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The relationship between internal control procedures and standards and risk management: an applied study on contracting companies

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Abstract

The risks to which economic units are exposed are considered among the dangerous phenomena that, if they occur, cause a waste of money and a threat to the development and development plans that are to be implemented in order to achieve the goals they have set. The internal control system is an essential means that works for the purpose of reducing the amount of risks that may be exposed to. By developing it, defining its duties, and setting a structure to explain its concepts, procedures, and competencies to increase the ability to evaluate the unit's activities and know the extent to which it can be relied upon in mitigating and controlling the risks expected to occur. All of this is done under the supervision of senior management, which works to support the work of this system by providing all qualified competencies. Scientifically and practically, which is needed for oversight work to reduce risks.

Internal control tasks have also developed during the last two decades of the twentieth century, and one of the most prominent of these developments is managing the risks of the economic unit through internal control, which means the possibility of predicting business risks, determining their impact, and informing management to develop appropriate strategies and policies to reduce the impact of risks to a minimum. A questionnaire was distributed. For the purpose of testing the hypothesis using statistical analysis, the hypothesis was accepted through the correlation test, as the simple linear correlation coefficient reached (0.779), which indicates the strength of the relationship between the variables.

Keywords: internal control, risk management, contracting companies

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العلاقة بين إجراءات ومعايير الرقابة الداخلية وإدارة المخاطر: دراسة تطبيقية على شركات المقاولات

رائد نعيم راشد [1]

المستخلص

تُعتبر المخاطر التي تتعرض لها الوحدات الاقتصادية من بين الظواهر الخطيرة التي تُسبب، في حال حدوثها، هدرًا للمال وتهديدًا لخطط التنمية والتخطيطات الموضوعة لتحقيق الأهداف المرجوة. ويُعدّ نظام الرقابة الداخلية وسيلة أساسية للحدّ من هذه المخاطر. ويتم تطويره، وتحديد مهامه، ووضع هيكل يُوضح مفاهيمه وإجراءاته وكفاءاته، لتعزيز القدرة على تقييم أنشطة الوحدة ومعرفة مدى موثوقيتها في تخفيف المخاطر المتوقعة والسيطرة عليها. ويتم كل ذلك تحت إشراف الإدارة العليا، التي تعمل على دعم عمل هذا النظام بتوفير جميع الكفاءات المؤهلة، علميًا وعمليًا، اللازمة لأعمال الرقابة للحدّ من المخاطر.

شهدت مهام الرقابة الداخلية تطوراً ملحوظاً خلال العقدين الأخيرين من القرن العشرين، ومن أبرز هذه التطورات إدارة مخاطر الوحدة الاقتصادية من خلال الرقابة الداخلية، والتي تعني إمكانية التنبؤ بمخاطر الأعمال، وتحديد آثارها، وإطلاع الإدارة على كيفية وضع استراتيجيات وسياسات مناسبة للحد من هذه الآثار إلى أدنى حد. تم توزيع استبيان، ولغرض اختبار الفرضية باستخدام التحليل الإحصائي، تم قبولها من خلال اختبار الارتباط، حيث بلغ معامل الارتباط الخطي البسيط 0.779، مما يدل على قوة العلاقة بين المتغيرات.

الكلمات المفتاحية: الرقابة الداخلية، إدارة المخاطر، شركات التعاقد

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معلومات البحث

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Introduction

The technological development taking place in the world has led to an increase in the amount of risks to which economic units and their businesses are exposed. All of this has led to them trying to control and be aware of all the risks expected to occur for the purpose of encircling them and keeping them within the limits acceptable to them. The degree of acceleration and development in the units' work mechanisms and activities has helped in It made it more vulnerable to the risks of severe economic crises that affected the economies of countries in the world, which in turn affected global markets and economic units operating within their scope. Accordingly, many legislations began to appear and prevail through which the international organizations concerned with this matter seek to establish a general structure of risks that will be implemented. By defining them in general, setting specific frameworks for all risks, their types and scope, and developing appropriate solutions to control them and reduce them to a minimum.

