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The effect of strategic audit on improving financial performance and risk management: Field study on Sudanese banks

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A B S T R A C T

The study's objective is to verify the effects of strategic review on the financial performance and risk management of banks in PortSudan City- Sudan. The descriptive analytical approach was used to accomplish the study's goals. By designing and distributing 180 questionnaires, of which 170 were collected. They were analyzed using path analysis using the partial squares technique. The main results indicated a positive effect of a strategic review on the financial performance of Sudanese banks. It also showed the positive effects of a strategic review on the risk management of Sudanese banks. The value of these results is that improved financial performance will make financial reports more reliable and trustworthy; therefore, it may attract more funds from the public. Investors and other stakeholders are interested in the bank's financial position and expected future operating results. They will use this information to prepare risk reports or make important business decisions. Therefore, if external decision-makers provide a reliable positive return, improving risk management will also contribute positively to shareholder value.

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1. Introduction

Accounting and financial audits become inadequate, unable to give a complete image of a company's performance. Furthermore, it failed to adequately analyze limitations and issues about operating procedures, as well as recommendations sufficient to treat limitations and difficulties to assess the company's ability to increase control over its internal and external performance in both the short and long term, by its strategic needs. This has resulted in the search for an effective tool to analyze organizations' operations, strategy implementation activities, evaluation activities, and control, represented by the strategic audit, which has received little attention to date (Abbas & AL-Tamimi, 2020; Shibli et al., 2024). The strategic audit is the most significant starting point in

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auditing kinds since the financial audit manages expenses, makes the best use of resources, and rationalizes spending. Furthermore, the quality audit reduces waste and loss, optimizes resource utilization, and increases production. The strategic audit helps evaluate a company's strategy orientation and guarantees that operational operations are carried out correctly. (Fonrouge & Bolzani, 2019) By enhancing government policy, generating employment, and expanding official government services, strategic audits increased the productivity of the US government. The significance of expanding the U.S. economy and enhancing government openness was brought to light by a strategic audit. It is believed that audits are essential to accomplishing the many objectives of the US government (Levytska et al., 2022a). Auditing approaches have delivered increased shareholder value in the short term, but the financial performance is unsustainable and exposes the companies to more risk. This is evident from some companies' failure to create wealth through value-enhancing strategies, which expose them to various economic consequences that affect many businesses. During this complex situation, the role of strategic management is to steer the company's performance, increase competitive advantage, and create more value. It is still the best alternative to cope with instability and reduce risk. This study aims to define strategic auditing and its significance as an alternative, complete, and integrating management system that represents the organization's strategic vision and examines how it fulfils its objectives. Furthermore, it works to improve the quality of financial performance. In addition, it highlights the contribution of the strategic audit in reducing management risk in the banking sector.

In additionally, many studies have addressed strategic auditing in many developed and developing countries, such as the study of Gilmour (1999), Grant et al. (2017), Alnadi (2019) and Tofeeq Shible et al. (2020). However, researchers did not find many studies on strategic auditing in the Sudanese business environment. Therefore, the article aims to fill this gap.

2. Theoretical Farmwork

2.1 Strategic Audit

A strategic audit verifies and evaluates the calibre of work produced by departments within an organization, project, or program where strategic management is carried out. Such an audit might be directed, affecting only a portion of the process, or comprehensive, involving all stages of the strategic management process. (Bushuyev et al., 2019). Strategic auditing is the concept of modern audit trespasses, which are tools for examining financial lists prepared by companies and are free of errors only. Still, it goes beyond that to cover all the company's operations, and the audit has become a comprehensive systematic process for all the company's activities (Karim et al., 2020). Strategic auditing is an independent examination and analysis of the activities, processes, systems, policies, programs, and administrative control means. This examination is conducted to measure and evaluate the administrative efficiency of the entity and the means of control applied by it. It also aims to measure and evaluate the effectiveness of the operation, processes, and use of the available resources and make recommendations to the management to rationalize its decisions related to planning and control (Jawad et al., 2020). Strategic auditing examines an economic unit's strategy during transitional, complex, and critical periods to verify strategic business actions. Also, as a tool for diagnosing problems faced by economic units in all domains and developing relevant solutions (Prasad et al., 2014). A strategic audit is a comparative tool used by strategic planners that helps them to identify and diagnose the reasons that can explain the existence of the problems in the activities or works of the organization that negatively affect its overall performance. It also helps them to develop appropriate alternative solutions to address these problems (Otia & Bracci, 2022).

