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The Role of International Auditing Standards in Raising the Quality of Internal Controls of Iraqi Oil Companies

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Abstract

Objectives: This study aimed to determine the role of international auditing standards in raising the quality of internal control of oil companies in Iraq. Materials and methods: In terms of purpose, this research falls under the category of applied research, and it is cross-sectional in terms of the time of data collection. The required data were collected in the first quarter of 2023. Moreover, in terms of the method used, it is a descriptive survey. The statistical population included 100 financial managers of Iraqi oil companies, the heads of internal audit in the Iraqi oil companies, and the Iraqi oil companies' CEOs. Based on the proposed theoretical foundations, research hypotheses were formulated and the research questions were distributed in the form of a researcher-made questionnaire among the financial managers, the heads of internal audit, and the CEOs of the companies active in the Iraqi oil industry. SPSS software and parametric statistical methods were used to test the hypotheses. Findings: The results of the present study confirmed the research hypotheses. Accordingly, implementing international auditing standards can raise the quality of internal controls. Conclusion: Based on the results of the research, using international standards will lead to a better understanding of the control environment. A better understanding of the control environment will lead to maintaining honest and ethical conduct on the part of the personnel. Furthermore, using these standards will help to give a more effective risk assessment and to have a better understanding of the information system as well as a better understanding of both control activities and control monitoring.

Introduction

In 2001, the United States started enforcing rules and regulations concerning internal control reporting by managers and auditors. Several countries have followed the United States; however, some states have not adopted such an approach. Therefore, the important question is whether internal control bears relevance to stakeholders. The issue of the benefits of US-style internal control reporting rules and regulations continues to be topical (Chalmers et al., 2019; Chunxi et al., 2022). Organizations and institutions must set up an effective internal control system if they plan to achieve short-term and long-term goals and achieve intended prospects, maintain financial strength and profitability, deal with unexpected events, and respond to users (Hassas Yeganeh & Taghinataj Malakshah, 2006; Lizhen & Wei, 2023). As a matter of fact, establishing an effective internal control system in companies is an important tool to ensure the preservation of interests for investors and to lead economic entities efficiently and effectively (Bazarafshan, Hejazi, and Rahmani, 2015). Moreover, the proper design and establishment of internal control systems in

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economic entities is a key factor in promoting accountability and financial transparency, compliance with rules and regulations, and helping to prevent fraud and financial abuses (Ghanbarian, 2011; Al Shogran, 2023). Researchers posit that the quality of internal control influences investors' perception of risk. For example, the weaker the internal control system in companies, the lower the quality and accuracy of reporting accounting information (Ashbaugh-Skaife et al., 2009; Tayler et al., 2022). According to Cook and Winkle (1976), the internal control system is like the human nervous system that spreads out through the business and transmits orders and reactions to management. In this sense, by measuring and assessing the effectiveness of organizational controls, internal audit will be considered an important management control device (Carmichael, 1996; Nardiati et al., 2023). Because of the inherent limitations of an audit as well as the inherent limitations of internal controls, there is an unavoidable risk that some material misstatements will not be detected, even if the audit is properly planned and performed in accordance with international auditing standards. In order to ensure internal controls, auditors use information-gathering tools such as questionnaires, interviews, and observation, each of which has disadvantages and limitations that can increase the likelihood of information-gathering errors and cause the auditor to misunderstand the state of internal controls of economic entities. (Kiwi & Campenhead, 2008; Coleman & Watson, 2002; Cai, 2023). Furthermore, the results of prior research have shown that the dissatisfaction of auditors with the audit fees, the lack of appropriate audit guidelines, the weakness of professional training, and the lack of cost-effectiveness are among the obstacles to better evaluation of internal controls. On the other hand, several factors increase the risk of errors in the reports presented, such as the existence of collusion, fraud, and negligence, the wrong perception of employees, which is one of the inherent limitations of any internal control system, along with the inherent errors of information gathering tools regarding internal controls as well as other obstacles. This can lead to the failure to identify some economic entities with serious problems and reveal significant weaknesses in the internal controls of economic entities (Maham and Takroosta, 2012; Najiand et al., 2022). In addition, strengthening the internal audit function supports corporate governance structures and helps internal auditors analyze and understand the risk exposure in a business (Drogalas & Siopi, 2017; Shaker et al., 2022)

