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The relationship between internal control and internal audit in Jordan

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Abstract

Enhancing organizational governance and risk management processes depends critically on the interaction between internal control and internal audit. The effectiveness of internal control systems and the function of internal audit in assessing and enhancing such systems are the main topics of this study's examination of the connection between internal control and internal audit in the context of Jordan.

The study examines the regulations and rules governing internal control and internal audit procedures in Jordanian companies. In order to illustrate how these two roles complement one another in encouraging accountability, transparency, and resource efficiency, it looks at how internal control objectives and internal auditor actions align. The study looks into the challenges and obstacles that businesses encounter when putting in place reliable internal control systems and maximizing the efficiency of internal auditing activities. It points out possible areas for development and makes suggestions to strengthen Jordan's internal control and internal audit departments' cooperation and coordination.

The results of the research add to the body of knowledge on internal control and internal audit, specifically in the context of Jordan, and they offer valuable guidance for businesses looking to improve their governance frameworks and reduce operational risks. Organizations in Jordan can improve their operational effectiveness, financial integrity, and overall performance by comprehending and optimizing the relationship between internal control and internal audit.

Keywords: internal controls, audit processes, Jordanian organizations, risk management, proactive, continuous improvement, Three Lines of Defense Model, internal audit functions

1. Introduction

In Jordanian organizations, internal controls and audit procedures have a critical relationship that is explored in this research. For good governance, risk mitigation, and company objectives to be achieved in today's shifting business environment, effective internal control implementation and the development of a strong internal audit function are essential.

The Three Lines of Defense Model, the objectives and scope of internal audit in Jordan, the role of internal auditors in evaluating internal controls, challenges faced in implementing effective controls and audit procedures, best practices for improvement, the internal control and audit system in Jordan, and specific research are all covered in this research to provide a thorough understanding of the topic. Organizations in Jordan can improve their internal audit procedures, strengthen their internal control systems, and promote a culture of good governance and risk management by looking into these issues.

2. Methodology

Organizations must understand the connection between internal audit and internal control. To manage risk and assure compliance to rules and regulations, they collaborate closely together. Numerous companies in Jordan have successfully developed efficient internal control and auditing systems despite limited resources and cultural challenges.

Secondary data was adopted from many studies in the scholar's platforms to illustrate the objective of this article. Internal control and internal audit have a strong positive correlation, according to research findings. Studies by Alhosban and Altarawneh (2021) ^[5], for instance, place a strong emphasis on the role of employees from various disciplines in information security and decision-making. In order to highlight the value of internal control elements and the efficiency of internal audits in Jordanian insurance businesses, Al-Zwyalif (2015) ^[8] established a framework. According to statistical study, adhering to internal control elements greatly improves corporate governance. Senior management and internal auditors in Jordanian insurance companies should be aware of this connection, which emphasizes the need of internal control implementation that is done well.

The relationship between internal control and internal audit has been examined in several studies. For instance, a study by Alslihat, Matarnah, Abdul Moneim, Alali, and Al-Rawashdeh (2018) ^[10] looked at how internal control system elements affected how Jordanian public shareholding companies perceived the risks connected with cloud computing. The study comes to the conclusion that the COSO framework offers useful guidelines for assessing internal control systems, particularly when it comes to handling technological risks.

In conclusion, businesses need to comprehend and manage the connection between internal control and internal audit

efficiently. Strong internal control and auditing systems enable Jordanian businesses to efficiently manage risk, accomplish strategic goals, and guarantee compliance with regulations and laws.

3. The difference between internal control and internal audit

Internal Control and Internal Audit both have important but distinct purposes in an organization. Internal control is a system made up of laws, regulations, and other measures that are meant to ensure that a company meets its objectives while minimizing risks that would prevent it from doing so. Establishing and maintaining internal controls are the responsibility of operational management tasks.

Internal auditing, on the other hand, is a task carried out by internal auditors who review and evaluate the performance of a company's internal control system. Internal auditors carry out routine inspections and evaluations to guarantee operational effectiveness, efficiency, and risk control. They evaluate the effectiveness of existing controls, the process to identify risks, and the organization's governance system.

Internal Control is an ongoing procedure that operational management implements, but internal audit offers an unbiased assessment of the effectiveness of the internal control system. Internal auditors evaluate and validate the efficacy of the currently implemented control measures rather than immediately identifying risks or recommending particular controls.



Source: Guidance on the 8th EU company law Directive. ECIIA/FERMA

Fig 1

Internal control: The idea that internal control and internal audit are parts of different lines of defense (Figure 1) refers to their roles within the governance and risk management structure of an organization. Here is a quick explanation of this idea:

Internally controlling Because it is under the purview of operational management, internal control is seen as an important part of the first line of defense. Senior management holds operational management responsible for building and maintaining efficient internal control systems. To accomplish objectives, minimize risks, and ensure compliance, operational management implements policies, procedures, and systems known as internal controls.

