



The role of the Internal Audit Charter in Reducing Cases of Financial and Administrative Corruption for Iraqi Economic Units

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Abstract

The phenomenon of corruption is not new, but the volume of corruption that has led many international companies in general and Iraqi economics Units in particular, to the abyss must be taken into account to reduce it. Many international organizations have addressed this phenomenon for instance; (Gray) has defined corruption in general as the abuse of power available to achieve personal returns and profits or to a group of people, who are among them. many Iraqi economics units Suffer from much managerial and financial corruption, because of the weak internal auditing and the weak role of monitoring and control units for the administration's functions. The study offers a proposed model to implement the strategy of description functions. The internal audit charter provides a legal support for the department's work through identifying the objectives of the internal audit function, independence, granted authority and the responsibilities assigned it by determining the scope of work, as well as determining the professional standards followed and types of reports issued by them. In order to impede the fraud and corruption, the study recommends using this charter in order to draw up of strategic and tactical plans to acquire and provide infrastructure, as well as the preparation and evaluation of skills of auditors that help to create an ideal environment which contributes to ending of corruption cases.

Keywords: Charter of Internal Audit, Corruption, Economic units, the structure of internal auditors function.

Introduction

From time to time, the phenomenon of corruption is spread in different countries and economic units, whether in the public or private sectors when the appropriate conditions are present. The WorldBank defined Corruption as a commonly known misuse or the exploitation of public power for private benefits.⁽¹⁾ This mainly happens under the weakness of supervision or monitoring for economic units, as well as weak knowledge, legal and regulatory awareness of administrative regulations and instructions, which relate to different administrative levels. One of



the primary tasks of the administration is to develop a set of necessary regulatory measures to protect assets, create a favorable environment free from corruption. In this case, the administration delegates internal audit authority to introduce assurance on the adequacy and reliability of the measures taken in order to reduce corruption. The problem of this study refers to the non-issuance of charter that determines the strategy of the audit work. This, in turn, contributes to reducing and preventing the cases of corruption and provide advisory services for this phenomenon.

First Axis: The Causes of Corruption and its Implications

The phenomenon of corruption is not new, but the volume of corruption that has led many international companies to the abyss must be taken into account to reduce it. Many international organizations have addressed this phenomenon. For instance, The World Bank has defined corruption in general as the abuse of power available to achieve personal returns and profits or benefit to a group of people who are among them.⁽²⁾ The administrative corruption is described as irregularities issued by the employee during the performance of his/her functions, which are mainly related to the affairs of the work for instance, work irregularity, disrespect for time, laxity or failure to perform the tasks entrusted to him, and not to take responsibility as well as disclosure of the secrets of the job. The financial corruption refers to financial deviation and infraction of the rules and financial provisions that regulate the progress of the financial work in the state or other institutions, such as bribes, embezzlement, and tax evasion.⁽³⁾ In order to reduce and prevent this phenomenon of expansion, it is necessary to know the factors that lead to the emergence of administrative and financial corruption, They are below:⁽⁴⁾

- 1- Weaknesses or absence of authority.
- 2- Lack of transparency and weak supervision at different administrative levels.
- 3-Lack of awareness and weak perception of laws, regulations, and instructions.

We can shorten the implications of administrative and financial corruption as below:

- 1-Instability of institutions and efflux of investment.
- 2-The decline in economic development which is followed by a breakdown in the social and cultural environment, The regress in economic development will be followed by a breakdown in the social and cultural environment.
- 3- Eliminating the power of law.



Second Axis: Internal Audit Charter

Internal Audit Charter consists of a number of special principles for the profession and its practices, in addition to the rules of professional conduct preferred by internal auditors, in order to create a suitable environment that contributes in enhancing the ethical culture for internal auditors professions. According to the standard of internal, audit no. (1010), ethical charters are considered as obligation for all parties that provide services of internal audit as in below:⁽⁵⁾

a. Integrity: is an important basis for the internal auditor in any economic unit because its availability leads to confidence in the auditors themselves.

b. Objectivity: The internal auditor must practice the highest professional standards required for him to perform his work efficiently. He must collect, evaluate and deliver information regarding activities that he audits.⁽⁶⁾ The judgments issued in respect of these activities should not be influenced by self-interests or interest of other. the rule guaranties the following:⁽⁷⁾

