



**LEBANESE FRENCH  
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**The problems and prospects of development of internal audit in commercial banks in the  
Kurdistan region of Iraq case study: Erbil banks.**

**Supervisor:**

**Mr. Khwanas Khoshnaw**

**Prepared By:**

**Ibrahim taha yaseen**

**Nura kamaran khdir**

**Hawkar Hadi jameil**

**Omar rajab saleh**

## **Abstract**

This research discusses the importance of the internal audit function (IAF) in organizations, specifically in commercial banks in the Erbil region of Iraq. It highlights that organizations without IAFs are likely to encounter problems in achieving their goals and that internal auditors are expected to be experienced and skilled in identifying potential risks and making recommendations to help the bank achieve healthy financial results. The Central Bank of Iraq stresses the importance of high levels of organization, competence, and integrity in internal control measures in commercial banks. The study also suggests that there is a need for increased cooperation between local authorities and the central bank to restructure the system to modern world risk management strategies. Additionally, it notes that commercial banks in Erbil may be at risk of insufficient capital and that sustainable development dimensions in internal auditing in commercial banking aims to make financial reports more reliable, transparent and comparable.

## **Inroduction**

The internal audit function (IAF) plays a significant role in the progress of every organization. It is now commonly accepted that organizations that have not implemented IAFs are likely to encounter problems in achieving their aims. This study was conducted in the Erbil region of Iraq

to investigate the pros and cons of the internal audit unit within commercial banks. The Central Bank of Iraq emphasizes that internal control measures in commercial banks ought to have the highest degree of organization, competence and integrity. Internal auditors are expected to be experienced and skilled in identifying potential risks and suggesting best recommendations so as to help the bank achieve healthy financial results. Development of internal auditing departments actively reduces agency costs between agents and principals by providing assurance.

There is a definite need to increase the cooperation between local authorities and central bank so as to restructure the system to the modern world risk management strategies. According to (World Bank, 2017) in Iraq there are low financial infrastructures coupled with shortages of skills and technology.

In conducting audits, there is always a limitless division of tasks and less formal controls because auditing is a difficult and time-consuming operation, according to (Ismael, 2020). The government agencies in the Erbil area are known to utilize internal audit, claim (Omar and Hasan, 2020).

The government of Iraq owns the vast majority of banks, according to (IMF, 2018). These banks, like the Rasheed and Rafidain banks, run the risk of having insufficient capital. Even while nothing has been done to put policies in place to litigate these issues, there have been ways to enhance accountability and risk minimization. Interest has constantly been raised over the commercial banks' level of integrity.

Sustainable development dimensions in the internal auditing in commercial banking intends to make financial reports more reliable, transparent and comparable. Internal auditors are expected to be experienced and skilled in identifying potential risks and suggesting best recommendations so as to help the bank achieve healthy financial results. Central Bank of Iraq emphasizes that internal control measures in commercial banks ought to have the highest degree of organization, competence and integrity, not merely for financial reasons, but also for environmental and health reasons and safety of citizens. Internal auditing is important in checking that set goals, by including an orderly, discipline approach to judge and increase the depiction of risk administration, controls, and government processes. They are responsible for giving intelligence, collaboration and hands on help to the managers whenever they are called to action. Internal scrutinizing determines and free review of the movements and controls inside a firm in an attempt to decide the accuracy and stability of news. Sustainable development dimensions in the internal auditing in commercial banking intends to make financial reports more reliable, transparent and comparable. Internal auditors are expected to be experienced and skilled in identifying potential risks and suggesting best recommendations so as to help the bank achieve healthy financial results. Central Bank of Iraq emphasizes that internal control measures in commercial banks ought to have the highest degree of organization, competence and integrity, not merely for financial reasons, but also for environmental and health reasons and safety of citizens. Internal auditing is important in checking that set goals, by including an orderly, discipline approach to judge and increase the depiction of risk administration, controls, and government processes. They are responsible for giving intelligence, collaboration and hands on help to the managers whenever they are called to action. Internal scrutinizing determines and free review of the movements and controls inside a firm in an attempt to decide the accuracy and stability of news.

According to Dittenhofer (2015), businesses with a developed internal audits system are proactive or ahead of the curve when it comes to preparing for specific business hazards and offer effective solutions to mitigate those risks. This is crucial for managing various risks associated with the

exercise of power due to misconduct or abuse of public office. On the other side, if internal or external auditing is poorly planned and executed, it may result in exorbitant charges that do not increase the value of the organization. Another scholar (Kakucha, 2014) postulated that focusing on problems that reduce the effectiveness of the internal audit considerably helps in identifying issues hence preserve the institution from specific failure. The main target in this research is to evaluate the effect of internal auditing to the performance of all financial institutions both private and public. This is to prevent all kinds of corruption and office abuse.

The establishment of internal audits in all financial institutions should be required by general government regulations and all banking institutions, according to (Ahmed, 2016). The academic advocated for the implementation of the mandate to establish audit functions in all commercial banks and general financial institutions, arguing that internal auditing is a gap that needs greater research and attention. This suggests that internal auditing offers banks unambiguous monitoring, transparency, and some measure of employee accountability. Internal auditing is significant in commercial banks because it creates a clear basis for performance evaluations and the expected or reasonable courses of action (Kida and Unegu, 2015).

Since technology advanced by a generation in the previous 20 years, several international commercial banks have had financial scandals that have resulted in large losses for shareholders, investors, and employees as a whole. This opened my eyes to how crucial it is for commercial banks all across the world to establish full-time internal audit functions.

## **The problem of the research**

Internal auditing in banks is important for ensuring the integrity, reliability, and effectiveness of financial reporting as well as compliance with laws, regulations and internal policies. However, it can face problems such as limited resources, conflicts of interest, lack of independence, lack of expertise, limited scope, limited effectiveness, limited access and difficulty in measuring its effectiveness. These problems can compromise the effectiveness of internal auditing in banks and increase the risk of financial losses and regulatory violations.

## **Objectives of the research**

A study is being carried out to see if it is possible to set up an internal audit department in commercial banks in the Erbil region of Iraq. The study's main goal is to assess the challenges and potential of setting up such a department. It aims to examine whether it would be possible to produce accurate financial reports.

1. To determine whether Erbil's commercial banks have created strong internal audits that enhance financial outcomes.
2. To determine the degree to which internal auditors' professional expertise helps commercial banks achieve their goals?

