

Internal Audit, Strategic Risks and Corporate Financial Distress

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Abstract

This study sheds lights on the effect of internal audit effectiveness on firm's exposure to financial distress. Specially, we examine whether the adoption of strategic audit may enhance the internal audit effectiveness, thus reducing the risk of default. Using a quantitative research framework, through the administration of a survey to 109 Iraqi internal auditors working in public and private companies based in Najaf governorate, the results show that the adoption of strategic audit leads auditors overcoming both operational and strategic risks, improving thus the corporate performance. The identification of strategic risks and threats by internal auditors significantly reduces the cases of financial default. The findings also reveal that the strategic audit may help auditors to anticipate crisis and enhance the firms' resilience to shocks. This study has practical and managerial contributions. It encourages internal auditors to extend their abilities and competencies to overcome both operational and strategic risks. They should consider the effect of external risks on corporate performance when developing audit programs and controlling for managerial failures.

Keywords: *Strategic Audit, Internal audit, strategic risks, Financial Default, performance.*

Introduction

There is an increasing expansion in the volume of business and the rapid developments that have recently occurred in the economic and financial fields and the intensification of competition in the business market. Also, the size of the risks to the environment surrounding the institution increased due to the economic, political and technological changes it has witnessed. In addition, organizations with such circumstances did not keep pace with these developments for the purpose of maintaining the continuity of its activity and sustainability. All these increased the possibility of the institution being exposed to the risk of financial default, which in turn may cause damage to its financial position, leading it to collapse. The role of audit units should be activated in examining these strategies and granting them the authority to verify the extent of their implementation, as well as to ensure the achievement of their desired objectives and their discovery of potential risks that may face the institution and the development of all means and measures to confront or avoid them. In order to elevate the role of audit units in business organizations, it requires directing their operations towards success, and this is done by examining and evaluating their financial, administrative and technical activities. So the scope of audit work has expanded and includes new and non-traditional areas such as providing advisory services and rationalizing administrative decisions by providing management with independent assurances, which helps to increase and improve the value of audits, and to achieve this requires new methods and tools in the field of auditing.

Due to the rapid changes that have occurred in the environment of business organizations, it is not able to conduct its business in isolation from the outside world. This makes it significantly affected by the surrounding environment represented by its multiple economic, political and technological factors. So, the institution may be exposed to the risks of financial distress and its inability to provide financial liquidity that may make it unable to meet its obligations in a timely manner, which exposes it to problems that may lead it to financial failure, hence the "problem of the study, which can be formulated in the following main question:

"To what extent has the use of strategic auditing by auditors as a means of reducing financial distress for organizations?"

The importance of the study is that the auditors do not keep pace with the developments that occur in the environment of the institution, as well as the lack of use of modern methods and methods in the audit

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process in line with the changes that occur in business organizations. In addition to the complexity of the business environment, auditing is limited to examining the internal environment of the organization, the internal control system, and auditing the accounting records and the items of its financial statements. Therefore, it is expected that this study will achieve great benefit for audit bodies in business organizations, which will reflect positively on their performance so that they have the ability to provide future vision and prediction in determining the risks facing the institution, which enables business organizations not to anticipate cases of financial default.

Literature Review

Strategic Audit

The Concept of Strategic Audit

Strategic auditing is one of the topics covered in the audit literature and strategic management in a generally limited way. The name of the strategic audit has been borrowed from the field of accounting in general and auditing to be harnessed in examining the process of strategic management and the decisions taken within it and the strategies and plans formulated, and strategic audit is one of the modern topics and the most important indication that the limited research and opinions that referred to it and showed its place and interpreted its dimensions. Al-Khafaji (2010) has defined strategic audit as "The process of systematic examination of the elements of the internal and external environment of the institution and the analysis of its strategic factors, and comparing the results of this examination with the vision, mission and strategy of the institution to identify deviations and take corrective actions, with the aim of improving the performance of the institution and achieving its goals to ensure its sustainability and continuity". Al-Sahlawi (2019) also defined as "The process of collecting and evaluating evidence about information in order to determine the degree of correlation and compliance of information with the standards and principles followed, and to report the result of the process through a professional and impartial opinion, and the audit must be carried out by a competent, qualified and impartial person" (Mahmoud et al., 2011, p. 21), as defined by Chang as "A mechanism to identify the root causes of problems within the organization and identify their solution, and even more importantly the possibility of taking preventive measures to ensure that situations do not arise that would cause harm to employees or the organization as a whole" (Chang, 2010, p. 24). Wheelen and Hunger defined it as "a checklist of questions by field or situation that enables a systematic analysis of the various functions and activities of firms and is a type of management audit" (Wheelen & Hunger, 2012, p. 9). While Tony's concept of strategic audit states that it is "a systematic and comprehensive methodological approach to strategic processes and organizational strategies to identify the weaknesses and strengths affecting business organizations, identify the reasons for the failure of the organization, and the failure of profits and performance to reach the levels expected of them (Al-Sahlawi and Kazim, 2012), and search for new areas that can be the reason for adding tangible value to them" (Grundy, 2007, p. 1). Strategic audit is the means through which a comprehensive assessment of the strategic position of the organization is carried out, as well as providing a comprehensive view of it, as well as providing the necessary information in a timely manner, as it assists management in the decision-making process (Sulaiman, 2015). David believes that strategic auditing can be carried out by two teams: external auditors and auditors (Al-Sahlawi, 2019: 17).