Therefore, it is crucial to create standards entailing the establishment of internal control systems, especially in the government, considering the size, variety, transaction volume, the multitude of records, rules, and regulations. Since legal regulations govern the management and control of public resources and public programs, there must be standards that govern and ensure such compliance (Feghali & Hallak, 2019; Hofmann & Jeffries, 2022). The explosive growth of global markets has put new emphasis on the development of and need for international standards in auditing. As the world continues to get smaller and more and more international investments are made, the use of a common set of international standards offers clear benefits to investors, regulators, and audit institutions. A small number of major investors limit their activities within their own country's borders. Since investors seek to evaluate investment opportunities and monitor the performance of a global portfolio, they will benefit from access to financial information prepared in compliance with international standards. If the investigated financial information is prepared and audited based on common international standards, they will have a better understanding of the financial information of the companies in which they have invested.

It is worth mentioning that most of the studies carried out in Iraq have addressed the establishment of internal control systems based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and have not pointed to the role of international auditing standards in raising the quality of internal control (Nawar and Safaa, 2021; Bushra and Dijlah, 2021; Binsaddig et al., 2023). International standards for internal audit are one of the governance tools of paramount importance for companies globally, developed to control and monitor their internal activities and ensure their compliance with international standards. Since there are multinational companies in Iraq, using international standards in the professional job of internal audit can improve the effectiveness, efficiency, and economy of enterprises and increase the reliability of financial and non-financial reports in compliance with the relevant laws and regulations. Due to the fact that Iraqi firms are not required to establish an internal control system and international auditing standards are not applied, the present research can draw the attention of lawmakers to the approval of laws related to the establishment of internal control systems in line with other countries and take an effective step towards building the confidence of Iraqi investors. Therefore, this research aims to investigate the role of international auditing standards in strengthening the internal control system of Iraqi oil companies and seeks to find an answer to the following question: Can applying international auditing standards improve the quality of internal controls of Iraqi oil companies?

Theoretical Foundations

Following the accounting scandals of companies such as Enron, Tyco, and WorldCom in the US and the world, internal controls have drawn the attention of legislators to increase the investors and stakeholders' trust in the reliability of financial statements. The Sarbanes-Oxley Act, approved by the US Congress in 2002, establishes requirements for companies to publicly report on their internal control (Malekian et al., 2018). Internal control is a process designed by the board of directors, management, and other personnel in order to provide reasonable assurance that the objectives of the business entity are achieved, which are categorized into three groups (operational, reporting, and compliance). In this definition, the following basic concepts are included. Hence, internal control

- is a process incorporating ongoing tasks and activities and is a means to an end, not an end in itself.
- is effected by people and it is not merely about regulations, policies, systems, and methods, but also includes various people implementing internal control in the organization.
- can provide reasonable, though not absolute, assurance to senior managers and the board of directors.
- helps to accomplish goals and objectives in one or more operational, reporting, and compliance goals.
- conforms to the structure of the business entity (Rahimian, 2013).

Moreover, the internal control system has been considered an important tool to reduce the phenomenon of financial and administrative corruption, and these systems seek to achieve the objectives in the various economic entities in the institution (Al-Bakua & Ahmad, 2012). Al-Samarraie (2016) argues that internal control system is "a set of plans and procedures developed by companies under the supervision of senior officials and management in order to protect the assets of the institution against abuse and avoid potential risks". The institution should develop ways and methods to address these risks and avoid cases of deviations from the rules to achieve more transparent financial reports that include information on all operational activities and financing and cash flows, hence gaining the investors' satisfaction and helping them make reliable decisions. In order to attain short-term and long-term goals and accomplish their missions and achieve intended prospects, economic entities must have an effective internal control system (Hajiha and Mohammad-Hosseinnejad (2015). Xu-dong et al. (2017) believe that establishing an effective internal control system is an important mechanism that ensures high-quality financial reporting. Effective internal controls ensure that economic entities reach their goals (Hassas Yeganeh & Taghinataj Malakshah, 2006). Chenhall (2003) believes that the internal control system is provided in order to assist management to achieve business goals and desired results. According to Ogneva et al. (2007), internal control is a fundamental and dynamic process that continuously adjusts and adapts to the changes facing the organization. The internal control framework includes five components:

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication,
- Monitoring activities.