The strategic audit provides a dataset and the possibility to shift from a restricted, specialized perspective focusing on functional approaches to a more significant, precise analysis of the entire organization. Its advantages include a real-world perspective and the possibility to concentrate on improving decision-making abilities (Wahl, 2015). During a strategic audit, the auditor evaluates the outcomes of the organization's strategic analysis, chooses a course of action, implements the plan, and keeps an eye on its execution. Simultaneously, target achievement and goal-setting qualitative indicators start to take centre stage, particularly at the performance and strategic audit levels (Bushuyev et al., 2019). The strategic audit focuses on financial and non-financial problems in the organization. It examines and analyzes the strategic factors and governance of the organization. It also examines the internal and external environments to determine strengths and weaknesses, to help the management allocate its available resources, and to take advantage of the opportunities to stand out from its competitors (Abdulameer & Obaid, 2023). The focus of the facilitating role of the strategic audit is represented in its ability to evaluate the support of the management to define the mission, objectives, strategies, and policies of the organization. Also, evaluation of the information systems and strategic control to judge the efficiency of using the available resources to implement the strategy and recommend the necessary improvements. Reviewing management's expectations towards the structure of the industry, the competitive situation, and the main requirements of its customers (Levytska et al., 2022b).

The auditor can better identify and evaluate the relationship between the entity's business procedures and strategy and associated business risks and the risks of significant misstatement by analyzing the entity's goals and strategies. The auditor assesses industry-level, firm-specific, and macroeconomic strategic risk variables as well as management's responses to those risks to ascertain the client's business hazards. An auditor should therefore be able to comprehend the connection between management's claims in the

financial statements, business risks, and the entity's strategy through strategic analysis. (Schultz Jr et al., 2010) .The strategic audit works to achieve compatibility between the decisions, plans, and programs developed on the one hand and the conditions of the organization on the other hand through the study and analysis of the organization's internal and external environment to determine its current position and then take the appropriate decisions (Bhimani & Langfield-Smith, 2007).

2.2 Risk Management

According to one definition, risk management is a scientific approach to risk management that involves predicting losses and creating protocols that lessen the likelihood that a loss will occur or the monetary impact of a loss (Ljubisavljevic & Jovanovic, 2011). Risk management represents a comprehensive framework for addressing the risks that an organization may be exposed to, intending to reduce the impact of those risks and strive to achieve maximum and sustainable benefit from what is available to this organization (Carcello et al., 2020). Also, an ongoing activity covering the entire business life cycle in the planning, execution and control stages, aiming to complete work on time, within budget and to control or eliminate risks (Jokic et al., 2020). When conducting strategic audits, the auditor must examine the organization's history and present strategic situation and assess the associated risks. The auditor must also evaluate the organization's activities, aligning its operations with its strategies, the effectiveness of each subprocess's performance, the degree of realistic hazards that jeopardize the firm's goals, and the efficiency of operational risk management and how it affects the organization's financial report (Abdulameer & Obaid, 2023). Recently, an audit examined the risk management procedure to make sure that makes the right decisions. Furthermore, it is essential to understand and identify the risk and mitigate its effect. Risk management has become necessary in modern business. Additionally, since the internal audit and risk management departments are distinct, businesses can manage risk without a formal internal audit. To lower risk to a level that the business can tolerate, internal audits are a component of risk management. After the management's goals, the internal audit identifies all risks threatening the enterprise's operation. Determining the acceptable level of risk for the enterprise is an obligation and responsibility of the management. At the same time, an audit provides data and recommendations that help management's decision-making (Salehi et al., 2013). Hazaea et al. (2020) claimed that traits and attributes including competence, objectivity, independence, integrity, and work performance are what determine the quality of internal audits when performing strategic audits. The function of internal audit (IA) in governance, control, and risk management is impacted by these characteristics (Fuada, 2023; IIA, 2009). Also indicated that the role of auditor revolves around three essential points: helping managers evaluate risks and how to respond to and deal with them, and finally providing senior management with information that shows the extent of the organization's success in dealing objectively with risks. A risk-based internal audit is a methodology that links the facility's internal audit to risk management and assurance the board of directors that threaten management processes are managed effectively and that the risks facing the facility are controlled (Weekes-Marshall, 2020).

