less and fewer hours on research to follow scientific developments in their fields.

L. Tyler Williams and W. Mark Wilder (2017), in their study, “Audit Firm Perspective on Audit Firm Rotation and Enhancing Independence: Evidence from PCAOB,” examined how

the independence of an auditor can be enhanced. They recorded the perspectives of those who were practicing audit firm rotation and alternative solutions to enhance independence in the auditors. Accordingly, in their synthesized opinions, it was found that out of 15 American public accounting firms, PCAOB carried an annual inspection in eight firms and the rest of the seven were inspected every after four months. Altogether, it was found that firms generally offer a homogenous rationale for opposition to audit firm rotation. However, most importantly, it was noted that the overwhelming majority of the alternative solutions offered by the firms to enhance the independence of auditors in their duties lies in fortifying the audit committee. To that end, while the attempts have been made to strengthen independence by introducing regulation at the auditor level, more emphasis should be given on the regulatory shift from audit level to the client level.

Ghareb, Mazen & Mohammed, Saman. (2017), in their study, “The Future of Technology-based Classroom” argued that over the past few decades, there is a dire need of establishing and implementing Information Technology (IT) in Iraq. Though in other areas, technology has made considerable progress, yet the classrooms in the majority of the universities in Iraq lack the basic facilities of internet and computer technology. While questioning the universities regarding the non-implementation of technology, the study attempts to recognize the hindrances faced by these universities. Further, the study analyses the effectiveness of computer application in the classrooms. To this end, the researcher used case studies and that though it is an effective tool due to the lack of adequate infrastructure in these institutions, the effectiveness is limited. Brubacher, J. S. (1965), in his study “Bases for Policy in Higher Education” argued that the future of any higher education system depends on three different aspects: practice, policy, and philosophy. The main problem is the country’s policy towards higher education.

Auditing Research Notes (2018), provides the overview and an introduction to the basic objectives and procedures involved in the auditing process. Additionally, it also explains the process undertaken by the auditors to plan and perform their duties. The process includes steps like approach designing that how to conduct an audit, performing tests to check the effectiveness of controls and validity of transactions, performing analytical procedures and tests of details of balances, making and presenting an audit report. The study further explains the factors affecting this process. These include materiality, risk, professional ethics, and legal liability. Finally, to clarify the role of auditing, the study presents the examples of the various forms of auditing, which primarily include internal financial audit, government financial audit and operational audit.

### 3. Data Collection and Econometric Modelling

The study is based on primary as well as secondary data. The data on auditor's qualification (QL), the experience of auditors' (EX), effectiveness of audit team (EF) and size of the audit committee (SZ) was collected from the questionnaire. All these above variables comprise the independent variables. The data on the dependent variable which is university performance (PU) was collected through secondary sources through websites of different universities. The performance of universities is measured through an index which is comprised of three components, i.e., ratio of students taking admission in a particular year to the total number of students, a ratio of pass outs to the total number of students and ratio of students completing their degrees in a stipulated period.

### 4. Econometric Model

The study is based upon the simple regression model where university performance is regressed on the independent variables which in our case are internal auditing characteristics. The model is presented below

$$y_i = \alpha_i + \sum \beta X_i + \varepsilon_i$$

Where, y is the dependent variable I.e. performance of university (PU),

$\alpha$  is the constant

$\beta$  is the coefficient of independent variables

$\varepsilon$  =error term.

$I$  indicates the various universities  $i=1,2,\dots,7$ .

$X$  is a set of independent variables which include:

- 1) Chief auditor's qualification. (QL)
- 2) Size of the audit committee (SZ)
- 3) Experience of audit team (EX)
- 4) Effectiveness of the audit team (EF)

With the above set of independent variables, our model becomes;

$$y_i = \alpha_i + \beta_1 QL_i + \beta_2 SZ_i + \beta_3 EX_i + \beta_4 EF_i + \varepsilon_i$$

### 5. Empirical Results and Discussion:

This section presents the empirical results of the model. Starting with the reliability test of the data, we used Cronbach Alpha to check the reliability of the variables. Table 1 gives the results of the Cronbach Alpha test. It should be noted that the test value of above 0.6 is considered good enough to rely on the variables. In our study, as indicated by the table, the value of Cronbach Alpha is over 0.9, indicating the fairly high amount of reliability.

