

**EXAMINATION AND EVALUATION OF INTERNAL CONTROL BODIES
AND THEIR ROLE IN IMPROVING THE EFFECTIVENESS AND
EFFICIENCY OF THE AUDITOR'S REPORT (AN APPLIED STUDY ON
A SAMPLE OF INDUSTRIAL COMPANIES LISTED ON THE IRAQ
STOCK EXCHANGE)**

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Abstract:

The research aims at examining and evaluating the internal control bodies and showing their role in improving the effectiveness and efficiency of the auditor's report by using the method of self-evaluation of internal control in industrial units in order to reach an efficient and effective control system that leads to controlling and reducing risks and increasing sound practices in their management and dealing with them. Five hypotheses have been put forward, namely: (1) The

internal control bodies do not have the basic ingredients necessary for the success of these bodies, (2) the internal control bodies are concerned with verifying the legality of the documentary exchange instead of the real feasibility, which means that the form prevails over the content, (3) no The internal control bodies suffer from serious obstacles that prevent the achievement of their goals. (4) The internal control bodies do not need support mechanisms from the ministries and departments in which they work, (5) Joint coordination can be made between the internal and external oversight agencies. The research was applied in a sample of industrial companies listed on the Iraq Stock Exchange, and a questionnaire was designed that is consistent with the research objectives and hypotheses that were tested by following a set of statistical methods, and the research reached a set of conclusions, the most important of which were: The weak existence of databases and available auditing programs For the internal control bodies, as most of the internal control work is of a routine nature that focuses on checking formal supporting documents for disbursement and arrest operations without looking at the content of those operations. It also exercises an office activity that lacks field oversight and scrutiny for organizational units that are related to the university's structure or at least the administrative and technical departments.

Introduction:

The expansion of the size of economic units and their growing role in modern economic life, in addition to the state's desire and need to achieve effective supervision of administrative and financial activities that are directly related to the needs of society had the greatest impact that led to the emergence of internal control systems, and in Iraq the shift from the central accounting system to the decentralized accounting system At the end of the eighties and the beginning of the nineties of the last century, the most important factor in establishing internal control bodies as an indispensable necessity in controlling and monitoring the movement of financial assets in the decentralized accounting units as a complementary activity and adapted to the work of these units in a way that prevents the occurrence of non-fundamental exchange or seizure operations. The recent formation of these units, the weak academic qualifications of those in charge of them, and their tendency towards formal supervision and scrutiny of financial activities instead of focusing on the subject matter of those activities and their contents, contributed to the primacy of the form over the content and led to the transformation of the formal procedures into a goal in itself, which unintentionally led to the deviation of the supervisory activity From its main goals and opening the door wide to the practices of administrative corruption that stopped the control bodies The Ministry of Interior is about the position of the paralyzed disabled, which is a result that was not far from the aforementioned introduction, despite the country's long tradition in legislating supervisory laws.

The first topic: Research Methodology

1-1- The search problem: -

The parameters of the research problem can be identified through the following questions:

1. What are the obstacles that can be invoked when designing internal control systems?
2. Is the reality of the internal control systems in Iraq consistent with the objectives set?
3. What are the obstacles to internal control systems?

4. How can internal control devices be supported and what are the proposed mechanisms for that.
5. How to achieve integration and joint coordination between internal and external oversight bodies.

1-2- The Importance of Research:

Through the recognition of the self-assessment system for risk assessment for internal control, it will be possible to contribute to identifying strengths and weaknesses in the performance of government units in the field of risk management and control, and then present appropriate proposals to strengthen centers of strength and address weaknesses and their performance through the results of the study, analyzing them and providing recommendations that help these units To reach an optimal and better position in applying correct and sound practices for managing and controlling risks, and establishing procedures and controls that help mitigate these risks and losses borne by these units.

1-3- Research Objectives:

The research aims at examining and evaluating the internal control bodies and showing their role in improving the effectiveness and efficiency of the auditor's report by using the method of self-evaluation of internal control in industrial units in order to reach an efficient and effective control system that leads to controlling and reducing risks and increasing sound practices in their management and dealing with them.