Therefore, the risks to which economic units are exposed are considered among the dangerous phenomena that, if they occur, cause a waste of money and a threat to the development and development plans that are to be implemented in order to achieve the goals they have set. The internal control system is considered an essential means that works for the purpose of reducing the amount of risks that may be exposed to. This is done by developing it, defining its duties, and setting a structure to explain its concepts, procedures, and competencies to increase the ability to evaluate the unit's activities and know the extent to which it can be relied upon to limit and control the risks expected to occur. All of this is done under the supervision of senior management, which works to support the work of this system by providing all competencies. Scientifically and practically qualified, which is needed for oversight work to reduce risks.

Research hypothesis:

The research starts from a basic hypothesis that risk management is an important part or component of an efficient and effective internal control system, and the following hypotheses are divided into them: The sound scientific application of internal control procedures contributes to reducing the risks related to the failure to protect the company's assets and giving acceptable confirmation of the validity of Financial data appearing in financial reports.

Internal control and its importance:

The American Accounting Association (AAA) has developed a comprehensive definition of oversight (as an organized and systematic process for collecting and objectively evaluating evidence and evidence related to the results of economic activities and events in order to determine the extent of compatibility and conformity between the results and the established standards and informing the concerned parties of its result)[1] .

The activity of control has been known since ancient times, as at its beginning it was known as owner's control or personal control, according to which the owner evaluates his work through a series of simple audit procedures to detect errors committed during a specific period of time, whether they are accounting or administrative errors, while comparing the proceeds with the cash payments and the extent of verification. Required profits[2] .

In the second stage, the concept of control was linked to internal control and was synonymous with it, as the work is divided in such a way that the work of each individual is subject to the control of another individual and jobs are separated. The employee responsible for the records is not the same person who keeps the original because in this case he will easily be able to manipulate the assets and the records together. The powers should be determined and distributed according to the administrative levels in order to detect any errors or deviations that may occur as a result of the employees performing their duties to carry out the project's work [3] .

The internal control system is defined according to the Coso concept as (a set of operations that are implemented by the board of directors or management and all employees and are designed to provide reasonable assurance that the set goals are achieved, which ensures the possibility of relying on the financial statements, commitment to applying laws and legislation, and the efficiency and effectiveness of operations) [4].

The operations of the internal control system are carried out by individuals subject to a higher body represented by management, as it is the body that sets objectives and puts control methods into effect to provide reasonable, not absolute, assurance that all operations performed within the economic unit were correct and in accordance with the applicable regulations and laws, and that the information provided is truly expressed. About its financial situation, as the internal control process helps in achieving the objectives set for it related to financial reports, operations, and the extent of compliance with auditing standards.

From the above, the researcher believes that internal control is an efficient and effective practical activity that enjoys some independence aimed at protecting assets, supporting the credibility of financial statements, emphasizing the best use of available economic resources, and committing to implementing established policies and laws, with the ability to determine the scope, efficiency, and effectiveness of risk management to achieve the unit's objectives.

Objectives of internal control:

The objectives of internal control were initially limited, as they included protecting funds and other assets while ensuring the accuracy of registration, detecting unintended errors that usually occur unintentionally, and revealing intentional errors (cheating). With the development in the size of economic units and businesses, this led to the expansion of its objectives. To include the following goals: and[5]

1. Protecting the assets of the economic unit: - It is the preservation of all the assets owned by it from all the dangers surrounding them, protecting them from theft, embezzlement, and loss, and protecting them from the dangers of fire and damage and from all matters that affect their value, quality, and continued benefit from them.

2. Giving credibility to the data provided: It is achieving reasonable confirmation of the validity and accuracy of the information extracted from the accounting system and the activities performed by all departments and units operating within the economic unit.

3. Efficiency and effectiveness of using resources and developing production: Efficiency means achieving the best outputs with the same used inputs while reducing negative deviations to a minimum, and effectiveness is achieving the set goals within the specified time. One of the goals of control is achieving efficiency and

effectiveness in exploiting available resources while developing outputs and making them of high quality. High.

4. Commitment to implementing applicable policies and laws: - It must be ensured that employees adhere to all established policies and laws, whether they are internal related to the internal system of the economic unit or external related to the surrounding environment.

5. Identifying the risks surrounding the economic unit and methods for addressing them: The risks surrounding the economic unit must be identified and ways to reduce them to acceptable limits or avoid them. This is one of the modern objectives of internal control, as a department is being created within the structure of the internal control system whose mission is to manage and identify risks and develop a program. To surround it from all sides.