3. To determine whether the independence of internal auditors aids commercial banks in achieving their goals.
4. To evaluate the overall effect of commercial banks' internal audit functions.

### **The importance of research**

Internal auditing is important in banks because it helps to ensure the integrity, reliability, and effectiveness of the bank's financial reporting, as well as its compliance with laws, regulations, and internal policies. Internal auditors are responsible for independently evaluating the bank's systems, processes, and controls to identify potential risks and areas for improvement. They also assist management in the development and implementation of effective internal controls to mitigate these risks. Additionally, internal auditing can help banks to identify and prevent fraud, embezzlement and other financial crimes. Overall, internal auditing plays a critical role in maintaining the overall health and stability of the bank.

### **Object of the study**

The internal auditing of commercial banks in Erbil/Iraq, is the subject of this study.

### **Subject of the research**

The goal of the study is to assess the potential for and issues with internal auditing in commercial banks in Iraq's Erbil region.

### **Research Questions**

- 1- Do strong internal audits enhance financial outcomes.
- 2- Does internal auditors professionalism help commercial banks to achieve the goals.
- 3- Do internal auditors functions affect financial performance of the commercial banks.

### **Assumptions of the study**

- H1: There is a significance relationship between internal audit and financial outcomes.
- H2: There is a significance relationship between auditors professionalism and goals of the bank.
- H3: There is a significance relationship between internal auditors function and financial outcomes.

## **Scope of the study**

This study, which is restricted to the Erbil area of Iraq, uses econometric techniques to assess the opportunities and issues raised by the growth of internal audit units in commercial banks. The value that internal audit departments provide to risk management in commercial banks is therefore examined in this study.

## **Research Methods**

This thesis was written using a variety of research techniques, including surveys, analysis, observations, and comparisons.

**The questionnaires** filled out by bank staff in Erbil's commercial banks served as the research's data source. Scientific papers from respected journals, reports from the World Bank, IMF, Iraqi commercial banks, internet sites, and official government reports of Iraq are other sources of information.

## **CHAPTER 1**

### **1.0 THEORITICAL, EMPIRICAL, CONCEPTUAL FOUNDATIONS OF INTERNAL AUDITING IN COMMERCIAL BANKS**

#### **Introduction**

The researcher covers several academic works on the growth of internal auditing units in commercial banks in this chapter. According to Jovanovi (2016), the audit committee, directors, and management have an impartial, trustworthy, and objective position thanks to the internal audit function. This demonstrates how the IA significantly aids commercial banks or any other financial institution in putting into practice successful strategies to meet predetermined objectives. The resources in ideas and between the IA and administration are improved by audit reports, and they serve as a key guide for the efficient treatment of visitors (Ljubisavljevi & Jovanovi, 2011). According to (Goodwin, 2016), the audit function goals are compatible with the former's financial newsgathering failure accusations, so the internal audit department also aids the movement and active employment of the audit taskforce.

The (NYSE, 2017) mechanism for reinforcing internal government processes is positioned within the auditing department and consists of government reports. Government reports are positioned through auditing as a system to support within governmental procedures.

According to Ljubisavljevi and Jovanovi (2011), audit reports improve administrative ideas and resources and serve as a key component of guest-friendly service. The internal audit department supports the mobility and active involvement of the audit taskforce since the audit function goals are compatible with the financial news gathering failure allegations of the former. In 2009, Hutchinson and Zain conducted an investigation into the union center from two perspectives (audit knowledge and bookkeeping aptitude) within the context of audit and firm acting (ROA) alongside progress moment and audit commission freedom in Malaysia.

In their 2009 study, Hutchinson and Zain complicated the evaluation of the relationship between the two points (audit occurrence and bookkeeping restriction) of Malaysia's audit and firm depiction (ROA) in conjunction with the freedom of the audit taskforce. They encouraged future research to take into account several determinant models that conceded possibility influence features of within audit and advance allied governance.

They discovered that there was no relevant connection between the selection of extrinsic auditors and the internal audit function. In the stable conditions, (Ljubisavljevi and Jovanovi, 2011) examined the link between the responsibilities of internal audit in Serbian enterprises. In a related study, Stewart and Kent (2005) investigated the relationship between Australian government construction, including the board of managers, audit panel, internal audit function, and the draft of extrinsic auditors.

## **The Effect of the Internal Audit and Firm Performance**

A planned Research Framework 37 limitations have trainings that have gone along with improved abilities in listening administration and contributing to the deliberate decision-making (Hillman & Dalziel, 2003). These managers acknowledge that there is still a chance to influence external systems that control economic organizations and to convince investors that a company is valuable.

The ability of the chief audit executive to change into report is taken into consideration in this present study based on this likely outlook and following a constant approval as noted above. The focus of early studies is on examining how the limitations of every jury appendage affect company representation, compensation administration, audit type, and other frequently. However, no study has examined the relationship between the firm's representation and the necessity of authority in the internal audit task force. The focus of early studies is on examining how the limitations of every jury appendage affect company representation, compensation administration, audit type, and other frequently. However, no study has examined the relationship between the firm's representation and the necessity of authority in the internal audit task force. Due to the absence of a composition review and logical support (Hutchinson and Zain, 2009), the study makes an effort to close the gap by looking at the relationship between appendage aptitude and firm accomplishment. Consequently, the proposition that follows may be related.

## **Qualifications of the Chief Audit Executive and Firm Performance**

Auditors are able to recognize what everything is and isn't, as well as the components, flaws in the laws, regulations, and procedures (Hala, 2003; Clikeman, 2003). The current study calculated this changing through the inquiry since the chief audit executive's excellence declaration also seeks to help the character of audit. 2002, Clikeman, Eighme, and Cashell Ghazal (2010), Pearce & Zahra (1992), Pfeffer (1987), Goodstein, Goodstein, Gautam & Boeker (1994), and others. Two processes, namely the inquiry and subordinate dossier from the financial statement including gains and losses for a period, were used to choose the sample.

It was made up of 60 enterprises that filed on the Malaysia Bursa throughout 2003.