The control environment is a set of standards, processes, and structures that provide a basis for the implementation of internal controls in the organization. The board of directors and senior managers establish internal controls based on their importance at all levels of the organization. These controls include expected standards to lead the actions. Management reinforces the expectations at various levels of the organization. The control environment includes integrity and ethical values in the organization, factors that enable the board of directors to carry out leadership responsibilities, organizational structure, assignment of authority and responsibility, attracting, nurturing, and retaining competent staff, improving performance standards, creating motivation and awarding rewards, and being accountable for performance. The achievements of the control environment have a pervasive effect on the entire internal control system (Rahimian, 2013).

Moreover, every business entity faces diverse risks from internal and external sources. Risk is defined as the probability that an event will occur and have a negative impact on achieving the business entity's objectives. Risk assessment is a dynamic and iterative process for identifying and evaluating risks to the achievement of the business entity's objectives. The risks of achieving these objectives in the entire business entity are compared with the amount of tolerable risk. Therefore, risk assessment is the basis for determining how to manage risks. The prerequisite for risk assessment is to determine the objectives related to the distinct levels of the business entity. The management sets its own goals in terms of operational, reporting, and compliance goals with enough transparency to be able to identify and evaluate the risks related to these goals. Risk assessment also requires management to consider possible changes in the external environment and business model that can render internal controls ineffective (Rahimian, 2013).

Control activities are measures taken to create policies and approaches that help to ensure that management directives are implemented to mitigate risks to the achievement of objectives. Control activities are implemented at all levels of the business entity, at different stages of the business processes, and in the technological environment. Control activities can be preventive or detective and include manual and mechanical activities such as authorization, approval, verification, reconciliation, and reviews of operating performance. Basically, the segregation of duties among the organization's staff is formed at the time of choosing and de internal controls, and if the segregation of duties is not practical, the management chooses and uses other control methods (Rahimian, 2013).

Information is crucial for the business entity to carry out internal control responsibilities in order to support the achievement of its objectives. To support the performance of the duties by other internal control components, the management expands and uses the qualitative and relevant information obtained from internal and external sources. Communication is a continuous and iterative process for presenting, cascading, and obtaining information. Internal communication is a means by which information flows up and down the organization and is disseminated throughout the organization. Through these communications, employees receive clear messages from the senior management of the organization who is in charge of the controls. External communication has a dual role. On the one hand, external communication makes it possible for internal communication to provide relevant information. On the other hand, it provides information to respond to the needs and expectations of external parties (Rahimian, 2012).

Finally, monitoring activities include ongoing evaluations, separate evaluations, or a combination of these two. They are used to ascertain that there are controls and that each of the five components of internal control is effective and usable. Continuous evaluations are established in business processes at different levels to provide timely information. Separate evaluations are carried out periodically, and their scope and frequency are different according to the assessment of risks, the effectiveness of continuous evaluations, and other management considerations. Findings resulting from monitoring activities based on evaluation management criteria and deficiencies are reported to the board of directors if necessary (Rahimian, 2013).

Internal control system elements

In 2007, the Iraqi Financial Supervision Office defined the components of the internal control system as follows:

- Segregation of duties
- Determining the limits of authorities and duties
- Organizational and management plan
- Accounting system
- Safeguarding of assets
- Assessing and updating the internal control system
- Follow-up on compliance with the internal control system
- Efficiency and integrity of personnel.

International Auditing Standard (ISA) No. 315

Purpose of internal control

Internal control is designed, implemented, and maintained to address identified business risks that threaten the achievement of any of the entity's objectives:

• Reliability of financial reporting of the business entity;
• Effectiveness and efficiency of its operations; and
• Its compliance with applicable laws and regulations.