1.4 Research Hypotheses:

The research is based on a set of assumptions, as follows:

1. The internal control bodies do not have the basic ingredients necessary for the success of these bodies.
2. The internal control bodies are concerned with verifying the legality of the exchange as a documentary instead of the real feasibility, which means that the form prevails over the content.
3. The internal control bodies do not suffer from serious obstacles that prevent the achievement of their objectives.
4. The internal control bodies do not need to be supported by the ministries and departments in which they operate.
5. Joint coordination can be made between the internal and external oversight agencies.

1.5- Research Methodology:

The researcher used the descriptive and analytical method designed to be the most appropriate approach in studying the case of internal control and analyzing its causes and results, after the circulation of a questionnaire form that included (55) questions dealing with the main axes of the research.

1.6- Data Collection Tools:

The researcher used a set of tools as follows:

1. The literature on internal control activities.
2. Interviews conducted with auditors and employees of the regulatory bodies.
3. The research questionnaire, which is the main source for this study, was distributed to (50) respondents, and the researcher adopted the five-point Likert scale whose weights range between agreement or counting complete agreement as follows: I agree completely (5) degrees, agree (4) degrees, not sure (3) Degrees, disagree (2) degree, disagree completely (1) degree. The questionnaire contained five groups of axes as well as an introduction in which the researcher explained the nature of the research and its objectives. The questionnaire axes can be classified according to the main study variables as shown in the following table:

Table (1)

Classification of the survey axes according to the main search variables

Number of variables	The Paragraphs of the Questionnaire	Main variable	#sr
8	8 - 1	The basic components of the internal control system	1
16	24 - 9	The reality of internal control systems	2
11	35 - 25	Obstacles to supervisory work	3
11	46 - 36	Effects of supporting internal control devices	4
9	55 - 47	Indicators of joint coordination between internal and external oversight	5

Source: Prepared by the researcher.

1.7 Statistical Analysis Tools:

The statistical analysis tools used in the research can be explained through the following:

1. The difference coefficient: It is one of the measures of dispersion that measures the dispersion or concentration of two sets of values, and the larger the result, the greater the indication of the difference in the sample opinions.
2. Arithmetic mean: A descriptive value that gives a first idea of the concentration of values.
3. Percentage: A mathematical indicator used to compare two values of the same type.
4. Standard deviation: It is one of the most widely used measures of dispersion, and it is used to calculate the dispersion of values from their arithmetic mean.
5. Ranking or relative importance: It determines the importance or precedence of factors from the viewpoint of the respondents from the research sample.

The second topic: the theoretical framework of the research

1-2 The Concept of Internal Control and its Stages of Development:

-1 Internal control is seen as a group of activities and actions that occur continuously within the economic unit, and it is an integral part of the government unit system, and it is not an independent system in itself, and the internal control system does not include only the procedures and matters related to the functions of the accounting system and financial reports, but extends to all Administrative and organizational aspects, starting from the plan and the programs drawn, passing through the organizational structure, ending with the means and tools necessary to achieve them (Jane, et.al., 2014: 68). The objectives of internal control are not only confidence in financial reports and the preservation of assets and properties, but rather its objectives exceed compliance with laws and regulations, rationalize the use of available resources, improve the actual practice of activities, and achieve production efficiency in order to give reasonable assurance about the possibility of achieving the set goals (Al-Shara, 2003: 115).

The internal control passed through a set of stages, as follows:

1. The stage of personal control: This stage corresponds to the nature of small individual projects, which included the narrow concept of internal control. It was defined as a group of means that included preserving cash from theft and embezzlement, and after that it included some assets such as stock (Al-Tamimi, 1998: 44).

2. The internal control stage: This stage is characterized by the growth in the size of institutions, the increase in their activities and operations, and the expansion of their geographical scope. Internal control represents a set of means that the institution adopts to protect its assets, and to confirm the accuracy and correctness of the calculations proven in the official records and books (Deng, et.al., 2014: 1035).

3. Production Efficiency Stage: At this stage, the concept of internal control expanded to include methods of improving production efficiency through the optimal use of the resources available to the economic unit, as well as attention to organizational and administrative aspects while preserving the assets of the institution and ensuring accuracy in recording operations (Jumaa, 2005: 12) .

4. The stage of the internal control system: It includes the modern concept of internal control, where the term internal control has been replaced by the internal control system as a more comprehensive set of policies and procedures developed to provide reasonable assurance that the objectives of the economic unit are being effectively and efficiently achieved (Marcello & Knaggy, 2014: 655).