The basic components of the internal control system:

Some basic points must be present in the economic unit to be able to obtain a sound internal control system: -

1. Efficient organizational structure: The clear definition of the authorities and responsibilities in the economic unit helps in increasing the efficiency and effectiveness of the internal control system and its role in examining and evaluating the performance of the departments included within the organizational structure, which clearly and accurately delineates the tasks and functions of each department and clarifies the responsibilities, authorities and limits of the work of the staff within it.

2. A sound accounting system: - It is a series of steps according to which all economic events and transactions are documented and recorded within the economic unit. It depends on an integrated set of records, documents, and documents that are designed in a way that serves the goal for which they were used, which is to preserve information about the transactions occurring in the economic unit. With achieving effective control over it through designing a documentary cycle according to which the authorities that each prepared document must go through are established to ensure the accuracy of the information it contains. The system must also contain an accounting guide that includes accounting tabs that can be used provided that they are clear and understandable to all its users to facilitate their work. While trying to ensure the preparation of financial statements with the least cost and effort.

3. Internal control: - It is the basis on which the quality, efficiency and effectiveness of the internal control system depends because it is distinguished by its foundations that greatly influence the achievement of the system's objectives, including the separation of specializations and functions at the level of individuals (tenure, registration, and certification) and departments, and that the work of each employee is subject to To supervise another employee while ensuring that the work is not repeated to ensure accuracy in performance and that the benefits obtained are at a reasonable and acceptable

cost, and to develop a detailed work plan that includes the steps that must be followed to organize the work of the economic unit and to ensure the commitment of all staff and departments to it.

4. Efficiency of economic unit personnel: - The technological development taking place in the world, which was accompanied by the widespread use of mechanization in all operations, which led to a reduction in the number of personnel working in economic units in general. All of this did not prevent the continued need for the presence of competent individuals who have the ability to organize and manage. Business.

5. Follow up on compliance with the internal control system: - To ensure the success of any system, those responsible for it must establish a series of procedures and methods according to which all employees' compliance with the established policies and instructions is ensured. Accordingly, the internal control system is considered like any other system and must be subject to continuous follow-ups to ensure compliance. Departments and units within the economic unit have the controls and oversight policies used to ensure its viability and ability to achieve its objectives. The follow-up process has a significant impact in ensuring the effectiveness and efficiency of the system. Some large economic units are creating a special department within their organizational structure that specializes in following up and evaluating the internal control system to ensure its efficiency and effectiveness[6].

6. Protection of assets: - The success of any administration is directly related to the extent of its ability to preserve and protect the assets and assets owned by the economic unit, which is also one of the basic components of the efficiency and effectiveness of the internal control system, as a series of policies and procedures are put in place to ensure their protection and preservation from embezzlement, theft and loss., which is represented by internal control procedures between departments and formations operating in the economic unit.

The relationship between internal control and risk management:

The word risk is used by people in their ordinary words. When we say, "There is a risk in something," the listener understands from the context of the speech that there is a state of uncertainty associated with the presence of dangers surrounding the goals to be achieved. This is because risk is the possibility of something that is not certain to happen, while things that are certain are certain. It is not surrounded by danger, for example, when exposed to a loss in activity, in this case it is something that has already occurred, so it cannot be considered a risk, but rather it has become a certainty[7] .

The work of economic units at the present time has made them more vulnerable to risks due to their expansion and spread at the regional and international levels, which is the reason that made them seek to find ways to study the dangers surrounding them and find appropriate methods to count and identify them and reach their causes and then reduce their effects to the minimum to ensure the continuation of their work and human beings are exposed. There are many risks that result in financial or moral loss, and they differ in their nature, type, and size of the loss resulting from their realization [8] .

Risk is a function characterized by its uniqueness due to the state of uncertainty surrounding the actions of the economic unit and its future, as it includes two basic concepts: the likelihood (probability) of the occurrence of some problems that cause risks, and the impact, which is the realization of problems and the impact they leave after exposure to them [9] .

Risk is defined as (an opportunity to achieve a financial loss or the possibility of the achieved return being different from the expected, as it is linked to a financial concept and is measurable and evaluated in cash)[10]. Here, risk was viewed as the realization or possibility of achieving a loss, and the risk is measurable as it is measured. With cash.