Understanding the business entity and its environment, including the internal control of the business entity:

According to this standard, the auditor shall obtain an understanding of the internal control relevant to the audit. Although most audit-related controls are likely to be related to financial reporting, not all financial reporting controls are related to auditing. It is a matter of the auditor's professional judgment whether a control, individually or in combination, is relevant to the audit. When obtaining an understanding of the controls relevant to the audit, the auditor should evaluate the design of those controls and determine whether they are implemented by performing procedures other than inquiries of entity personnel.

Internal control components from the perspective of international standards

Control Environment

The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor should evaluate whether:

1. Management, with the oversight of those in charge of governance, has created and maintained a culture of integrity and ethical behavior. The effectiveness of controls cannot rise above the integrity and ethical values of those who create, administer, and monitor them. Integrity and ethical behavior are the product of the ethical standards and codes of conduct of the entity, how they are communicated, and how they are reinforced in practice. Applying integrity and ethical values involves management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts. Communicating the entity policies on integrity and ethical values may include communicating behavioral standards to personnel through policy statements and codes of conduct and by example.
2. The strengths in the entity's control environment elements collectively provide an appropriate foundation for the other components of internal control and whether these other components are not undermined by the deficiencies in the control environment.

The Entity's Risk Assessment Process

The auditor shall obtain an understanding of whether the entity has a process for:

1. Identifying business risks related to financial reporting objectives;
2. Estimating the importance of risks;
3. Assessing the probability of their occurrence; and
4. Deciding on actions to address these risks.

If the entity has established such a process, the auditor shall obtain an understanding of the process and its implications. If the auditor identifies risks of material misstatement that management has failed to identify, the auditor should assess whether a material risk exists of a type that the auditor expects to have been identified by the entity's risk assessment process. If such a risk exists, the auditor must understand why the process failed to identify it and assess whether the process is appropriate to the circumstances or whether there is a significant deficiency in internal control concerning the entity's risk assessment process.

If the entity has not established such a process or has an interim process, the auditor should discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the lack of a documented risk assessment process is appropriate in the circumstances, or determine whether it is a significant deficiency in internal control.

Information system, including relevant business processes, related to financial reporting and communications: The auditor shall obtain an understanding of the information system, including relevant business processes, related to financial reporting, including the following areas:

1. Classes of transactions in the business entity's operations that are important to the financial statements;
2. Procedures, both in IT and manual systems, by which transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger, and reported in the financial statements;
3. Relevant accounting records, supporting information, and specific accounts in financial statements used to initiate, record, process, and report transactions. This includes the correction of incorrect information and how to transfer information to the general ledger. Records may be in manual or electronic form;
4. How the information system records events and conditions other than transactions that are significant to the financial statements;
5. The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and,
6. Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

The auditor should understand how the entity communicates financial reporting roles and responsibilities and significant matters supporting the preparation of financial statements, including:

1. Communication between management and those in charge of governance; and
2. External communications, such as communications with regulatory authorities.

Control activities related to the audit

The auditor shall obtain an understanding of control activities related to the audit, activities that the auditor determines are necessary to assess the risks of material misstatement at the assertion level, and design further audit procedures to respond to the assessed risks. The auditor does not need to understand all control activities related to each significant class of transactions, account balances, and disclosures in the financial statements or any related assertions. Furthermore, in understanding the control activities of the business entity, the auditor shall obtain a correct understanding of how the entity responds to the risks arising from the use of information technology.

Monitoring Controls

The auditor shall obtain an understanding of the major activities the entity uses to monitor internal controls over financial reporting, including the activities related to those control activities relevant to the audit, and how it initiates corrective actions for deficiencies in its controls. Moreover, if the entity has an internal audit function, the auditor shall obtain an understanding of the following to determine whether the internal audit function is likely to be relevant to the audit.

1. The nature of the responsibilities of the entity's internal audit and how the internal audit function fits into the organizational structure of the entity; and
2. Activities performed or planned to be performed by the entity's internal audit.

In addition, the auditor shall obtain an understanding of the sources of information used in the entity's monitoring activities and the basis upon which management considers the information to be sufficiently reliable for this purpose.

