

## The impact of the internal control system on planning of audit procedures

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**Abstract:** The purpose of this research is to demonstrate the impact of the efficiency and effectiveness of the internal control system on the planning of audit procedures, We followed the descriptive approach in the theoretical study by presenting the general framework of the internal control system as well as planning the audit procedures through the role of the external auditor in the planning process, On the practical side, in order to achieve the objectives of the study and test its hypotheses, we designed a questionnaire, which was directed to the study sample of auditors and academics with specialization.

Our study concluded that the auditor's audit of the organization's internal control system affects the planning of the audit procedures, and the risk assessment by the institution in the financial statements affects the planning process and the implementation of the audit procedures, In addition to the impact of both the size of the institution and considerations of relative importance, and the experience of the previous auditor in the institution and planning audit procedures

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### **1. INTRODUCTION**

The rapid developments taking place in the modern world today in the information revolution, reflected their effects on life, the increase in the size of institutions and the expansion of their activities and the complexities of their administrative and production systems, and the accompanying complications in their financial and accounting systems. Especially after the series of financial crises that occurred in many countries, and with the development of audit science and related systems, including internal control systems, the importance of audit has increased significantly.

With the development of the world, it is necessary for companies to establish a sound system of internal control, in order to achieve its objectives and preserve its assets, through the proper and proper planning of the procedures and process of audit and control of risks and ensure that the regulatory processes are moving according to the efficiency and effectiveness of individuals with scientific qualifications and technical qualifications, So that they perform the task of monitoring and evaluation from within and outside the institution, express their neutral technical opinion on the extent to which the data represent the financial position and honestly.

The internal control systems in any organization are characterized by a set of elements or characteristics, if available properly, these systems are efficient and effective, and rely heavily on the auditor in the tests to verify the balances of financial statements, for the internal control system to achieve its objectives, the organizational plan must be successful and linked to the accounting system through a documentary organization.

#### **1- Problematic search**

The main question is: To what extent do internal control systems affect audit procedures?

#### **2 - The importance of research**

The importance of this study is due to the role-played by the internal control system and its impact on the audit procedures

#### **3- Research Objectives:**

This aims to:

- Attempt to study the relationship of the internal control system with the audit procedures as contributing to the achievement of the objectives to be achieved.
- To what extent an effective internal control system affects audit procedures.

#### **4. Research hypotheses:** The research hypotheses are as follows:

To answer the above questions, we proceed from the following hypotheses:

- The control environment as a component of efficient and effective internal control systems does not affect the planning of audit procedures.
- Effective oversight activities as an element of internal control systems do not affect the planning of audit procedures.
- Continuous performance monitoring as an element of internal control systems does not affect the planning of audit procedures.

#### **5. Previous Studies:**

##### **5.1 Arabic Studies:**

- A study conducted by Ahmad Abdallah Mohammad Al-Nour in 2007 entitled *The Effectiveness and Efficiency of Internal Control Systems on the Planning of Audit Procedures in Jordanian Public Shareholding Companies*. (Mohammad, 2007)

The main objective of this study was to shed light on the internal control systems and their relevance to the audit procedures planning in the Jordanian public shareholding companies, by demonstrating the impact of the control environment, the information and communication system, the performance monitoring and control activities and the risk assessment element on the planning of the audit procedures. The study concluded that efficient and effective internal control systems affect the planning of audit procedures.

- A study conducted by Abdullah Oqla Ghanimat in 2011 entitled *Factors Affecting the Effectiveness of Internal Control Systems in the Jordanian Ministries*,

This study aimed to identify the factors that affect the effectiveness of internal control systems, and identify the most important obstacles that limit the effectiveness of internal control systems and their development in the Jordanian ministries. Staff efficiency and performance control, the study showed a weakness in the application of selection policies and objective recruitment of workers and the lack of good training for them. (Zakaria, 2011, pp. 625-646)

- Study (Ayman Mohammed Shanti, 2013)

The purpose of this study was to demonstrate the importance of the role-played by accounting information systems assisting in the optimal use of human, technological and material resources, and the importance of using accounting information systems to improve the effectiveness and efficiency of internal audit in the industrial sector companies.

To reach the reality of the application of accounting information systems in the Jordanian industrial sector,

To increase awareness among management and internal auditors about the importance of applying accounting information systems in the Jordanian industrial sector, the study concluded that the application of accounting information systems in the Jordanian industrial sector leads to improving the effectiveness of internal audit by increasing adherence to the predetermined laws and policies as well as by providing the necessary information. Good time to make decisions.

