

“The Role of Internal Control in Strengthening Corporate Governance and Improving Administrative and Financial Performance: An Application to Oil and Gas Importing and Distributing Companies in Lebanon”

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Abstract:

This study aims to acknowledge the role of internal control in strengthening corporate governance and improving administrative and financial performance. The topic was addressed from both the theoretical and the applied perspectives in oil and gas companies in Lebanon.

To achieve the study's objectives, a descriptive–analytical approach was adopted, to comply with the nature of the research. Data were collected from primary and secondary sources. A questionnaire was designed as a data collection tool, then it was distributed to the study sample, which consisted of a number of managers in internal audit departments as well as general managers in oil and gas companies, in addition to auditors affiliated with the Lebanese Association of Certified Public Accountants (LACPA). For data analysis and hypothesis testing, the Statistical Package for the Social Sciences (SPSS) was used.

The study reached several conclusions, the most important of which are:

- Internal audit activity, measured by the standard of disclosure and transparency, increases the confidence of local and international investors in investing in oil and gas import and distribution companies.
- The internal audit activity is capable of assessing risks and the accuracy of information, which helps raise the efficiency of the financial performance of oil and gas import and distribution companies.
- A very strong positive relationship exists between internal auditing and the efficiency of the internal control system; internal auditing is one of the most important control mechanisms upon which corporate governance relies.
- The study found a strong impact of internal control on governance in oil and gas import and distribution companies. This impact leads to enhanced review of financial statements and improves disclosure and transparency in management, reflecting positively on workflow within these companies, thereby encouraging shareholders to trust them. Additionally, governance was found to influence administrative and financial performance in these companies.

Keywords: Internal Control, Governance, Administrative Performance, Financial Performance, International Standards.

Chapter One: General Framework of the Study**1.1 Introduction**

Recent financial crises in East Asian countries, Russia, and the United States—resulting from administrative and financial corruption, mismanagement, and the large gap between the salaries and bonuses of executive directors and their actual financial and administrative performance—have made it difficult to attract adequate levels of capital. Many shareholders, especially institutional investors, incurred massive financial losses and declared openly that they were no longer willing to bear the consequences of corruption and mismanagement. Before investing, investors now look for evidence and proof that the institutions seeking to attract their investments operate according to sound business practices that minimize the likelihood of corruption and mismanagement. These sound practices—i.e., the rational scientific methods through which institutions are managed—are encapsulated in the concept of “governance.”

The administrative element is considered a key reason for the success of any company. Preserving money and using it efficiently is essential to maintain a company's strength. Financial and administrative performance positively contributes in providing useful information that can be leveraged for planning, control, and decision-making by individuals and entities inside and outside the company. To realize the expected benefits, financial information must be accurate, relevant, and delivered in a timely manner.

Most governments in many Middle Eastern economies are reforming their public administrations with the aim of implementing performance-based budgeting and results-oriented monitoring. This priority reform has led to the development of internal control measures that have strongly focused on financial disciplines and the monitoring of public expenditures. However, only limited efforts have been made to strengthen managerial ownership of internal control processes and current internal audit functions. Moreover, implementation has been slow, indicating the need for technical skills and broad cultural changes to shift from compliance-focused control to performance management and monitoring.

The Organisation for Economic Co-operation and Development (OECD) has played an active role in shaping the policy reform agenda in Middle Eastern economies by disseminating internationally recognized standards and best practices drawn from its members and beyond—specifically in the areas of anti-corruption and integrity.

1.2 Problem Statement

Financial thought emphasizes the importance of internal control role, and the functions it performs in enhancing the effectiveness of corporate governance and control procedures. This has a positive impact on reinforcing confidence and credibility in financial reports and thereby contributes effectively to achieving the objectives of corporate governance and improving financial and administrative performance—both of which are important indicators of sound operations and efficiency within oil and gas companies operating in Lebanon. This demands that these companies adopt governance practices with respect to their management and financial performance, enabling them to perform their tasks efficiently, along with the necessity to develop an appropriate formula for implementing corporate governance standards in these companies.

By monitoring financial and administrative performance in Lebanese oil and gas companies, the researcher realized the presence of aspects that require reconsideration, as they have reached a stage that calls for treatment and evaluation, given their impact on the quality of accounting information and the financial reports submitted. Therefore, the main problem of this study can be summarized in the following core question:

What is the role of internal control in strengthening governance and, consequently, improving administrative and financial performance in oil and gas import and distribution companies in Lebanon?

To answer this question, the following sub-questions are posed:

- Is there an effect between internal control and the principle of protecting shareholders' rights in oil and gas import and distribution companies?
- Is there an effect between internal control and the principle of stakeholders' roles in oil and gas import and distribution companies?
- Does protecting shareholders' rights affect the improvement of administrative and financial performance in oil and gas import and distribution companies?
- Does the role of stakeholders affect the improvement of administrative and financial performance in oil and gas import and distribution companies?

1.3 Significance of the Study

1.3.1 Scientific Significance

- To identify the role of internal control in strengthening governance and improving administrative and financial performance in oil and gas import and distribution companies.
- The lack of scientific and academic studies on internal control in oil and gas import and distribution companies.
- The subject of the study is one of the modern and important fields.

1.3.2 Practical Significance

- The study derives its practical importance from the results it will reach.
- Implementing the internal control system to determine the activities practiced by oil and gas companies in Lebanon through the appliance of corporate governance mechanisms and principles to the published financial statements, as well as the selection of accounting policies that are consistent with accounting thought.
- Applying the internal control system for corporate governance mechanisms and principles in the Lebanese business environment helps provide transparency, credibility, and objectivity in financial statement information.

1.4 Objectives of the Study

This study seeks to achieve several objectives, the most important of which are:

- 1- Identifying the mechanisms of internal control in strengthening governance and their impact on the financial and administrative performance of these companies.
- 2- Learning about the role played by Lebanese oil and gas importing and distributing companies.
- 3- Identifying the importance of the Lebanese oil sector in all fields, given the scarcity of published studies about it.
- 4- Paving the way for further future researches, given the possibility that Lebanon may enter the club of oil-producing countries.