- Non-acceptance of mediation by parties related to the economic unit, which may weaken the credibility of their professional provisions.
- Neutral relations with officials in economic units so as not to lead to a biased decision, which leads to the weakness of their supervisory role.
- Disclosure of all fundamental facts which has been reached during performing their duties.

c. Confidentiality: The internal auditor should pay attention to the information obtained from the economic units by non-disclosure about any information that has been obtained, if there are necessary professional or legal obligations which require to disclosure. Therefore, the Charter of ethical behavior confirmed by the institute of internal auditors in 2012 requires from the auditor to not use any clear information for self-benefit or use it in violation of law and ethics. This principle includes the following:

- Honesty in using the information that obtained during performing their duties and protects the information.
- Not to use the information to achieve personal gains or to use them in a manner contrary to the law this will cause harm for the benefit of economic unity.

d. Professional competence is an essential element in performing the tasks of the internal audit. This includes knowledge, experience, and continuity of the rehabilitation of the auditor within a regular training policy for each member of internal audit division.



The Internal audit always needs to develop his/her skills in different aspects of knowledge in order to raise professional efficiency. There are several aspects which enhance the skills of internal audit, as shown below:⁽⁸⁾

- The necessity to enhance knowledge of quality standards.
- Perception of new direction of business management such as TQM total quality management, business re-engineering, and strategic planning.
- The necessity of strengthening skills in the management of change, flexibility, negotiation, and understanding of the personality.
- The necessity of enhancing the field of technical knowledge and information technology IT.

Third Axis: Ways to Eliminate Administrative and Financial Corruption

In general, there are many attempts to eliminate corruption, in particular financial and administrative corruption. The agreements were made in Incosai in Uruguay and considered the fraud and corruption effective problems in varying degree in all countries, which required providing the free environment of corruption and fraud. The meeting resulted in a number of recommendations:⁽⁹⁾

- 1- The pursuit of the independence of monitoring systems.
- 2- To assess the accuracy and effectiveness of the internal control system, as well as to follow closely the recommendations of the regulatory bodies.
- 3- . Building a control strategy based on effective indicators of fraud and corruption.
- 4- Preparing monitoring reports which it's agreed with standards disclosure.

The Importance of Building a Job Structure according to Charter of Internal Audit

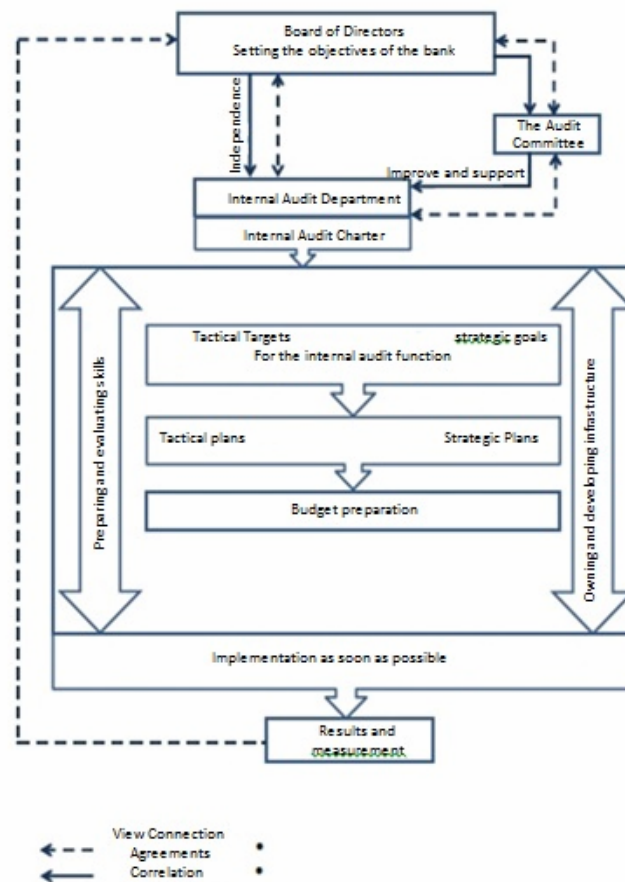
The structure of function of the internal auditors shows in figure 1 the nature of the link between the internal audit department, the board of directors that provides it with independence, and the audit committee that provides technical support to the department. The internal audit charter provides legal support for the department's work through identifying the objectives of the internal audit function, independence, granted authority and the responsibilities assigned to it by determining the scope of work, as well as determining the professional standards followed and, The types of reports issued by them. The function of the internal audit includes setting strategic goals for the division which emanates from them



strategic planning and tactical goals, setting budgets related to this planning and achieving tactical goals through interaction among them.