The Importance of Strategic Audit

Strategic auditing derives its importance from the following things (Ibrahim, 2018):

- (1) Studying and examining the strategic position of an organization in order to verify that its activities continue to add value.
- (2) Ensuring the validity and integrity of transactions and operations in organizations and evaluate the degree of success by ensuring the extent to which they achieve the specified and required level.

- (3) Providing assistance to strategic departments to enable them to diagnose problems and weaknesses when internal control systems are unable to detect them in time (Akbar & Sajid, 2010: 55).
- (4) Assisting the management of the institution in getting rid of its activities that do not add value to it in order to save costs and achieve an increase in revenues and thus improve the level of performance.
- (5) Examining the factors and changes that occur in the environment of the indoor and outdoor unit is of great importance as it is characterized by change and instability in the long term.
- (6) The ability of strategic audit tools to detect cases of conflict between the strategic objectives and plans of the economic unit with important and strategic decisions by studying and evaluating the internal and external unit environment.
- (7) Supporting the management of organizations in avoiding threats that may be exposed to them, addressing defects and exploiting available opportunities.
- (8) The strategic auditor's report provides the necessary recommendations in a timely manner for the purpose of addressing problems and avoiding anticipated risks.

Reducing financial default using strategic auditing

Strategic auditing plays a crucial role in reducing financial defaults in business organizations and aims to evaluate and improve the management and decision-making processes of an organization. It is carried out by a team of highly qualified and strategically skilled auditors (Chang, 2010: 24).

The audit process is enhanced when guided by the strategic dimension, where the audit focuses on the strategic objectives of the organization and provides a comprehensive assessment of the extent to which they have been achieved. Strategic auditing contributes to the activation of auditing through several aspects (Suleiman, 2015: 70):

Data and Information Analysis: Strategic auditing helps in identifying vital information and data that must be analyzed within the framework of the audit. The analysis is directed towards identifying financial risks that relate to the strategic directions of the organization.

Setting goals and standards: Strategic auditing helps in determining the objectives and standards on which the audit is based. The main indicators of the organization's performance are identified and standards related to financial control and financial risk are set.

Enhance strategic direction: Strategic auditing helps to better guide the audit process in accordance with the organization's goals and strategy. Focus on key important areas is enhanced and resources and efforts are strategically directed to achieve desired results.

Enhance collaboration and communication: Strategic audit promotes collaboration and communication between members of the audit team, executive management, and departments of the organization. Communication is geared towards discussing strategic issues and achieving consensus to effectively implement audit recommendations.

Audit and Auditing Theories

"Agency theory" describes the relationship between (shareholders or owners, and agents, managers or executives), within a firm. This ownerships' separation and control can lead to agency problems, where the agent may engage in opportunistic behavior to maximize their own interests rather than those of the principal. Audit serves as a key mechanism to address the agency problem by providing an independent and objective assessment of the firm's financial statements, internal controls, and overall operations. The presence of an audit function helps to reduce information asymmetry between principals and agents by

providing reliable financial information. It also helps to monitor the agent's actions, in addition to ensure they are aligned with the principal's interests, enhancing the credibility of the financial reporting process and promoting accountability. Additionally, the audit process can identify and mitigate potential risks and control weaknesses within the organization. .(Jahera, Jr, John & Colbert, Janet. ,1988. 7-10)

Audit plays a crucial role in the agency relationship by serving as an external monitoring and control mechanism. Independent auditors act on behalf of the principals, such as shareholders and stakeholders, to verify the accuracy and reliability of agents' financial information, the management. The audit process helps in important things including (align the interests of the principals' agents by ensuring the best acting in the best interests of the organization. Effective audit practices can help to reduce the agency costs associated with monitoring and controlling the agent's behavior, and the threat of audit and the potential consequences of identified issues can incentivize agents to act more responsibly and minimize opportunistic behavior. .(Jahera, Jr, John & Colbert, Janet. ,1988. 7-10) The "Agency theory" provides the best theoretical foundation for the importance of audit in institutions. Audit serves as a critical governance mechanism to address the agency problem, enhance transparency, and promote accountability within the organization, thereby aligning the interests of the principals and the agents.

"Stakeholder theory" views the organization as a collection of individuals and groups who have a stake and are affected by the organization's activities and decisions. Examples of stakeholders include shareholders, employees, customers, suppliers, the government, and the local community. (Benn, S., Abratt, R., & O'Leary, B. 2016, 1-3).

Internal audit aims to provide independent and objective assurance on the effectiveness and efficiency of the organization's internal control systems and governance. It also provides advisory services to improve processes and manage risks. Internal audit helps protect the interests of stakeholders by verifying the integrity of operations and compliance with laws and policies. Internal audit evaluates the organization's responsiveness to stakeholders' needs and expectations. Internal audit enhances transparency and accountability towards stakeholders. Internal audit strengthens the trust between the organization and its stakeholders. Therefore, internal audit represents an effective tool for implementing and monitoring stakeholder theory in institutions, and safeguarding the interests of various stakeholders. It helps the organization balance the diverse needs and expectations of its stakeholders.(Diamond, J, 2002, 20-21). The relationship between stakeholder theory and internal audit is characterized by the internal audit function's role in promoting good governance, managing risks, and fostering trust and accountability towards the organization's stakeholders.