1.5 Study Hypotheses

1.5.1 First Hypothesis

H0: There is no statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the assurance of shareholders' rights in corporate governance, in improving the financial and administrative performance of oil and gas companies.

H1: There is a statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the assurance of shareholders' rights in corporate governance, in improving the financial and administrative performance of oil and gas companies.

1.5.2 Second Hypothesis

H0: There is no statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the role of stakeholders in corporate governance, in improving the financial and administrative performance of oil and gas companies.

H1: There is a statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the role of stakeholders in corporate governance, in improving the financial and administrative performance of oil and gas companies.

1.6 Justifications for the Study

This topic was chosen for several reasons:

- The importance of oil and gas in life and their role in national economies.
- The importance of the research and its position among the interests of scientific research in oil and gas importing countries.
- The scarcity of studies related to the topic of this research.
- A personal interest in topics of internal control and governance.

1.7 Population and Sample of the Study

The study population consists of auditors affiliated with the Lebanese Association of Certified Public Accountants (LACPA), in addition to managers in the risk management and internal audit departments in oil and gas import and distribution companies operating in Lebanon. The companies that responded to the cooperation request were selected, and their number reached four: Coral, Total, Cogico, and IPT.

The study sample was limited to managers, heads of departments, accountants, and certified auditors in these companies, due to their possession of information relevant to the research objectives.

To support the results, the questionnaire was distributed to a stratified sample consisting of certified public accountants and auditors in Lebanon, in addition to the aforementioned department managers in the companies, in order to solicit their opinions about the research questions.

1.8 Study Boundaries

- Subject Boundary: Identifying the role of internal control in strengthening governance and improving the financial and administrative performance of oil and gas import and distribution companies in Lebanon.
- Spatial Boundary: The study was limited to oil and gas import and distribution companies in Lebanon, in addition to the offices of auditors registered with LACPA in Beirut and Mount Lebanon.
- Temporal Boundary: The study was conducted in year 2020.

1.9 Previous Studies

1.9.1 Studies in Arabic

• **Roua Nouri (2019), “The Role of Applying (Six Sigma) in Improving the Quality of Internal Control in Public Institutions in Iraq,”** Master’s thesis in Accounting, Jinan University, Lebanon. The study aimed to help organizations reach the highest levels of quality with the fewest errors possible. The most important findings were that there are many points of defect, weakness, and negatives that defect those procedures, which varied between classification errors, non-compliance with instructions, or exceeding allocations, among other violations.

• **Abbas Fadel (2019), “The Role of Internal Control Mechanisms in Strengthening Corporate Governance,”** A field study on companies listed on the Iraq Stock Exchange in Baghdad, Master’s thesis in Finance, Jinan University, Lebanon.
 - The study aimed to identify the role of internal control in strengthening corporate governance and protecting the rights of shareholders in joint-stock companies listed on the Iraq Stock Exchange, as well as highlighting the role of governance by addressing its various principles and rules in order to increase companies’ efficiency and credibility.
 - The researcher adopted the descriptive–analytical method that describes the reality of the companies under study after reviewing the concept of internal control and corporate governance, and also adopted the case study method in the field study and analyzed the various results reached. The most important findings of the study: a positive impact of internal control on all governance principles. The study recommended subjecting the internal control committee to continuous evaluation in Iraqi joint-stock companies and periodically assessing the extent of application of corporate governance principles.

• **Saadani Anwar, Kudairi Saad, and Nini Abdulhaq (2018), “The Reflection of Corporate Governance on Financial Performance in Algerian Economic Institutions (A Field Study on Sonelgaz – El Oued),”** Master’s thesis in Accounting and Auditing, University of Hamma Lakhdar – El Oued, Algeria.
 - The problem of the study was to identify the reflection of the application of corporate governance on financial performance in Algerian economic institutions. The first chapter followed the descriptive–inductive approach, relying on many different references. As for the applied side, the descriptive–analytical method was followed to analyze the data obtained from the questionnaire directed to the employees of the Directorate of Electricity and Gas Distribution (Sonelgaz) in El Oued. The study concluded, through both chapters, that there is a positive effect of governance on the financial performance of the institution under study. Key recommendations included the need to update Algerian systems and legislation, make some amendments to the Charter of Good Governance in Algeria—both in terms of naming and content—to keep pace with current economic and commercial developments. The application of a governance model in Algeria cannot be completed without clear control systems and mechanisms that help detect errors and manipulations and ensure proper application of laws and regulations.

1.9.2 Foreign Studies

• **Bashiti & Rabad (2011), “Assessing Corporate Governance in Jordan.”** The study aimed to evaluate corporate governance, and the development of the capital market, as well as the introduction of the job of a corporate controller, and the issuance of the Investment Promotion Law—which are all theoretical issues that were not accurately applied in practice. The study concluded that the Jordanian capital market is becoming increasingly complex, which requires the establishment of joint-stock companies at high levels. Management is expected to raise the level and frequency of reporting and communication regarding strategies. It was proven that corporate governance is not fully implemented and is still under consideration by an audit committee. Future studies are expected to apply one of the corporate governance mechanisms.

• **Inaam M. Al-Zwyalif (2015), “The Role of Internal Control in Enhancing Corporate Governance: Evidence from Jordan.”**

The study aimed to identify the role of internal control elements: control environment, risk assessment, control activities, information and communication, and monitoring, in enhancing these pillars in the context of Jordanian insurance companies. Based on the results of the statistical analysis, the study showed that commitment to all elements of internal control highly contributes in enhancing the foundations of corporate governance. The study also revealed that compliance with all internal control elements will lead to the strengthening of companies’ bases. These results indicate that internal control plays a vital role in reinforcing the pillars of corporate governance in Jordanian insurance companies, and the success of corporate governance requires compliance with all internal control elements.

Chapter Two: Theoretical Framework of the Study

The Impact of Internal Control and Corporate Governance on Improving Financial and Administrative Performance

2.1 Introduction

Internal control is a prominent topic for individuals, institutions, developed and developing countries) seeking to combat corruption, fraud, or deception in financial statements. The concept of “control” has evolved considerably due to the increasing and complex tasks within a single economic entity and the growing interest in internal control. This system works to achieve the highest levels of efficiency and effectiveness in the optimal use of institutional resources and assets. It helps top management monitor the proper implementation of procedures and policies it has established, detect deficiencies, correct them, and address flaws and gaps immediately, thereby achieving the company’s objectives.

