

The role of the internal control system in preparing the financial budget for self-financing institutions Iraqi public universities as a model

By

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Abstract

The research aimed to provide an initial framework for the independent and dependent research variables, explain the relationship between them, and prepare a proposed framework for preparing the financial budget for self-financing Iraqi public universities. The research reached a set of conclusions and recommendations represented in the fact that the laws and instructions provided for the existence of only one accountant who performs all accounting work in the self-financing unit, and this contradicts the internal control element of the internal control system, and affects the preparation of the budget in self-financing accounts units. The need to include laws and instructions In the units of self-financing accounts for Iraqi governmental universities regarding the preparation of annual financial budgets and adherence to them through the adoption of the proposed framework in preparing the annual financial budget by researchers.

Keywords: Internal control system; Annual financial budget; Self-financing.

Introduction

The Ministry of Higher Education and Scientific Research has sought to transform public universities with evening faculties into self-financing institutions as a clear step to grant universities financial independence, but according to instructions related to evening studies, as the financial independence of public universities contributes to supporting innovation and the production of innovative scientific research as well as building A good infrastructure befitting the size of a scientific institution that competes with private universities. In addition, the volume of financial support from the current financial budget has stopped and has become a great weight on the annual financial budget for evening studies. Hence, the presence of an effective internal control system with its complete elements of administrative and accounting control and internal control contributes to the preparation of an estimated annual financial budget, but close to the actual reality, in In light of it, financial spending decisions are taken.

These units carry out various financial activities ranging from receiving revenues from various sources of revenue such as taxes and fees and paying the expenses they need to run their daily business to impose control on these revenues and expenditures. Therefore the need

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must be recorded in the original accounting records and then classified according to their type. The extraction of trial balances the periodicity of these activities in preparation for the consolidated final account and the statement of the state's financial position. If the increase in the state's intervention in the developmental fields had an impact on the government's financial management, then the need for the funds by which the development goals were achieved increased, and accordingly, the sources of funds multiplied and diversified as how they were spent. As the process of obtaining funds and then spending those takes place in the government in a regulated manner, a plan for financing and a spending plan is drawn up, and therefore this matter requires that these funds be managed by these plans and in accordance with the general directions of the state.

The research problem is embodied in light of the following questions:

- How does the internal control system contribute to improving the activities of self-financing government institutions?
- What is the relationship between internal control system and process of preparing the financial budget for government institutions with self-financing?
- How is the financial budget prepared in public evening universities according to the effectiveness of the internal control system?

Research objectives

The research seeks to achieve the following objectives:

- Provide an introductory framework for the independent and dependent research variables and indicate the relationship between them
- Preparing a proposed framework for preparing the financial budget for the self-financing Iraqi public universities.

Research importance

The research gains its importance through the effective role and significant contribution of the efficient and highly effective internal control system in the process of preparing annual financial budgets in public universities with evening studies (self-financing), which in turn contributes to the rationalization of financial spending and the prevention of waste in public money.

Research hypothesis

The research is based on a hypothesis (the possibility of activating the internal control system's role in preparing annual financial budgets in government institutions that are self-financing).

Research method

To achieve the objectives of the research, the inductive approach will be used to match the effectiveness of the internal control system and the process of preparing annual financial budgets, as well as the use of the inductive approach by deriving financial equations in the budget from the laws and instructions for evening studies in public universities with evening studies.

Spatial research limits for the research sample

Spatial limits: The research was applied in one of the colleges of public universities with evening studies.

Default search schema:

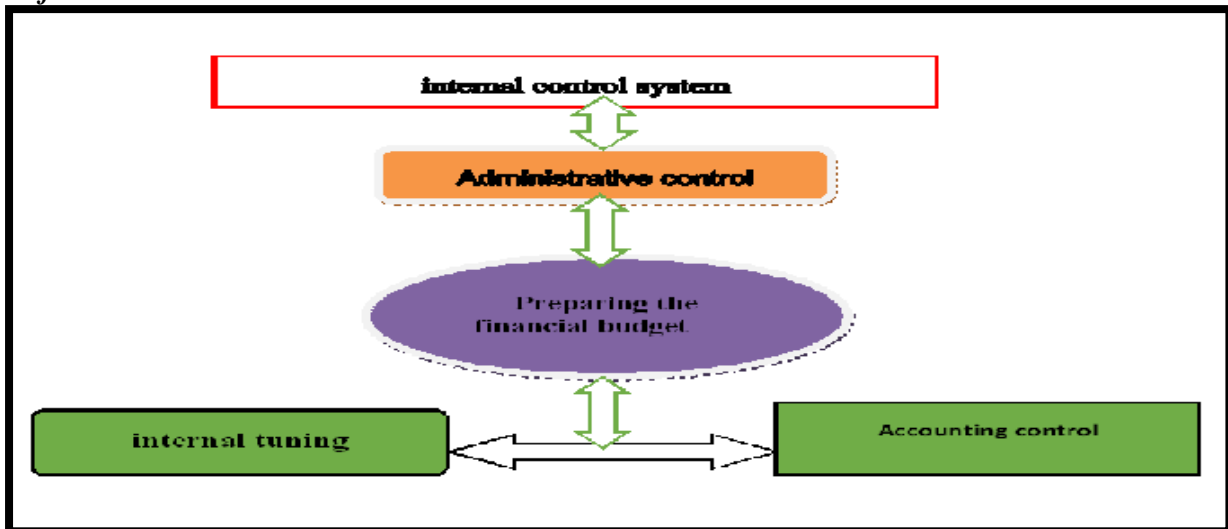


Fig. 1: *Theoretical framework: for the relationship between research variables*

(Independent internal control system - following the financial budget of self-financing institutions)

First: The concept and definition of the internal control system:

The importance of the internal control system appeared in the year 1905 AD, when (Dexe) issued a book that dealt with the importance and necessity of having an internal control system in the economic units as one of the main elements that have internal control over the various decisions taken by the senior management in the economic units, (Abd, Kareem, & Jassim, 2022). It should be available within any sound administrative organization, and it has been made clear that the sound, effective internal control system compensates for the audit and control of the detailed accounts as the starting point and the basis on which it is based when choosing the size of audit samples and audit programs, (Badarna, 2013) Thus, the concept of the internal control system includes a set of methods and measures adopted by the economic unit in order to protect cash and other assets, as well as to ensure the accounting accuracy of the operations recorded in the accounting books and records and the fairness of the financial statements, (Chalmers, 2019).

While the International Federation of Accountants defined it as that the internal control system includes all the policies and procedures adopted by the economic unit through its management to help it achieve its short-term and long-term goals and ensure efficient and effective implementation, including commitments to management policies, protection of its current and fixed assets, detection of accounting errors and cases of fraud, and ensuring accuracy Financial statements, (Ali, Abd, & Kareem, 2022). their completeness and timely availability of reliable financial information. While some see that the internal control system is only a function to verify that the financial and administrative work is proceeding according to the plan, instructions, and rules specified by the economic unit to discover strengths, weaknesses, deficiencies, errors, and deviations to treat them and avoid their occurrence in the near and distant future, and it is also known as the process of verifying, (Jeffrey , 2007). The implementation is as decided in the plan drawn up by the senior management and in the light of objective instructions and rules to discover weaknesses and errors and treat them and avoiding their recurrence, provided that it deals with all aspects of activity in the economic unit and those in charge of its management ,Based on his examination of the internal control system, the auditor can determine the scope of the examination that he will perform and, accordingly, can rely on it economically. (Jennifer & Anne, 2010).

Second: Objectives of the internal control system

1. Protecting the fixed and circulating assets in the economic unit from manipulation and embezzlement and preserving the rights of others within it, (McMullen, Raghunandan, , & Rama, , 1996)
2. Preparing a strategic plan that is followed up annually in the economic unit to follow it with a focus on high-risk items, as well as designing timetables and audit programs for each activity within the economic unit.
3. Ensure the optimal use of available resources in the economic unit and compliance with policies, procedures, laws, and instructions related to activities within the economic unit.
4. Contribute to the development of systems and solve problems at their inception before problems escalate within the economic unit.
5. Planning and determining the size of the work and the auditing procedures followed, i.e., conducting the organizational factors before starting to perform any professional work and applying the principles as well as applying the principle of objectivity in the accounting and auditing work. (Sebasto & Fortner, 2010)
6. Monitoring the plan, following up on its implementation, the extent to which goals are achieved, and identifying deviations and the causes of ways to address them.
7. Evaluate the results of the implemented activities in accordance with the set goals, and achieve the maximum possible production efficiency by preventing extravagance in all aspects of the activity, as well as achieving the maximum possible level of welfare for the members of society. (Christine , Catherine , & Aimee , 2011)

Third: Elements of the Internal Control System: (David , Robert , & Helen, 2008)

Administrative control: This component deserves attention through the following:

- Skill and competence: Organizations or audit firms should appoint qualified employees with the necessary experience and skills with the technical standards and professional competence to carry out the required tasks.
- Distribution of tasks: The audit work should be entrusted to individuals who possess degrees of technical training and the required professional competence by distributing the tasks among them as follows:
- Determine the number of employees required for each audit process based on time and cost.
- Determine the employees whose abilities and experience are commensurate with the nature of the work assigned to them.
- Preparing estimates of the time required for each audit process to determine staffing requirements and then scheduling audit work.
- Giving appropriate importance when distributing tasks to individuals for the audit process.