Carey, P., Simnett, R., & Tanewski, G. study, (1999) , " Voluntary Demand for Internal and External Auditing by Family Businesses" This study investigates the voluntary demand for both internal and external auditing within family businesses, which represent a significant but relatively unexplored segment of the economy. The researchers used survey data to examine the impact of firm characteristics that are linked to the cost-benefit analysis of engaging an auditor. The variables examined include the size of the firm, the firm's debt levels, and two agency-related factors that measure the separation of ownership and control - the proportion of non-family members in management positions, and the proportion of non-family members on the board of directors. The study also considers the relationship between internal and external auditing. The logistic regression analyses provided support for the hypothesized impact of the two agency-related factors and the firm's debt levels on the demand for external audit, but did not explain the demand for internal audit. For firms that voluntarily engaged an auditor (either internal and/or external), the negative and significant correlation between internal and external audit suggests that in the family business environment, these two types of auditing are more commonly viewed as substitutes rather than complementary practices. This study provides insights into the voluntary adoption of both internal and external auditing within the understudied context of family businesses, highlighting the importance of agency-related factors and firm debt in driving the demand for external audit services. The findings of the study contribute in understanding the "Agency theory" framework and its application to the unique context of family businesses. The negative relationship between internal and external audit indicates that family businesses may perceive these two audit functions as alternative mechanisms to address agency problems, rather than as complementary assurance providers. This has important implications for the audit

profession and regulators in designing policies and standards tailored to the needs of the family business segment. (Carey, & et al, 1999)

A Review of Studies on the Impact of Auditing on Financial Risk and Distress: Based on Agency Theory and Stakeholder Theory Hypotheses:

Siswanto, N., & Fuad, F. study, (2017), " The Impact of Audit Committee Characteristics on Financial Distress" . The researchers examined four key attributes of the audit committee: size, independence, meeting frequency, and competence. The study used a sample of 123 service firms listed on the Indonesia Stock Exchange from 2013-2015. Financial distress was defined as a company reporting negative net income for two consecutive years. The data was analyzed using logistic regression with SPSS 20. The results show that audit committee competence has a significant negative effect on financial distress. In other words, firms with more competent audit committee members are less likely to experience financial difficulties. This finding suggests that the competence of the audit committee, in terms of financial expertise and accounting knowledge, plays a crucial role in mitigating a firm's risk of financial distress. The study's results align with "Agency theory", which posits that effective monitoring by the audit committee can help address the agency conflicts between managers and shareholders, thereby reducing the likelihood of financial problems. The study contributes to the literature by providing empirical evidence on the importance of audit committee characteristics, particularly competence, in the context of financial distress prediction. The findings have practical implications for policymakers and regulators in designing corporate governance standards to enhance the effectiveness of audit committees in monitoring financial reporting and mitigating financial risks. (Siswanto, N., & Fuad, F. (2017, 2-4)

Awad Mohamed, E. O., Daher, S. S., Abozeid, H. O. T. A., & Attia, E. F. study . (2021). "The Influence of Ownership Structure, CEO Duality, Audit Type, Board Independence and Triple Bottom Line on Reducing the Financial Distress of Egyptian Companies: Using Z-Score Model" . This study examines how corporate governance (CG) measures impact the financial distress of 55 publicly listed companies among the most actively traded shares in Egypt from 2010 to 2018. The "CG" mechanisms investigated include ownership structure, CEO duality, audit type, board independence, and triple bottom line reporting. The researchers employed various analytical methods, such as descriptive statistics, correlation analysis, path analysis, multi-group analysis using structural equation modeling (AMOS program), and panel least square regression analysis using E-views. The data on "CG", accounting variables, and corporate failure was obtained from the Egyptian Stock Market, Disclosure books, Coface Egypt Finance yearbooks, and company websites. The findings indicate a significant negative correlation between "CG" measures (top management ownership, institutional ownership, private sector ownership, audit type, and board independence) and corporate financial distress. These results suggest that "CG" mechanisms and firm accounting variables can reduce the likelihood of companies' financial difficulties. Additionally, the findings reveal that firms engaging in corporate social responsibility (CSR) activities with a good "CG" system can help prevent companies from financial failure. These results align with agency theory, which suggests that effective monitoring by the board and audit committees can address the agency conflicts between managers and shareholders, thereby reducing the risk of financial distress. The study contributes to the limited research on financial distress in the Egyptian context and the usefulness of operating cash flow and the " Z-Score" model in evaluating the financial position of Egyptian companies. The findings have important implications for policymakers, regulators, and practitioners in designing and implementing corporate governance standards to enhance the financial sustainability of listed companies in Egypt. (Attia, E., & Abozeid, H, 2021, 96-97)