2.2 Concept of Internal Control

This section sheds light on the definitions and key concepts of internal control provided by some international organizations specialized in accounting, its importance, and the goal objectives, with a mention of its types.

In its 1949 report, the committee formed by the American Institute of Certified Public Accountants (AICPA) defined internal control as follows: “It comprises the plan of organization and all the coordinated methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.” (Hijazi, 2010, pp. 81–82).

Definition of Internal Control according to COSO:

Internal control is a process affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the entity’s objectives related to operations, reporting, and compliance, namely:

- Operations are efficient and effective.
- Financial reporting is reliable.
- There is compliance with applicable laws, regulations, and rules.

2.2.1 Objectives of Internal Control

According to COSO, the objectives of internal control are threefold:

- Operations Objectives: Operations are efficient and effective.
- Compliance Objectives: There is compliance with applicable laws, regulations, rules, and procedures.
- Reporting Objectives: Reports are reliable and can be depended upon.

2.2.2 Components and Principles of the Internal Control System

COSO set out five main components, interrelated with each other, as a framework for the internal control system, that is founded on the management approach to process management and the integration of management processes. These components are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

2.2.3 Advantages of Internal Control

An effective internal control system offers many advantages to the organization, the most important of which are:

- Increased confidence of the board of directors and senior management in achieving objectives.
- Provision of information on the performance and results of the organization’s activities, helping to avoid surprises.
- Enhanced ability to meet the requirements for accessing capital markets.

- Provision of reliable reports to stakeholders (government bodies, suppliers, shareholders, investors, etc.).
- Provision of reliable reports to senior management and the board of directors for decision-making.
- Increased efficiency of operations and functions within the organization.
- Creation of consistent mechanisms to process transactions that support the quality of information and communication across the organization and enhance the speed and reliability of initiating and settling transactions, as well as strengthening relationships with business partners and customers.
- Enabling the management to enhance the efficiency of designing, applying, and implementing the internal control system by focusing on risk assessment and control to achieve objectives through setting appropriate goals, and reducing efforts in low-importance areas by concentrating on the ones where acceptable limits are exceeded.

2.2.4 The Relationship Between Internal Auditing and the Internal Control System

Internal auditing is an important part of the internal control system, and one of its most important elements established by management to audit and evaluate the internal control system and add value to performance through consulting services. The International Standards for the Professional Practice of Internal Auditing require the presence of an independent internal audit function, dedicated to the continuous improvement of the internal control system and the identification of weaknesses therein. This is done through Standard 2130 – Control – which states: “The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.” (IIA, op. cit., p. 12)

Standard 2130.A1 states: “The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.”

Standard 2130.C1 states: “Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.” Internal audit represents one of the communication and control links among the organization’s employees. Its mission is to maintain communication channels between those responsible for these activities, especially as organizations operate in a rapidly changing environment. This illustrates the role of auditing in improving communication between top management and other management levels. (Ibid., p. 12)

The role of internal auditing regarding internal control can be identified as follows:

- Providing assurance on the level of compliance with internal controls.
- Advising on appropriate policies and procedures to control risks.
- Providing a degree of assurance regarding the adequacy of the internal control system for the risks the organization faces.

We conclude that internal audit is one of the internal control tools through which the adequacy of internal control systems within the organization is measured, and the validity and effectiveness of the systems and procedures used, and reports thereon, are presented to senior management. (Mohammad, Vol. 25, No. 1, 2003).

2.3 The Conceptual Framework of Governance

2.3.1 Historical Development of the Concept of Good Governance

The use of “governance” concept has become common in the literature of public administration and public policies. As a consequence of the failure of economic reform policies in developing countries, the World Bank adopted the concept of governance in the 1980s, coupling economic reform with political and institutional reform. By circulating and adopting this concept, the World Bank clarified that it involves several requirements, including the rule of law, administrative efficiency and effectiveness, equality and justice in resource distribution, accountability, and transparency on the part of state institutions and individuals.

The concept of governance and the interest of international institutions in it emerged after the events over the last two decades of the previous century involving corruption and mismanagement in some institutions and companies around the world. Examples include the scandal of the Bank of Credit and Commerce International (BCCI), savings and loan banks in the United States, the Enron scandal, and the major financial crises faced by institutions in East Asia and Russia. Some of these institutions suffered, in addition to fraud and embezzlement, from a large gap between executive managers' pay and the performance of those companies. With changing international economic conditions, transitional economies called for the application of corporate governance principles and rules, and countries with weak control systems accelerated their efforts to activate these systems to avoid corporate collapses that occurred in some countries. (Akef, Halouch, 2008).

The World Bank emphasized that a state's effectiveness—relative to others—in eradicating poverty, achieving sustainable development, facilitating reforms, building institutions, developing capacities, governance, and civil society, is due to bringing government closer to the people through strategies for broader participation in policy initiatives, decentralizing government, empowering people to participate at the local level and in decision-making processes that affect their daily lives, and promoting good governance, the rule of law, macroeconomic stability, and control of corruption. (James, 2005)

2.3.2 Definitions of Governance

- **First Definition: World Bank:** "The method through which the economic resources of a society are managed efficiently for the purpose of development." (Khalil, 2008)
- **Second Definition: United Nations Development Programme (UNDP):** "The set of rules, procedures, and mechanisms adopted by all authorities that ensure a good application in managing state affairs at the highest level of effectiveness." (Al-Khalaf, 2006)
- **Third Definition: OECD:** Governance is defined as "a set of relationships between a company's management, its board, its shareholders, and other stakeholders." (Habbar Abdulrazzaq, "Compliance with Basel Committee Requirements as an Approach to Establishing Governance in the Arab Banking Sector – The Case of North African Countries," North African Economics Journal, No. 7, 2009, p. 76)