Internal Audit: In contrast, internal audit is a component of the third line of defense. The first and second lines of defense are evaluated by internal audit, which operates independently of operational management. Risk and compliance

management procedures support operational management in identifying and managing risks as the second line of defense. Independent and unbiased thinking In contrast to internal control, internal audit may submit a report to the Board of Directors, and more specifically, the Audit Committee. When evaluating the other operations taking place within the first two lines of defense, this reporting structure helps to assure a certain amount of independence and objectivity. Internal audit can offer impartial assessments of the organization's risk management and control procedures because it reports to the highest levels of governance.

Managing Internal Audit and Internal Control: Internal audit and internal control are distinct from one another and require different management strategies, so it is crucial to make this distinction. Software and tools that specifically handle the requirements of both positions should be available in organizations. This guarantees that internal control systems

are successfully planned, implemented, and monitored by operational management, and that internal audit can assess the control environment and offer insightful recommendations for improvement.

In conclusion, operational management leads the first line of defense, which includes internal control, while internal audit serves as the third line of defense by offering unbiased evaluations of the efficacy of controls. Effective governance and risk management within an organization depend on managing these organizations' various functions correctly. While Internal Audit is a separate role that assesses and offers assurance on the efficacy of the internal control system, Internal Control is a set of processes and measures established by operational management to achieve objectives and minimize risks.

4. The synergy between internal controls and internal audit in Jordan

Jordanian internal audit places a strong emphasis on giving firms confidence regarding internal controls, operational effectiveness, compliance, and risk management. Its main goals are to assess and improve internal control systems in order to accomplish organizational objectives, find vulnerabilities, and make recommendations to reduce risks. Planned, tested, reported, and monitored activities are all part of the internal auditor's role. In order evaluate risks, analyze controls, perform full testing processes, and make reports that highlight their findings and suggestions, they work in collaboration with senior management. In Jordan, internal audit and controls work together to ensure efficient risk management. Internal audit assesses the efficiency of these measures, whereas internal controls provide standards and processes to minimize risks.

Internal audits provide insights that help strengthen internal controls, and audits are more successful when internal controls are strong. However, it can be difficult to develop

efficient internal controls and internal audit procedures in Jordan. Complex regulatory requirements, resource shortages, and cultural resistance are a few of the difficulties. Adapting to legislation, providing enough resources, and establishing a culture that prioritizes internal controls and audits are necessary for overcoming these obstacles.

Several best practices can be applied to improve the efficiency of internal audit and control in Jordan. These include enhancing internal audit processes through thorough plans and resources, encouraging cooperation between risk management teams and auditors, tightening controls through rules, obtaining upper management commitment, investing in training for auditors. By adopting these best practices, organizations can enhance their internal control and internal audit functions in Jordan.

5. The three types of audits conducted in Jordanian organizations

This paragraph describes the three different types of audits carried out in Jordanian organizations and gives a general overview of the auditing procedure used there.

- a) Financial audits: These audits examine a company's financial records to determine their accuracy and compliance with laws. It aids in spotting potential fraud and promoting transparency in finance.
- b) Operational Audit: To enhance general performance, operational audits concentrate on analyzing an organization's policies, practices, and systems. This kind of audit seeks to increase effectiveness, identify problem areas, and maximize operational efficiency.
- c) Compliance audits examine a company's compliance with important laws and regulations. They make sure the organization complies with all legal requirements and assist in locating any areas where there could potentially be a problem.

The audit process in Jordanian organizations typically involves the following steps