Abdulahi, M. A. study , (2017). "Effect of Corporate Governance Practices on Financial Distress Among Listed Firms at Nairobi Securities Exchange". This study investigates the effect of corporate governance practices on financial distress among listed firms at the Nairobi Securities Exchange (NSE) in Kenya. The study focuses on the influence of the number of non-executive directors, board size, board gender diversity, ownership concentration, as well as the control effect of net profit and capital structure. The theoretical framework of the study is based on Agency theory, Stakeholder theory, Stewardship theory, and Transaction theory. The researchers employed a descriptive research design, and the target population comprised the firms listed on the NSE as of December 2016. The Altman " Z-score" model was used to

assess the " financial distress" of the firms. Using an ordinary least square regression model, the key findings include that net profit has a significant negative effect on financial distress, management concentration and financial distress are negatively and significantly related, the proportion of non-executive board members has a significant negative effect on financial distress, board size has a significant positive effect on financial distress, board gender diversity has a positive but insignificant effect on financial distress, and capital structure has a positive but insignificant effect on the financial distress of listed firms. The findings suggest that effective corporate governance practices, such as a higher proportion of non-executive directors and lower ownership concentration, can significantly reduce the financial distress of listed firms on the NSE. This is in line with Agency theory, which posits that good corporate governance mechanisms help address conflicts of interest between managers and shareholders, thereby improving firm financial performance and reducing the risk of financial distress. The study provides valuable insights for policymakers, regulators, and practitioners in designing and implementing corporate governance standards to enhance the financial sustainability of listed companies in Kenya. The results also contribute to the limited research on the impact of corporate governance on financial distress in the Kenyan context. (Abdulahi, M. A. ,2017, 170-172)

Design and Method

The applied aspect of the study is represented in the presentation and analysis of the results of the questionnaire on the impact of strategic auditing in reducing cases of financial default. Then, we will address the most important steps used in collecting and analyzing the results of the questionnaire.

Content of the Questionnaire

The questionnaire form aims to obtain answers from the responses of the study sample represented by the auditors working government institutions and private sector companies in the province of Najaf. The questionnaire form has been organized and includes a set of demographic questions related to the specifications of the study sample and (20) questions related to the subject of the study divided into three main axes as shown below:

- The first axis: demographic questions This axis includes (6) questions related to the characteristics of the study sample.
- The second axis: This axis includes (20) questions regarding the adoption of strategic audit tools by auditors.
- The third axis: This axis includes (15) questions regarding financial default.

(109) questionnaire forms were distributed to a random sample of auditors working in government institutions and private sector companies in Najaf Governorate, and the frequencies and percentages of the study sample were classified according to the following main axes:

First: Description of the research sample by gender: The statistical results contained in the table below showed that the percentage of females in the sample (31%) compared to (69%) for males. This indicates that internal audit bodies rely mainly on males by more than females in the field of auditing due to the nature of work:

Sample characterization by sex

| Percentage | Iteration | Target Sample | Variables |
|------------|-----------|---------------|-----------|
|------------|-----------|---------------|-----------|

| | | | |
|------|-----|---------|--------|
| 69% | 75 | Male | Gender |
| 31% | 34 | Females | |
| 100% | 109 | Total | |

Source: Student preparation based on the statistical program "SPSS"

Second: Description of the research sample according to educational achievement: The statistical results contained in the table below indicate that (50%) of the sample are holders of a bachelor's degree. This category represented the highest percentage in terms of academic qualification, followed by the doctorate category or its equivalent, as it reached (24%), then followed by the diploma category, as the percentage of this category reached (15%), and finally the category of individuals holding a master's degree or its equivalent, as the percentage of this category reached (11%). This means that the research sample has the ability to the nature of the work, which reflects positively on the final results of the study:

Sample description according to educational attainment

| Percentage | Iteration | Target Sample |
|------------|-----------|----------------------|
| 15% | 16 | diploma |
| 50% | 55 | Bachelor |
| 11% | 12 | Master or equivalent |
| 24% | 26 | PhD or equivalent |
| 100 % | 109 | Total |

Source: Student preparation based on the statistical program "SPSS"

Third: Description of the research sample according to the exact scientific specialization: The statistical results contained in the table below showed that the percentage of employees with accounting specialization in the sample surveyed amounted to (41.3%), while the percentage of workers with financial and banking specialization reached (33.9%), which we find a very large difference between the two specializations, while the percentage of employees from other specializations in the sample constituted (24.8%). This indicates that the sample relies heavily on auditors with competence appropriate to the nature of his work to provide the best services in the field of auditing:

Sample description according to the exact scientific specialization

| Percentage | Iteration | Target Sample | Variables |
|------------|-----------|-------------------|------------------------------|
| 41.3% | 45 | accounting | Scientific Specialization |
| 33.9% | 37 | Finance & Banking | |
| 24.8% | 27 | Other | |
| 100 % | 109 | Total | |

Source: Student preparation based on the statistical program "SPSS"

Fourth: Description of the research sample by years of experience: The statistical results contained in the table below indicate that (48%) of those with experience (10-5) years represent the highest percentage, followed by the category (less than (5) years, which amounted to (32%), followed by the category (more than (10) years, which amounted to (20%). This indicates the availability of good expertise among the internal auditors working in government institutions and private sector companies in Najaf Governorate,

as a result of the job stability resulting from the appropriateness of the policies and rules that are pursued towards them and taking into account their interests:

Sample characterization according to years of experience

| Percentage | Iteration | Target Sample | Variables |
|------------|-----------|----------------------|---------------------|
| 32% | 35 | Less than (5) years | Years of Experience |
| 48% | 52 | (5-10) Years | |
| 20% | 22 | More than (10) years | |
| 100 % | 109 | Total | |