Additionally, many boards maintain a disparity that would let parties gain money deductions and underestimate material dangers (Goodstein, Goodstein, Gautam & Boeker1994; Ghazal, 2010; Pearce & Zahra, 1992; Pfeffer, 1987). One can curve conclusion, set swiftly, and handle some position when they have many years of experience. When a board with extreme masters is specified by the corporation, they contribute to the belief that incorrect extrinsic milieu will cause parties to act inappropriately. The relationship between internal audit and firm conduct (ROA) accompanied with tumor convenience and audit task force freedom in Malaysia was examined by Hutchinson and Zain (2009). 60 firms that were filed on Malaysia Bursa in 2003 were complicated by it. Additionally, many boards maintain a disparity that would let parties gain money deductions and underestimate material dangers (Goodstein, Goodstein, Gautam & Boeker1994; Ghazal, 2010; Pearce & Zahra, 1992; Pfeffer, 1987). One can curve conclusion, set swiftly, and handle some position when they have many years of experience. When a board with extreme masters is specified by the corporation, they contribute to the belief that incorrect extrinsic milieu will cause parties to act inappropriately. Hutchinson and Zain (2009) evaluated the relationship between audit and firm conduct (ROA) accompanying (audit knowledge and bookkeeping skill). Hutchinson and Zain (2009) conducted a survey of the union middle in Malaysia from two places within the audit and firm act (ROA) accompanying development event and audit task force freedom (audit knowledge and accounting need).

The sample was chosen from the financial statement including gains and losses for a particular period by two plans, namely inquiry and subordinate dossier. It contained 60 companies that had filed on the Malaysia Bursa in 2003. There are still not enough studies on developing new markets. Therefore, it is anticipated that the theories that follow will be detailed in numerous behaviors circling around the objective of the search to be dressed, as suggested by Robertson (1976).

By considering and evaluating each factor's impact on achieving the agreed-upon objectives of the arrangement, audit provides an impartial and unbiased evaluation of how risk management, control, and governance could be improved within an organization.

In June 1999, the Board of Directors of the Institute of Internal Auditors designated audit as a free, material, and consulting activity that adds value and enhances an organization's operation. Internal audit refers to any of the routine listening of the bank's internal control plans and appeal procedures



for determining internal capital. By using a systematic, disciplined approach to evaluating and reconstructing the influence of risk management, control, and the administrative process, it aids the organization in achieving its objectives. As a result, it aids management and the board of managers in acting in a way that demonstrates their reliability, as described above (Gramling,1997). audit task force freedom and g tumor comfort in Malaysia.

## **1.1 Conceptual Review**

The knowledge of internal auditors is crucial for enhancing good behavior and ensuring that all assets are used skillfully and productively. In a variety of activities, control exercises in an arrangement are frequently visible at all levels. The necessity to consistently improve productivity and particularly in every division has led to the development of methods that produce familiarity and cost knowledge in the majority of countries. By examining documents and informing the appropriate parties of historical occurrences, the Internal Audit (IA) technique is intended to assist with accounting. In the present period, the IA serves a specific role in the overall management of an organization to reach certain predefined targets.

This is due to the perception that IAs provide an impartial, independent, and professional service, all of which are crucial to the organization's internal control. Extrinsic audit obligations include Supreme Audit Institutions. Internal audit responsibilities invariably report to the head of the department in which they have been assigned. Fundamentally, the Supreme Audit Institution's audit fairness, economy, skill, and effect of fiscal administration are equally important.

### **Role of internal Auditing**

Internal auditing serves as a safety valve to keep budgets free from fraud and abuse. (Almahaini and Salloum, 2007) claim that most Arab nations do not provide the audit function with enough independence and support. The capabilities of internal auditing in both the public and private sectors have not received much attention. Researchers (Rensburg and Coetzee, 2016) suggested that given rising hazards ever since technology skipped a generation, consumers seek the highest level of transparency and better services from public institutions.

### **Activities of internal auditing**

According to a poll conducted by the Institute of Internal Auditing (IIA), internal auditing operations will change dramatically over the next few decades. According to scholars (Rensburg and Coetzee, 2016), given the rising risks, consumers seek the maximum level of transparency and better services from public institutions.

### **External auditors' interaction with internal auditors**

In terms of audit fees, scope, sharing audit time and experiences, and other factors, collaboration and coordination between internal audit departments and external auditors in the performance of auditing duties has several advantages. Professional organizations have affirmed that there must be a connection between the two types of audits and that it may help to enhance auditor efforts. The assurance of the audit committee's view may be diminished if internal auditing resources are borrowed, it is vital to remember.

### **The internal audit department in commercial**

## **banks**

Any bank's internal auditors are expected to carry out their responsibilities diligently and independently without interfering with the business as usual of the bank. To maintain a high and consistent level of performance, internal auditors need to be driven, professionally competent, and continually encouraged to grow. The leader of the internal audit team must see to it that their team completes its tasks in line with IIAs.

### **Effective Internal Audit for Commercial Banks**

The internal audit department is central in giving assurance to supervisors that risks are controlled effectively. The department works closely with the risk management team in assessing the risk profile of the bank. Internal auditors must present their results and assure managers on the efficiency of IT new projects hence they need to be well versed in presentation and communication skills. Internal auditors are not expected to develop conflicting benefits with any of the bank objectives or rules. The scope of duties and authority rested upon internal auditors should be clear and visible in the organization structure. Internal auditors need to be motivated, professionally competent and continuously pushed to develop professionally so as to sustain a high and standard performance.

### **The relationship between internal auditors and bank supervisors**

A strong internal audit function that objectively assesses the organization's control systems must be a supplement to adequate internal controls in banking businesses. External auditors can offer insightful comments on how well this procedure is working. Efficacious policies and practices must be implemented, and management must take the proper corrective action in response to internal control shortcomings discovered by internal and external auditors, in the opinion of banking supervisors. The Committee is in favor of global efforts to unify and enhance internal audit standards. The guidelines presented in this article should be put into practice in accordance with each nation's national corporate governance framework.

Sound corporate governance includes strong internal controls, an internal audit department, and an independent external audit. Both bank management and bank supervisors can benefit from effective internal audit as a source of knowledge.

### **Internal Auditors Scope of activities**

Internal auditors are expected to carry out a wide range of tasks. These responsibilities include risk management, compliance audits, financial audits, risk identification, and internal reporting reviews. In a broader sense, all of the bank's operations fall within the purview of internal auditors' work. A thorough audit plan must be produced by the department head each year's first quarter. Below is a detailed explanation of these actions.

### **Risk management**

The risk management process in commercial banks supports and reflects how the bank complies with legal requirements and safe banking practices. This suggests that all risk management efforts must fall under the purview of the internal auditing department. Establishing an internal audit department is mostly done to identify and reduce risks.