5. The stage of the internal control structure: in which the term internal control system was replaced by the internal control structure, considering that the latter is more comprehensive (Al-Tamimi, 1998: 44).

6. The stage of the integrated framework for internal control: This stage focused on five components: the control environment and risk assessment (Jane, et.al., 2014: 69).

7. The project risk management stage (ERM) framework, so the five control components previously mentioned have become eight components after adding the following three components: setting goals, defining the event and responding to risks (Khorana, et.al., 2009: 230)

2.2 Methods of examining and evaluating the internal control system:

The examination and evaluation of the internal control system is seen as an auditing process that uses workshops to evaluate the employees' association with the adequacy or appropriateness of internal control, and it is an attempt to identify opportunities for development and improvement, and then evaluate the results that have been achieved as a result of adherence to it, and thus it is a means by which the effectiveness of the system is examined and evaluated. Internal control with the aim of providing reasonable assurance that the objectives of the economic unit can be achieved by identifying the obstacles that stand in the way of achieving them, as well as ensuring the adequacy or insufficiency of control controls (Abdel-Reda, 2001: 45). There are a set of methods for examining and evaluating the internal control system, and they are as follows:

1. Descriptive report: It is a detailed report in which the procedures followed for each process are explained, its accuracy and relevance, and the gaps and weaknesses are identified partially or completely, and this report is prepared by the financial auditor (Svelte & Asabi, 2015: 34).
2. Flow maps: The use of these maps helps in understanding the sequence of relationships between the various aspects of activity and the related documents. A financial auditor can understand the internal control system well, by tracking the stages of the transaction and preparing documents, and identifying weaknesses and strengths (Marcello & Knaggy, 2014: 655).
3. The reminder summary: It is a general statement of the ways and means that provide the ideal conditions and elements for the internal control system (Jumaa, 2005: 14).
4. Survey lists: The financial auditor inquires from the employees working at the different job levels in the economic unit about the controls that can be relied upon, and the list during the period through a set of written questions to be answered with the word (yes) indicating the strengths of the system. The word (no) that refers to the system's weaknesses, thus facilitating the financial auditor to evaluate the internal control system and discover strengths or weaknesses through the answers, after which the desired results from the evaluation process are linked to the controls (Whittington & Pany, 1998: 18).

2-3 The role of examination and evaluation of internal control bodies in improving the effectiveness and efficiency of the auditor's report: a

The American Institute of Certified Public Accountants considers internal control as a set of standards and methods adopted by the establishment with the aim of protecting its cash and in-kind assets and ensuring the mathematical accuracy of what is recorded in the books and records (Mautz, 1987: 16). Accordingly, internal control is the organizational plan, procedures and means adopted by the management The establishment to preserve the assets of the facility and to ensure the legitimacy of its investment procedures and to ensure the correctness of accounting data related to the decision-making process and the optimal use of available financial resources (American Institute Of Accounting, 1996: 58).

In order for the economic unit to achieve these goals, it will need basic components that have been defined by the American Association of Accountants as follows: (American Institute, 1997: 47)

1. An organizational plan that provides a proper division of responsibilities and a clear definition of responsibilities within the boundaries of this division, with a clear delegation of authority within the framework of equal authority with responsibility.
2. A sound accounting system and an efficient internal audit program that ensures effective control over assets as well as revenues and expenditures for the purpose of measuring performance.
3. A decree program that guarantees the selection of employees based on sound academic qualifications, while continuing with professional training activities to learn about renewable control methods.
4. An accurate system for presenting results in the form of reports, statistical tables, and analytical ratios, with a view to research that includes the following:
 - a. Preparing a written and signed report after the audit is completed and communicating it officially.
 - B. Discussing the findings and recommendations with the concerned administrative levels before issuing the report.
 - T. Adopting the principles of objectivity, clarity and brevity.
 - D. Clarification of the objectives, scope and results with a clear expression of the internal auditor's opinion.
 - C. It includes recommendations for actions that must be completed to reach satisfactory performance and address differences.