When developing strategic and tactical plans for economic units, we must take into consideration developing The infrastructures, Preparation and evaluating of skills. When the plans are completed, implementation is carried out as soon as possible. The results are then measured and submitted to senior management in the form of final reports.⁽¹⁰⁾

Figure 1: Proposed Model of Structure of the Internal Audit Function



Source: Kadhim, Laith Jawad. (2015).

Fourth Axis: practical side

The samples of this study consist of 8 units, 5 of them are public economic units, and 3 of them are private units, as shown in table 1 & 2 below.

**Table 1: Public sector**

No	Economic units	Reports supporting weak internal audit function
1	Directorate of Agriculture province of Dhi Qar	The report issued by the Federal Financial Control Bureau for the years 2004-2008
2	National Pension Authority Dhi Qar Branch	The report issued by the Federal Financial Control Bureau for the years 2004-2008
3	General Company for Building Materials Trading Branch / Dhi Qar	The report issued by the Federal Audit Bureau until 2009
4	Directorate General of Electricity Transmission / Southern Region - Dhi Qar	The report issued by the Federal Audit Bureau until 2009
5	Ur Company for Engineering Industries	The report issued by the Federal Audit Bureau until 2010

Source: Prepared by researchers

Table 2: Private sector

No.	Economic unity	The report number and date
1	Gulf Commercial Bank Private Joint Stock Company	31 on 7-6-2016
2	Iraqi Investment Company Private Joint Stock Company Baghdad	27 on 20-2-2016
3	National Bank of Iraq Private Joint Stock Company	801-2016 on 25-2-2016

Source: Prepared by researchers

The researchers conducted an analysis study, in order to assess the work of the Internal Audit for division/department as well as the organizational structures and procedures for the course of work, which also reviewed. In addition, Performance reports were also reviewed, these reports were issued by the Federal Audit Bureau for the economic units of the public sector and the reports of the external auditors on private sector units.

After reviewing the units of the audit sample, some of the units that have problems with the internal audit are shown below:

1- The problems of internal auditors' reports. Through the examination of the reports, many of these reports are incomplete and do not include neutrality for all matters related to the risks to which these units are exposed. These reports are not detailed and are inaccurate.

2- Problems in job descriptions for internal audit. There is no real description of the function of the internal auditor in most economic units as they do not apply the international conditions of the auditor, although



some of the auditors do not apply the conditions that must be provided by the auditor.

3-Problems in the audit planning process. Planning is one of the basic principles in all sciences, especially accounting, However, most of the economic units have a serious lack in the process of planning for the audit, and a weakness in the time plan to determine where and when to check.

4- Unskilled staff. Most of the economic units in Iraq have a lack of work in the real specialization of the employee, as we find that there are some of the internal auditors does not have sufficient skills or basic conditions for the person of the auditor, which leads to weakness in the process of audit.

Fifth Axis: Conclusions and Recommendations

The researchers reached a number of conclusions, the most prominent of which are below:

1. Corruption is a widespread phenomenon in all countries but appears to be growing when the environment becomes suitable.
2. It is possible to provide a suitable working environment free from administrative and financial corruption when it provides sound financial control procedures.
3. Some economic units (research sample) were subjected to a set of fines and penalties as a result of the violations that were committed.
4. The legal and organizational support for the work of the Internal Audit Division is the internal audit charter which includes the structure of the department and the audit work strategy.

The researchers recommend a number of recommendations, including:

- 1- Strengthening of the Internal Audit Division / Department of the Audit Charter which contributes to the construction of a clear strategy for the provision of assurance services to the validity of the internal control procedures followed, as well as the provision of advisory services to senior management on measures to reduce cases of corruption.
- 2- The Internal Audit Charter includes the drawing up of strategic and tactical plans to acquire and provide infrastructure, as well as the preparation and evaluation of skills that help to create an ideal environment that contributes to ending of corruption cases.



Margins

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