## **Regulations and internal reporting**

Internal auditors are frequently requested to evaluate the efficiency with which reporting tasks are combined to produce the accurate and pertinent company reports that are required by all stakeholders. These are typical papers that include the most recent records of the ratio calculations and conclusions the bank has made.

## **The compliance audit**

This kind of audit looks to see if the bank is following all pertinent laws, accounting standards, business regulations, governmental policies, and other requirements.

## **Finance**

The accuracy of recorded transactions in the pertinent accounting period must be verified by auditors. Like all other departments, the actions of the finance department are under the purview of auditors. The internal audit department has a duty to routinely check to ensure that policies and controls are followed. This division should offer enough resources to evaluate the control environment by checking transactions and authorizations.

## **Permanency of the internal audit function**

All commercial banks are required to have a dependable and established internal auditing department. Although they are employees, internal auditors are not permitted to participate in the day-to-day operations of the bank. Their powers, responsibilities, and duties should also be specified, and they should be clearly defined in the organizational structure.

## **1.2 Theoretical Framework**

Adebanjo, Ojadi, Laosirihongthong & Tickle Embrechts, Resnick & Samorodnitsky Christopher, Sarens & Leung. The believes reviewed attending are uniform hypothesis, extreme worth hypothesis, instrumentality hypothesis and knowledgebased hypothesis. Bonazzi and Islam, 2016: Tenofsomething have created commercial organizations that identify the increasing significance of risk administration. The CAE arrange expanding a risk-located plan and allows for possibility the arrangement's risk administration foundation, containing utilizing risk greed levels set by administration. If a foundation does not survive, the CAE uses welcome/her own fate of risks following in position or time conference accompanying senior administration and the board.

Accordingto (Bonazzi and Islam,2016) in a partnership, the shareholders are the principals and the managers are the powers active forsomeone, and for the interests of, the principals. Gorga & Halberstam, 2007: There has existed an growing demand for instruction and ability because of the intervening-twentieth centennial. According to IIA(2012) the chief audit executive must guarantee that within audit possessions are appropriate, adequate, and efficiently redistributed to gain e the certified plan. For the IAF expected to play allure part in guaranteeing persuasive allied government, the area must have the right appendages of stick the one be honest-to-the task. Internal audit (IA) is a fundamental piece of within control.

This study fell back on uniform, extreme profit, instrumentality and information located hypotheses to try the function of the within audit function in advancing persuasive allied government inside monetary banks. Banks fasten excellent significance to assuring their possessions as they inquire to continue it, particularly likely allure larger in size and costing less. Institutional and neo-bland beliefs hold that the implementation of administrative methods and tangible adjustment may be influenced by three forces: forceful, echoic, and normalizing. The extreme profit hypothesis (EVT) produces plans for quantifying risk events and their effects in a statistically ideal pattern. The chief audit executive is required under IIA(2012) to ensure that audit assets are appropriately, adequately, and effectively reallocated to benefit the approved plan. Since the intervening twentieth century, there has been an increase in the demand for knowledge and skills (Gorga & Halberstam, 2007).

## **Agency Theory Meckling and Jensen**

Agency hypothesis is founded on the firm's conviction that moral hazard and unfavorable election are the issues that must be managed under the appearance of incomplete news flow and risk, which stand from two combined bodies (instrumentalities). According to Fogarty IIA (2012), the internal audit function is an active control system that promotes good governance. As allure moves are obvious to everyone, an arrangement is devised and intended to satisfy public expectations before this moment, claims Fogarty (1996). The shareholders are seen as the main parties interested in obtaining the greatest possible benefits from the organization. Conflict arises when the partner is unable to keep track of the administration's behavior and activities as a result of the separation of the purchase from the administration. When principals and agents have opposing viewpoints and objectives, issues might occur. Agency hypothesis attempts to solve these issues.

## **The contingency theory**

Bank audit departments should be organized with clearly defined tasks, according to Davoren Daft. Ad hoc audit teams must be organized by the audit manager. An skilled auditor in a specific sort of audit will typically generate a quality audit report in their area of specialization.

## **Lending Credibility Theory**

According to (Volosin, et al., 2007: 52), this hypothesis backs up the agency theory. The underlying premise is that after reports have been audited, it is simpler for all stakeholders to believe in their credibility. Regulations generally agree that financial organizations must release audited financial information in public financial reports.

(Letza, 1996: 24) states that auditing is intended to evaluate the appropriateness and accuracy of a company's records. This suggests that the objective of the audit report is to reassure shareholders that their investment is safe. Thus, among other things, audit reports assist in minimizing malpractice and fraudulent actions.

## **The Audit Plan**

The strategy that auditors will use while doing their tasks is essentially outlined in an audit plan. It serves as a guide for the steps auditors should take when carrying out their duties. In order to ensure that the audit task is completed successfully, the audit plan calls for the allocation of resources, the formation of ad hoc teams, the formulation of goals, and the training of team members for the intended specific type of audit.

Consequently, a well-planned audit is anticipated to produce a high-quality audit report. The scope and description of the job performed by internal auditors must include every activity that takes place within banks.

Internal audits come in a variety of forms, among others;

- Financial audits
- Compliance audits
- Operational audits
- Management audits

## **Relationship of internal audit and banking supervision**

When impressed by the work of internal auditors, bank supervisors can rely on their findings to assist in detecting potential hazards after evaluating the department's performance and contribution.

In order to improve operations at the bank and lower the risk profile, bank supervisors often meet with the internal audit managers to discuss difficulties, improvements, and other common themes.

Internal auditors are accountable for providing input to the audit committee, board of directors, and other shareholders when necessary.

## **The audit committee**

Managers are in charge of putting strategies into place that identify, gauge, monitor, and control all potential risks. Thus, internal auditors are in charge of continuously monitoring the bank's internal control systems. The organization structure must explicitly specify the powers, tasks, reporting structure, and responsibilities of the audit committee.

## **Impact of internal auditing in budgeting**

Internal audit department assists high level management in evaluating and applauding the bank's budgetary arrangements. Internal auditing's broader goals include ensuring that budgets are accurately assessed and evaluated. They also want to make sure that the accounting rules are being followed, thus all income and expenses from the relevant accounting period must be included in the budget.

## **Auditing and Human Resources Management**

The HRM department's efficacy and efficiency are being examined by internal auditors. Auditors determine if process inputs are obtained in the most cost-effective way possible given the requirements for cost and quality. Internal auditors also determine effectiveness by determining how closely the process's results match the company's overarching goals.