The third topic: the applied results

This paragraph seeks to choose applied research hypotheses by analyzing the reality of the internal control bodies and the obstacles they face, as well as determining the proposed mechanisms to support the internal control bodies and the activities and procedures required to activate the joint coordination procedures with the external oversight agencies, and to achieve these purposes, the inductive approach was used by organizing a form A questionnaire presented to a sample of (50) respondents from account auditors and chartered accountants

3.1 Indicators of the basic components of the internal control bodies:

-1 The questionnaire

Questionnaire included eight questions related to examining the extent to which the internal control bodies possess the basic components of work. These components can be analyzed through the following table:

Table (2)

Analysis of the basic components of internal control systems

Relative importance	Coefficient of variation	standard deviation	Percentage	Arithmetic mean	Statement	#Sr
4	32.25	1.038	%64	3.220	The internal control bodies have organizational plans with clear lines of authority and responsibility.	1
3	25.61	0.924	%72	3.590	There is a sound accounting system based on an integrated set of books and records.	2
6	38.36	1.045	%55	2.730	The internal control departments have efficient supervisory personnel and staff.	3
5	37.47	1.253	%67	3.360	There are clear databases and lines for auditing and controlling transactions.	4
8	78.74	1.702	%43	2.160	The internal control departments operate a professional business code that ensures compliance with	5

					standards of ethical behavior.	
2	22.56	0.896	%78	3.940	Reduced work turnover and staff stability are the most important features of internal control bodies.	6
7	48.05	1.037	%42	2.110	The employees feel the efficiency of the incentive system in place in the internal control bodies.	7
1	19.71	0.858	%86	4.310	The results of monitoring and auditing are documented according to numerical statistics and tables.	8

Source: Prepared by the researcher.

It is noticed through the previous table, that there is almost unanimity of the sample on documenting the results of internal control with official statistics and tables because the coefficient of variation was at its lowest level (19.71) only, and the respondents' answers occupied 86% of the scale area of 5 degrees, followed by consensus on the decrease in turnover Work among workers in internal control bodies (moving between administrative departments). The sample also agreed on the existence of an accounting system, as this indicator 5 ranked third. Other than that, the respondents' answers confirmed the absence of a business code of professional behavior, as this indicator was ranked eighth or last With a difference coefficient reaching (78.74) to a large extent, the answers showed consensus on the absence of an effective incentive system in the internal control bodies and a shortage of professional cadres specialized in supervisory work, as these indicators got the last three ranks in the arrangement, which means

the validity of the first sub-research hypothesis of not being Integration of the basic components of internal control systems.

2-3 Analysis of the Reality of the Internal Control Systems:

In order to analyze the reality of the internal control systems, a questionnaire form (16) questions was devoted to this aspect, and they are the questions from question 9 to question 24, and after unpacking the answers of the workers and analyzing them, the results appeared as shown in the following table:

Table (3)

Analyzing the reality of internal control systems

Relative importance	Coefficient of variation	standard deviation	Percentage	Arithmetic mean	Statement	#Sr
1	17.64	0.722	%82	4.090	The control work is concerned with completing the conditions of disbursement within the authorized limits.	9
4	21.21	0.783	%79	3.600	The control work is focused on verifying the legality of the disbursement and not its usefulness.	10
13	38.45	1.136	%60	2.980	The supervisory work is concerned with the inspection and sudden inventory of cash balances.	11
8	33.48	1.015	%60	3.030	Among the supervisory responsibilities	12

					are to conduct the audit and the physical inventory of fixed assets.	
12	37.51	0.997	%53	2.640	The sampling method is used to verify the prices of purchases in the local market.	13
2	19.42	0.779	%80	4.000	The cash balances in the unit's records match its balances with the bank statement.	14
9	34.17	1.114	%65	3.260	Most of those working in internal control have higher professional degrees.	15
7	30.62	1.002	%66	3.280	Most workers receive ongoing training that helps them develop their capabilities.	16
6	29.89	0.941	%63	3.150	The internal control program in place is accurate and efficient.	17
5	21.39	0.811	%76	3.80	The internal monitors exercise due professional care in performing	18

					their duties.	
3	19.55	0.772	%80	3.980	The essence of the control work is the collection and payment of all the sums that must be collected or paid.	19
10	34.51	1.124	%64	3.240	All receipts and payments are filed in specialized help records.	20
11	36.23	1.188	%65	3.280	The unit periodically reviews the control system to ensure its suitability for changes.	21
14	38.51	1.243	%64	3.220	The expected departure from actual performance from the scheme is sometimes calculated.	22
16	43.03	0.908	%42	2.110	The unit control system is characterized by its ability to detect deviations as soon as they occur.	23
15	41.02	0.882	%43	2.140	The personnel involved in formulating the standards.	24

Source: Prepared by the researcher.