Literature Review

Prior research has mostly addressed the establishment of internal controls and the evaluation of the effective factors in raising the quality of internal controls, and no studies have been conducted so far on the impact of international auditing standards on raising the quality of internal controls.

In their research, Thanya and Kubraa (2021) examined the role of international auditing standards in improving the quality of professional performance of auditors by identifying the extent to which auditors apply international auditing standards. The results of their research indicate that since the standards contain a set of instructions and directions that help the auditors in performing their duties, relying on international auditing standards during the auditing process will have a positive and direct impact on improving the quality of auditors' professional performance.

Bushra and Dijlah (2021) conducted a study aiming to show the application of internal control elements according to the decisions of the Committee for the Support of Economic Organizations (COSO) and their effect on the control environment of economic units. According to the findings of their study, the companies that were research samples were more inclined to apply most of the framework principles. Despite the different levels of acceptance of this framework, the research recommended the need to adopt modern frameworks, including the COSO framework, as appropriate in improving the internal control environment.

Bilal et al. (2021) in their research, “internal control of Revenues and Expenses in the University of Mosul” concluded that internal control has the capability to improve monitoring activities and maintain human, financial, and material resources and advance the professional and practical reality, which will have a positive impact on achieving the sustainable management of this university and will enhance the country's development.

Nawar and Safaa (2021) concluded that the procedures proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) change and improve the internal control system. The results of their research will influence the improvement of internal control methods in Iraqi oil companies and encourage them to adopt one of the global frameworks for internal control.

Chen et al. (2020) in their research titled “Internal controls, risk management, and cash holdings” argued that in pursuit of finding and exploiting a unique environment in China, internal controls are considered to manage risks. They also showed how companies' internal controls could shape cash-holding policies. The results indicated that companies with higher internal control quality were less likely to have abnormal cash holdings, either excess or deficit cash, and this effect was not affected by the quality of corporate governance. Moreover, companies with higher internal control quality were more likely to increase dividend payments, especially when the companies experienced a crisis. In addition, the stock market evaluation showed that investors place a higher value on the cash holdings of companies with higher internal control quality. Overall, their findings showed that internal controls help firms to formulate reasonable cash policies, which leads to value creation.

Cheng et al. (2018) examined the relationship between internal control and firm operational efficiency. The results showed that weakness in internal control significantly reduces the ability of companies to earn operational income. Besides, it was found that by remediating material weakness, the operational efficiency level will improve. Finally, it was found that the negative impact of weak internal control on the ability to earn operational income is more intense in companies that need quality information for decision-making and to some extent in small companies.

Jacoby et al. (2018) investigated the relationship between internal control, investment, and firm value in France. The results of the research showed that firms with weak internal control have a lower value as well as weaker stock performance compared to other companies.

Abdulridha and Abdulhadi (2017) investigated the effect of the internal control system on financial and administrative corruption. While defining the concept of internal control and the international standards governing it, they concluded that the weakness of internal audit and the lack of application of international standards will lead to the weakness of the internal control system. and, as a result, the increase in administrative and financial corruption in Iraq.

Al Samarraie (2016) investigated the impact of the internal control system on the quality of financial reports. The results indicated that the control environment and information and communication had a direct impact on the quality of financial reporting.

Deherieb (2019) evaluated internal control systems based on the concept of risk self-assessment and control patterns. According to the findings of this study, the process of training the personnel of internal control departments in all institutions and offices regarding the use of the supervisory self-evaluation method will lead to the correct application of the method and, consequently strengthen and evaluate the institution's activities and increase the performance of skills and abilities and improve the departments.