## **Internal auditors interest in cash collection and other bank arrangements**

Internal auditing's purview includes examining the efficient and proper use of current assets. Cash is the most susceptible resource to fraud because it is a very risky asset. The goals of internal audits include confirming that currency was used and ensuring that there are complete and accurate copies to reveal proper security.

## **Practical Testing**

If internal auditors find that internal controls are insufficient, it is their duty to carry out a substantive test to assess whether any significant losses have been sustained. The outcomes of the substantive tests give bank supervisors the assurance that the bank has not suffered any significant losses as a result of the subpar internal control framework. Controls testing errors show that the control system is ineffective.

## **Internal auditors in reviewing income and debtor arrangements**

The audit division assists the chief financial officer in assessing and praising improvements to the bank's internal control system with relation to debtors and all other sources of income.

General controls include;

- Separation of responsibilities
- Authorization
- Administration
- Management
- Employees
- Recording

The designed objectives of internal auditors in reviewing income and debtors are

- Correctness
- Completeness
- Consistence
- Existence
- Security

The auditors should determine whether debtors are listed in the appropriate accounting period and assess the possibility that payments will be made. The auditors are accountable for the verdict.

## **Direct Substantive Tests**

Auditors may elect to conduct a more direct practical inspection of internal controls after a number of preliminary evaluation methods. This adds to the evaluation of the final audit report and will help determine whether there were material losses brought on by a weak internal control system.

## **The Role of Internal Audit in purchase and payment systems**

Internal auditors make sure that all relevant purchases, receipts, payments, and creditors for the review period have been recorded, and that the orders and receipts that have been recorded actually happened. The organization's financial records must classify and record payments and creditors

appropriately. The outcome of an internal audit only depends on the auditors' judgment and their capacity to discern whether the bank's purchase and payment control systems are adequate.

### **Direct Substantive Testing**

The goal of direct substantive testing is to locate any major losses brought on by a deficient control system and to aid internal audit in evaluating the bank's overall internal control framework. Bank supervisors and other interested parties should rest easy knowing that there were no major losses for the bank thanks to the direct substantive test's findings.

### **Internal Auditors and review of payroll and expenditure**

Internal auditors investigate the existence, estimation, consistency, and significance of employee remuneration with reference to expenditures and payrolls. Auditors want to make sure that the pertinent salaries are accurately documented, paid when they should have, and categorised in the appropriate accounting period. The extent of compliance with any additional special regulations is also examined by auditors, as is the consistency of these records with budgets. Auditor conclusions are reached after taking corporate culture and other pertinent elements into account.

### **Direct substantive tests**

The auditors determine to apply a more realistic technique to determine the materiality of losses brought on by a subpar control system after conducting a preliminary appraisal test of the internal control system and finding that these controls are fragile. The results of this exercise provide supervisors with a guarantee regarding the magnitude of losses, motivating supervisors to take appropriate action.

This practical test is mostly focused on evaluating outputs rather than the efficiency of the internal systems. It examines the results' appropriateness and comprehensiveness. Therefore, it costs more and takes a lot of time.

### **Internal Auditors and Review of Stores and Property Framework**

Internal auditors evaluate the efficiency of the system that manages all stores, properties, and inventory. They attest to the existence and authenticity of all business dealings involving properties and shops. The goal is to ensure that the bank's assets are protected, managed, and used wisely. This procedure is followed on a regular basis to keep accurate and current records.

### **Direct substantive tests**

Reviewers are expected to take the lead in an instant substantive testing if internal examiners determine from their flimsy preparatory frameworks evaluation or testing of the controls that sufficient controls are not practically agreed to. This will be done to see whether any notable disasters have occurred that could affect an internal review's assessment of the bank's overall control system. The outcomes of this direct substantive test assist in giving management the trustworthy assurance that there were no significant losses to the bank brought on by lax internal controls.

## **Internal audit on inventory**

The staff members who are directly in charge and accountable for a certain type of inventory are expected to organize and classify the assets under their supervision so that stock counts by auditors can be completed more quickly and easily. To distinguish between natural descriptions and accounting values in the financial accounts, stock information should be reported separately. Auditor approval is required for any modifications made during stock count on scheduled dates.

The roles of the commission are to

- Describe, count, measure and identify assets.
- Authorization of alterations made during the stock count period
- Identify and material discrepancies and checking accounting records.
- Correct computation of purported discrepancies
- Authorizing stock lists
- Recording all discrepancies

The stock records at year-end are crucial and an integral element of the overall records of assets, creditors, and debtors, making the audit of inventory extremely critical. A crucial control technique to ensure that there has been no misappropriation of bank assets is the stock records.

## **The audit approach to inventory**

The method of performing inventory in the bank is clearly outlined in internal control standards and accounting standards. Internal auditors must create a strategy for managing inventories in the bank.

The approach used in performing a stock count audit is as follows;

- Establishment of stock commissions
- Amending stock material
- Physical stock count
- Alterations explained between time of stock count and time for accounting
- Determining reasons for discrepancies
- Recommendations suggested to reduce discrepancies.
- Comparisons of accounting records and the real situation

The auditor is expected to provide risky assets, such as creditors and debtors, liquid funds, and other current assets that can be quickly converted to cash, special treatment. The internal auditor must ensure that reconciliation dates are established and that regulations are being followed to the letter.

The auditors constantly request formal authorizations for the payment of all agreed debts to creditors. The biggest danger when auditing inventory is that a record might be present in accounting records but not physically. The auditor must verify that inventory is correctly classified as new, used, or written off. This is crucial when inspecting spare parts.

## **Internal Audit in Erbil-Iraq**



The primary defense against fraud and violation of the arrangement's assets is audit. Under the direct supervision of the management of academies in the Erbil domain, colleges are currently operating within audit as a whole. The scientists point out that there are differences between consolidation and disintegration in the administration's bookkeeping system. 2010: Stewart, Alzeban, and Subramaniam The trust obligations each auditor is assigned assumes their credibility and benefits from the fundamental presumptions of freedom in agreement and liberty to all appearances. Internal Audit Administration Support (MSUP):

Internal auditing is regarded as a crucial component of the system. Senior management likely values the audit function and has changed its expectations for internal verification (Carcello and others., 2005). Sawan and Alzeban Cohen and Sayag, 2010, 2013. The independence and impartiality of the IAD have been acknowledged as a crucial component of allure and influence (CIPFA, 2003). According to the Institute of Internal Auditors (IIA) and ISPPA, the capacity of internal audit to stick is a crucial element of active internal audit processes.