From the above table, it is noticed that the sample has agreed in the practice of internal control agencies for acts of a routine and repetitive nature, such as monitoring formal disbursement conditions that received the first rank, matching cash balances in second place, and paying and collecting amounts to be received or paid in third rank. That is, verifying the legality of the disbursement in terms of completing its necessary documents, but the work of these devices does not extend to verifying the feasibility of the exchange itself or paying attention to the content at the expense of the form, as the control activity does not address the evaluation of the project's performance or its ability to achieve the goals, as this indicator got the fourteenth order In spite of its importance as an indicator of the success or failure of that project, it is also noticed the weakness of the role of individuals working in the regulatory agencies in the formulation of control standards, as this indicator obtained the fifteenth sequence. Moreover, the sample differed greatly in its evaluation of the ability of the internal control system to detect deviations, as this came The indicator, in the last order, means the validity of the second sub-hypothesis in the regulator's approach to verifying the formal aspects instead of the actual contents of the financial activities.

3-3 Obstacles of Internal Control Agencies:

To explore the most important obstacles faced by the internal control bodies, I investigated the third group of the questionnaire questions for this purpose, which are the questions that start with Question 25 and end with Question 33 and the following table shows the results of the answers to the sample question (in your opinion, which factors listed are the most influential in hindering the work of the internal control bodies) :

Table (4)

Obstacles to supervisory work

Relative importance	Coefficient of variation	standard deviation	Percentage	Arithmetic mean	Statement	#Sr
6	22.83	0.901	%80	4.000	The observers do not obtain higher professional certificates.	25
4	19.11	0.765	%79	3.950	Lack of experience of observers in supervisory work.	26
7	23.40	1.004	%85	4.270	Failure of departments to cooperate with internal control bodies.	27
1	11.03	0.524	%92	4.620	Lack of clear	28

					programs as evidence of regulatory activity.	
2	18.19	0.807	%91	4.540	Poor employee training plans and programs.	29
8	26.49	0.924	%72	3.590	Non-commitment of employees to work values and standards of professional behavior.	30
3	8.19	0.773	%85	4.270	Administrative complications and red tape.	31
9	30.01	1.072	%72	3.590	Failure to obtain the necessary data and information.	32
11	39.75	1.069	%54	2.710	Unwillingness to act in oversight.	33
10	36.89	1.053	%58	2.900	The absence of negative incentives (penalties) to punish negligent ones.	34
5	20.34	0.862	%86	4.310	Fear of the power of spoilers.	35

Source: Prepared by the researcher.

From the above table, it is noticed that the lack of clear programs for the control activity is like the first constraint, as the difference coefficient was (11.03) below, while the limited training programs represented Factor 2 and thus the factors graded down to the weaker factor, which is the unwillingness to act in control. These results generally indicate a rejection of the hypothesis. The third sub-study and acceptance of the alternative hypothesis (H1) in view of the many obstacles faced by internal control bodies, as mentioned above.

3-4 Indicators of Support for Internal Control Bodies:

The sample was asked to determine which factors are more capable of supporting the internal control system from among the group of factors that were set in the sequences from 36 to 46, and the following table number determines the precedence of these factors from the respondents' point of view.

Table (5)

Indicators of support for internal control devices

Relative importance	Coefficient of variation	standard deviation	Percentage	Arithmetic mean	Statement	#Sr
4	19.81	0.804	%80	4.030	Stimulating incentive system for observers.	36
8	33.03	1.046	%64	3.200	Independence from the local administrative authority.	37
5	20.69	0.782	%76	3.800	Expanding the powers of the internal control bodies.	38
1	19.21	0.692	%72	3.580	Providing personnel with higher supervisory qualifications.	39
6	21.76	0.809	%76	3.800	Legislative foundations and advanced work programs within the framework of the principle of distribution of powers.	40
7	26.56	0.998	%74	3.700	Developing the professions of accounting, auditing and	41

					accounting systems.	
3	19.78	0.681	%69	3.450	Issuing a list of standards of professional and ethical behavior.	42
2	19.43	0.663	%68	3.400	Providing material means and facilities.	43
3	19.72	0.757	%76	3.800	Training and technical preparation for observers.	44
10	39.24	1.022	%52	2.600	Deterrence factors and measures against spoilers and negligent observers.	45
9	36.12	1.037	%56	2.800	Deepening patriotism and oversight awareness among the public.	46

Source: Prepared by the researcher.

