



Strategic Analysis as an Audit Technique - SWOT Analysis: Empirical Study in Rubber and Tires Industry in Najaf Governance

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ARTICLE INFO

Received: 20 Oct 2024,

Revised: 31 Oct 2024,

Accepted: 3 Nov 2024,

Online: 5 Dec 2024

Keywords:

Strategic analysis, Auditing,
Strategic situation, SWOT analysis.

ABSTRACT

Because of the great changes that occur in the business environment, the external auditors had to develop audit programs and adopt new methods in the audit process, as the strategic analysis was adopted in this research through conducting a (SWOT) analysis of the Najaf tire factory, and the study was based on the hypothesis "the quality of auditing will increased when using Strategic analysis tools in audit procedures", and it has The study reached a number of conclusions, the most important of which is "Strategic analysis has a major role in the effectiveness and development of external auditing, by expanding its scope of work by including the procedures studying the external environment of the organization as well as its internal environment, and develop an auditing program that includes the use of strategic analysis tools" and the study recommended "corporate auditors must use strategic analysis and its tools from , in addition to expanding the audit scope to include studying the external environment of companies as well as their internal environment and developing the audit program".

1. Introduction

Due to the great developments in the volume of business and the expansions that occurred in the financial and economic fields, the high intensity of competition between business organizations and the increase in the risks surrounding them resulting from the rapid changes in the economic, political and technological aspects, this led to a shift in the role of external auditing from the traditional role of expressing technical opinion on the extent of fairness And the validation of the financial statements of the economic units, to

include studying and examining the external environment of the organization and the changes that occur to it and determining the effects of that on the organization, as well as the growing need for organizations to verify the integrity of their strategic plans and the extent to which their messages and visions are compatible with their strategic objectives, as well as their desire to verify the compatibility of their strategic plans With its strategic position, which required reliance on new

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doi: [10.5281/jgsr.2024.14283943](https://doi.org/10.5281/jgsr.2024.14283943)

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methods and techniques in the external audit process and procedures.

Hence, the importance of strategic analysis emerges as an effective tool in enhancing the role of corporate auditing and using its tools to identify strengths, weaknesses, opportunities and threats, which enables auditors to make recommendations to enhance strengths, exploit expected opportunities, reduce weaknesses and avoid potential threats, as well as verify the adequacy of strategic plans developed. With the current and future strategic position of the company.

2. Research Hypothesis

the study comes to develop the external audit using Strategic analysis tools (SWOT analysis), the assumption of this research is that "the quality of auditing will increased when using Strategic analysis tools in audit procedures", to achieve that, the Strategic analysis tools applied in auditing the Rubber and Tires industry in Najaf Governance. So the studying internal and external environment used to identify the effected environment factors and then diagnose the strengths, weaknesses, opportunities and threats of the industry, that will help the auditors to increase their skills and capabilities in the one hand, moreover, expand the Audit scope to include the external environment in the other hand

3. Literature Review

Strategic analysis:

Strategic analysis concept:

The word strategy derives its original roots from the Greek word (strateges), as this concept was associated with those plans used in the field of battle management according to military confrontation.(Sunkour, 2015)

But, according to Webster's dictionary, it is known as "the science of planning and directing military operations." Then this thought developed to include all institutions, especially

those that seek to achieve leadership in their business, and several definitions were given to the term strategy, which differ according to the opinions of thinkers and researchers in this field. Walker defined it as "the basic models for planning goals, resources, and employees in accordance with the organization's orientation towards the market, competitors, and other environmental factors surrounding it." (Morsi & Saud, 2007) As for Chandler, he defined, "The strategy involves defining the long-term goals of a project and defining the procedures and activities for allocating the necessary resources or production units and diversifying or establishing new lines of production to achieve a specific set of goals".(Al-Sahlawi , 2019).