Accounting control

This type is represented by the control of the accounting operations represented by reviewing the accounting data and entries and methods of recording them in the daily record and transferring them to the general ledger record and reviewing the accounting rules and procedures used in recording financial transactions to protect the assets of the economic unit from damage, loss, and extravagance, (Borrajo, Corchado, Yáñez, Florentino , & Díaz, 2005)

Internal control

It is an organizational plan and all means of coordination and procedures aimed at protecting project assets from embezzlement, manipulation, or misuse, and we will not forget that it is an internal function of facility management. In order to achieve its objectives, internal control relies on the following: (Division of work; Self-monitoring so that the work of each employee is subject to review by another employee who participates in the implementation of the work; Use of dual service means; Insurance of property and employees who are in custody, (Donelson, Ege, & McInnis, 2017)

Fourth: Risks of the internal control system:

Risks in auditing contain three main types: (Inherited risks, control risks, and discovery risks) they can be explained as follows: (Hayes, 2005)

Inherited risks

Some call it inherent risks, and others call it implied or inherent, and whatever the name, it represents the susceptibility of the account balances or a group of transactions to exposure to a material error that causes the value of the balances of those accounts to be overstated. Inherited risks also refer to the possibility of financial statements being exposed to manipulation and material fraud, regardless of the existence of the internal control system. These risks are related to the work's nature and the account balances in Financial Statements.

Control risks

Errors that may occur in the balance of an account or a group of transactions, which are material either individually or when combined with errors in other balances or transactions, which were not prevented or discovered promptly through the accounting system or the control system. Internal control risk is a measure used by the auditor to estimate the possibility of failure of the internal control system to prevent or detect and correct material errors in financial statements. (Abd W. K., 2021)

Discovery risks

It means the failure of basic auditing procedures carried out by the internal auditor and auditor to detect fraud and forgery in a balance or a group of transactions, which could be material individually or when combined with manipulation and forgery in other balances or a group of transactions.

Fifth: The annual financial budget:

The concept and importance of the financial budget: (Siswantoro, 2017)

The importance of the general budget in the life of states increases through the provision of public services to the people and the development process, as well as the need to rationalize public spending and reduce the budget deficit. Accordingly, the economic units of accounting focused on issuing international standards for government accounting; after this, interest was limited to apply financial accounting in economic projects. Thus, those standards were issued starting in 1987, and thus the modern theory of appropriation accounting appeared, replacing the traditional government accounting theory. Accordingly, the main features of the government administrative unit can be identified from the point of view of government accounting. The administrative unit deposits the revenues it collects in the state's public treasury and withdraws the necessary funds for public spending from the funds deposited by the Ministry of Finance to its account in the bank. Therefore, the task of accounting for this economic unit is limited to the following:

1. An oversight mission aimed at preserving public money through the historical collection of data related to government activity using statistical books designed to suit the nature of government activity.
2. It provides the necessary data to make the appropriate decision on time and assists in preparing public budgets for the coming years.
3. Financial powers are one of the most important issues that the financial and administrative employees in the various state departments should pay attention to. Financial powers are either included in the state's financial system as fixed rules until an amendment is made in its provisions in the same law, or they are included in the laws of approving the general budget. The state's annual commitment to it is limited to the budget for that year only.

Spending theories in self-financing government institutions:

This theory is based on the denial of ownership of all kinds. It is based mainly on the philosophy that the economic unit is a unit independent of its owners, creditors and other rights holders, as all elements of rights are restrictions on assets, as creditors to one of the sources of financing have a legal right on the assets as well as investors. Therefore this theory stems from the "agency" philosophy. Since society has allocated specific financial sources and is mainly interested in the efficiency of using them, it isolates a group of its assets, as it is necessary for management to use them efficiently. Therefore it may be difficult to apply the financing theory for profit-oriented units, but the basis of accounting measurement, presentation, and disclosure of non-profit units can be attributed to the hypotheses of this theory. As all financiers can see, the information that helps them in making their decisions as long as they have one of the funding sources, as well as this theory is based on self-financing government institutions on the basis that the revenues that the unit obtains from its activities are the basis for determining its spending capacity. (Abbas, Abd, & Kareem,, 2020)

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The budget equation according to this theory is as follows:

$$\text{Self-realized resources} = \text{obligations.}$$

Sixth: Methods of auditing the system of internal control over the financial budget: (Robert, 2005)

Financial audit

The financial audit includes verifying the extent to which all financial statements conform to the previously defined standards. Generally accepted accounting principles usually represent these standards. The financial audit also includes checking the financial statements

prepared according to the accounting principles commensurate with the work of the economic unit, in the center's list. The financial statement, income statement, and cash flow statement also include a list of the notes attached to these financial statements.