Source: Student preparation based on the statistical program "SPSS"

Fifth: Description of the research sample by job title: The statistical results shown in the table below showed that the percentage of auditors with an assistant auditor job title in the surveyed sample amounted to (42%), while the percentage of auditors with an auditor title was (32%) in second place, while the percentage of auditors with a senior auditor job title was (18%). Then came the title of audit manager with percentages of (8%). This indicates the availability of good experiences from auditors entering the field of auditing:

Sample description by job title

| Percentage | Iteration | Target Sample | Variables |
|------------|-----------|-------------------|-----------|
| 42% | 45 | Auditor Assistant | Job Title |
| 32% | 35 | Checker | |
| 18% | 20 | Senior Auditor | |
| 8% | 9 | Audit Manager | |
| 100 | 109 | Total | |

Source: Student preparation based on the statistical program "SPSS"

Statistical description of search variables

This paragraph dealt with a presentation of the most important results reached through the questionnaire form and its analysis with regard to the research variables, in accordance with the hypothesis and objectives of the research, and the results about it were as follows:

The first axis: Approving strategic audit tools from auditors

Arithmetic means and standard deviations of the responses of the study sample to the variable of adopting strategic audit tools from auditors

| Order | High est value | Low est value | Stand ard deviation | Arithm etic mean | Stron gly disag ree | Disag ree | neut ral | I agr ee | Stron gly agree | Paragraph | t |
|-------|----------------|---------------|---------------------|------------------|---------------------|-----------|----------|----------|-----------------|---------------------------------------|---|
| 19 | 5 | 1 | 0.803 | 4.62 | 1 | 2 | 10 | 11 | 85 | The internal auditor is interested in | 1 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|--|---|
| | | | | | | | | | | his scientific and practical qualification in the field of strategic analysis. | |
| 18 | 5 | 1 | 0.896 | 4.65 | 2 | 5 | 4 | 7 | 91 | The internal auditor contributes to training and qualification courses on the analysis of the strategic environment of business organizations. | 2 |
| 7 | 5 | 2 | 0.594 | 4.79 | 0 | 2 | 4 | 9 | 94 | The internal auditor examines and audits the strategic alternatives available to the organization. | 3 |
| 9 | 5 | 1 | 0.706 | 4.76 | 2 | 0 | 5 | 8 | 94 | The internal auditor uses a special audit methodology in the processes of collecting data and information by using measurement tools such as (analysis of references, indicators, financial ratios and trend analysis) as well as strategic analysis | 4 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|--|---|
| | | | | | | | | | | tools such as (SWAT analysis, balanced scorecard, portfolio analysis... etc) to diagnose strengths, weaknesses, opportunities and threats and then make recommendations within his report. | |
| 1 | 5 | 3 | 0.488 | 4.83 | 0 | 0 | 5 | 9 | 95 | The internal auditor conducts meetings with the organization's management before and after the end of the audit assignment to discuss the strategic objectives and plans and ways to achieve them. | 5 |
| 11 | 5 | 1 | 0.815 | 4.72 | 2 | 4 | 1 | 8 | 94 | The internal auditor examines and studies the consistency between the organization's objectives and the objectives of its different operations. | 6 |
| 5 | 5 | 2 | 0.569 | 4.81 | 0 | 2 | 3 | 9 | 95 | The internal auditor examines | 7 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|---|----|
| | | | | | | | | | | and studies all stages of building the organization's strategic plans. | |
| 14 | 5 | 1 | 0.853 | 4.71 | 4 | 0 | 4 | 8 | 93 | The internal auditor examines and studies the appropriate ness of the objectives and the extent to which opportunitie s are exploited and obstacles and difficulties are faced. | 8 |
| 6 | 5 | 2 | 0.585 | 4.81 | 0 | 2 | 4 | 7 | 96 | The internal auditor examines and studies the appropriate organization al structure and vertical and horizontal lines of communicat ion between the departments and divisions of the organization and the extent to which he achieves its strategy. | 9 |
| 4 | 5 | 2 | 0.575 | 4.83 | 0 | 3 | 1 | 8 | 97 | The internal auditor examines and studies | 10 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|----|----|----|--|--------|
| | | | | | | | | | | the extent to which the tasks assigned to the individuals actually performing those tasks are determined. | |
| 17 | 5 | 2 | 0.712 | 4.65 | 0 | 1 | 12 | 11 | 85 | The internal auditor examines and studies the internal system and its suitability for its activity and the extent to which it achieves the conduct of its business. | 1 1 |
| 20 | 5 | 1 | 0.985 | 4.57 | 4 | 3 | 6 | 10 | 86 | The internal auditor examines and studies the extent to which the priorities of the organization's strategic plan are determined so as not to deviate from its course. | 1 2 |
| 10 | 5 | 2 | 0.626 | 4.75 | 0 | 1 | 8 | 8 | 92 | The internal auditor examines and studies the availability of flexibility required to face risks and changes that occur in the organization suddenly. | 1 3 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|--|----|
| 8 | 5 | 1 | 0.702 | 4.77 | 2 | 0 | 5 | 7 | 95 | Internal auditors examine and study the alignment of strategic objectives with the vision and mission of the organization. | 14 |
| 13 | 5 | 1 | 0.831 | 4.71 | 2 | 4 | 2 | 8 | 93 | Internal auditors examine and study the extent to which the organization's strategic objectives have been translated into strategic plans. | 15 |
| 15 | 5 | 1 | 0.785 | 4.71 | 1 | 4 | 4 | 8 | 92 | The internal auditor examines and audits the adequacy of the resources and possibilities available to implement the organization's strategic plan. | 16 |
| 16 | 5 | 1 | 0.932 | 4.68 | 5 | 1 | 2 | 8 | 93 | The internal auditor examines and studies the extent to which the organization exploits the available opportunities and avoids | 17 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|---|----|
| | | | | | | | | | | potential threats in its external environment. | |
| 3 | 5 | 3 | 0.506 | 4.83 | 0 | 0 | 6 | 7 | 96 | The internal auditor examines and studies the extent to which the organization exploits its strengths and reduces the weaknesses in its internal environment. | 18 |
| 2 | 5 | 3 | 0.488 | 4.83 | 0 | 0 | 5 | 9 | 95 | The internal auditor examines and audits the efficiency and ability of management to implement the strategic plans of the organization. | 19 |
| 12 | 5 | 1 | 0.815 | 4.72 | 2 | 4 | 1 | 8 | 94 | Strategic audit leads to the success of strategic management at all levels. | 20 |