As for the strategic analysis, it can be defined as follows: "It is a set of means used by management to determine the extent of change in the external environment and to determine the competitive advantage and the distinctive efficiency of the organization in controlling its internal environment, so that this contributes to increasing the ability of senior management to define its goals. its strategic situation"(Al-Bakri, 2008)

It is also defined as a "Reviewing each of the external environment in order to identify the most important opportunities and threats facing the organization, and its internal environment in order to identify the weaknesses and strengths in the organization, and this process must be continuous in order to serve the process of designing the strategy."(Abu Qahf, 2005)

The others defines as "It is a set of sequential and successive stages that aim to study and analyze the factors and variables affecting the direction and future of the organization, and it represents a comprehensive and integrated framework for analyzing the effects of these variables, whether within the framework of the internal environment to the competitive environment to the external environment of the organization".(Bani Hamdan & Idris , 2007)

Through these definitions, it can be said that the importance of organizations adopting strategic analysis lies in trying to understand the basic ingredients that lead to success in the sector, and directing the organization's resources towards building competitive advantages, by supporting its ability to adapt to all new environmental conditions that are characterized by complexity and uncertainty. The importance of strategic analysis increases with the rapid changes in the environment in which the organization is active. The objective of the institution through its strategic analysis as the first step of the strategic management is to monitor its environment from two angles, the first is to identify the opportunities and threats of the external environment, and the second is what it possesses of the strengths and weaknesses of the internal environment, as well as that the organization is in constant need of it present and future, determining the direction of the organization's path current and future, to ensure the proper selection of the strategy and identify the factors influencing it.

Strategic analysis tools

Resource auditing:

The management of the organization seeks to achieve a competitive advantage to ensure its continuity and survival, by working to own various and multiple resources and then exploit them (Ali, 2010). The process of auditing the organization's resources is important because organizations rely on them to achieve and increase their revenues. The organization may possess resources of high values, but it does not have the ability to exploit them effectively, which makes its competitive position very critical compared to other organizations that have the same resources and that improve the use of their resources (Suncor, 2015). Resource auditing is defined as the process of ascertaining the available resources associated with the organization's work, some of which are part of the organization's property (Riley, 2012). These resources include tangible resources such as financial, organizational, material, technological and intangible resources

such as human resources, reputation, creativity, and the following figure shows the types of resources (Al-Kaabi, 2016):

Portfolio Analysis:

This type of analysis is based on analyzing the general balance process achieved in the strategic business units of the organizations, and that most of these organizations, especially the large ones, carry out their operations within the single market method, diversity in groups and multiple division of units, and that one of the main objectives of the strategic audit is to ensure that the process The analysis of the business portfolio is strong and sheds light on the business units that require fulfillment of the investment requirements and the interest of management, as well as the strategic audit directs the business organization to the most important markets in which it can operate and the most important attractions that those markets achieve (Kubro and Wali, 2015). Portfolio analysis aims to support the strategies of the economic unit as a whole by focusing on improving performance in a specific field of business activities or on a specific product, service or market (Al-Rikabi, 2004).

Core Competence Analysis:

The term core competencies appeared in the field of business organization management at the beginning of the nineties of the last century by the writers Prahalad & Hamel. The translation of the term differed among researchers. Some of them translated it into core competencies, some translated it into core competencies, and others translated it into core competencies. Sufficiency and dispensing with others (Al-Azzawi and Al-Taei, 2014) For the organization to have a substantial capacity, it must possess several elements, including resources, capabilities, capabilities, the ability to communicate and decision-making ... etc., which would achieve the competitive advantage of business organizations, and the process of analyzing the capability begins Essentialism diagnoses the competition between organizations that compete with each other to

get the first place in competition within the market (Hurley, 2007).

Value Chain Analysis:

The value chain model is a technique or a means used to analyze the main activities and supporting activities (supporting) in the organization (David, 2011), as the organization from the perspective of the value chain is a series of activities that add value to its products or services, and this analysis enables the organization It can better identify its strengths and weaknesses through comparison with competitors' value chain analyzes (Al-Kaabi, 2016).