It can be defined as (unseen and unwanted events in the future) and is something unknown and uncertain that will happen, but it can cause major losses if it occurs.

The researcher believes that risk can be defined as a concept used by managers and auditors to express their fears about the negative effects resulting from possible future events, as each of these events has a negative impact that may be significant on the economic unit and its goals[11].

Types risk:

Through studying the environmental aspects surrounding the work of economic units, it was noted that there are many risks surrounding them that directly affect the continuation and smooth running of their work, and result in several risks, including [11]:

1. Credit risks: - These are the risks associated with the ability of debtors to pay their debts at the agreed upon times for the purpose of continuing business and fulfilling obligations in accordance with the established conditions, and to ensure the smooth flow of the economic unit's work and its ability to collect its debts at the times specified for it and to reduce the percentage of doubtful debts.

2. Liquidity risks: - These are the risks that affect the economic unit as a result of seeking to fulfill all its obligations towards external parties and providing the required liquidity at times of payment and not delaying it in order to spare it from bearing unexpected losses, such as bearing credit interest in the event of late payment, and those included in this include Risks: Some risks related to the economic unit's ability to provide the liquidity necessary to continue its work, including (financial and financing shortfalls).

3. Market risks: - These are the risks associated with price fluctuations in the market and the instability of demand for the products and goods produced by the economic unit, which may reflect on its ability to continue as a result of market pressures and the lack of competitiveness within the market, which is more likely to reflect on the failure to keep pace with the changes occurring in the market. Markets, and among the types of these risks are the following (financial inflation and economic crises).

4. Reputation risks: - These risks are related to the presence of a negative impression or influence related to the reputation of the economic unit in the market, which leads to losses as a result. This may happen by customers switching to deal with other units,

and it may be due to the actions of some employees that give a negative impression to those dealing with them. This affects its reputation or is a result of the low quality of its products and delays in meeting customer requests.

5. Operational risks: - It is considered one of the most general and comprehensive types of risks, as it is directly linked to the actual performance of the economic unit and the extent of its ability to continue its functions and implement its obligations towards others efficiently and effectively. These risks may arise as a result of human errors due to inefficiency or the inability of the system to cover the size of Work due to weak information systems or inadequacy of the procedures and controls followed within the economic unit for the work performed by the cadres working in it. There are some risks that can be classified under this type, which are (site readiness, error in determining and estimating the quantities to be implemented, design errors, errors of subcontractors, and acceleration or suspension (Business).

There are other risks, such as legal risks, settlement risks, documentation risks, trust risks, political risks, volume risks, and personnel risks.

Methods of confronting risks:

There are many means by which risks are confronted. This is done by determining the type of risk, the extent of its possibility of occurrence, and the methods that must be followed to confront it. Several methods can be included, including[12]:

1. Prevention and prevention: - We mean all the means and methods taken by risk management for the purpose of reducing risks and reducing their effects to the minimum possible, through the use of means of prevention such as modern technology in production or training workers on means of prevention for the purpose of reducing the rates of recurrence of injuries during work, and this is done in accordance with This method reduces the value at risk and reduces the percentage of losses.

2. Segmentation and diversification: Under this method, the exposed side of the risk is divided into several parts for the purpose of reducing the loss to the minimum possible in the event of actual exposure to it. For example, the economic unit diversifies its products and makes a variety of them. In the event of a decrease in demand for one of the goods, it is not greatly affected because it is Have a comprehensive lineup through which you can compensate for the loss that occurred. To achieve this method, the following is required:

- The ability to segment the side at risk.
- B. Having the financial ability to confront risks if they occur.

3. Transferring risk: This method is usually followed when the chance of the risk occurring is relatively small compared to the losses resulting from it, which are very high. An example of this is insurance. It is an important means by which the risks expected to occur are confronted by transferring the loss expected to occur to insurance companies in exchange for a specific cash premium. In advance, the economic unit pays it periodically.