Performance auditing

Performance auditing is a concept that deals with efficiency, effectiveness, and economics. There is little agreement on using a single term for this concept. Many prefer to use the term "Management Auditing" or "Performance Auditing" instead of auditing operations. To describe the examination of the efficiency and effectiveness of the economic unit. It also includes the evaluation of management performance, management plans, quality control systems, and activities of certain operations, as well as the evaluation of departments. This type of audit is related to the non-financial operations of the economic unit. External auditors perform this type of audit.

Compliance audit

It is an audit of the financial and operational controls and operations to judge the quality and adequacy of the systems that have been developed to ensure compliance with regulations, legislation, policies, and procedures (Ethical rules for the accounting profession).

Practical aspect: a proposed framework for preparing the financial budget in government institutions that are self-financing according to the internal control system.

First: An introductory overview of the emergence of self-financing in public universities:

Table (1) first, suppose that student's number in evening studies for the study sample is as follows:

No.	Statement	Scientific Department No1	Scientific Department No2	Scientific Department No3	Total Students (4=1+2+3)	annual installment (5)	The total amount of revenue (4*5)
1	First-stage students (expected)	40	45	35			
2	Second-stage students (actual)	36	33	37	488	1,200,000	585,600,000
3	Third-stage students (actual)	44	45	50			
4	Fourth-stage students (actual)	43	40	40			
	the total	163	163	162			

According to the instructions of evening studies in colleges and institutes affiliated with the Ministry of Higher Education and Research No. 135 of 2000, Article (1), which included: evening studies can be introduced in colleges and institutes that have the necessary and necessary capabilities, and according to a decision of the Minister of Higher Education and Scientific

Research, and based on Proposals from the council of the concerned university or the body of technical institutes after presenting it to the opinion committee of the Ministry of Higher Education and Scientific Research. Article (11) also included two paragraphs: First: Evening studies are self-financed from the annual wages collected from students studying there. Secondly: The amount of tuition fees is determined by a decision of the Minister based on suggestions from the University Council or the Council of the Technical Institutes Authority after presenting it to the opinion committee in the Ministry, and he may reduce or increase it in the same way. Article (12) also included three paragraphs: First: An independent account unit shall be established in each university, technical institutes authority, college, and institute for evening studies, and it shall have the right to open a special account in one of the branches of government banks. Second: The unified accounting system is applied to the accounts of evening studies. Third: Evening studies accounts are subject to the supervision and audit of the Federal Office of Financial Supervision.

Table (2) Secondly: A proposed framework for the process of preparing the financial budget for the research sample:

The proposed budget for the fiscal year 2023 depending on the academic year's revenue (2022-2023)		
The amount	Statement	Notes
585,600,000	total revenue	pertaining to the academic year 2022-2023
195,200,000	Revenue pertains to 2022	From 01.09 To 31.12.2022
390,400,000	Revenue for the period From 01.01 To 31.08.2023	From 01.01 To 31.08.2023
188,800,000	pertaining to revenue 2023 of the academic year 2023-2024	This revenue is expected to be $1 \div 3$ revenue from the academic year 2023 - $(472 * 1,200,000) * 1 \div 3$ (From 01.01 To 31.12) the fiscal year (2023)
579,200,000	The total distributable revenue	
57920000	Subtraction of share the internal sections (10%)	$(579,200,000 \times 10\%)$
521,280,000	The net after subtraction of shared the internal sections	$57920000) - 579200000)$
26064000	Ministry share (5%)	$521280000 \times 5\%)$
52,128,000	Subtraction of share of the presidency of university (10%)	$\times 10\% (521280000)$
136,112,000	total shareholdings	(share internal partitions+ Ministry share+ University presidency share)
443088000	Residual (85%) of total ratio	(total revenue - total shareholdings)
78,192,000	maintenance ratio (15/85)% 2021	$458388000 \times (15/85)\%$
30,000,000	accumulated surplus (15th) % rounded from previous years	suppose
108,192,000	The total amount of maintenance	(current year + rounds from previous years)
364,896,000	The ratio of salaries and requirements (85/70)%	$(443088000 \times 70 / 85) \%$
10,000,000	accumulated surplus of 70% the rounded from previous years	suppose
374,896,000	Total salaries and supplies 70%	(current year + rounds from previous years)
367,896,000		Total net income

Conclusions and recommendations

The need to activate the internal control system to audit self-financing accounts in public universities, as laws and instructions specify that there is only one accountant, who performs all accounting work in the self-financing unit, and this contradicts the internal control element of the internal control system and affects the preparation of the budget in the self-financing accounts units.

In addition, the need to include laws and instructions in the units of self-financing accounts of Iraqi governmental universities regarding the preparation of annual financial budgets and adherence to them by adopting the proposed framework in preparing the annual financial budget by researchers. As well as strengthening the computational staff in the units of self-financing accounts of Iraqi governmental universities and training those in training courses to learn how to employ the elements of the internal control system in preparing annual financial budgets.

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