Thus, the organization can avoid all activities that do not add value and, in return, promote activities that add value. It should be noted that not once the activity generates value can it be considered an efficient activity, but rather that activity is compared with the targeted performance of good practices and areas for improvement are identified (Thabit, 2010), and (Porter) classified the activities of the organization into two basic groups of activities: (Arjan, 2010: 5):

A- Primary Activities: These are the activities that directly contribute to the physical formation and distribution of the product.

B- Support Activities: These are the activities that do not directly contribute to the formation of the product, but help in improving the efficiency and effectiveness of the basic activities.

SWOT Analysis

This tool began to be used in the sixties of the last century by a group of professors from the United States of America who specialize in business policy (Al-Zubaidi, 2017), as this tool focuses on events with important and significant impacts on the organization, so it is useful when the organization is exposed to a critical strategic situation In a short time, the SWOT tool also provides a good overview that

shows the strength and position of the commercial company or its weakness, and it relies on a basic principle, which is that the efforts and making of the strategy must aim to create a good fit between the capabilities of the organization's resources And its resources and its external position, and a good understanding of the organization's sources, defects, opportunities, and external threats to its safety is a basic necessity for making the new strategy , so considered it an important tool in checking the organization's environment and its strategic position. This tool includes four basic aspects, the vocabulary of which is the word (SWOT) and my agencies(Raj, 2007):

Strengths: It includes all the capabilities that the organization possesses in terms of resources and capabilities, and distinguishes it from others.

Weaknesses: These are the defects and aspects of deficiencies that the organization suffers from and hinder the ability to exploit opportunities and reduce the advantages alongside others.

Opportunities: Any external conditions and trends that have a positive impact that enable the organization to develop and grow.

Threats: Any circumstances or trends that may negatively affect the organization or are a threatening factor that causes loss or damage to the organization, such as obstacles that stand in the way of the success of the organization. A set of strengths, weaknesses, opportunities and threats facing the organization can be identified through the following table (Al-Zubaidi, 2017):

The fundamental concepts of auditing:

3.2.1 Audit Concept :

Audit as a literal concept is intended to examine the data or records, digits in order to verify of validity. However, audit as a professional concept is intended to critical regulator test of the accounting data in the records, books and financial statements of the unit, in order to

express a neutral professional opinion about the reliability or accuracy of these data and the degree of reliability and on the significance of financial statements and final accounts prepared by the Unit ,about the results of its transactions of the profit or loss and financial position for the period of the examination and auditing(Razak & Kazem,2012).

So we can say that auditing is a developing science and profession like accounting science ,they've developed with the world, regardless of the nature of its activities (agricultural, commercial, industrial, service).

3.2.2 Audit Definition:

There are several definitions of auditing, some of them describes the auditing that: "process of examining the accounts of economic unit to ensure the validity as well as examining data, documents and records, as a critical structured examination to enable the auditor to submit his report containing the neutral independent opinion about representation of the financial statements of the financial position as a result of the financial business for a certain period". (Abdullah, 2016).

While the others defines auditing that "critical examination structured to accounting data in the books, records and financial statements of the unit to declare a neutral professional opinion on the validity or accuracy of these data and the degree of reliability". (Al-Thunibat, 2010)

We note that these above definitions emphasize the role of audit examining and neutral professional opinion about the fairness of the financial position as a result of the business. The American Accounting Association defines auditing as "a regular process and methodology for collecting and evaluating brochures and the evidence objectively which related with the results of activities and economic events in order to determine the compatibility between these results and standards, then deliver audit results to beneficiary aspects" we see this definition comprehensive and contains a

number of the most important properties:(Aras, 2019)

Regular process or methodology: which takes the form of a series of steps or procedures logical and organized in accordance with auditing standards generally accepted.

The collection and evaluation of brochures and the evidence objectively: - means test rules to the fairness evaluation and to ensure that results free from bias to certain aspect.