This study recommended increasing the reliance on the application of accounting information systems in the Jordanian industrial sector as this increases the effectiveness and efficiency of internal audit in this sector, which helps to optimize the utilization of the resources available by management. (Al-Shanti, 2004, pp. 100-125)

- A study (Omar Zuhair Ezzedine Ezzedine, 2015)

The study aimed to show the impact of the effectiveness of the internal control system on the performance of the internal auditor through the intermediary role of the characteristics of internal audit in the private Jordanian universities. And the existence of a statistically significant effect of the characteristics of the internal audit dimensions

(independence and professionalism) on the performance of internal auditor at the private Jordanian universities at the level of  $\alpha \leq 0$ . There is a statistically significant impact of the effectiveness of the internal control system with its components on the performance of the internal auditor in the private Jordanian universities.

In the presence of the internal audit characteristics an intermediate variable at the level of significance ( $\alpha \leq 0.05$ ) (El-Din, 2015)

### **5.2 Foreign Studies**

- Study (Edward, D.F., Kusel, J and Ixner, Tom, 2001)

This study aimed to identify the nature of the internal audit in the American banks and the personality of the auditors entering the sector. The study recommended that the auditors in the American commercial banks sector should focus on the various tasks by understanding the nature of the bank's operational tasks and the risks involved. In successful bank operations. (EdwardKusel, 2001)

- Study (Fadzil, F. H; Haron, H. & Jantan, M., 2005)

The objective of the study was to determine whether the activities of the Internal Control Department in the companies listed on Bursa Malaysia comply with the standards of professional practice of internal auditors, as well as to determine whether compliance with the rules of the (Internal Auditing Profession) affect the quality of the control system. This study scope of work and audit performance significantly affect the internal control system information while the performance of audit work, professionalism and objectivity will significantly affect the environmental aspect of the internal control system. (Fadzil, Haron, & Jantan, 2005)

### **The First axis: The theoretical framework for internal control and auditing**

#### **First: the concept of internal control system**

Internal control includes the organizational plan and all methods adopted by the Corporation to protect its assets, control the accuracy and confidence in its accounting data, improve production efficiency, and encourage adherence to administrative policies set in advance.

The management of the organization is fully responsible for the design and implementation as well as verifying the effective implementation of the internal control structure (al-Qadi, 2006, p. 177)

Internal control in the institution is concerned with determining the general conduct of the administration, which in turn seeks to strictly respect the procedures and laws, as it is a source of confidence and reassurance in the institution. The internal control aims at “recognizing and detecting errors and identifying deviations in a practical and expeditious manner”. (Hamini, 1993, p. 22)

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The Committee of Sponsoring Organizations (COSO) has defined internal

control as an ongoing dynamic process that achieves multiple objectives.

Management's violation of internal control procedures (Zaghloul, 2006, p. 12)

### **Second: the stages of the development of the concept of internal control**

The definition of internal control has evolved historically to cope with the great development in economic and commercial activity and the corresponding growth in the size of projects and economic units and the breadth of its scope and keep pace with the evolution in management science, In general, the phases of internal control can be summarized as follows:

#### **1- The stage of personal control**

It included a narrow concept of internal control, which was suited to the nature of small individual enterprises that prevailed at the time, in which it was defined only as a set of means to safeguard cash from theft and embezzlement, and then extended to other assets such as inventory. (Alan Ajeeb, 2009, p. 06)

#### **1-The internal control stage**

At this stage, there was a growth in the size of the institutions and the increase of their activities and operations as well as their geographical scope, Accordingly, internal control was considered as a set of means adopted by the institution to protect its assets as well as to ensure the computational health of the operations recorded in the books and records. (Bilal, 2015, p. 04)

#### **3 - The stage of productive efficiency**

The concept of internal control has been expanded to include methods to improve production efficiency through the optimal use of available resources and attention to organizational and administrative aspects, in addition to maintaining the assets of the institution and ensuring the accuracy of accounting in the recording of operations. (Alan Ajeeb, 2009, p. 06)

#### **4- The stage of the internal control system**

They include the modern concept of internal control, which has been replaced with the term internal control the internal control system, considering that the latter is more comprehensive, has developed a new definition is not considered by him as a set of policies and procedures for providing reasonable assurance that the objectives of the institution will be achieved, the principle of internal oversight here that the performance of any activity of the essential responsibilities borne by the responsible for this activity, therefore you have to perform the functions of his own in a certain way and with a degree of efficiency. (Bilal, 2015, p. 05)

### **Second: the concept of auditing**

There are several audit concepts among these definitions:

- Bethoux, Kremper and Poisson

“audit is an examination of information by an outside person, provided that it is not the person who prepared or used it, with the aim of increasing the usefulness of the information to the user” (Bethoux, 1986, p. 21)

As the definition of the audit of the party (Bouquin) and (Bécour) as: 'activity

that is applied independently according to the standards of the interrelated actions and opportunities with the intent of assessment and the appropriate degree of confidence, and all parts of the activity within the institution in accordance with criteria specified (Bouquin & Bécour, 1996, p. 12)

As defined on the : financial audits are examined by a competent and independent professional contacts to expression based on regularity and sincerity of the company accounts .. (HERRBACH, 2000, p. 18)

American Accounting Association has identified as audit: process and methodology to gather evidence and clues concerning the results of economic activities and events and straightened, objectively to determine compatibility and convergence between these results and the established criteria and connect it to the parties concerned.