The study by (De Zwaan et al., 2011) indicated that the management's internal auditor's report is affected by risk management. It also pointed out that the internal auditor's participation in risk management involves the report's objectivity. From the perspective of Internal control and risk management in Taiwanese banks (Shiu & Yeh, 2008). The researcher reached several conclusions, including that Taiwanese banks that rely on risk-based internal audits account for a percentage of 25 out of 75 (the size of the research sample), thus constituting 30%. The test result showed that risk-based internal audit is negatively related to information disclosure and credit risk. It is favorably connected with a risk management committee, in addition to the influence of the size of the bank and the complexity of its operations. (Abdullatif & Kawuq, 2015), And the study indicated that internal audits for risk management in Jordanian banks have a limited role. The study by (Lindow & Race, 2002) focused on identifying the differences between the traditional and contemporary approaches to internal auditing that focus on risk management. It concluded that internal auditing has an essential role in risk management through preparing a review plan based on risks and an advisory role within the organization, and this was confirmed by a study, which analyzed the modern role of internal audit and the changes that have occurred in it (Weekes-Marshall, 2020). The study by De Zwaan et al. (2011) indicated that the management's internal auditor's report is affected by risk management. It also pointed out that the internal auditor's participation in risk management affects the report's objectivity, and (Goodwin-Stewart & Kent, 2006) Found a correlation between the effectiveness of internal auditing and the commitment of Australian public companies to risk management.

Business Risk Assessment is the process of analyzing whether an uncertain situation has the potential to jeopardize one's business operations. Business risk is the chance that an organization's goals won't be achieved because of internal and external factors, forces, and pressures. It also includes the risk to the organization's survival and financial success. Business risks are caused by situations and factors inside an organization's internal environment, industry, and macroenvironmental forces (Abuaddous et al., 2015; Nguyen, 2022). Changes in metrics that are used as key performance indicators for business operations are examined by auditors to evaluate the impact of business risks. They then integrate evidence of shifts in accounting measures with their comprehension of business risks (Knechel, 2007). Using nonfinancial standards may also aid auditors in detecting signs of intentional, false reporting, making managers find it more challenging to hide the deception. Because high-level managers influence systems that handle financial performance data they have several options for bypassing restrictions and purposely misstating accounting measures. However, the technologies that provide instead of high-level managers, business process owners frequently oversee the

metrics used to monitor the success of business processes (Brazel et al., 2009). The study examines the strategic significance of audits in risk management using data from numerous Iraqi banks from 2010 to 2015. It concludes that strategic auditing by banks improves risk management and provides critical details regarding possible threats (Musallam, 2020). The study explores whether a client's strategic analysis influences identifying key risks associated with business and financial statement evaluations. The findings demonstrate that compared to auditors who did not perform strategic analysis and who more completely evaluated the risk of material misstatement at the entity level, those who performed guided strategy analysis did not identify more substantial business and financial statement concerns (Kochetova-Kozloski & Messier Jr, 2011).

The research aims to determine and examine how strategic auditing contributes to long-term performance and increases the product's competitive edge. According to the findings, the strategic audit function no longer satisfies stakeholders and shareholders and meets work needs in Iraqi firms in the way that it was approved (Abdulameer & Obaid, 2023).