Approval of the financial statements and it represents the fact fairly and appropriately.

The degree of compatibility and compliance by comparing the results with the standards and is expressed in quantitative terms, such as deficit financing or in the quality, such as justice and reasonableness of the financial statements.

Deliver the audit results by preparing of a written report demonstrates the degree of compatibility between the results and standards, as this report may support or weaken the credibility of financial statements prepared on the economic unit.

Thus we see that the concept of auditing in the American Accounting Association (AAA) is the most comprehensive and clarified auditing concepts of all previous definitions. It should be noted that the audit is the work of the personnel to verify the performance of the work of other individuals and it would performed by certain bases, and should be the person who audit other than the person-based implementation and has a multitude of knowledge and know the nature of work and how to do to judge the validity of this work .

3.2.3 Audit objectives:

At first the auditing considered as a means to discover the error and fraud and manipulation found in the books and records ,The task of the auditor is limited only to track those errors and to detect any verification of accuracy of calculations of the books and records that

contain financial statements, but there are major targets for auditing by improving performance and avoid errors and express opinion of the impartial and objective can be summarized audit including the following: (Al-Quraishi,2011)

Verify the validity of accounting in books and records data and the reliability of such data.

Help managers to achieve the sufficient maximum productivity possible to the economic unit.

Getting neutral professional opinion based on strong evidence to proof degree of compatibility with the financial statements which prepared by the economic unit of what is in the books and records and on the significance of those statements as a result of the profit or loss during the period which subject to auditing.

The discovery of what may be found in the records and books of errors, fraud or forgery.

Reducing the chances of mistakes or fraud by strengthening confidence in the internal control system of the unit, and the impact of sudden visits which performed auditor.

4 - Types of Audit:

The audit has several types, depending on angle which saw by it, as follows: (Razak & Kazem,2012)

According to audit scope (perfect and partial audit):

First – perfect audit: means that the auditor examines the entries , documents and records of economic unit in order to get neutral professional opinion about the validity of all financial statements, this type of audit is customary used when the size of economic unit is small and had a few transactions.

second - partial audit: it means the auditor audit a part of the activity in the economic unit ,

such as purchases , sales, expenses , cash or inventory of the stores, here , the opinion of the auditor is only related with audited account.

According to the time of auditing (continue and final audit)

First – continue audit: In this type of audit, the auditor audit and visit unit during the year continuously, at the end of the financial period he audits final accounts and balance sheet, and this audit use in the large economic units.

second - final audit: Auditor audits unit accounts after the end of the financial period and completion of the final accounts and balance sheet in order to ensure that there is no manipulation by modifying the data after the audit because the accounts have been closed already this type of audit called (budget audit) because it is limited in most cases to check the elements of the financial position, particularly the balance sheet.

According to the nature of persons involve in the audit (internal and external audit):

First - Internal Audit: The persons or the auditors committee assigned by the economic unit to ensure business functioning properly , protect the funds , achieve the objectives of the management to get production and management adequacy as possible and to encourage adherence to administrative policies.

second - External Audit: The persons from outside economic unit who have no functional relationship with the entity, this type of audit called (neutral or independent audit), and the main purpose of this type of audit is to give a neutral professional opinion about the fairness of presentation of the budget and the final accounts for the results of a certain period.

The degree of commitment to audit (compulsory and optional audit):

First – compulsory audit: it means there is a legal provision required the company or economic unit to audit, so, that is clear in Iraq,

the Iraqi Company Law No. (21) in 1997, state that the accounts of companies must subject to audit of Board of Supreme Audit.

second - Optional audit: It is to do the auditing without a binding text, and this depends on the willingness of owners of the business or management.

According to the degree of examination (comprehensive and testing audit):

First - comprehensive audit: An examination of books and records data and verify the financial statements and the significance of a result of the financial position to all transactions to get neutral professional opinion about it.