It is also defined as a “structured process for the objective collection and evaluation of evidence of management allegations about the outcome of events and economic behaviors of the project to determine the extent to which these results are consistent with existing standards and communicate the results to their respective users”. (Al-Shanti, 2004, pp. 12-14)

### **Axis II: Field Study**

In this pivot we will analyze the answers of the sample members and test the research hypotheses

#### **First: Introduction to the field study**

**Table 1.** Distribution of the study sample

	<b>auditors</b>
the sample	122
Responders	103
Response ratio	84,42 %

**Source:** The table was prepared based on the form

As shown in the previous table, the number of respondents was 103, or 84.42% out of 122, the total sample size. Therefore, the response rate is good because it exceeds the required 60% for scientific research and analysis of results in the field of qualitative research. (Sekaran, 2000)

### **2 - Study questionnaire**

In the light of the above, the survey list was prepared, which contains a set of phrases to be answered in a gradual from strongly disagreement to strongly agree, with weighting for each answer, and through statistical analysis of the respondents' answers to the statements. The following axes:

- The first axis, which starts from Statement No. 1 to Statement No. 7: It aims to measure the extent of the auditor's verification of the internal control system of the economic institution affecting the planning of audit procedures.
- The second axis, which starts from statement No. 8 to statement No. 16: where this axis aims to assess the risk by the economic institution in the financial statements affect the planning process and the implementation of audit procedures.

- The third axis, which starts from statement No. 17 to statement No. 31: This axis aims to identify the existence of a significant moral relationship between the size of the economic institution and considerations of relative importance, and the experience of the previous auditor in the institution and the planning of audit procedures.

### **Second: the sincerity and stability of the tool:**

In order to judge the accuracy of the measurement by determining the stability of the measuring instrument represented by the questionnaire and to determine the accuracy of the resolution in the measurement of the concept to be actually measured and the use of the coefficient of stability Cronbach Alpha (Cronbach Alpha).

The overall coefficient of alpha of the sample was 86%, which indicates a high level of stability of the measuring instrument.

### **Third: Characteristics of the study sample**

The characteristics of the study sample were divided by sex, age, and educational qualification

#### **1- Sex**

Table (2) shows the percentage of males and females of a study sample, which is distributed as follows:

**Table 2.** Distribution of the study sample by sex variable

<b>Sex</b>	<b>Repetition</b>	<b>Ratio</b>
Male	94	91,27%
female	09	08.73%
Total	103	100%

**Source:** The table is based on SPSS output.

It is clear from the above table that the proportion of males is greater than females, where the proportion of males (91.27%) of the sample of the study and the proportion of females (08.73%).

#### **2-Age**

Table (3) shows the distribution of the study sample by age and is distributed as follows

**Table 3.** Distribution of the Study Sample by Age Variable

<b>Age</b>	<b>Repetition</b>	<b>Ratio</b>
<i>Less than 40 years</i>	46	44,67%
<i>More than 40 years</i>	57	55,33%
<i>Total</i>	103	100%

**Source:** Table based on SPSS output.

Table (3) shows that the group under 40 years old represents 44.67% and the group above 40 years old represents 55.33%.

### **3. Educational qualification**

Table (4) shows the distribution of the research sample according to educational qualification, which was divided into three levels and is shown in the following table

**Table 4.** shows the distribution of the research sample according to educational qualification

<b>Educational Qualification</b>	<b>Repetition</b>	<b>Ratio</b>
<i>Bachelor</i>	68	66,01%
<i>Postgraduate</i>	23	22,34%
<i>Other certificates</i>	12	% 11.65
<i>Total</i>	103	%100

**Source:** Table based on SPSS output.

As shown in table (4), it is clear that the highest percentage is attributed to holders of the Bachelor degree (66.01%), followed by holders of graduate degree (22.34%), followed by holders of other degrees (11.65%).

It could be argued that more than 89% of the total study sample carrying high scientific qualifications, meaning that eligible class represents the sample scientifically capable of answering the questionnaire questions.