2.3 Financial performance

Financial performance is a process by which a set of quantitative and qualitative criteria or indicators are derived about the activity of any economic project that contributes to determining the importance of the operational and financial activities of the project, through information extracted from the financial statements and other sources for these indicators to be used in evaluating the financial performance of the establishments (Fatihudin, 2018). During their activities, institutions face many problems and difficulties that may hinder them from performing their functions, which prompts managers to search for the sources of these issues**,** examine them and decide how best to address them (Molina-Azorín et al., 2009). Financial performance contributes to developing the capabilities and energies available to the company, which contributes to increasing the company's ability to deal properly with the industry environment and helps ensure that operations are carried out efficiently, thus gaining competitive advantages that lead to developing financial performance (Alqahtani et al., 2024). Financial performance helps in judging the effectiveness of the decisions taken in terms of their impact on the bank's financial position and financial capacity and evaluating the efficiency and effectiveness of the various activities and policies used by the bank in affecting the bank's profitability and competitive position. And benefiting from all of this in developing effective plans for the bank's future performance (Coelho et al., 2023).

Evaluating the institution's financial performance means judging the management of the natural, material, and financial resources available to serve the desires of different parties. It measures the results accomplished or anticipated based on preset standards (Albertini, 2013). The evaluation of another definition of financial performance is the degree to which the institution achieves revenue and earnings capacity, as the first means the capacity of the institution to produce revenues from its current capital or exceptional activities. In contrast, the second is the capacity of the institution to achieve a surplus from its activities to compensate for production factors, according to modern theory. Defines it as the extent to which the institution enjoys a margin of safety from the state of financial insolvency and the phenomenon of bankruptcy or its ability to confront financial risks and difficulties (Agoraki et al., 2023).

Performance evaluation and assessment tools have been restricted to traditional methods that focus on the money side of things while ignoring the non-financial side (Grant et al. 2017). In addition to ensuring that operational procedures are carried out efficiently, the strategic audit plays a part in assessing the strategic orientation of businesses. It also pertains to the best utilization of resources, which supports cost rationalization and enhances the overall performance of the business (Tafeeq Shible et al., 2020).

3. Study variables and hypotheses

The study contains one independent variable, strategic review, with its strategic planning and operational performance dimensions, and two dependent variables, risk management and financial performance. The study seeks to know the impact of strategic review on risk management and financial performance. Therefore, the study hypotheses are:

H_1: *Strategic planning positively affects risk management.*
H_2: *Strategic planning positively affects financial performance*.
H_3: *Operation performance positively affects risk management.*
H_4: *Operation performance positively affects financial performance*.

4. Methods

The descriptive analytical approach was used to achieve the study objectives. Data were collected by designing a questionnaire and distributing it to administrative auditors and accountants in Port Sudan, Sudan banks. 410 questionnaires were distributed, 397 of which were collected and analyzed using the partial least squares method. The study sample included 382 students with a

bachelor's degree, 11 master's degrees, and 4 doctorates. According to the respondents' opinions, 280 sample members specialize in business administration, 103 in accounting and finance, 11 in economics, and 3 in information systems.

5. Result & Discussion

5.1 Measurement model evaluation

The model specified in this study contains five latent variables with a reflective measurement model. We want to find estimates between the latent and manifest variables. Table 1 shows Cronbach's Alpha (CA) estimates and the average explained variance (AVE), and Fig. 1 shows the factor loading, while Table. 2 shows the correlation and discriminant validity; we notice that the correlation of variables with themselves varies from their correlation with other variables, which indicates the appropriate discriminant validity of the measurement model.

Table 1
Construct Reliability and Validity

	Cronbach's Alpha (CA)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Financial Performance	0.818	0.880	0.649
Management Risk	0.898	0.918	0.587
Operation Performance	0.941	0.958	0.850
Strategic Planning	0.894	0.933	0.824

According to (Hair Jr, Joe F. et al., 2020), the reliability of the partial least squares model is measured by calculating Cronbach's Alpha (CA) and Composite Reliability (CR), where he suggested that (CA) and (CR) should not be less than 70%. Table. 1 show that all study variables' (CA) and (CR) values are greater than 70%, indicating adequate measurement model reliability. The validity of the measurement model is determined by calculating the loading rates and the average extracted variance (AVE). The loading rates must not be less than 60%, and the (AVE) must not exceed 50%. Fig. 1 shows the loading rate above 60%, and Table 1 shows the (AVE) above 50%, indicating adequate measurement model validity.