Second - testing audit: the auditor examine and evaluate the internal control system applied in the economic unit, and by examining a sample of transactions and accurately. If he found the sample free of errors and bias, it may that assumes that the rest of transactions free of errors and bias too. Otherwise, the auditor must expand and deepen in the audit sample volume that he has generated sufficiently convinced that the records and accounts will reflect the final opinion, which will appear in the report. So it is necessary to have an auditor sufficient experience when using statistical methods in the selection of audit sample volume, as well as take care of non-bias when selecting of a sample audit.

4 - Audit standards:

The auditor must be examine the financial statements in accordance with auditing standards generally accepted and consistent with the ethics and professional conduct, then giving his neutral professional opinion in the validity and accuracy of those financial statements, auditing standards define as a (set of common rules applied by auditor when he audit independently for the purpose of express their opinion of the financial statements of any economic unit, regardless of size, purpose and legal form, in the absence of legislative text

issued by the state or any local entity competent). (Al-Quraishi,2011)

Based on this concept has been developed auditing standards and these standards represent a broad framework to be applied by any auditor that the number of these standards (ten) divided into three groups or levels.

The first level:

Related by personality of auditor and includes (three) standards:

A - Scientific and practical qualification of the auditor, any type of certificate and the amount of scientific expertise that qualify him for the exercise of audit.

B - the independence and impartiality of the auditor, in all matters relevant to the task entrusted to him

C - to make the necessary professional care at work.

The second level:

An field work level and contains a set of standards on procedures for the implementation of the auditing, namely:

A - must be planned to work properly and develop a program audit must also be the availability of appropriate supervision of assistants in the case of using them.

B - Check the internal control system: it is the cornerstone of the audit process by the results of the examination we can determine the audit sample volume and audit procedures.

C - must obtain evidence to prove adequate and appropriate through the checking in order to provide a reasonable basis to express an opinion on the financial statements.

The third level

A - the report should be declare whether the economic unit had been complied with the

application of generally accepted accounting principles.

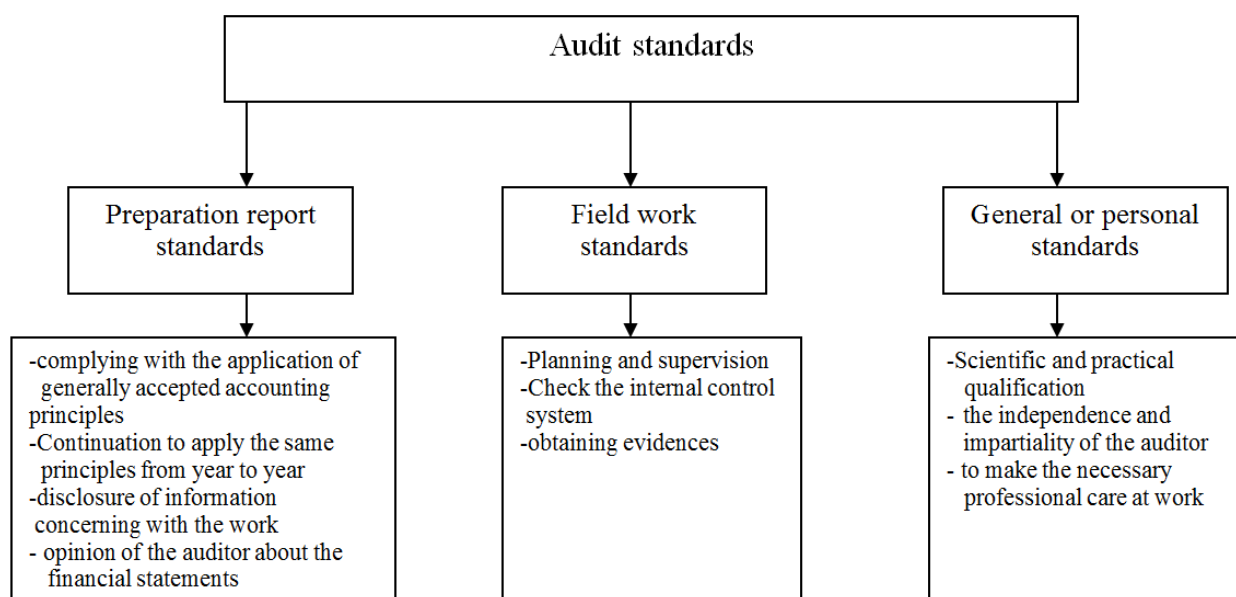
B - emphasis on the continuation of the unit to apply the same principles from year to year.