#### **4. Experience**

Table (5) shows the distribution of the study sample according to the experience variable

**Table 5.** Distribution of the study sample according to experience

<b>Experience</b>	<b>redundancy</b>	<b>ratio</b>
<i>Less than 4 years</i>	25	24,27%
<i>4-10 years</i>	46	44,66%
<i>More than 10 years</i>	32	31,07%
<i>Total</i>	103	%100

**Source:** Table based on SPSS output.

The above table shows the results of the study related to the number of years of experience. Years of experience were divided into three categories starting from less than four years to ten years or more, with the highest percentage reaching 44.66% for the category between four and less than ten years for the sample.

#### **Third: Testing hypotheses**

##### **1- Test the first hypothesis**

The auditor's verification of the internal control system of the economic institution does not affect the planning of the audit procedures

Table (06) shows the arithmetic mean, standard deviation and the student test (t) of the auditor's verification of the internal control system of the economic institution affecting the planning of the audit procedures.



**Table 06.** T - test results for auditors, arithmetic mean and standard deviation  
**Source:** Table based on SPSS output.

the field	The arithmetic average	standard deviation	Calculated (T) value	Degrees of freedom	Statistical significance level
<i>The auditor's verification of the internal control system of the economic institution does not affect the planning of the audit procedures</i>	4,14	0.417	10.146	102	0,000

Evidenced by the results in the table above that average answers this category is greater than the arithmetic mean estimated supposed (3.5), arithmetic mean of 4.14 deviation 0417, T amounted to (10.146), are statistically significant at a level of less than 0.05, and then reject the hypothesis of research J: do not affect check checker for the internal control system of enterprise on audit procedures, planning to check checker for the internal control system of economic organization affects the planning of audit procedures.

## **2 - test the second hypothesis**

The risk assessment by the economic institution in the financial statements does not affect the planning and implementation of the audit procedures.

Table (7) shows the arithmetic mean, the standard deviation and the test of student for an area where the risk assessment by the economic institution does not affect the financial statements affecting the planning process and the implementation of the audit procedures.

**Table 07.** Test Results for Auditors, Arithmetic Average and Standard Deviation

the field	The arith metic avera ge	standa rd deviati on	Calcula ted (T) value	Degrees of freedom	Statistical significanc e level
The risk assessment by the economic institution in the financial statements does not affect the planning and implementation of the audit procedures.	<i>3.97</i>	<i>0.44</i>	<i>7.028</i>	<i>102</i>	<i>0,000</i>

**Source:** Table based on SPSS output.

It is clear from the results in the table above that the average of the answers of this category is greater than the assumed mean, where the mean averaged 3.97 with a standard deviation of 0.444. Therefore, it rejects the research hypothesis of: The risk assessment by the economic institution in the financial statements does not affect the planning and implementation of the audit procedures, i.e. the risk assessment by the economic institution in the financial statements affects the planning and implementation of the audit procedures.

### **3- Test the third hypothesis**

There is no statistically significant correlation between the size of the economic institution and the relative importance considerations, the auditor's previous experience with the organization and the planning of the audit procedures.

**Table 8.** shows the arithmetic mean, the standard deviation and the student test (t) of the auditor's verification of the internal control system of the economic institution that

the field	The arithmetic average	standard deviation	Calculated (T) value	Degrees of freedom	Statistical significance level
There is no statistically significant correlation between the size of the economic institution and the relative importance considerations, the auditor's previous experience with the organization and the planning of the audit procedures.	3.91	0.581	4.727	102	0,000

**Source:** Table based on SPSS output.

It is clear from the results in the table above that the mean of the answers of this category is greater than the assumed mean, where the mean was 3.91 with a standard deviation of 0.581, the value of T (4.727), which is statistically significant at a level less than 0.05, and then rejects Research hypothesis: There is no significant relationship between the size of the economic institution and considerations of relative importance, and the experience of the previous auditor in the institution and the planning of audit procedures, i.e., there is a significant significance relationship between both the size of the economic institution and considerations of relative importance, and experience The previous auditor of the institution and the planning of the procedures audit.

**Conclusion:**

Through the field study to know the importance of the efficiency and effectiveness of internal control systems on the planning of audit procedures in the economic institutions that are implemented, through a questionnaire to a sample of auditors and academics specialized in accounting and auditing, the field study aimed to measure the impact of the efficiency and effectiveness of control systems Internal audit planning procedures.

This study concluded that the auditor's verification of the internal control system of the economic institution affects the planning of the audit procedures, and that the risk assessment by the economic institution in the financial statements affects the planning process and the implementation of the audit procedures, and the field study concluded that there is a significant relationship between each of The size of the economic institution and considerations of relative importance, and the experience of the previous auditor in the institution and planning audit procedures.

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