From the above table, the following results are clear

- 1- Item (5), which is **(the internal auditor conducts meetings with the management of the organization before and after the end of the audit task to discuss the objectives and strategic plans and ways to achieve them)** ranked first in terms of the extent of agreement for the population of the research sample, with an arithmetic mean of (4.83), and with good homogeneity in the responses of the study community, and this was confirmed by the standard deviation (0.488). It obtained a maximum value of (5) and a minimum value of (1) .

- 2- Paragraph (19), which is **(the internal auditor examines and audits the efficiency and ability of the administration to implement the strategic plans of the organization)** ranked second in terms of the extent of agreement for the research sample population, with an arithmetic mean of (4.83), and very good homogeneity in the responses of the study community. This was confirmed by the standard deviation of (0.488) and this paragraph obtained a maximum value of (5) and a minimum value of (3).
- 3- Item (12) **(the internal auditor examines and studies the extent to which the priorities of the strategic plan of the organization are determined so as not to deviate from its course)** ranked twentieth and last in terms of the extent of agreement for the research sample community, with an arithmetic mean of (4.57), and very well homogeneity in the responses of the study community, and this was confirmed by the standard deviation of (0.985). It had a maximum value of (5) and a minimum value of (1) .

The second variable: the use of strategic audit tools by auditors in reducing financial defaults

Arithmetic means and standard deviations of the responses of the study sample to the variable of financial default

| Order | Highest value | Lowest value | Standard deviation | Arithmetic mean | Strongly disagree | Disagree | neutral | I agree | Strongly agree | Paragraph | t |
|-------|---------------|--------------|--------------------|-----------------|-------------------|----------|---------|---------|----------------|---|---|
| 4 | 5 | 1 | 0.687 | 4.81 | 1 | 3 | 2 | 4 | 99 | The internal auditor verifies the various operational policies of the organization such as sales, pricing, production, unwanted expansions and the use of undeveloped operational technology. | 1 |
| 7 | 5 | 1 | 0.616 | 4.81 | 1 | 1 | 3 | 8 | 96 | The internal auditor verifies the extent to which borrowing is relied upon to finance investments in the assets of the organization. | 2 |
| 11 | 5 | 1 | 0.685 | 4.78 | 1 | 2 | 4 | 6 | 96 | The internal auditor studies the production capacity of | 3 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|---|---|
| | | | | | | | | | | the organization and the efficiency of production lines, and verifies the appropriateness of the production policy followed. | |
| 9 | 5 | 1 | 0.654 | 4.79 | 1 | 1 | 5 | 6 | 96 | The internal auditor studies the disposability of the organization for its products, its marketing capacity, and its impact on the level of sales and revenue. | 4 |
| 15 | 5 | 1 | 0.813 | 4.69 | 2 | 1 | 9 | 5 | 92 | The internal auditor studies the external factors surrounding the organization such as economic conditions, competition environment, high cost of funding sources, technological development, changes in state laws, natural disasters, and others. | 5 |
| 12 | 5 | 1 | 0.683 | 4.78 | 1 | 2 | 4 | 6 | 96 | The internal auditor verifies the Organization's ability to | 6 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|---|---|
| | | | | | | | | | | monetize its fixed assets to its current assets at an appropriate period and at the lowest cost. | |
| 3 | 5 | 3 | 0.487 | 4.83 | 0 | 0 | 5 | 9 | 95 | The internal auditor verifies that the organization maintains an appropriate level of liquid assets for prudential purposes to ensure that cash is available to meet all its obligations. | 7 |
| 1 | 5 | 3 | 0.489 | 4.83 | 0 | 0 | 5 | 9 | 95 | The internal auditor verifies that the organization follows up on cash movements to enable it to properly plan the amount of cash needed in the near term. | 8 |
| 10 | 5 | 1 | 0.653 | 4.79 | 1 | 1 | 5 | 6 | 96 | The internal auditor verifies that the organization develops specific strategies for cash flow management based on the basis and statistical scale. | 9 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|--|----|
| 5 | 5 | 2 | 0.569 | 4.81 | 0 | 2 | 3 | 9 | 95 | The internal auditor ascertains the extent to which cash management balances the risks of investments with the size of their returns. | 10 |
| 13 | 5 | 1 | 0.681 | 4.78 | 1 | 2 | 4 | 6 | 96 | The internal auditor verifies the process of reforms in the administrative, production and marketing financial policies of the organization when it is exposed to a liquidity crisis. | 11 |
| 8 | 5 | 3 | 0.488 | 4.8 | 0 | 0 | 5 | 9 | 95 | The internal auditor verifies the extent to which the organization makes updates and changes in strategic objectives in the event of sudden changes in environmental conditions that may cause the organization to collapse. | 12 |
| 2 | 5 | 3 | 0.488 | 4.83 | 0 | 0 | 5 | 9 | 95 | The internal auditor verifies the extent to which the | 13 |