There is a link between audit influence and administrative support. Due to several difficulties and difficulties for various reasons, including the lack of current verifying arrangements and the lack of control methods, internal auditing in Erbil began between 1990 and 1994. Gwilliam and Alzeban (2014). Al-Absy and Alzeban: Audit in Erbil encounters various difficulties, the primary one being the dearth of auditors with the necessary expertise. The internal audit (IA) contributes to enlisting all neighborhood organizations in a routine that aids in achieving appeal goals. 2013 (Enofe and others).

## **Conclusion**

in 2021) (Khatib et al. The size of the internal auditors, the caliber of the audit committee, and the internal auditors' objectivity and independence are all factors. According to Adams (1994), agency theory can help with in-depth analysis and study on IA. This is consistent with Ondieki's (2013) assertion that agency theory may clearly explain IA characteristics and interpretation. It can also be applied to pilot tests to make the distinctions between IA techniques more clear. Additionally, Oussii and Boulila Taktak (2018) noted the need for additional research into developing markets' IA functions, which have gotten less attention in the literature. Researchers are becoming more interested in examining how IA functions might improve corporate performance, however the results are conflicting (e.g., Ahmad et al., 2009; Al-Matari et al., 2017; Cohen & Sayag, 2010; Drogalas et al., 2015; Poltak et al., 2019).

According to a study by Ojong and Ekponta, internal auditors (IA) have a favorable effect on the financial performance of banks (2014). The lack of employee independence from senior management is the source of this. According to other research, the size and number of managers in IA departments have no bearing on performance growth.

## **CHAPTER 2**

### **METHODOLOGY**

#### **2.0 METHODS AND THEIR FEATURES**

The strategy and process for collecting data to address research issues are detailed in this chapter. The target demographic, research design, sample method, research subjects, and research tools were all explained by the researcher.

The systematic, well-organized process of gathering data to address research issues is known as research methodology. In order to evaluate the validity and dependability of the research findings, information gathering and data analysis techniques are crucial. Since this method enables the researcher to gain insight into the topic matter, the researcher used a case study strategy in this study. Both primary and secondary sources of data were employed in this study. But the nature of this study is qualitative.

#### **Interpretivist**

Advocates of interpretivism use a legitimate methodology that produces qualitative data. According to interpretivists, primary data and qualitative information improve students' chances to clearly understand diverse subjects' behaviors by merely seeing their activities. According to this school of thought, it is more crucial to comprehend the motivations behind colleagues' behaviors. On the other hand, some academics contend that interpretivism equates with empathy, whereas interpretivist sociologists contend that taking part in the collection of raw data is the best way to identify and assess trends. This inspired the researcher to collect data using an interpretivist strategy in order to address research issues.

#### **Research Design**

(According to Creswell (2003), a research design is an outline of steps taken to offer explanations for a research challenge. Investigation design, according to another academic (Dooley, 2007), is a framework that governs the findings of any research. The researcher adopted a descriptive cross-sectional methodology for this study. According to Kothari (2004), a descriptive cross-sectional can only be employed if the problem is obvious.

The major objective of this study is to assess the chances and challenges of IA in assisting Kurdish commercial banks in achieving their goals.

#### **2.1 Targeted Population**

(Groves, 2009) refers to targeted population as elements through which the researcher makes interpretations based on. This means that the population in doing research refers to collective elements comprising of assumed characteristics through which the researcher derives conclusions of the study. The basis of choosing respondents depends on the subject matter being studied and in this case the researcher has bias to expertise, acquaintance and convenience of the sample. In this study the target population is about 120 professionals working in registered commercial banks in Erbil. The targeted banks were RT Bank, Bank of Lebanon, Bank Audi, Middle East Bank, Al-

baraka Bank as well as the Ashur International Bank. Utilizing primary field methods, particularly questionnaires, the data needed to respond to the research questions was gathered. To gather comments on the benefits and drawbacks of establishing internal audit roles in enhancing commercial banks' internal control systems, questionnaires were created. The acquired information was then arranged and entered into SPSS for quantification and analysis for better comprehension.

## **2.2 Sampling**

(According to Saunders (2001), a sample can give insight into the entire population from which it was drawn. It is nearly impossible to poll the entire population for a variety of reasons. The study's timeframe and financial limitations could be two of the causes. As a result, sampling enables the researcher to collect data from a subgroup while also minimizing the number of research constraints and associated expenses.

When choosing members of the entire population for this study, the researcher used both probability sampling and non-probability sampling techniques. A large sample size was used in this study, which reduces bias when extrapolating results from the entire population. Validity and reliability were given top consideration when designing the sample because it was intended to be a true representative of the entire population. Thus, the sample was selected based on availability, experience, knowledge, and convenience.

### **Sample size**

A sample size is a portion of a statistical population that fairly depicts all of its members. The subset must accurately represent the entire population without prejudice. The size and complexity of the data being collected determine what subset should be chosen.

## **2.3 Sampling size computation**

In order to calculate the sample size for a study, the researcher employed an infinite sample calculation formula. It is the approach that is most frequently used to estimate the study's sample size.

All seven of Iraq's commercial banks were included in the sample. From a target demographic of 150 professionals in commercial banks in Iraq, the researcher chose 120 employees. Big commercial banking institutions, medium-sized commercial banks, and small commercial banks were used to choose the responders.

The data was examined for accuracy, suitability, and applicability.

**Sample size** was calculated at:

- Confidence level of 90%
- margin error 7.83% □
- 110 respondents out of indefinite population

## **Sources of data**

In order to answer research questions and fulfill the study's objectives, the researcher employed primary data. To complete this research successfully, data was gathered from secondary sources.

### **Gathering primary data**

Data that has not been filtered or evaluated is referred to as primary data, although organizing raw data is typically more expensive and challenging. For this study, the primary data were gathered by the researcher using questionnaires. Because it is founded on facts and observations, field work makes a valuable source of information for academic research.

### **Questionnaires**

A questionnaire is a series of questions that the researcher distributes to the target population with instructions to complete them and return them for analysis. This made it possible for the researcher to gather a wide range of viewpoints from the audience.

The used questionnaire had a closed format, which made it easier for the researcher to collect just pertinent data.

Open-ended questions allow respondents to express their thoughts freely and without restraint, according to a number of academics. Closed questions, on the other hand, direct the responders by forcing them to select from predetermined options.