2.3.3 Importance of Corporate Governance

The importance of corporate governance lies in the fact that applying its standards leads to improved competitiveness among companies and countries, increases the trust of parties dealing with companies, and reduces the risk of financial crises caused by companies and institutions that can in turn hit the economy—which companies rely on as the "main flow" of their financing—and fights corruption inside and outside the business sector. (Masri, 2015, p. 11)

The importance of corporate governance and its positive impact on shareholders and owners manifest in the boosting of economy, as it is an effective method to develop economic growth—especially after the bankruptcy crisis of Enron in the United States and the crises that struck some East Asian countries in 2001. The President of the World Bank warned that these countries should follow means and methods in order to achieve positive and strong corporate governance and thus enhance the national economy. (Youssef, 2007, p. 6)

2.3.4 Objectives of Governance

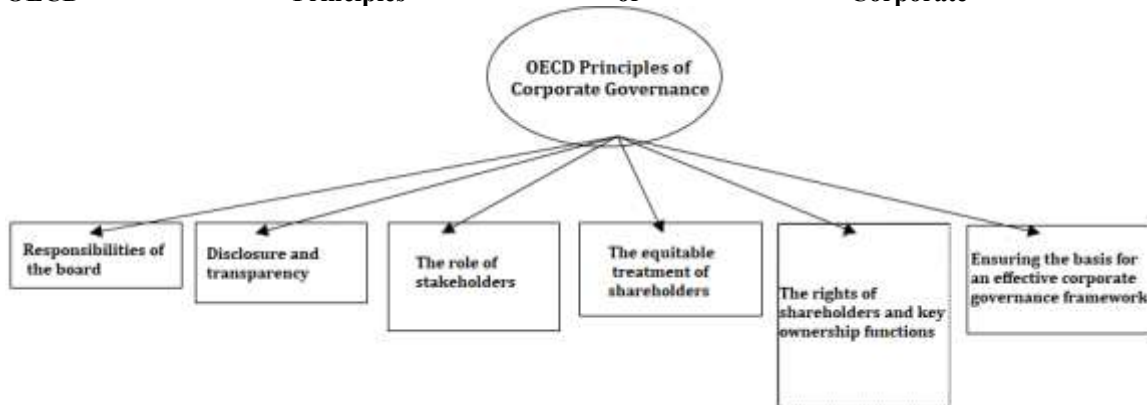
Governance targets the ideal level of ethics during the conduct of business, to achieve the principles of integrity, transparency, and accountability. It grants this right to society—individuals or their representatives—to hold public administration bodies accountable and it provides good opportunities for development to guarantee that individuals in society obtain their rights and improve their quality of life within a democratic society that respects human rights.

2.3.5 Governance Standards

The concept of governance is of great importance to companies. Many institutions have studied and analyzed this concept and set specific criteria for its application. Among these institutions are the OECD, the Bank for International Settlements (BIS) represented by the Basel Committee, and the International Finance Corporation (IFC) of the World Bank.

As the definitions of the concept of governance differed, so too did the standards framing the governance process, according to the perspective from which each entity set these standards, as follows:

OECD Principles of Corporate Governance:



Source: Work

of the researcher based on OECD 2004

2.4 Financial Performance

2.4.1 Concept of Financial Performance

Financial performance represents the narrow concept of company performance, focusing on the use of financial indicators to measure the extent to which targets have been achieved. Financial performance expresses company performance and is the main supporter of the various activities undertaken by the company. It helps provide financial resources and offers investment opportunities in various performance areas, thereby helping to meet the needs of stakeholders and attain their goals. (Mansour & Shahada, Vol. 30, No. 2, 2003, p. 296)

Many researchers define financial performance based on financial analysis—the method used to determine an institution's strengths or weaknesses. Financial ratios are primarily used in this analysis to compare past performance with current and expected performance and identify the differences between them. Good financial performance leads to maximizing the institution's value through a positive diagnosis (strengths) and a negative one (weaknesses) of its financial performance. (Al-Hasani & Al-Rahman, 2008, p. 222)

2.4.2 Importance of Financial Performance

The importance of financial performance stems from its goal to evaluate companies' performance from several angles, in a manner that helps data users- who have financial interests in the company- determine strengths and weaknesses and to use the data provided by financial performance to rationalize users' financial decisions. (Al-Khatib, 2009, p. 45)

2.4.3 Objectives of Financial Performance

Every company seeks to achieve many objectives, including:

- Financial balance
- Growth of activity
- Profitability and return
- Liquidity
- Balance of the financial structure

2.4.4 Factors Affecting Financial Performance

- Organizational structure
- Organizational climate
- Technology
- Size
- Nature of ownership

2.4.5. Evaluation of Financial Performance

Planning, control, and performance evaluation are key elements in building the organization's strategy in the contemporary and changing business environment. The organization seeks to adapt to this environment to maintain its continuity. Since the financial pillar is the foundation of the organization, it must find a mechanism to evaluate it. The most important steps in evaluating financial performance can be summarized as follows:

- Obtaining a set of annual financial statements and the income statement, since part of the financial performance steps is preparing budgets, financial statements, and annual reports related to the companies' performance over a specific period.
- Calculating various measures to evaluate performance, such as profitability, liquidity, activity, leverage, and distributions, using the appropriate financial tools for performance evaluation.
- Studying and evaluating ratios. After extracting the results, deviations, differences and weaknesses of the actual financial performance are identified and compared with the performance of companies operating in the same sector.
- Making appropriate recommendations based on performance evaluation using ratios, after identifying the causes of these differences and their impact on companies, in order to resolve and address these differences. (Al-Khatib, 2010, pp. 51–52)

2.5 Administrative Performance

2.5.1 Definition of Administrative Performance

Administrative performance is the performance of an employee or worker within the organization in a systematized manner, carrying out assigned duties with minimal resources and best results to achieve the organization's goals.