C - the disclosure of information concerning with the work of an auditor or financial statements.

D - the report should include the opinion of the auditor about the financial statements of unit ,

and when not to formulate that opinion must report explains why, in all cases, the report should include an explanation categorically on the characteristics of examination by the auditor (if found), the degree of responsibility afford.

The figure illustrates the auditing standards and follows: (Abdullah, 2016).



5. Methodology And Results

Through the survey of the tire factory in Al-Najaf Al-Ashraf for the internal and external environment, information was collected information about the strengths and weaknesses in the internal environment of the factory, and then the opportunities and threats in the external environment.

(SWOT) analysis

The organization's strategic condition will be examined through three steps, namely diagnosis, analysis, and suggestions as outlined below, in order to decide on a suitable company strategy.

survey

Following the identification of internal and external factors and their classification into four categories: strengths, weaknesses, opportunities, and threats—from the factory's internal and external environments, we'll use the SWOT analysis to assess these factors:

Internal factors:

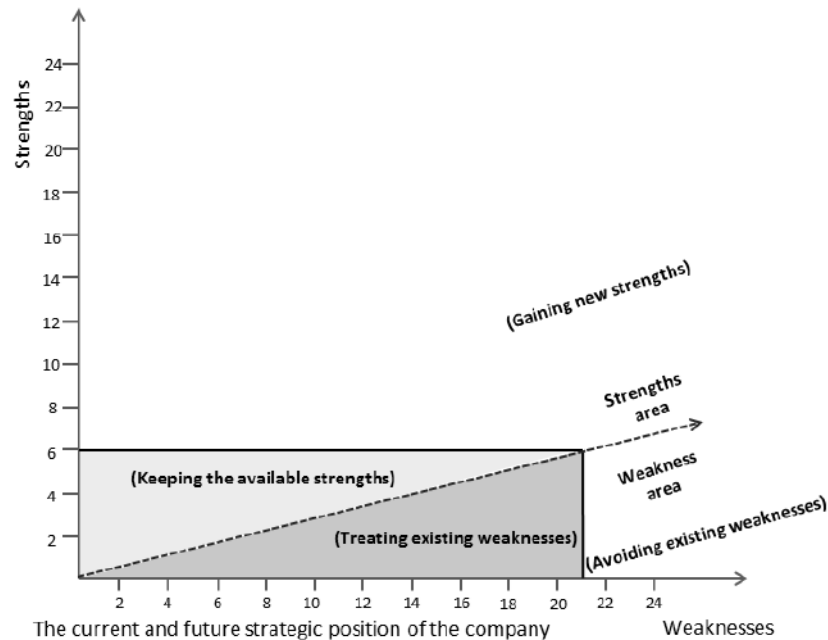
The evaluation of the business' internal environment seeks to pinpoint its strong and weak elements. The most significant elements of the company were identified and grouped

during the evaluation of the internal environment of the business, as shown in Table below:

internal factors evaluation

Internal factors	points	strengths	weaknesses
H. R.	large number of employees possessing engineering skills. The large percentage of workers with have an intermediate or lower degrees. The large percentage of employees who are over 50 years old Staff members rarely attend training and development sessions.	✓	✓ ✓ ✓
Financial resource	Concentration of production costs in worker wages and salaries . The lack of available raw resources. Long-term, slow inventory turnover. Reduced sales volume. The inflation in the ratio of the capital loans to the accumulated deficit. The business has a negative working capital. Make a greater percentage of loans necessary. A change in the plant assets of the company. The assets of the company are underutilized. Assets in plants age as a result of time and technology. The company's inability to supply the liquidity it needs to fulfill its obligations.	✓	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓
Production	significant reduction in the utilization rates of design capacities.a b. Decrease in the number of days of utilization of production lines. c. A significant decline in the development of production ratios. d. A positive deviation of quantities of raw materials in production. e. Efficiency of workers in the production lines.	✓ ✓	✓ ✓ ✓
Marketing	a. A decrease in the company's ability to market its products. b. Lack of Channel of Distribution in the local markets and limiting them to the company's headquarters and factories. c. Lack of using the modern methods of marketing. d. After sales warranty service is available. e. Lack of using the modern methods of advertising and promotion.	✓	✓ ✓ ✓ ✓
R & D	A lack of interest in science and technology. Gaining from how scientific research is used in the business.	✓	✓
Total		6	21

The above table demonstrates that the factory's overall strengths of these criteria totaled (6) out of a possible (27) points, or (22%), while its weaknesses totaled (21) points, or (78%), Therefore, it is obvious from the results above that the factory's problems outweigh its benefits. In order to enhance its internal condition, the factory must use corrective and effective procedures to lessen its weaknesses and work hard toward acquiring new strengths. the figure below shows that:



internal environment situation

External factors:

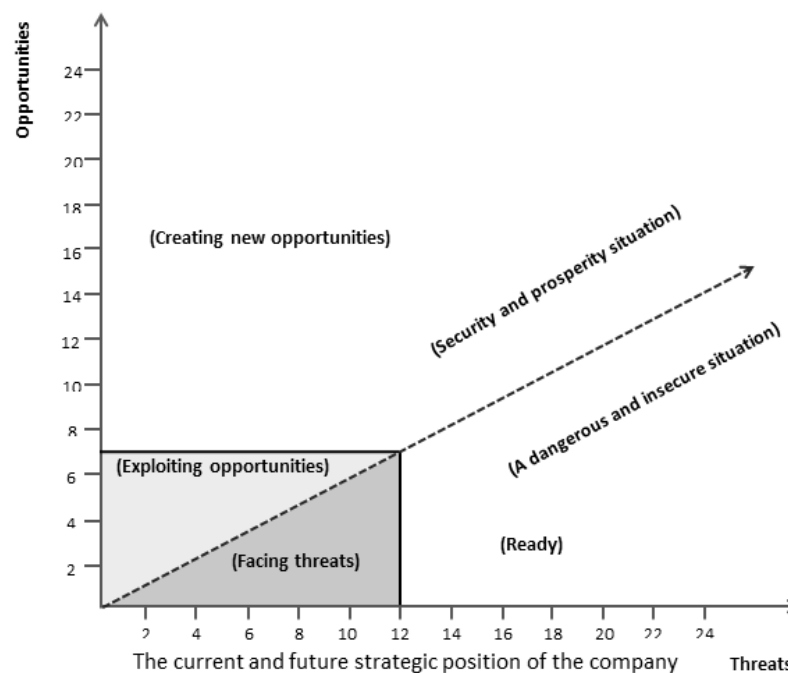
Opportunities and Threats are examples of external influences. The external elements are divided into opportunities and threats in the table below as follows:

External factors evaluation

External factors	Details	Opportunities	Threats
Political factors	The choice to combine the industrial firms. The choice to increase the cost of fuel. The choice to go back Separated from employment. Offering grants and loans to help the company. The establishment of Vietnamese rubber plantations by Iraq. The choice to transport used tires from government buildings to a recycling company instead of throwing them away.	✓ ✓ ✓	✓ ✓ ✓
Economic factors	The cost of increasing the national product's value. The company's detrimental effect on the payments balance. A rise in tire demand. The company's competitors becoming more numerous. The company's market share declining. The company's reputation getting worse. A lack of funds as a result of low oil prices.	✓	✓ ✓ ✓ ✓ ✓ ✓