The survey was adapted from research of a comparable nature carried out by Earnest & Young LLP (2004).

#### **Advantages of using questionnaires**

The use of questionnaires is preferred since they are safe and highly likely to maintain anonymity because no name or other identifying information is provided. They are practical since respondents can finish them at their own pace and in their free time. Additionally, they make it possible for researchers to obtain data fast and affordably.

#### **Problems of questionnaires**

Because there is already an established questionnaire, it might occasionally be challenging to ask additional questions of responses.

The survey was used, thus it was difficult to formulate and word questions on certain complicated and delicate matters that seemed political and sensitive.

Because the researcher had little control over how questionnaires were filled out, some respondents deleted or skipped over certain items.

Respondents interpret questions from a variety of angles, suggesting that subjectivity may occasionally be affected.

The respondent's level of consideration, sincerity, and effort in answering each question cannot be controlled by the researcher.

## **2.5 Data analysis technique and presentation**

The SPSS program was used to examine the data. The SPSS was used to code and collect the data for the analysis. This study's analysis was primarily descriptive in nature. The SPSS spreadsheet was used to conduct the analysis. Comparisons between the results were also done when presenting the findings. According to the different prepositions found, the data were then presented in the form of graphs, tables, and frequencies for comparative study.

Finding the connection between internal audit and the performance of commercial banks was the main goal of this study. Performance was evaluated based on profitability and the veracity of financial data. Independence, internal auditing standards, internal controls, and professional competency are the independent factors in this study.

## **Hypothesis or Prepositions**

Ho: There is no substantial correlation between the financial performance of commercial banks in Iraq and the professional ability of internal auditors.

Internal auditor independence and commercial banks' financial performance don't significantly correlate.

Ho: Internal controls and the financial performance of commercial banks in Iraq are not significantly correlated.

Ho: The financial performance of Iraqi commercial banks and the use of internal auditing standards do not significantly correlate.

## **Conclusion**

The researcher describes the sampling strategies and data collection methodologies used in this study. This chapter also covered the method for data analysis for this investigation. Despite the fact that the data were quantified for clarity and explanation, the research is qualitative in nature. The presentation and analysis of the conclusions gained from the research findings are the main topics of the following chapter.

## **CHAPTER 3**

### **3.0 ANALYSIS AND INTERPRETATION OF RESULTS**

The research's findings are analyzed and reported in this chapter. Data was taken and presented that was gathered from both primary and secondary sources. The aims of the research are met because the results are centered on responding to research queries. Because the research is qualitative, descriptive analysis methods were utilized, and the conclusions were also descriptive in character. To present findings, the researcher employed tables, graphs, and pie charts.

### **Data presentation**

110 banking professionals with extensive expertise and awareness of the effects of auditing were questioned for their opinions on the questionnaire's questions as part of this study. 150 workers from Erbil's commercial banks made up the sample size from which the respondents were drawn. Data obtained through questionnaires serve as the main source of analysis.

## Demographic results

**Table 1**

**What is your gender?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	54	49.1	49.1	49.1
Male	53	48.2	48.2	97.3
3.00	3	2.7	2.7	100.0
Total	110	100.0	100.0	

According to the table above, women who worked as professionals in the banking sector for Kurdish commercial banks made up the majority of respondents.

**Table 2**

**What is your current position in this organization?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Junior staff	23	20.9	20.9	20.9
Intermediate Staff	28	25.5	25.5	46.4
Senior Staff	22	20.0	20.0	66.4
Managerial Staff	30	27.3	27.3	93.6
Other	7	6.4	6.4	100.0
Total	110	100.0	100.0	

Senior staff or people who worked in the banking industry made up the bulk of survey responses. Table 2 reveals that managers made up 27% of the respondents, bank intermediate personnel made up 25%, and the rest 6.4% were likely made up of part-time workers. The respondents fairly

represented all employment groups, which is crucial for obtaining impartial respondents to answer study questions.

**Table 3 Profession of area of specialization in the bank**

**What is your department in this bank?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Accounting	22	20.0	20.0	20.0
Marketing	28	25.5	25.5	45.5
Auditing	21	19.1	19.1	64.5
Retail	17	15.5	15.5	80.0
Other	22	20.0	20.0	100.0
Total	110	100.0	100.0	

Internal auditors come in second with 19.1% of the responses, and accountants come in third with 20%. Other departments including information technology (IT), risk management, and human resources management contributed about 22% of the total. By asking the opinions of people from various professions, the researcher was able to get rid of prejudice and get objective replies to research questions.

**Table 4 Education level of respondents**

**What is your level of education?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Secondary Certificate	10	9.1	9.1	9.1
Diploma level	11	10.0	10.0	19.1
Bachelor's Degree	60	54.5	54.5	73.6
Masters level	19	17.3	17.3	90.9
PhD	10	9.1	9.1	100.0
Total	110	100.0	100.0	

Since educated professionals make up the majority of the respondents in the table above, it can be concluded that they are fully aware of the goals of auditing and its effects. The fact that 54.5% of respondents have a bachelor's degree, 10% have a diploma, and 17.3% have a master's degree leads to this conclusion. Because the responders actually comprehended the quiz's context, the best answers were anticipated.

**Table 5 Length of service in the banking industry**



**How long have you been working in the organization?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	36	32.7	32.7	32.7
	2-5 years	22	20.0	20.0	52.7
	6-9 years	39	35.5	35.5	88.2
	Above 10 years	13	11.8	11.8	100.0
	Total	110	100.0	100.0	

The estimated experience of respondents in their roles is shown in the table above. The conventional belief is that a person improves in their career through time and with more experience. Since 70% of the respondents had more than two years of experience, it is assumed that they are familiar with internal control systems in their entirety.

**Objective 1**

**Table 6**

**The financial performance of commercial banks is impacted by the internal auditor's skill.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	62	56.4	56.4	56.4
	Strongly Agree	40	36.4	36.4	92.7
	Neutral	8	7.3	7.3	100.0
	Total	110	100.0	100.0	

Table 6 Internal auditors serve as watchdogs for all bank personnel, which enhances the level of accountability and the veracity of financial statements. What the Internal Auditing Standards say is directly related to this. 92% of respondents agreed or strongly agreed that commercial banks' financial performance improves when internal auditors are qualified professionals. Nevertheless, 7.3% of respondents thought that they lacked knowledge about whether internal auditors have an impact on a bank's financial performance.