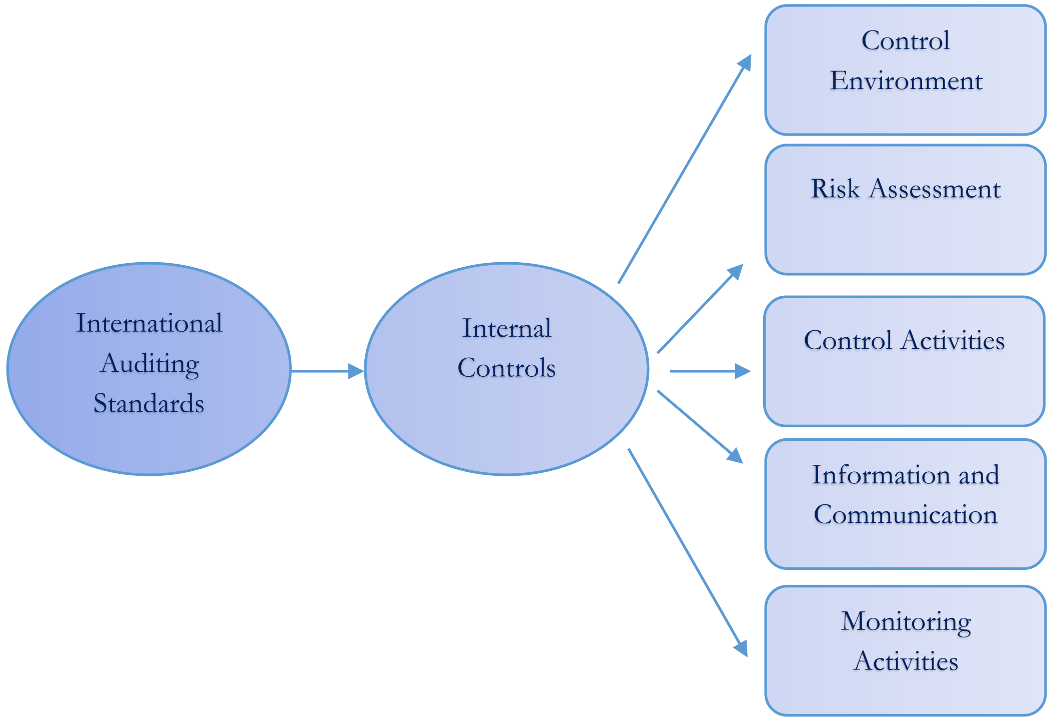
Sun (2015) in a study titled "Internal Control Weakness Disclosure and Firm Investment" investigated the impact of disclosure of internal control weaknesses on the investment of US firms. He concluded that the amount of investment in firms decreases after the revelation of the weakness of internal controls, and the amount of investment in firms increases after the weakness remediation.

Balsam, Jiang, and Liu (2014) in their study entitled "Equity Incentives and Internal Control Weaknesses" examined how the monetary incentives associated with equity ownership influenced managers to maintain strong internal controls in the company. The results indicated that most of the internal control weaknesses at the company level are severely limited by the incentives provided by the shareholders, but these weaknesses are more related to the managers' incentives.

In his research, Yazawa (2010) concluded that companies disclosing their internal control weaknesses cause significant damage to the reputation of companies that do business internationally or are growing rapidly. He found that the disclosure of internal control weaknesses has a direct and negative effect on the quality of accruals and leads to errors in accruals. They found that firms with internal control weaknesses tend to be smaller, more complex, financially weaker, and with slower growth. According to the results of his research, companies with more external transactions and less growth are less inclined to disclose their weaknesses.

Conceptual Model

Based on the theoretical foundations of the research, the following conceptual model was developed.



Research Hypotheses

Applying international auditing standards will lead to a better understanding of the control environment.

Applying international auditing standards is effective in risk assessment.

Applying international auditing standards will lead to a better understanding of the information system.

Applying international auditing standards will lead to a better understanding of control activities related to auditing.

Applying international auditing standards will lead to a better understanding of monitoring controls.

Research Method

In terms of purpose, this research falls under the category of applied research, and it is cross-sectional in terms of the time of data collection. The required data were collected in the first quarter of 2023. Moreover, in terms of the method used, it is a descriptive survey because while describing the status quo in society, a questionnaire will be used to collect information. The statistical population included three groups:

- Financial managers of Iraqi oil companies,
- The heads of internal audit in the Iraqi oil companies,
- The Iraqi oil companies' CEOs.