2.5.2 Elements or Components of Administrative Performance

Administrative performance consists of basic elements or components without which effective performance cannot be discussed, due to their importance in measuring and determining the level of employee performance within organizations. The most important are:

- **Employee competencies:** the information, skills, attitudes, and values the employee possesses—representing the basic characteristics that produce effective performance.
- **Job requirements:** include tasks, responsibilities, roles, skills, and experience required by a job.
- **Organizational environment:** includes internal factors affecting effective performance—organization, structure, goals, resources, strategic position, and procedures—and external factors such as economic, social, technological, cultural, political, and legal factors. (Hashish, 2013, p. 56)

2.5.3 Measuring Administrative Performance

Performance measurement is a key managerial topic within the organization. It is the correct measure determined by aggregating all the factors that affect progress toward the goal and measuring each of them individually, then measuring the actual result while excluding illusory factors that may superficially appear. This measure becomes a “comprehensive” measure for all social, personal, informational, and various aspects of work. (Al-Alami, 2006, p. 1136)

2.5.4 Effectiveness of Administrative Performance

The organization constantly seeks to achieve effective administrative performance, and the following should be largely considered:

- **Defining the company's objective:** work first and then achievement, which is considered an indicator of performance

effectiveness.

- **Knowledge of the company's culture:** The acquaintance with the values of the organization's components and the compliance in the planning, implementation, and design helps achieve effective performance.
- **The multiplicity of the organization's components:** includes individuals, local community, institutions, and the environment surrounding and affecting them. The organization can also improve the performance of its employees by introducing a positive reinforcement system to increase their motivation to work, or by setting out clear work programs free of ambiguity and offering support programs that provide material and moral incentives, and training. (Al-Suleibi, 2008, p. 116)

2.5.5 The Impact of Governance on Improving Administrative and Financial Performance in Companies

The company's resources are a key element for its continued economic survival in the market; however, their availability depends on the effective allocation of these resources. Company survival and continuity can be assessed through the system and principles of governance, as corporate governance deals with the ways in which it can improve performance.

Regarding the impact of corporate governance on improving company performance, accounting and financial thought have identified several channels through which governance can impact performance. The most important are:

2.5.5.1 Areas of Governance Impact on Financial and Administrative Performance

- Increasing the opportunity to access external financing sources.
- Increasing the company's value.
- Reducing the risks of financial crises.
- Improving the relationship with stakeholders.
- The field of performance and the increase of its effectiveness.

2.5.5.2 Relationship Between Governance and Financial and Administrative Performance

- Performance management measures (relevance, validity, reliability, acceptability, specificity).
- The role of governance in enhancing administrative performance is reflected through various modern management approaches, such as Management by Wandering Around (MBWA), Interactive Management, Open-Book Management, and Contingency Management.

Chapter Three: Field Study and Analysis of Results

3.1 Introduction

This chapter presents the data analysis and hypothesis testing conducted using the descriptive approach to achieve the research objectives. It also outlines the development of the study instrument and the process used to verify its validity, reliability, and internal consistency. Furthermore, it introduces the study sample and details the statistical methods employed, along with the resulting findings.

3.2 Study Methodology

The descriptive method is a research approach focused on examining phenomena as they exist in reality. It aims to describe these phenomena with accuracy both qualitatively—by identifying and explaining their characteristics—and quantitatively—by providing numerical data that reveals their scope or correlations with other variables. This methodology is widely regarded as one of the most essential research tools, largely due to its broad applicability across numerous studies and disciplines.

3.3 Study Population

The study population comprises two primary groups: auditors affiliated with the Lebanese Association of Certified Public Accountants (LACPA), and a selected sample of managers working in risk management and internal audit departments within oil and gas companies operating in Lebanon. The following table presents the composition of the study population, including the number and percentage of participants from each group.

Table (1): The Study Population		
Statement	Number	Percentage
Total certified public accountants in Beirut and Mount Lebanon	1,512	79%
Risk management departments in the sample oil and gas companies	100	5.25%
Internal audit departments in the sample oil and gas companies	100	5.25%
Accountants and financial managers in the oil and gas companies	200	10.5%
Total study population	1,912	100%

Source: Prepared by the researcher based on the numbers that responded to the study.

3.4. Study Sample

The researcher applied Steven K. Thompson's equation to determine the appropriate sample size from a total population of 1,912. The resulting sample size was 320 individuals. Accordingly, the questionnaire was distributed to a stratified random sample comprising these 320 participants, of whom 79% were certified public accountants, while the remaining 21% represented managers and staff from risk management, internal audit, accounting, and financial departments within the oil and gas companies under study. All distributed questionnaires were completed and returned, and all were deemed valid for analysis. The researcher considers this sample size sufficient to conduct statistical analysis and fulfill the objectives of the study.

Equation (1): Steven K. Thompson's Equation for Sample Size

$$n = \frac{N \cdot p(1-p)}{[N - 1 + \left(\frac{d^2}{z^2}\right) + p(1-p)]}$$

Source: Steven K. Thompson, 2012, Sampling, Third Edition, pp. 59–60.

Where:

N = population size

Z = z-score corresponding to a significance level of 0.05 and a confidence level of 0.95, equal to 1.96

d = margin of error, equal to 0.05

p = probability value, equal to 0.50

3.5 Demographic Data

The statistical description of the sample according to demographic data includes (age, educational level, specialization, job title, years of experience, and number of certifications).

A. Age

Table (2): Distribution of respondents by age		
Age	Number	Percentage
31–35	84	26.3%
36–40	79	24.7%
40 and above	60	18.8%
Total	320	100%

Source: Prepared by the researcher based on the field study.

B. Educational Level

Table (3): Distribution of respondents by educational level		
Educational level	Number	Percentage

Master's	189	59.1%
Bachelor's	122	38.1%
Professional certifications	7	2.2%
PhD	2	0.6%
Total	320	100%

Source: Prepared by the researcher based on the field study.

C. Job Title

Table (4): Distribution of respondents by job title		
Job title	Number	Percentage
Accountant	186	58.1%
Auditor	58	18.1%
Financial Manager	35	10.9%
Audit/Control Manager	25	7.8%
Department Manager	16	5.0%
Total	320	100%

Source: Prepared by the researcher based on the field study.

D. Years of Experience

Table (5): Distribution of respondents by years of experience		
Years of experience	Number	Percentage
5 or fewer years	110	34.4%
6–10 years	90	28.1%
11–15 years	85	26.6%
16 years and above	35	10.9%
Total	320	100%

Source: Prepared by the researcher based on the field study.

