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The impact of the internal control system in raising the efficiency of financial performanceA case study in Kufa Cement Factory

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***Abstract* :** The concept of control in the economic market is increasingly important due to developments in the size and implementation of the business, the details of ownership, and the administration's interest in internal control. Internal control is based on the basic functions of protection from losses and risks and confirmation of employee behavior within economic units. The financial stability of the economic unit is linked to its ability to generate profits and increase the value of invested capital while fulfilling its short- and long-term obligations. It is necessary to define the management performance evaluation, especially the financial performance evaluation, as it provides the department with information and concepts that help in making investment decisions and bridge the gaps and obstacles that may appear.

Key words: Internal control - Financial performance

INTRODUCTION: The concept of internal control has seen important growth to keep pace with rapid and successive developments in economic life. It has become part of a set of policies and procedures that help the department achieve its objectives efficiently and effectively. Financial performance indicators are very useful for users of financial statements because they enable them to make decisions about the financial stability of economic units. To identify strengths and weaknesses, opportunities and constraints, departments must assess their performance, especially financial performance, as it provides management with information and concepts that will help make investment decisions and fill gaps and constraints that may arise in the future. The financial stability of the economic unit is linked to the strength of its regulatory system, as the concept of internal control has undergone an important gradual development to meet rapid and successive developments in economic life policy.

- **First Section /Research Methodology**

1. Research problem

The research problem about weakness lies in the use of the financial ratios method in evaluating the performance of economic units due to several factors, the most important of which is financial and accounting awareness regarding the importance of evaluating performance. The extent of the financial stability of the economic units, and whether it is growing or declining during a certain time series, and how to maintain a certain level of financial stability and seek to increase growth in the future, especially at the present time, as the units suffer from deficiencies and inefficiencies in their internal control departments, and they have many reasons Including the technical and professional aspects, the lack of appropriate supplies, and others.

2. Search intent :

1. Clarification of the concept , relevance and types of internal control system .
2. Knowledge of the concept of financial performance and how to evaluate it and the most basic step in evaluating financial performance.
3. assisting economic units highlighting the fild of knowledge and academia that belong to it to ensure the efficiency of performance and achieve the desired goals.
4. achieving scientific results that will help decision makers reduce control risk its has a positive impact on the financial performance of the economic unit.

3.Importance of research :

Evaluating the financial performance is one of the most important ways to judge the performance of the economic unit, through the data it provides in its financial reports, which allows the users of the financial statements to make various operations, including decisions about that economic unit, and accordingly, its importance in evaluating and developing the internal control system and assisting those in the audit process to reduce the process of errors.

3.Research hypothesis :

The research relied on a main hypothesis, "There is no significant influence relationship for the application of the internal control system in light of the risk assessment of the financial performance of the economic unit."

4.Data collection methods

The descriptive approach was followed in this research by looking at the literature represented by studies and research, theses, and university theses related to the subject of the research.

5.Research Methodology:

1. The deductive approach in completing the theoretical side.
2. The inductive approach in completing the practical side.

6.Research sample community:

The Iraqi sector represented by the economic units was selected as a community for the research sample, due to the status of this sector in the economic development of the country. The focus has been on the Iraqi General Cement Company / Southern Moawania for the purpose of conducting the practical aspect as a subject of current research.

8. Previous studies

(Al-Yasiri, 2015)
Evaluation of the internal control system according to Brown risk classification
A study submitted to the Higher Institute for Accounting and Financial Studies / University of Baghdad, to obtain a certificate of legal accounting (an applied study at the University of Karbala)
The study sought to: Addressing the problem of insufficient traditional methods in evaluating the internal control system and identifying the risks facing economic units when carrying out their business, which threaten their growth or hinder the achievement of their objectives, and through the use of Brown Risk Classification to determine the risks to which economic units are exposed and evaluate the extent to which the internal control system responds to these risks as well Proposing the appropriate response to face these risks.
The researcher found: By evaluating the internal control system according to Brown's classification of risks, it became clear that there is a group of risks to which the system was exposed, some of which are low and have a limited impact, while others have a fundamental impact on achieving the objectives of the internal control system.Among the paragraphs of the laws that are related to the activity of the study sample unit, there are no clear texts referring to the internal control systems, the procedures for organizing them, and the risks that they are exposed to in order to be relied upon.