A researcher-made questionnaire was used to collect the required data. To explain the theoretical foundations and collect the literature review, library materials were used, then the data were collected using a questionnaire. The five-choice Likert spectrum was used to answer the questions. In order to confirm the content validity, the questionnaire was given to five professors and experts before its distribution, and their correction comments and suggestions were applied to the questionnaire. After getting their approval, the final questionnaire was prepared for distribution among the statistical sample. Finally, out of 145 questionnaires sent to the statistical population of the research, 100 questionnaires were returned. the first part of the questionnaire included questions related to demographic information, including gender, age, educational qualification, work experience, job rank, and place of service. In the second part, the questions were related to events relevant to the standard's role in improving the quality of internal control. Cronbach's alpha method was used to measure the reliability of the variables. When these coefficients are greater than 0.7, they were considered to be at an acceptable level.

Findings

Data analysis was done using SPSS software. Scoring the items was based on the Likert scale as follows:

Scales	Scores	Weight average (mean) for	Level
Strongly Disagree	1	1.0-1.79	Very low
Disagree	2	1.8-2.59	Low
I don't know	3	2.6-3.39	Moderate
Agree	4	3.4-4.19	High
Strongly agree	5	4.2-5.0	Very High

Collecting the questionnaires and analyzing them led to the demographic information of the research as follows:

Table 1 Frequency distribution of respondents

Items		Fr. (%)	Items		Fr. (%)
Gender	Male	79(79.0)	Working experience	1 – 10	30(30.0)
	Female	21(21.0)		11 – 20	41(41.0)
Age	under 35	20(20.0)		21 – 30	18(18.0)
	35-45	34(34.0)		more than 35	11(11.0)
	45-55	30(30.0)	Education	BA	46(46.0)
	above 55	16(16.0)		MA	37(37.0)
Field of study	Accounting	52(52.0)		PhD	11(11.0)
	Management	10(10.0)		Other	6(6.0)
	Economics	21(21.0)	Job	Financial manager	33(33.0)
	Auditing	10(10.0)		Head of internal audit	31(31.0)
	Other	7(7.0)		CEO	36(36.0)
Total		100(100)	Total		100(100)

Table 1 shows that the majority of the respondents are male, which is approximately more than 79% of the total respondents, while females constitute 21% of the total respondents, indicating that men are more suitable to work in those positions. In addition, the age group of the research sample shows that the age group (35 to 45 years) of the studied sample was the first with 34%. The second rank was the age group (45 to 55 years) with 30%. However, the last rank belongs to (above 55 years) with only 16%. Most of the participants, i.e., 52% of the participants, had accounting degrees and 21% of the participants had management degrees. Moreover, 41% of the respondents had work experience between 11-20 years, one group from 1 to10 years by (30%), then those with (21-30) years of working experience reached 18%, and next people with more than 30 years of experience ranked last and reached 11%, indicating the accumulation of work experience for the majority of people. As can be seen in the table, those with a bachelor's degree in this study came first with 46%. The second place belonged to those with a master's degree (37%). While the level of education of the participants with a Ph.D. degree was ranked third with only 11%. This shows that the sample members are among the holders of certificates who were qualified to answer the questionnaire items correctly. 36% of the participants were CEOs and 33% of the respondents were financial managers.

In this research, Cronbach's alpha was used to determine the reliability of the test. This method is used to calculate the internal consistency of the measuring instrument that measures different characteristics. The higher the alpha, the higher the reliability of the scale. The results of the reliability test of the research items are shown in Table 2.

Table 2 The results of the reliability test of the items

Alpha Cronbach	Number of questions	Variables
Dependent variables		
Control environment	7	0.908
The risk assessment process of a business entity	3	0.916
Information system	6	0.914
Controlling auditing activities	6	0.919
Monitoring controls	4	0.923
Total	26	0.916
Independent variable		
International auditing standards	7	0.919
Total	33	0.930

According to the results of the analysis of Table 2, the value of Cronbach's alpha coefficient at the level of the entire variable study is equal to (0.930), while for the variable of quality of internal controls, it is (0.916) and for the variable of international auditing standards, the variable is 0.919. Therefore, according to this equation, if the reliability coefficient is (0.60) or more, it is considered sufficient for the research that depends on the questionnaire tool (Allen and Yen, 2002). Therefore, the previous results indicate that there is necessary stability for the current research questionnaire and through the expression of its variables and dimensions, which is sufficient to use the statements of the current questionnaire as a tool for collecting field data.