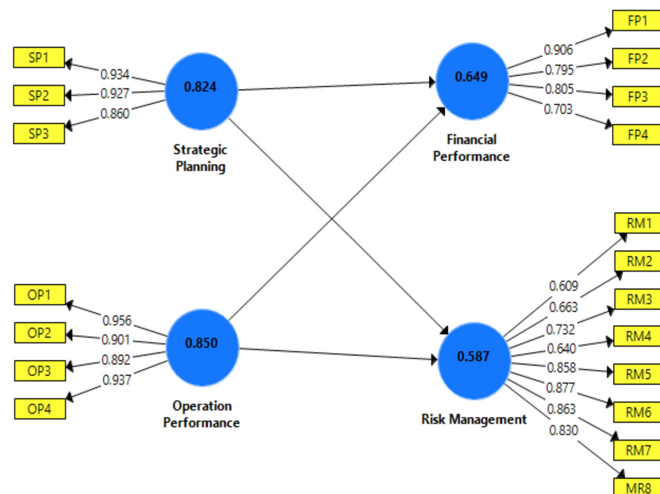

Fig. 1. Measurement Model

Table 2
Discriminant Validity

	Financial Performance	Risk Management	Operation Performance	Strategic Planning
Financial Performance	**0.805**			
Risk Management	0.256	**0.766**		
Operation Performance	0.476	0.517	**0.922**	
Strategic Planning	-0.131	0.586	0.242	**0.908**

5.2 Coefficient of Determination(R^2) &The Effect Size (F^2)

The coefficient of determination (R^2) is a common measure by which a structural model is evaluated. This coefficient represents the combined effects of all independent variables on the dependent variables. The values of (R^2), according to Table 3 and Fig. 2, are appropriate, as operational performance and strategic planning explain 29.1% of the variance in financial performance and

49.3% in risk management. The effect size of operation performance on financial performance and management risk is medium, reaching 38.7% and 29.5%, and the effect size of strategic planning on financial performance is weak, reaching 9.1%, and on risk management is large, reaching 44.5%. We explain this in Table 3 and Fig. 2.

Table 3
The results of R^2 & F^2

Effect Size (F^2)	Financial Performance	Management Risk
Operation Performance	0.387	0.295
Strategic Planning	0.091	0.445
Coefficient of Determination (R^2)	0.291	0.493

*If the coefficient of determination (R^2): ≥0.67= strong, 0.33 - 0.67= moderate, 0.19 - 0.33 = weak (Hair Jr, Joseph F. et al., 2010)
*If the effect size (F^2): ≥0.35 = large, 0.15 – 0,35= medium, 0.02 – 0.15= small, ≤ 0.02 = no effect (Bollen, 2011)

5.3 Path Analysis & Hypotheses Test

From Table 4 and Fig. 3, concerned with the path analysis and determining the effects of independent variables on dependent variables, it is clear that the strategic review, with its two dimensions of operational performance and strategic planning, has positive effects on financial performance and risk management. The results of the path analysis (T- value = 8.486, P- value = 0.000) supported the first hypothesis of the study, which stated that operational performance has a positive effect on financial performance; it also supported the second hypothesis of the study, which noted that operational performance has a positive impact on risk management, and the T-value reached 6.807, P-value = 0.000. It was also clear that strategic planning positively affected financial performance and risk management, with T- values reaching 4.145 and 7.870, respectively, and P- values reaching 0.000, which confirms the support of the third and fourth hypotheses of the study.