International Standard No. 2100:

The role of internal audit in risk management: - The standard referred to following organized systematic methods to improve the effectiveness of risk management processes. Internal audit has an important role in the risk management process in any economic unit, as the process of practicing internal audit must be in line with international standards. The professionalism that governs their work, and this standard specifies the necessary guidelines to determine the role of internal audit in the risk management process of the economic unit, as shown below [13]:

- The internal auditor helps the economic unit identify, evaluate, and implement sound methods, procedures, and controls necessary to confront risks and present their work to senior management.
- Evaluating and reporting risk management processes is usually among the priorities of auditing the work of any facility in general.
- Senior management must clearly define internal audit responsibilities with regard to the risk management process in the economic unit.
- Internal audit must identify and evaluate potential exposure to significant risks when performing their regular duties.
- The role of internal audit in the risk management process of any organization may change over time.

And the. The executive management and the audit committee determine the role of internal audit in risk management, based on the prevailing culture in the economic unit.

The study sample:

The researcher selected the study sample of (95) people according to the intentional method from employees working in companies operating in the contracting sector of both genders, with the aim of obtaining answers that are more credible and can be relied upon in formulating some conclusions and recommendations. The number of questionnaire forms distributed reached (95). A questionnaire, of which (86) questionnaires were received, and the response rate was (90.5%) regarding the total number distributed, and 6 questionnaires were neglected because the answers were incomplete and did not meet the requirements of scientific research.

Analyzing and interpreting the results:

In order to determine the results of the study sample's response to the questionnaire questions, the results of the arithmetic mean and standard deviation of the questionnaire questions will be analyzed and interpreted. This axis includes questions from (1-21). The answers were determined by arithmetic means ranging from (2.3-3.588) and a standard deviation ranging from (0.663-1.192), which indicates a high dispersion in the answers, due to the difference between the highest and lowest value, as the increase is nearly double between them, as shown in the table below As shown in the table (1).

Table (1): Answers to the first topic: internal control system

Items	Stand. Dev.	Trend	Mean
The internal control department in the unit has a procedures manual and clear work programmes.	0.925	2.925	Neutral
Internal control activities cover all the unit’s work and activities.	0.993	2.975	Neutral
The unit's internal control department is directly linked to the Board of Directors to ensure independence and impartiality.	0.993	2.525	Neutral
Internal control enjoys a degree of independence and impartiality and is characterized by effectiveness and efficiency.	0.663	2.300	I Do Not Agree
The employees of the Internal Control Department enjoy competence and integrity.	0.936	2.400	I Do Not Agree
Risk management represents part of and a complement to the approved internal control system.	1.077	2.500	I Do Not Agree
The internal control system has the appropriate capabilities to classify risks according to importance and priority of treatment.	1.109	3.100	Neutral
The internal control system works to manage risks that affect the continuity of the unit and its ability to perform its work if they arise.	0.742	2.738	Neutral
Managing risks effectively is one of the aspects that shows the extent of the success of the internal control system in achieving its goals.	0.941	2.488	I Do Not Agree
Internal control uses methods that support the unit’s work and reduce the negative effects resulting from exposure to risks, such as transferring the risk, avoiding it, or accepting a percentage of it.	1.030	2.950	Neutral
Risk management studies and identifies all available alternatives, measures the costs of implementing them, and evaluates them to find the best ways to confront the risk.	1.192	3.188	I Agree
Internal control controls risks by limiting them and trying to	1.145	3.325	I Agree

reduce the losses expected to be incurred.			
Risks are transferred to other parties, such as insurance, or funds are retained as allocations to confront risks.	0.974	3.388	I Agree
The success of the internal control system is linked to the extent of the efficiency and effectiveness of risk management in identifying the surrounding risks.	0.999	2.613	Neutral
An effective internal control system ensures that the benefit that can be achieved as a result of covering the risks achieved is equal to the costs being incurred.	0.964	3.588	I Agree
There is an annual plan approved by the Board of Directors that organizes the work of the internal control system according to a specific framework for its work.	0.934	3.838	I Agree
External parties are used to evaluate the internal control system to ensure that it is a sound and reliable system.	0.906	2.963	Neutral
It relies on the external auditor’s reports as feedback to the internal control system and a complement to it, which helps in achieving the unit’s objectives and the extent of its ability to identify and evaluate the risks surrounding its work.	1.069	3.188	I Agree
The Internal Control Department has staff distinguished by sufficient awareness and understanding of the work, functions and objectives of the internal control system.	1.034	2.763	Neutral
The administration has full knowledge of the objectives of the effective internal control system and is interested in educating the staff working in the unit about the objectives and components of the system.	0.925	2.925	Neutral
Employees in the internal control and accounts departments work within their specializations and in a manner appropriate to their educational attainment and the nature of the work they perform.	0.993	2.975	Neutral