**Table 1:Cronbach alpha for research variables:**

NO	VARIABLES	CRONBACH ALPHA	NO OF ITEM
1	Qualification of chief executive and University Performance.	0.917	6
2	Relationship between the size of internal audit team and university performance.	0.851	4
3	Relationship between the experience of internal audit and university development.	0.995	6
4	Relationship between the effectiveness of internal audit team and university development	0.873	5
	ALL	0.909	31

Source: Author's calculation

After checking the reliability of the variables, the regression analysis is conducted to find out the impact dependent variables have on the performance of universities in Iraq. Table 2 presents the regression results of different explanatory variables.

**Table 2:Dependent variable is Performance of universities**

Variable	$\alpha$	B	t-value	Sig
QL	20.5	0.07	1.98	***
SZ	43.2	0.04	2.7	*
EX	51.8	0.06	1.97	**
EF	47.9	0.05	2.91	*

$R^2$  0.71

Adjusted  $R^2$  0.68

Source: Author's calculation

## 6. Analysis and Interpretation

In this final section, all the independent variable were regressed together on the dependent variable to analyze the collective impact of the characteristics of auditing of the performance of universities in Iraq. The overall results show that the characteristics of auditing like the qualification of the auditor in chief, the experience of the audit committee, effectiveness of audit team and size of the audit committee have a significant impact on the performance of the universities in Iraq. As can be seen from table 5.12, the  $\beta$  coefficients of all the variables are significant and positive. Individually all the variables have a significant and positive impact on the performance of the universities in Iraq.

The table shows that qualification of the auditor in chief has a large impact of seven percentage points to every one percentage point increase keeping all the things given. The results are significant at one percent level of significance. The size of the audit committee

though weakly significant has a positive impact of four percentage points to every one percentage point increase. The results are significant at ten percent significance level. The experience level of the audit committee is also very important in the enhancement of the performance of the universities. The variable of experience has a significant positive beta coefficient. Every one percentage point increase leads to almost six percentage points increase in the performance of the universities in Iraq. The results are significant at five percent level of significance. The effectiveness of the audit team also has a significant positive impact on the development of universities in Iraq. The null hypothesis of no significant impact of auditing team characteristics was rejected and the alternate hypothesis of the significant impact of the internal audit on the performance of the universities in Iraq.

## 7. Conclusion

Overall the results indicated that there is a significant impact of internal audit on the performance of the universities in Iraq. We regressed the characteristics of audit on the performance of universities in Iraq. All the explanatory variables are significantly and positively influencing the institutional performance in Iraq. The reason for the low performance in universities is lack of effectiveness and professionalism in internal audit teams in most universities in Iraq. Lack of professional auditors has strongly hampered the performance of the universities in Iraq. The small size of auditing committees also has hampered the performance by failing to have a dynamic and overall check of the higher education sector in Iraq. Overall performance increases by both internal and external compliance with laws. Thus, the chief auditor should pay more attention to timely internal auditing. The developments in the business environment, which affected on internal auditing, have led to the development of internal audit function in line with these changes and to meet their needs, thus contributing to enhancing and developing the university performance through the role played by the internal auditor as a senior management consultant.

## References:

1. Abdul Ghafour, H. and al-Hajaj, A. H. (2014), "The Strategy of Higher Education in Iraq", (Arabic), *Dar al-Ayam*, Amman-Jordan, pp. 181–82.
2. Ghareb, Mazen& Mohammed, Saman. (2017). "The Future of Technology-based Classroom", *UHD Journal of Science and Technology*. Vol 1, pp27-32.
3. Jinan HatemIssa, Hazri Jamil (2010), "Overview of the Education System in Contemporary Iraq", *European Journal of Social Sciences*, Vol. 14(3)



4. L. Tyler Williams and W. Mark Wilder (2017), “Audit Firm Perspective on Audit Firm Rotation and Enhancing Independence: Evidence from PCAOB” *Comment Letters. Current Issues in Auditing*: Spring 2017, Vol. 11(1), pp. A22-A44.
5. Mahmud, Sabah. (2013), “The higher education in Iraq”, *European Journal of Social Sciences* – Vol. 14, pp. 225-227.
6. Marika Arena (2013), “Continuous auditing: Building automated auditing capability. Auditing”, *A Journal of Practice & Theory*, Vol. 21(1), pp.147-163
7. Ranjan, R. K. and Jain, P. C., “The decline of educational system in Iraq”, *Journal of Peace Studies*, 16.