Technological factors	Making use of tools and machinery intended for the production of contemporary radial tires. Never veer off the technological path by switching out part of the materials used in production, which lowers the product's weight and price.	✓	✓
Environmental factors	The company's proximity to an oil refinery The potential for rubber farming in the territories	✓ ✓	
Legal factors	No enforcement of the National Product Protection Act is done		✓
Social factors	A factory owned by the corporation that is situated in the centre of the province's residential districts may		✓
Total		7	12

The table above demonstrates that the entire factory Opportunities of these elements came to (7) points out of the total of (19) points, which represents (37%), while the remainder came to (12) points Threats, which represents (63%). Therefore, the findings clearly show that the factory's threats outweigh its opportunities. In order for the organization to be able to govern its external environment, it must deal with a number of possible challenges to the strategic strategy. It must therefore adjust to these risks in order to lessen their consequences. Instead, work to take advantage of opportunities in the surrounding environment. the figure below shows that:



external environment of situation

Internal and external factors analysis using (SWOT) matrix

The strategic position will be determined utilizing the internal and external environment analysis matrix to decide the type of strategy the organization must follow. The internal-external matrix is a tool

used to assess a factory's strategic position (Sarsby, 2016). The table below assessment of the factory's internal environment reveals that this environment is unfavorable. the internal and external environment matrix emphasizes the proportional area of strategies in the (SWOT) framework, the factory's external environment's high dangers.

		Internal Environment	
		Strengths	Weaknesses
External Environment	Opportunities	Aggressive (SO)	Conservative (WO)
	Threats	Competitive (ST)	Defense (WT)

Internal - external environment matrix

It is clear from Figure above that the corporation should choose a defensive strategy (WT) as its ideal course of action. The company may be vulnerable to a number of threats from the external environment, and at the same time, there may be a number of weaknesses in the internal environment, placing it in a highly precarious position. To lessen external threats, it is necessary to address internal vulnerabilities. In addition, the activity level of the organization must be as low as possible to save costs and, consequently, the extent of losses.

5. Conclusions And Recommendations

Conclusions

Strategic analysis has a major role in the effectiveness and development of external auditing, by expanding its scope of work by including the procedures studying the external environment of the organization as well as its internal environment, and develop an auditing program that includes the use of strategic analysis tools.

The auditor's knowledge of the company's internal and external environment and strategic situation gives him the ability to have insight in auditing that increases his ability to anticipate potential risks and threats and realize the opportunities.

Strategic analysis considers as an important type of audit, because the company's environment and its internal and external factors are characterized by continuous change and instability in the long term, which may affect the strengths, weaknesses, opportunities and threats of the company in a way that may lead to conflict with its objectives, plans and strategic decisions.

The results of the analysis of the strategic situation of the factory showed that the defensive strategy is the best and most appropriate strategy for it, due to the great weakness which suffers from in its internal environment, besides the multiple threats to its external environment. If this strategy is not adopted, the factory may be exposed to the risks of declaring bankruptcy and liquidation. In the future.

Recommendations

corporate auditors must use strategic analysis and its tools from , in addition to expanding the audit scope to include studying the external environment of companies as well as their internal environment and developing the audit program.

he external auditor must study and identify the environmental external factors affecting companies performance such as (economic factors, political factors, technological factors, social factors, legal factors, and environmental factors) and then analyze them and determine their impact to enable them to have insight in auditing, and future vision, and thus the possibility of making recommendations to the higher managements and risk departments of the companies to avoid potential risks and threats and take advantage of favorable opportunities.

The need to qualify external auditors by involving them in training courses periodically to develop their skills and keep abreast of developments in international internal auditing standards, and modern methods and trends that have occurred in auditing, such as strategic analysis tools, for the purpose of developing their scientific and practical capabilities and capabilities.

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