(Al-Fatli and Daham, 2022)	**Researcher name**

Evaluation of the financial performance of economic units using ratios of financial indicators	**Study Title**
A research published in the Journal of Economic Sciences 2022, Issue 65, Volume 17, College of Administration and Economics / University of Kufa (a case study in the General Company for Iraqi Ports for the period (2018-2020).)	**Study type**
Statement of the concept of financial performance and the factors influencing it, statement of the concept of evaluating financial performance, its importance and objectives, evaluation of the performance of the General Company for Iraqi Ports using the ratios of financial indicators.	**Purpose of the study**
The study reached a number of conclusions, the most important of which are the following: The use of financial ratios and indicators in evaluating the financial performance of economic units helps give investors a clear picture of how the unit uses its resources. Working capital and working capital turnover rate during the years 2019-2020 increased significantly from what they were in 2018, and this indicates the ability of the company By fulfilling its short and long term obligations, more than half of the company's assets are funded by external funds.	**The most important conclusions**

Section two THEORETICAL FRAMEWORK

FIRST REQUIERMENT: internal control system :

Evaluation of the internal control system in the economic units

The main objective of evaluating the internal control system in economic units is to indicate weaknesses and deviations in the performance of these units and to provide and propose appropriate solutions.

FIRST : INTERNAL CONTROL:

A group of researchers defined internal control as:

The first definition: “An organizational plan adopted by the organization and all methods and standards in order to protect its assets, examine the accuracy of accounting data and the degree of dependence on it, improve production efficiency, and encourage adherence to what is required by administrative policies.” (Spira & Page, 2003:p16-160)

The second definition: "It is a rigorous and constructive technical test by a qualified and independent professional party that enables him to give a neutral and justified opinion on the quality and credibility of the financial information provided by the unit and on the extent to which standards are respected in the preparation of this information in all circumstances." (Yahiyat and Araba, 2017: p. 4)

Second : Importance of the internal control system :

The departments of the units are interested in the internal control for the following reasons: (Al-Kahlout, 2004: p. 53)

1. The complexity and complexity of the scope of work, which made the management rely on reports and analyzes to control the provisions of operations.
2. The internal control and the examination inherent in the internal control leads to reducing the risks of human pressure and the possibility of errors and fraud.
3. The difficulty of auditing within units in an economical manner without relying on internal control.
4. Increasing the interest of the regulatory authorities in the internal control of the units to verify their compliance with the relevant laws and regulations.
5. The management bears the responsibility of preserving the assets of the unit, preventing errors and detecting embezzlement, and therefore maintaining an efficient system of internal control is indispensable and the management relies on it to fulfill this responsibility.

Third: Types of Internal Control:

Many writers and those interested in the field of internal control relied on classifying its branches or types, as internal control was classified into the following sections:

1. **Administrative control**

Administrative control includes all the methods and means used by the management of the economic unit to direct, control and verify the activities and functions in order to ensure the achievement of the Administrative control includes all the methods and means used by the management of the economic unit to direct, control and verify the activities and functions in order to ensure the achievement of the goals. (Othman, 1999: pp. 97-98)

2. Accounting control

It means all the methods, means, procedures and systems that the administration puts in place with the aim of protecting its various resources, and ensuring the validity of the reports and financial statements that are made during the course of auditing the accounts.
(Al-Khatib, 2009: pp. 194-195)

3.Internal Adjustment:

The internal control system refers to that system that includes the unit's plan and all coordinating means and practical procedures with the aim of protecting the unit's assets, ensuring the accuracy of accounting parameters, and encouraging adherence to administrative policies. It may indicate that it is a set of administrative and accounting procedures that achieve control of the unit's operations in an automatic and continuous manner.
(Othman, 1999: pp. 111-112)

The second requirement: is financial performance:

In order for any department to stand on the strengths and weaknesses, the available opportunities and the obstacles that it may face, it must evaluate its performance, especially the financial performance, as it provides the department with information and concepts that help in making investment decisions and to bridge the gaps and obstacles that may appear in the future. (Barhoum, 2016: p. 20)

First, the concept of financial performance

There were several definitions of the concept of financial performance, including that it refers to
The first definition: “It is an expression of maximizing the results of the economic unit through improving the financial returns, and this is achieved by maximizing revenues, reducing costs, and trying to make them continuous in order to achieve the accumulation of wealth and stability at the level of financial performance.”

(Souad and Masouda, 2018: p. 13)

The second definition: “the ability of the economic unit to use its resources efficiently and produce outputs suitable for its objectives and suitable for its users.” (Assagaf & Ali, 2017:p333)

In order for the economic unit to achieve its financial objectives, it must focus on the following elements in its financial performance, namely:

1. Productivity: that is, the effective use of the economic unit’s resources to create economic value for it.
2. Competitiveness: It is enabled by the ability of the economic unit to attract the attention of investors for the longest period of time.
3. Overall quality: the economic unit carries out continuous improvements according to the changing needs of customers.

Second: Evaluating the financial performance

The performance appraisal process is one of the main topics in management thought, as the business unit is in a state of continuous change due to its constantly changing environment, which requires the administration to continuously adjust its plans, policies and decisions in accordance with its performance appraisal process and the results of that appraisal, and according to this assertion And the importance has become the process of planning, control and performance evaluation constitutes the basic variables in the work to manage business units, it is correct to say that the functions of financial planning and financial control and evaluation of financial performance are considered the essence of work in contemporary business units, as once the management carries out financial planning it must set the parameters of financial control, and achieve The image of the relationship between these two important functions by conducting the process of evaluating the financial performance.

(Al-Musawi, 2013: pp. 91-92)

Third: Steps to evaluate financial performance:

There are a set of successive steps that are used in the financial performance evaluation process, as follows: (Taqi Al-Din, 2014: p. 54)

1. Drawing up an evaluation policy and announcing it to all the individuals who are affected by it: The policy must be communicated to all concerned, whether those who conduct the evaluation or those who are subject to their performance evaluation, by knowing the purpose of the policy and the purpose for which it is used.

2. Choosing the methods to be followed in the evaluation: The choice of methods depends on the person who will prepare the reports, and the individuals whose performance the report is drawn up.

3. Training of evaluators: In order for there to be success in preparing reports, individuals must be aware of the purpose of preparing these reports, how to use them, and their advantages and disadvantages.

4. Analysis of policy and results: The time for the evaluation must be determined so that the process ends for any group of individuals in specific circumstances.

Section third

First: an introductory brief about the Kufa Cement Factory:

practical side

In the practical aspect, it is required that there be a research sample through which the most important thing that happens in terms of the use of the internal control mechanism and system and the internal auditing entity is identified, and the percentage of their effectiveness in reducing risks is indicated in financial performance. Of course, it can reflect and embody the research on the other samples represented In the economic unit in general, so the instance represented by the Kufa Cement Factory in Najaf was chosen.

- **Descriptive statistics of the study variables**

In this topic, the data for the results of the study were shown and clarified by using the questionnaire form, which was obtained from the economic unit under study, which includes the managers working in the unit and the rest of the employees affiliated with it and the heads of departments, in addition to the employees working in the internal control department and the internal audit and human resources department (130) questionnaires were distributed, and (110) questionnaires valid for use and analysis were retrieved, using the five-point Likert scale.