E. Professional Certifications

Table (6): Distribution of respondents by professional certification		
Certification	Number	Percentage
CIA (Certified Internal Auditor)	129	40.3%
Accounting	91	28.4%
CPA (Certified Public Accountant)	41	12.8%
LACPA (Lebanese CPA)	30	9.4%
ACCA (Association of Chartered Certified Accountants – UK)	29	9.1%
Total	320	100%

Source: Prepared by the researcher based on the field study.

3.6 Analysis of the Study Axes

Results of Axis One Analysis: The application of internal control mechanisms in oil and gas importing companies in Lebanon contributes to enhancing governance principles and improving financial and administrative performance."

This conclusion was reached through an analysis of responses using the mean (MEDIAN), standard deviation, and relative weight of the questionnaire items. In addition, responses were statistically examined using the One-Sample T-Test, where the calculated T-values (obtained via SPSS software) were compared against tabulated T-values to determine the presence of statistical significance in the responses of the study sample.

Table (7) presents the results of the statistical analysis for Axis One.

Axis One: Applying internal control mechanisms in oil and gas importing companies in Lebanon contributes to strengthening governance principles and improving financial and administrative performance.

Table (7): Statistical Analysis Results for Axis One							
	One-Sample T-Test – Test Value =						
	N	Mean	Std deviation	Relative Weight	Mean Difference	Sig.(2-tailed)	T
1. The company's senior management's commitment to the reports issued by the audit committees contributes to strengthening the company's governance principles.	320	3.96	0.936	%79.2	3.963	0.000	75.720
2. The company's management's commitment to periodically reviewing business strategies and general policies contributes to strengthening the company's governance principles.	320	3.93	0.831	%78.6	3.931	0.000	84.588
3. The company's management's commitment to establishing the principle of considering oversight as a responsibility of all employees contributes to strengthening the company's governance principles.	320	3.61	1.041	%72.2	3.613	0.000	62.054
4. The company's management informs all employees of their roles within the framework of internal control processes in a clear, written manner, strengthening the company's governance principles.	320	3.73	1.129	%74.6	3.734	0.000	59.183
5. The company's audit committees are consulted when making any changes to the organizational structure to strengthen the company's governance principles.	320	3.51	1.234	%70.2	3.509	0.000	50.862
	320	3.75	0.76	%75	3.75000	0.000	88.135

Source: Prepared by the researcher based on SPSS output. The tabulated T-value at a significance level of 0.05, according to the T-distribution table (0.05, $df = \infty$), is $T = \pm 2.571$.

Interpretation of the Results for Axis One:

The item stating, “Senior management’s attention to reports issued by audit committees contributes to strengthening the company’s governance principles” ranked first in terms of relative weight, reaching 79.2%. The mean score of respondents

on this item was 3.96, and the calculated T-value was 75.720, which exceeds the tabulated T-value at a significance level of 0.05. This indicates a statistically significant relationship in the responses of the study sample. Accordingly, we can conclude that the application of a robust control environment plays a significant role in encouraging senior management to give importance to audit reports, thereby reinforcing corporate governance principles.

The item, “Management’s commitment to conducting periodic reviews of business strategies and general policies contributes to strengthening governance principles,” ranked second, with a relative weight of 78.6%. The mean score was 3.93, and the T-value was 84.588, again exceeding the critical value at the 0.05 significance level. This indicates statistical significance in the responses. Therefore, it can be concluded that the implementation of internal control mechanisms significantly encourages management to perform regular reviews and thereby supports governance practices.

The third-ranked item was, “The company clearly and formally informs all employees of their roles within the internal control process, contributing to stronger governance,” with a relative weight of 74.6%. The mean score was 3.73, and the calculated T-value was 59.183, which also exceeds the tabulated value at the 0.05 level. This indicates statistical significance in the responses and supports the conclusion that establishing a structured control environment contributes significantly to clarifying employee roles in internal control and to reinforcing governance principles.

The item, “Management’s promotion of the principle that internal control is the responsibility of all employees contributes to strengthening governance principles,” ranked fourth, with a relative weight of 72.2%. The mean score was 3.61, and the calculated T-value was 62.054, again surpassing the tabulated value. This affirms a statistically significant relationship and supports the conclusion that an effective control environment encourages management to promote a culture of shared responsibility for control and governance.

The final item, “Audit committees are consulted when making any changes to the organizational structure, contributing to the enhancement of governance principles,” came fifth, with a relative weight of 70.2%. The mean score was 3.51, and the T-value was 50.862, exceeding the critical value at the 0.05 level. This indicates statistical significance, leading to the conclusion that applying internal control mechanisms plays an important role in ensuring governance-related consultation when organizational changes occur.

General Conclusion for Axis One:

From the analysis of responses to items related to the control environment (Axis One: Application of Internal Control Mechanisms in Oil and Gas Importing Companies in Lebanon), it is evident that these mechanisms contribute to strengthening governance principles and improving financial and administrative performance.

Key summary statistics include:

Mean score: 3.75 out of 5 (a high level)

Standard deviation: 0.76

Relative weight: 75%

Calculated T-value: 88.135, which is greater than the tabulated T-value at the 0.05 significance level.

These results indicate a positive overall assessment by the study sample regarding the internal control environment and its contribution to governance enhancement.

Axis Two: Oil and gas importing companies follow internal control mechanisms in applying governance principles and improving administrative and financial performance through the principle of protecting shareholders' rights.