Through the answers included in the questionnaires retrieved from the study sample, the researcher reached the following analysis related to the questions of the first axis, and the average arithmetic mean and standard deviation obtained for the total axis questions. The arithmetic mean reached (3.027), while the standard deviation reached (0.977), which indicates that the sample The study was responsive to the movement of the scale. As for the dispersion of answers, it is considered weak because the result is close to the correct one, which indicates that most of the answers were in the same direction. With regard to the analysis of the arithmetic mean, it proves the presence of superiority in some aspects of the work of the internal control system represented by paragraphs (15). And 16) which shows that an effective internal control system ensures that the benefit achieved as a result of covering risks must equal the costs while ensuring the existence of an annual plan approved by the Board of Directors to organize the work of the internal control system according to specific frameworks. On the other hand, it became clear that there is a clear deficiency in the internal control system. Which leads to its inability to cover all the risks affecting the unit's activities, which is reflected in a weakness in the risk management process. It was noted that there is a clear deficiency in the tasks mentioned in paragraphs (4, 5, 6, and 9), as it was found that the staff working in internal control do not have With independence, impartiality and efficiency, which has an impact on performance, in addition to the inability of the internal control system to achieve its goals in managing risks effectively and efficiently.

Correlation Coefficient: In this chapter, the relationship between all the axes of the study is studied and an attempt is made to know the possibility of the existence of a correlation and to know the extent of its strength between the internal control system and risks. It has been shown that the greater the interest in the internal control system, the greater the ability to contain risks. This is done by calculating the coefficient The simple linear correlation of the internal control system at the level of the five axes combined and the extent of its relationship to risk management, as the value of the correlation coefficient ranges between, and the following has been shown As shown in the table (2).

Table (2) Correlation analysis between variables

Correlation			
Y	X		
0.779	1.000	Correlation	X
0.000	0	Sig. (2-tailed)	
80	80	n	
1.000	0.779	Correlation	Y
0	0.000	Sig. (2-tailed)	
80	80	n	

From the table above it was shown that there is a strong and significant direct relationship with confidence (99%) between the focus of the internal control system in all its sections on the one hand and the risks that affect and are affected by it, as the simple linear correlation coefficient reached (0.779), which indicates the strength of the relationship between the variables.

Conclusion:

Defining the powers granted to internal control and defining its responsibilities accurately and clearly, while linking risk management to the internal control structure as part of the system, contributes to activating the work of risk management and increasing its ability to perform the functions assigned to it to the fullest extent. This is done by preparing a set of procedures that are followed by economic units in a manner that It is organized to confront the risks associated with its activities, which represents the work structure of risk management, and is considered an essential part of the strategic management of any unit to ensure the achievement of set goals. The possession of internal control personnel with the ability to monitor and audit various aspects of activity and the possession of appropriate scientific qualifications, experience and skill acquired through information and knowledge in performing Work contributes to his comprehensive awareness of the risks surrounding the unit's activities and increases his ability to develop performance and achieve the basic objectives of the economic unit.

The internal control system is one of the means that increases the value of the unit and improves its operations by contributing to managing the risks surrounding it in efficient and effective ways to achieve the highest possible returns achieved for the set goals. The modern internal control system must be designed according to specific mechanisms, including having the ability To study the risks surrounding the unit and affecting its objectives by evaluating, identifying and analyzing them.

The researcher recommends that senior management subject the internal control system to continuous monitoring and evaluation for the purpose of ensuring good performance and discovering the dangers surrounding the unit's work through audit committees or external oversight bodies to identify the weak and strong points in the system to ensure good performance and identify and address deficiencies. The unit should also establish a system Internal control on scientific and practical foundations for the purpose of improving its reality and developing its ability to identify and analyze the risks surrounding the work of the entire economic unit, in addition to forming a special risk management that is within the structure of the internal control system and operates according to a specific mechanism. The senior management develops plans and formulates policies for the purpose of promoting this. The administration and its capabilities to carry out the tasks assigned to it and achieve the intended goal of its establishment.

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