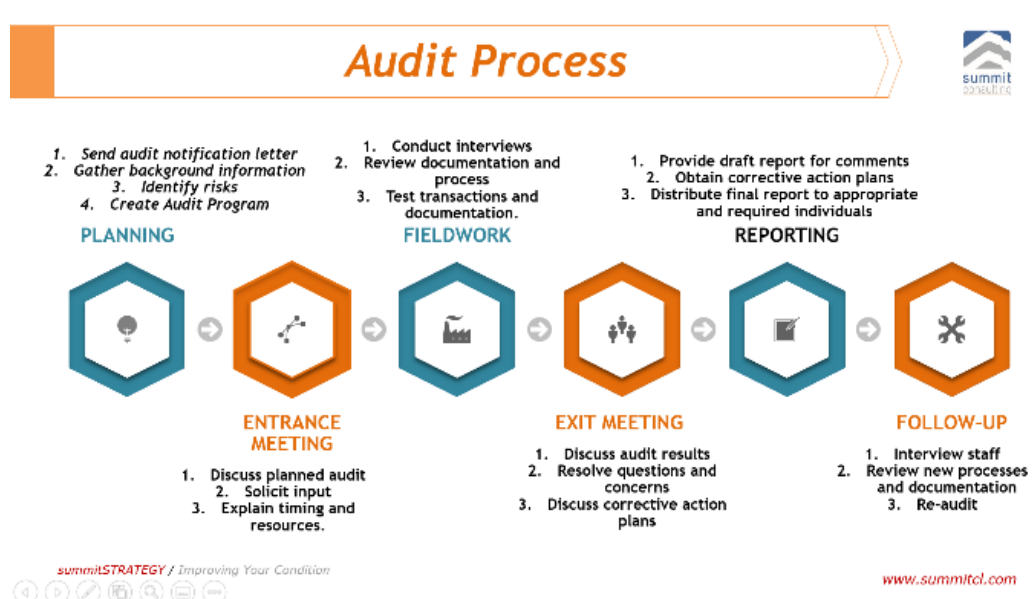


Fig 2

Planning and Preparation: Setting goals and objectives, sending audit notices, compiling background data, and developing an audit program are all part of the planning and

preparation stage. Additionally, it involves seeking input, going over the plan for the audit, and outlining timing and resource requirements.

Fieldwork: During this stage, auditors interview clients, examine documents and procedures, and test transactions and documentation to ensure that the financial statements and transactional records are accurate. The exit meeting is used to go over audit findings, discuss concerns, and address corrective measures.

Reporting: Following the completion of the fieldwork, auditors assess their conclusions and provide them in a precise and useful report. A draft report is provided for feedback, corrective action plans are obtained, and as needed, the audit committee sends the final report to the proper parties.

Additionally, follow-up activities are conducted to ensure the implementation of corrective action plans. These activities may involve interviewing staff to inform them about the plans, reviewing new processes and documentation, and conducting re-audits when necessary.

The chapter additionally highlights the value of auditing in Jordanian organizations, emphasizing how it supports accountability, decision-making, and business confidence. Enhancing investor trust, ensuring transparency in the financial and operational processes, and providing insightful information for well-informed decision-making based on financial data analysis are all achieved through auditing.

AI-Sawalga & Qtish (2012) ^[4] examined the relationship between risk assessment, control activities and the effectiveness of audit programs in Jordan. The results indicated that only risk assessment contributes significantly to an effective audit program, while control environment and control activities do not. These results suggest that Jordanian companies lack the necessary experience to deal with the current technical tools of internal control evaluation, which is responsible for the deficiency.

Internal auditing is an important function in Jordanian industrial companies, as revealed by Alqadi, F. S. (2017) and Amman Stock Exchange article. Internal auditors act as consultants to help companies achieve their objectives and detect indicator mistakes and distortions in records and financial statements.

Internal Control and Electronic Disclosure's Effect on the Risk of Electronic Auditing in Jordanian Industrial Public Shareholding Companies (Alassuli & Alzobi, 2023), ^[1] explores how internal controls and electronic disclosure affect the risk of electronic auditing in Jordanian industrial public shareholding enterprises. This research examines the connections between several internal control factors, including electronic disclosure, monitoring, information and communication movement, and control environment and activities. Employees working in finance departments and financial managers from 225 companies that will be listed on the Amman Stock Exchange through December 2021 make up the research population.

Overall, the study finds that internal control and electronic disclosure significantly reduce audit risk in Jordanian public shareholding companies on all fronts (inherent risk, control risk, and detection risk). Additionally, the control environment significantly reduces the audit risk of Jordan's public shareholding companies. The reduction of audit risk in Jordanian public shareholding companies is statistically significantly influenced by risk assessment, which includes inherent risk, control risk, and detection risk. Additionally, electronic disclosure in Jordanian public shareholding businesses shows a statistically significant decrease in audit risk across all dimensions.

6. Conclusion

In conclusion, enhancing organizational governance and risk management requires a strong connection between internal control and internal audit. Operational management is in charge of internal control, which serves as the first line of defense, while internal audit serves as the third line of defense and independently evaluates the effectiveness of controls. Recognizing these functions' distinct characteristics and acquiring tools and software that meet their specific requirements are necessary for managing them. Jordanian internal control and audit research offers helpful insights for enhancing organizational structures and reducing operational risks. Audits, including those for finances, operations, and compliance, guarantee transparency, enhance performance, and uphold compliance with laws. Organizations in Jordan can strengthen governance structures, improve risk management, and achieve long-term success by realizing the significance of these elements.

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