Table (8) shows statistical analysis results for Axis Two							
One Simple Statistics- Test Value=							
	N	Mean	Std deviation	Relative	N	Mean	Std deviation
1. The company has appropriate mechanisms in place to enable shareholders to obtain timely information regarding their investments.	320	3.76	1.00	75.2%	3.763	0.000	66.997
2. Clear mechanisms exist to ensure shareholders can authorize someone to vote on their behalf at general assembly meetings.	320	3.55	1.08	71%	3.547	0.000	58.653
3. The company has mechanisms in place to ensure that voting at general assembly meetings is conducted in accordance with applicable laws.	320	3.70	1.06	74%	3.700	0.000	62.724
4. Shareholders have the right to participate and be informed of decisions related to material changes (such as amendments to the articles of association).	320	3.77	1.10	75.4%	3.769	0.000	61.217
The principle of protecting shareholders' rights is crucial to improving the administrative and financial performance of oil and gas companies.	320	3.69	0.82	73.8%	3.69453	0.000	80.441

Source: Prepared by the researcher based on the (spss) program - The tabular "t" value at a significance level of 0.05, according to the T-Table (0.05, 4) $T = 2.776 \pm$

Highlights:

- The item "Shareholders have the right to participate in and be informed about decisions related to material changes (such as amendments to the bylaws)" ranked first (relative weight = 75.4%, mean = 3.77, $T = 61.217$).
- The other items also showed statistically significant effects, confirming that applying the principle of protecting shareholders' rights is closely linked to mechanisms that ensure access to information, proxy voting, and compliance with applicable laws in general meetings.
- Overall, Axis Two showed a mean of 3.69, standard deviation of 0.82, relative weight of 73.8%, and $T = 80.441$ —greater than the tabulated T value, indicating a positive evaluation.

3.7 Hypotheses Testing

3.7.1 First Hypothesis

H0: There is no statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the assurance of shareholders' rights in corporate governance, in improving the financial and administrative performance of oil and gas companies.

H1: There is a statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the assurance of shareholders' rights in corporate governance, in improving the financial and administrative performance of oil and gas companies.
 Source: Prepared by the researcher based on the SPSS program.

Interpretation of Results:

Table (9): Significance of the Simple Regression Equation of Internal Control on Protecting Shareholders' Rights

Dependent variable: Protecting Shareholders' Rights	Unstandardized coefficients		Standardized coefficient	T		F		R	
Independent	Beta	Std Error	Beta	T	Sig	F	Sig	R	R2
Internal Control	1.281	0.186	0.596	6.888	3.04371E-11	175.517	0.00b	0.596a	0.355216a2
	0.644	0.049		13.248	3.33626E-32				

N=320

Significance level=0.05

The correlation coefficient between the independent variable (internal control) and the dependent variable (protection of shareholders' rights) is 0.596, indicating a strong positive relationship between the two variables.

The coefficient of determination (R^2) is 0.355, meaning that internal control explains approximately 35.52% of the variance in the level of shareholders' rights protection.

The calculated F-value is 175.517, which is significantly higher than the tabulated F-value of 1.9384 at the 5% significance level. This indicates that the overall regression model is highly significant. **Therefore, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted.**

Considering the value of the regression coefficient, it is found to be (0.644), which indicates the extent of the impact of internal control on the principle of protecting shareholders' rights. To verify the significance of this effect, the calculated "T" test value was (6.888), which is greater than the tabulated "T" value at a significance level of 0.05. The results of the regression analysis also confirm that the p-value of the "T" test (Sig = 0.0000000000030) is less than the significance level ($\alpha = 0.05$), indicating a statistically significant effect, thus validating the hypothesis. Accordingly, it can be concluded that: There is a significant impact of the control environment on the principle of protecting shareholders' rights, with the magnitude of this effect reaching 64.4%.

Decision: It is possible to accept the alternative hypothesis and reject the null hypothesis, thereby concluding that internal control expectations lead to the realization of the principle of protecting shareholders' rights.

This means that hypothesis H0 should be rejected and hypothesis H1 accepted. Accordingly, we conclude:

"Oil and gas companies in Lebanon must place greater emphasis on internal control, as this facilitates the implementation of the principle of protecting shareholders' rights."

Regression Model:

$$Y = 0.644X + 0.186$$

Where:

X = Internal Control

Y = Protection of Shareholders' Rights

3.7.2 Second Hypothesis

H0: There is no statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the role of stakeholders in corporate governance, in improving the financial and administrative performance of oil and gas companies.

H1: There is a statistically significant effect at the level ($\alpha \geq 0.05$) between internal control and the role of stakeholders in corporate governance, in improving the financial and administrative performance of oil and gas companies.

Table (10): Significance of the Simple Regression Equation of Internal Control on the Role of Stakeholders									
R		F		T		Standardized coefficient	Unstandardized coefficients		Dependent variable: Role of Stakeholders
R2	R	Sig	F	Sig	T	Beta	Std Error	Beta	Independent
0.256036a2	0.506a	0.00b	109.569	1.85556E-14	8.034	0.506	0.198	1.589	Internal Control
				3.14824E-22	10.468		0.052	0.541	
N=320									
Significance level=0.05									

Prepared by the researcher based on SPSS software.

The Impact of Internal Control on the Principle of Stakeholder Role

The correlation coefficient between the independent variable "Internal Control" and the dependent variable "Stakeholder Role Principle" reached **0.506**, indicating a strong positive relationship between the two variables. The coefficient of determination was **0.256036**, reflecting the proportion of variance in the dependent variable "Stakeholder Role Principle" explained by the independent variable. In other words, the independent variable successfully explained **25.60%** of the variation in the dependent variable, while the remaining variance is due to other factors not considered in this analysis.

- The calculated **F-value** was **109.569**, which is higher than the tabulated F-value of **1.9384** at a 5% level of significance. This indicates that the model is highly significant. **Therefore, the null hypothesis — which states that there is no statistically significant effect at the level ($\alpha \leq 0.05$) between internal control and the stakeholder role principle in corporate governance in enhancing financial and administrative performance of oil and gas companies — is rejected. The alternative hypothesis — that there is a statistically significant effect at the level ($\alpha \leq 0.05$) between internal control and the stakeholder role principle in corporate governance in enhancing financial and administrative performance — is accepted.**
- Looking at the regression coefficient, it was **0.541**, representing the magnitude of internal control's impact on the stakeholder role principle. To verify the significance of this impact, the calculated **T-value** was **8.034**, which exceeds the tabulated T-value at the 0.05 significance level. The regression analysis also confirms that the **p-value** for the T-test is (**Sig = 0.000**), which is less than ($\alpha = 0.05$), indicating a statistically significant impact, thus confirming the hypothesis. Consequently, we conclude that there is a significant impact of internal control on the stakeholder role principle, and the magnitude of this impact reached **50.6%**.