From the above table, it is noticed that the need to provide elements with higher supervisory qualifications, such as the first requirement in support of internal control bodies, where the difference coefficient reached its lowest level at (19.21), while the need for material means and facilities such as means of transportation and others represented the second requirement and the need for a list of standards Ethical behavior, third degree, while the need to strengthen the incentive system for observers represented the fourth requirement, but did not affect successively. The results of the analysis show the possibility of rejecting the research hypothesis and accepting the alternative hypothesis (H1), given the need for internal control devices for the aforementioned support mechanisms

3-5 procedures for joint coordination between internal and external oversight bodies:

-1The research sample was asked to determine which of the following procedures are more capable of activating and activating the joint cooperation between the internal control bodies and the external control agencies, and the analysis of the answers was as shown in the following table:

Table (6)

Procedures for joint coordination between internal and external oversight bodies

Relative importance	Coefficient of variation	standard deviation	Percentage	Arithmetic mean	Statement	#Sr
3	17.42	0.583	%67	3.330	Joint cooperation in the field of holding training courses.	47
5	20.62	0.894	%86	4.310	Organizational link from the technical aspects without the administrative.	48
7	29.27	1.064	%72	3.590	Regular coexistence of internal observers in the external oversight bodies.	49
2	16.81	0.566	%69	3.320	Joint investigation in cases of violations and administrative corruption.	50
1	8.291	0.327	%78	3.920	Participate in setting up and standardizing audit and control programs.	51
8	37.45	1.251	%67	3.360	Regular experience of external observers in the internal control bodies.	52
6	26,01	0.959	%74	3.700	An	53

					information and communication network to ensure effective coordination.	
4	19.11	0.764	%79	3.950	Sharing the results of monitoring and auditing.	54
9	38.43	1.040	%55	2.730	Administrative and organizational link.	55

Source: Prepared by the researcher.

The sample did not differ much in its belief that the unification of the supervisory work mechanisms represented by the participation between the internal and external oversight bodies by setting audit and control programs is the first option in the coordination process between the two parties as this indicator was ranked first with the lowest difference coefficient (8.291), then the joint investigation was ranked second and cooperation. The participant in the field of setting up the sessions thereafter, and thus the relative importance of the rest of the paragraphs has progressed, and these results indicate the possibility of accepting the fifth hypothesis, as the means produced by the results of the analysis can be used as mechanisms for conducting joint coordination between internal and external control.

The Fourth topic: Conclusions and Recommendations

4.1 Conclusions:

1. Weak existence of databases and auditing programs available for internal control bodies.
2. There is no business code in the internal control bodies that guarantees compliance with the standards of professional and ethical behavior, as there is no specialized body that monitors this matter.
3. Most of the internal control work is of a routine nature and focuses on checking formal supporting documents for the exchange and arrest operations without considering the content of those operations.
4. Regulatory agencies do not believe that their tasks include examining the annual financial performance of organizational units and calculating the expected departure for that performance from what was originally planned.
5. The internal control bodies suffer from a lack of elements with higher professional certificates, as the workers in these bodies do not receive adequate training during their professional life.

4.2 Recommendations:

1. There is a need to form technical committees in which specialists from academic institutions participate with professionals from the Office of Financial Supervision to establish unified mechanisms and programs for monitoring and auditing.
2. Re-enforce the incentives section from the audit and control instructions, which allow the auditor or auditor to obtain incentives for discovering cases of fraud and embezzlement.
3. Preparing a business code to ensure compliance with the standards of ethical and professional behavior of the auditor in terms of focusing on honesty, integrity, independence and impartiality.
4. Postgraduate graduates join the Arab Institute for Accounting Sciences to work according to their professional certificates as legal observers or auditors in ministries and departments.
5. Activating the mechanisms of cooperation and coordination between the internal and external oversight bodies through the mechanisms approved by the results of the analysis of this study.

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