Measuring the reliability and validity of the questionnaire

And in a way that is commensurate with the nature of the work of the Kufa Cement Factory and the risks that it is likely to be exposed to, a number of tests have been conducted on the questionnaire to ensure its stability and validity, including:

1. Measurement of apparent honesty

Apparent validity is considered among the most important tests in order to ensure the ability of the form to measure what it was designed for. appropriateness of the response scale.

2. Measuring stability (self-consistency)

In this study, the stability coefficient (Cronbach's Alpha) was used to measure the internal consistency of the questionnaire's activities, as the value of alpha ranged between (0-1), either in terms of the acceptable statistical value of the alpha coefficient (0.5) or more, in order for the scale to be good. Where this coefficient was calculated for all the enabling and guiding measures of the questionnaire.

Second: Statistical analysis and hypothesis testing

This topic deals with the statistical analysis of the data of the research sample and testing the statistical hypothesis related to it, which was formulated to find out the effect of the internal control system (the independent variable) on the financial performance (the dependent variable), which was tested through the use of the (SPSS) program using the regression equation, analysis of variance analysis transactions.

This topic deals with the statistical analysis of the data of the research sample and testing the statistical hypothesis related to it, which was formulated to find out the effect of the internal control system (the independent variable on the financial performance of the dependent variable), which was tested through the use of the (SPSS) program using the regression coefficient, analysis of variance, analysis of transactions to find out The final decision on the hypothesis, which states that there is no significant influence relationship for the application of the internal control system in light of the risk assessment of the financial performance of the economic unit, the research sample.

Through the results of Table (1), we note the correlation size between the independent variable and the control system.

The internal and dependent variable (financial performance) is (99), which indicates the strength of the relationship between them as it is weak. The remaining is due to other factors.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.090[a]	.008	-.001-	.27585

a. Predictors: (Constant), Y

able (1) form summary

Source: Prepared by the researcher based on the SPSS program.

Research date were tested through variance tool analysis and through table (2) the hypothesis was accepted because the value (sig < 0.05) meaningful impact relationship of the internal control system on the unite s financial performance risk.

Table (2) variance analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.067	1	.067	.878	.351[b]
	Residual	8.218	108	.076		
	Total	8.285	109			

a. Dependent Variable: W
b. Predictors: (Constant), Y

Source: Reinstatement of the research based on the researcher based on the program (spss) .

The regression line equation of the effect of the independent variable on the variable can be written based on the table (3) as follow:

$$Y=3.414 +0.120 X$$

Table (3) Transaction analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.414	.531		6.425	.000
	Y	.120	.128	.090	.937	.351

a. Dependent Variable: W

source: preparation of the researcher based on the program .

Conclusions :

1. It is imperative for auditors to possess a degree of knowledge necessary for modern technical maturity, and to be aware of the latest professional and technical developments and keep pace with them in the field of internal control, in order to enhance the financial performance of the economic unit.

2. It is imperative to increase knowledge of the concept of the term financial performance within the internal control activity, because of its importance to decision makers in the process of taking appropriate decisions and implementing them.

3. The presence of high indicators in the research sample's awareness of the philosophical and intellectual contents of managing internal control systems, as this perception leads to an understanding of the relevant applied mechanisms and programs.

4. The results of accepting the null hypothesis were shown through the variance tool, because the value of (Sig < 0.05), that is, there is a significant effect relationship of the internal control system on the risks of the financial performance of the economic unit.

Recommendations:

1. It is preferable to create special units in adopting proposals and ideas that contribute to developing work and strengthening the capacity of internal control by providing programs to spread the culture of innovation.

2. Emphasizing the participation and interaction between the Audit and Internal Control Department, and providing recommendations and proposals in order to add value to the economic unit and enhance the quality of the financial performance activity.

3. The need to adopt modern and effective administrative and regulatory tools that enable the economic unit to take decisions and achieve economic stability.

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