Decision: We can conclude by accepting the alternative hypothesis and rejecting the null hypothesis. Accordingly, we state that expectations regarding internal control contribute to the realization of the stakeholder role principle.

This means that **the null hypothesis H0 must be rejected and the alternative hypothesis H1 accepted**. Therefore, we conclude:

"Oil and gas companies in Lebanon should place greater emphasis on internal control, which facilitates the effective implementation of the stakeholder role principle."

Equation (2): The Impact of Internal Control on the Stakeholder Role Principle

$$Y=0.541X+0.198$$

Where:

X = Internal Control

Y = Stakeholder Role Principle

3.8 Study Findings

- The application of internal control mechanisms ensures the accuracy and reliability of financial data, thereby increasing the confidence of shareholders and investors in oil and gas companies, and reflecting those companies' ability to safeguard their assets.
- Internal control mechanisms are an integral part of the internal control system. They play a critical role in monitoring performance by comparing actual outcomes with planned targets and ensuring the implementation of managerial policies and plans. This, in turn, facilitates the development and improvement of the control framework.
- Corporate governance is both a conceptual and procedural framework encompassing accounting practices and control policies that enhance performance effectiveness, improve relationships among stakeholders, and reinforce effective oversight over executive behavior.
- The implementation of internal audit standards and procedures has increased user confidence in accounting information, contributing to greater transparency and accountability.
- The presence of a robust internal control system has a positive impact on the financial and administrative performance of oil and gas companies.
- The audit committee is one of the primary mechanisms for ensuring corporate governance in practice—alongside the board of directors and the internal auditor. The board is principally responsible for overseeing the internal control system. When implemented effectively, this system leads to actionable recommendations that enhance the organization's ability to achieve its objectives and protect the interests of shareholders and investors efficiently and cost-effectively.

3.9 Recommendations

- Conduct a comprehensive evaluation of the internal control systems within the studied companies, emphasizing their critical role and strengthening each component to ensure maximum asset protection and operational efficiency.
- Activate internal control mechanisms within the governance framework by clearly defining their roles and establishing channels for interaction and coordination among departments.
- Promote the continuation of academic research in the fields of accounting and auditing to advance the effectiveness of internal control systems in the companies under study.

- Ensure proper oversight of internal control implementation, given its importance in managing earnings, mitigating financial risks, and offering reassurance to both the board of directors and stakeholders regarding asset protection and optimal resource utilization.
- Mandate the internal audit department to assess the effectiveness of control tools in identifying and mitigating risk, as well as safeguarding company assets.
- Establish clear and enforceable conditions for creating a sovereign wealth fund to manage expected revenues from oil and gas discoveries. This should include long-term planning for the national economy and safeguarding the rights of future generations.
- Regulate the operations of oil and gas companies in alignment with future developments stemming from Lebanon's anticipated entry into the group of oil-producing and exporting nations.
- Conduct a detailed analysis of the future role of oil and gas importing and distributing companies in Lebanon.
- Oppose direct contracting, unfair tender processes, and any form of political interference in awarding future energy-related infrastructure and generation projects.
- Ensure the inclusion of Law No. 48/2017 on Public–Private Partnership (PPP) in all future tenders related to energy sector projects.
- Strongly recommend that the state retain control over this vital sector, rather than leaving it entirely in the hands of the private sector, to avoid citizen exploitation and ensure equitable access to energy resources.

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"دور الرقابة الداخلية في تعزيز حوكمة الشركات وتحسين الأداء الإداري والمالي: تطبيق على شركات استيراد وتوزيع النفط والغاز في لبنان"

إعداد الباحثة:

غالية متلج

الملخص:

تهدف هذه الدراسة إلى التعرف على دور الرقابة الداخلية في تعزيز حوكمة الشركات وتحسين الأداء الإداري والمالي. تم تناول الموضوع من منظورين نظري وتطبيقي في شركات النفط والغاز في لبنان. ولتحقيق أهداف الدراسة، تم اتباع المنهج الوصفي التحليلي، بما يتناسب مع طبيعة البحث. جُمعت البيانات من مصادر أولية وثانوية. تم تصميم استبانة كأداة لجمع البيانات، وتم توزيعها على عينة الدراسة التي ضمت عدداً من المدراء في أقسام التدقيق الداخلي بالإضافة إلى المدراء العامين في شركات النفط والغاز، إلى جانب المدققين المنتسبين إلى الجمعية اللبنانية للمحاسبين القانونيين (LACPA) لتحليل البيانات واختبار الفرضيات، تم استخدام الحزمة الإحصائية للعلوم الاجتماعية (SPSS). توصلت الدراسة إلى عدة نتائج من أهمها:

- نشاط التدقيق الداخلي، الذي يُقاس بمقياس الإفصاح والشفافية، يزيد من ثقة المستثمرين المحليين والدوليين في الاستثمار بشركات استيراد وتوزيع النفط والغاز.
- يمتلك نشاط التدقيق الداخلي القدرة على تقييم المخاطر ودقة المعلومات، مما يساعد في رفع كفاءة الأداء المالي لشركات استيراد وتوزيع النفط والغاز.
- توجد علاقة إيجابية قوية جداً بين التدقيق الداخلي وكفاءة نظام الرقابة الداخلية؛ حيث يعد التدقيق الداخلي من أهم آليات الرقابة التي تعتمد عليها حوكمة الشركات.
- وجدت الدراسة تأثيراً قوياً للرقابة الداخلية على الحوكمة في شركات استيراد وتوزيع النفط والغاز. يؤدي هذا التأثير إلى تحسين مراجعة البيانات المالية وزيادة الإفصاح والشفافية في الإدارة، مما ينعكس إيجابياً على سير العمل داخل هذه الشركات ويشجع المساهمين على الثقة بها. كما تبين أن الحوكمة تؤثر على الأداء الإداري والمالي في هذه الشركات.

الكلمات المفتاحية: الرقابة الداخلية، الحوكمة، الأداء الإداري، الأداء المالي، المعايير الدولية.