| | | | | | | | | | | | |
|----|---|---|-------|------|---|---|---|---|----|--|----|
| | | | | | | | | | | organization has put in place the necessary precautionary measures in the event of exposure to the risk of bankruptcy. | |
| 14 | 5 | 1 | 0.815 | 4.72 | 2 | 4 | 1 | 8 | 94 | The internal auditor verifies the extent to which the organization has developed alternative plans in the event of emergency changes that require a change in the organization's plan. | 14 |
| 6 | 5 | 2 | 0.568 | 4.81 | 0 | 2 | 3 | 9 | 95 | The internal auditor verifies the extent to which the organization is preparing alternatives to funding sources in the event of a severe cash shortfall. | 15 |

From the previous table, the following is clear

- 1- Item (8) states that the **internal auditor verifies that the organization follows up on cash movements to enable it to properly plan the amount of cash required in the near term.**) ranked first in terms of the extent of agreement for the population of the research sample, with an arithmetic mean of (4.83), and homogeneity well in the responses of the study community, and this was confirmed by the standard deviation of (0.489). It has obtained a higher value of (5) and a minimum value (3).
- 2- Item (13), which is **(the internal auditor verifies the extent to which the organization has put the necessary precautionary measures in the event of exposure to the risk of bankruptcy)** ranked second in terms of the extent of agreement for the research sample population, with an arithmetic mean of (4.83), and very well homogeneity in the responses of the study community, confirmed by the standard deviation of (0.488) and obtained a higher value of (5) and a minimum value of (3).

- 3- Paragraph (5) (the internal auditor studies the external factors surrounding the organization such as economic conditions, competition environment, high cost of funding sources, technology development, changes in state laws, natural disasters, etc.) ranked twentieth and last in terms of the extent of agreement for the research sample population, with an arithmetic mean of (4.69), and very well homogeneous in the responses of the study community, and this was confirmed by the standard deviation of (0.813). This item has obtained a maximum value of (5) and a minimum value of (1).

E- Test the hypotheses of the study

For the purpose of testing this hypothesis (there is a statistically significant effect of the use of strategic audit tools by internal auditors in reducing financial defaults)

The impact of the use of strategic audit tools by auditors in reducing total failures of business organizations was analyzed overall to prove the validity of the hypothesis as shown in the table below:

The effect of using strategic audit tools by auditors in reducing financial defaults in business organizations

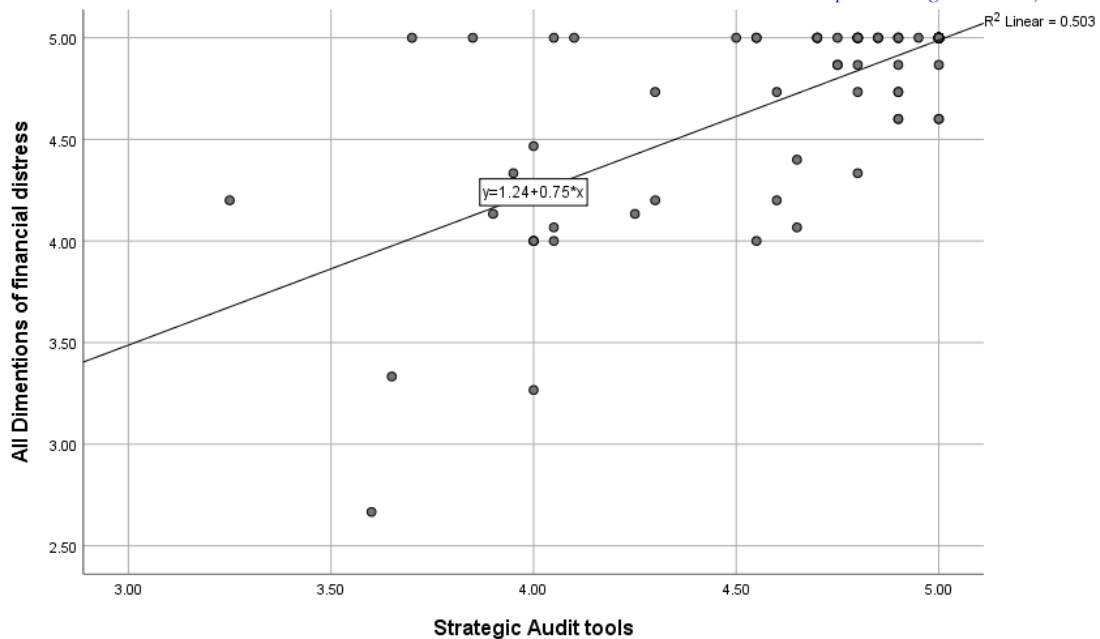
| <i>dependent variable</i> | <i>Model</i> | <i>Beta</i> | <i>Std. Error</i> | <i>T</i> | <i>i sig.</i> | <i>R2</i> | <i>R</i> | <i>f</i> | <i>f Sig.</i> |
|--|---|-------------|-------------------|----------|---------------|-----------|----------|----------|---------------|
| Reducing financial distress in business organizations | (Constant) | 1.237 | .342 | 3.612 | .000 | .503 | .709 | 108.419 | 0.000 |
| | Use of strategic audit tools by auditors | .750 | .072 | 10.412 | .000 | | | | |