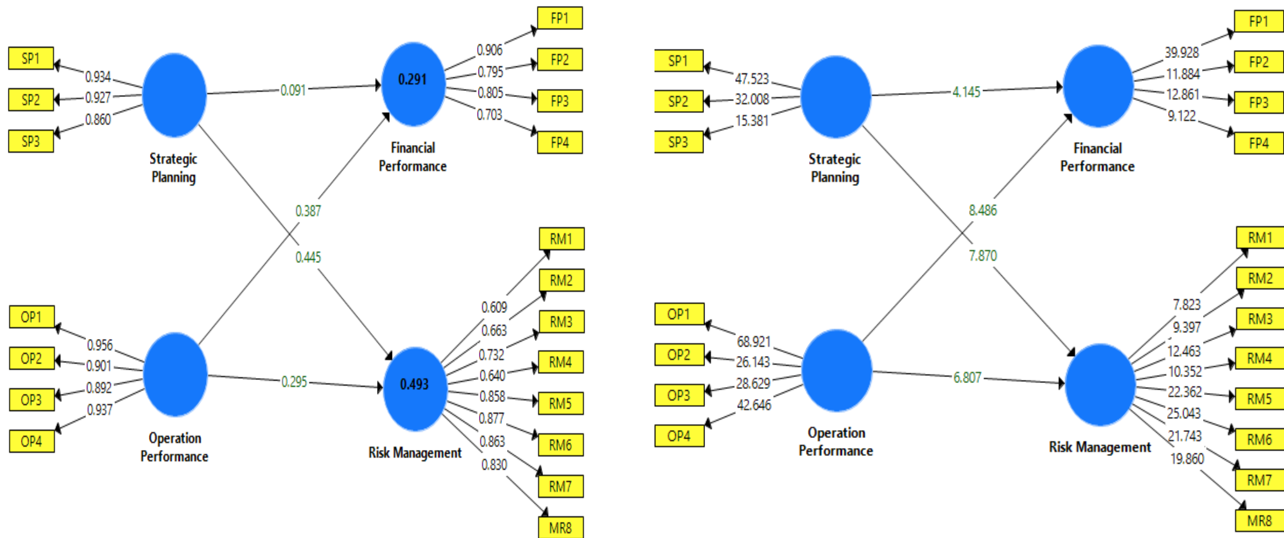

Fig. 2 The results of R^2 & F^2

Table 4
Path Analysis Results

Path	Std. Beta	T -Value	P- Values	Result
Operation Performance →Financial Performance	0.540	8.486	0.000	Supported
Operation Performance → Management Risk	0.398	6.807	0.000	Supported
Strategic Planning → Financial Performance	0.262	4.145	0.000	Supported
Strategic Planning → Management Risk	0.489	7.870	0.000	Supported

6. Conclusion

Risk management is crucial for ensuring tangible directions, reducing uncertainty in operations, and intensifying the likelihood of attaining desired objectives. Consequently, establishing an effective and efficient risk management strategy and policy is crucial. Integrating risk issues into the strategic planning process is important to ensure organizational sustainability. One of the basic premises of strategic planning is that the organization's environment is always uncertain, but the extent of uncertainty varies. By incorporating risk management, a practical framework can help reduce potential revenue declines and reallocate resources to more marketable ideas. In addition, integrating strategic planning and risk management can create opportunities, reduce adverse

incidents, and enable organizations to achieve better financial and operational results. The most critical problem for managers is identifying current and future risks. Different models, strategies, or methodologies can be used for conducting a risk assessment; they involve control self-assessment, operational risk profiling, and analyzing trigger events. Moreover, risk assessment techniques and methodologies help organizations, including managers, audit committees, and boards, to identify and classify risks into their key components and groups. Note, however, that all risks can be controlled through active, risk-aware organizational relationships. They can turn into potential risks that can harm the organization, primarily if they are not appropriately managed. The main results indicated the positive effects of a strategic review on banks' financial performance and risk management in the Riyadh region of Saudi Arabia.

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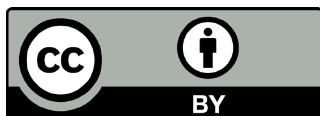

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