Testing the Hypotheses

This section is aimed at statistically testing the hypotheses of the research and analyzing its model in order to identify the correlation and regression between its variables and check the correctness of the assumptions.

Table 3 Correlation test results

Variables	International Auditing Standards	
	Correlation	Sig.
Control environment	0.738	0.000
The risk assessment process of a business entity	0.699	0.000
Information system	0.687	0.000
Controlling auditing activities	0.619	0.000
Monitoring controls	0.639	0.000

According to Table 3, the correlation coefficient of international auditing standards and internal control components at a significant level of 5% was 0.738, 0.699, 0.687, 0.619, and 0.639, respectively. The results indicate a positive and significant correlation between the components of internal control and international auditing standards, hence the acceptance of research hypotheses.

Table 4 The results of the regression model

Model	**Coefficients**				**Model summary**			**Analysis of variance**	
	Non-standard coefficients		T Test	Sig	R	R^2	Adj.(R^2)	F Test	Sig.
	B	Std. Error							
Constant	0.961	0.217	4.430	0.000	0.779	0.607	0.603	151.390	0.000
International Auditing Standards	0.728	0.059	12.304	0.000					

Based on the data in Table 4, the regression model predicts the dependent variable indicating the statistical significance of the regression model that was implemented. The p-value was (0.000) which is less than 0.05 and indicates that the regression model significantly predicts the outcome variable (good fit to the data). The R^2 value indicates how much of the total variation in the dependent variable (quality of internal controls) can be explained by the independent variable (international auditing standards). In addition, the adjusted R^2 for this study was (0.607). In this case, 60.7% could be explained, which is very large. Therefore, all the data in Table 4 indicate the acceptance of the main hypothesis, meaning that international auditing standards have a positive effect on the quality of internal controls.

Conclusion

Establishing effective internal controls is a kind of monitoring tool that creates confidence among investors, and it is also considered a management tool for managing companies in order to increase operational efficiency and effectiveness (Ghosh et al., 2010). Due to the presence of multinational companies in Iraq, applying international standards in the professional job of internal audit can improve the effectiveness, efficiency, and economy of enterprises and increase the reliability of financial and non-financial reports in compliance with the relevant laws and regulations. This research aimed to evaluate the role of international auditing standards in raising the quality of internal control of oil companies in Iraq. Based on the proposed theoretical foundations, the hypotheses were formulated and the research questions were distributed in the form of a researcher-made questionnaire among the financial managers, the heads of internal audit, and the CEOs of the companies active in the oil industry in Iraq. The results of the research indicated that the implementation of international auditing standards can improve the quality of internal controls. Based on the results of the research, applying international standards will lead to a better understanding of the control environment, which in itself, will result in maintaining honest and ethical behavior of the personnel. Furthermore, using these standards will lead to more effective risk assessment, a better understanding of information systems, a better understanding of control activities, and a better understanding of control monitoring. The results of the present study were consistent with the studies by Nawar and Safaa (2021) and Abdulridha and Abdulhadi (2017). Based on the results of this research and considering the fact that Iraqi companies are not required to establish internal control systems and that international auditing standards are not implemented, this study can draw the attention of lawmakers to the approval of laws related to the establishment of internal control systems in line with other countries and an effective step can be taken to build the confidence of Iraqi investors.

Hence, it is suggested to the Iraqi Ministry of Finance, while investigating the feasibility of implementing international auditing standards, to oblige the oil companies to submit internal control reports. Given the impact of the audit report based on international auditing standards, it is suggested that its economic consequences on investors' decisions be investigated. Since the findings of this study were specific to the companies active in the oil sector of Iraq, the researchers suggest that studies with a larger statistical population consisting of all the companies admitted to the stock exchange of Iraq be investigated. It should be noted that the most important limitation of the current research was the lack of cooperation of the management of oil companies and sometimes managers' lack of knowledge about international auditing standards.

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