* Tabular value at 0.05 = 3.92

As it is clear from the above table that the amount of (F) calculated is (108.419), which is more than the amount of (F) tabular of (3.92) at the level of significance (0.05), and significantly (0.000), and this means that there is an impact of the use of strategic audit tools by auditors in reducing cases of financial default in business organizations, while the value of the variable coefficient of the use of strategic audit tools by auditors rose (.750). It is the amount of increase that occurs on the dependent variable to reduce the cases of financial default in business organizations when the variable of the use of strategic audit tools by auditors increases one unit, while the value of the coefficient of determination (.503). It is the explanatory value of the model, as the variable of the use of strategic audit tools by auditors explains the ratio of (50.3%) of the change in reducing financial defaults in business organizations, while the remaining percentage is due to other variables and factors not mentioned in the model, noting that the value of the correlation coefficient between the two variables (the use of strategic audit tools by auditors and reducing cases of financial default in business organizations) amounted to (.709). It indicates that there is a direct correlation between the two variables, which indicates a statistically significant effect To use strategic audit tools by auditors to reduce financial defaults in business organizations and thus accept the hypothesis. The figure below shows the regression equation for the research hypothesis:

Use strategic audit tools.750 + 1.237 = Reduce financial defaults

Equation of the regression line for the variables of the use of strategic audit tools by auditors and reduce the cases of financial default in business organizations



Conclusions and Recommendations

First: Conclusions

- 1- Strategic auditing has an important role in developing the scope of internal audit to include examining and analyzing the external and internal environment of the organization, which can diagnose the expected risks of financial default and work to avoid them.
- 2- The adoption of strategic audit leads to the development of the capabilities and capabilities of internal auditors so that they have the ability to examine and analyze the current and prospective strategic conditions of organizations and compare them with the strategic plan prepared in advance by those organizations.
- 3- The use of strategic audit tools by the internal auditor enables him to verify the appropriateness of the vision and mission of the organization with its strategic objectives and plans.
- 4- Strategic audit develops internal audit programs and procedures by adopting strategic audit steps and procedures, which leads to improving the quality of internal auditors' reports.
- 5- The results of testing the research hypothesis showed that the linear regression model between the two variables of the use of strategic audit tools by auditors and reducing cases of financial default in business organizations is significant, and this is evidenced by the calculated value of (F) which is (108.419), which exceeds (F) tabular (3.92) at the level of significance (0.05), and a significant level of (0.000), and the coefficient of determination (R2). The variable "Use of strategic audit tools by auditors" shows (50.3%) of the variance in reducing financial default cases in business organizations. The value of (Beta) (.750) revealed the relationship between "the use of strategic audit tools by auditors and reducing cases of financial default in business organizations", which is statistically significant, indicating a statistically significant impact of the use of strategic audit tools by auditors and reducing cases of financial default. in business organizations.

Recommendations

- 1- The need to adopt strategic audit tools by internal auditors in business organizations to expand their scope to include examination and analysis of the external and internal environment of the organization to face the risks of imminent financial default.
- 2- The need to take into account the development of the capabilities and capabilities of internal auditors by qualifying them in the field of strategic auditing and involving them in training courses. This is to periodically develop their skills and keep pace with developments in international internal auditing standards, and modern methods and trends in the field of strategic analysis, in order to develop their scientific and practical capabilities and capabilities.
- 3- The need for internal auditors to study and understand the strategic objectives of the organization and verify their compatibility with the vision and mission of the organization, as well as verify the progress of the work of organizations in accordance with those strategies and specific objectives.
- 4- The need to develop internal audit programs and procedures for business organizations in line with strategic audit tools to include examining and studying the environment of external organizations, identifying external factors affecting their performance, and then analyzing them. It helps to determine their effects to enable internal auditors to have the future vision of the organization and improve their abilities to provide recommendations to the management organizations to avoid the risks of financial default.
- 5- Coordinate with professional organizations and syndicates to develop internal audit programs and procedures and provide steps and guidance that help auditors strengthen their capabilities in the field of strategic analysis.
- 6- Work on updating the curriculum in institutes and colleges for the subject of internal audit in line with recent developments and trends in internal audit and international internal auditing standards.
- 7- Work to guide and encourage graduate students by universities to conduct studies and research regarding the definition of strategic auditing and its relationship with internal auditing and the advantages of its practice by internal auditors and its impact on the quality and effectiveness of internal auditing.

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