**Table 7**

**Do internal auditors find it challenging to spot fraud and other related fraudulent actions that are intrinsically unpredictable and have an impact on the bank's performance?**

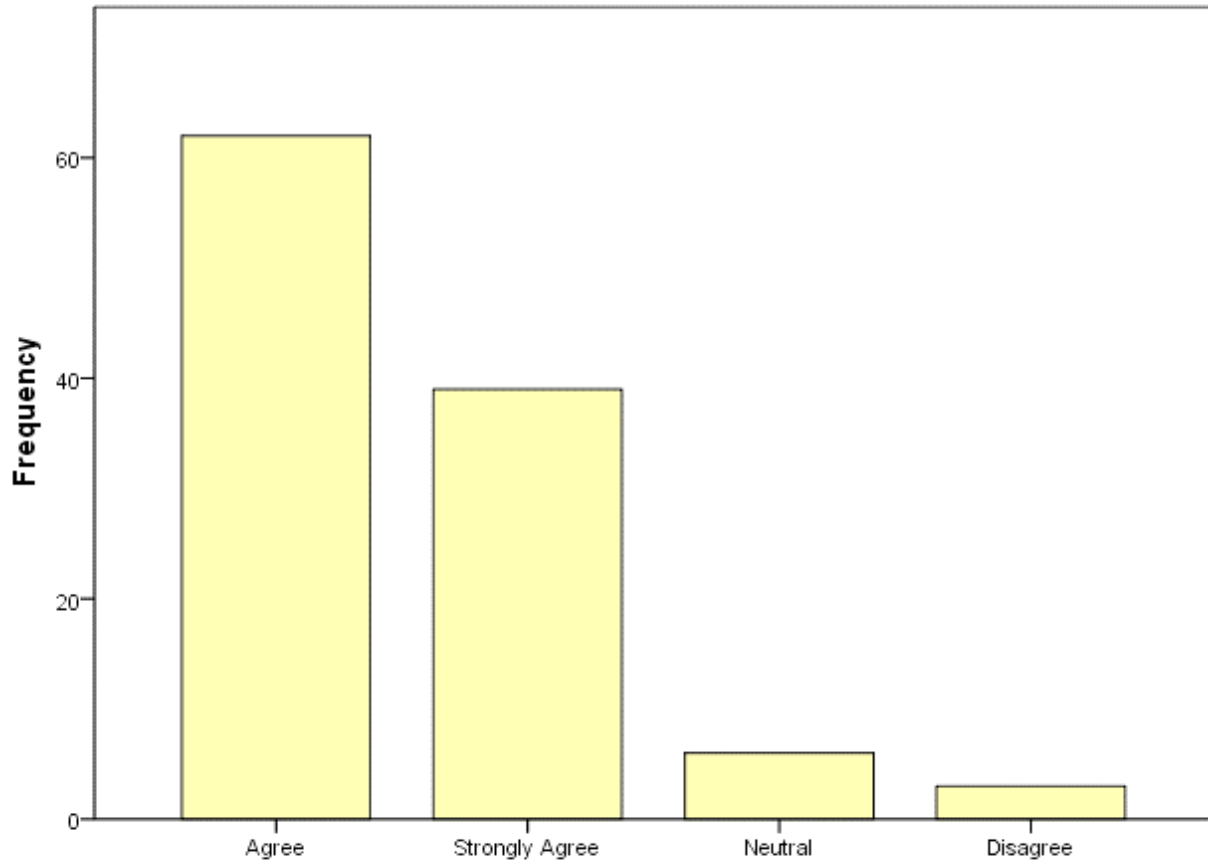
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	29	26.4	26.4	26.4
Strongly Agree	16	14.5	14.5	40.9
Neutral	27	24.5	24.5	65.5
Disagree	38	34.5	34.5	100.0
Total	110	100.0	100.0	

Table 7 was asked in order to determine how bank personnel felt about internal auditors' capacity for monitoring and spotting fraud. The findings show that 40% of respondents fell into one of two categories: highly agreed or agreed. This suggests that internal auditors have trouble foreseeing fraudulent operations.

However, 34.5% of those surveyed said that it is simple for internal auditors to spot bank fraud. This perspective is consistent with the vast majority of writings and Internal Audit Standards.

**Figure 1**

**The auditors in my organization are qualified to undertake audit function.**



**The auditors in my organization are qualified to undertake audit function.**

The majority of respondents, according to the results of a poll by the Association of Chartered Financial Analysts in Nigeria (Africa), believe that internal auditors at their bank are fully qualified to do their tasks. Because they are qualified, it is assumed that they would carry out their responsibilities skillfully and enhance the bank's financial performance.

**Table 8**

**Effective fraud detection depends on all the measures that can make auditors more effective.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	66	60.0	60.0	60.0
Strongly Disagree	34	30.9	30.9	90.9
Neutral	5	4.5	4.5	95.5
Strongly Disagree	5	4.5	4.5	100.0
Total	110	100.0	100.0	

90% of respondents stated that any assistance or initiatives offered to internal auditors will enable them to carry out their responsibilities effectively and identify fraud and risky behavior, which will enhance financial performance. 10% think that even with full support, auditors will never be able to entirely stop fraudulent activity. Based on the notion that fraud is ingrained in banks, this is done.

**Objective 2: Internal Controls**

**Table 9**

**The financial performance of Iraqi commercial banks is impacted by internal controls.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	53	48.2	48.2	48.2
Disagree	34	30.9	30.9	79.1
Neutral	19	17.3	17.3	96.4
Disagree	4	3.6	3.6	100.0
Total	110	100.0	100.0	

The primary responsibility of internal auditors is to consistently assess the performance of internal control systems. The findings show that more than 75% of respondents felt that internal controls have an impact on a bank's financial performance. These findings are consistent with the literature reviewed in Chapter 2. It is reasonable to assert that internal auditors help commercial banks operate financially better.

**Table 10**

**Board or audit committee reviews audit and other important control systems on a regular basis.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	57	51.8	51.8	51.8
	Strongly Agree	27	24.5	24.5	76.4
	Neutral	25	22.7	22.7	99.1
	Disagree	1	.9	.9	100.0
	Total	110	100.0	100.0	

The goal of the study was to determine whether the audit committee consistently reviewed internal auditors' work. 72% of respondents, or them, either agreed with this statement or strongly agreed with it.

This indicates that internal auditors' work is also subject to inspection; as a result, they must carry out their responsibilities as effectively as possible to stop any fraudulent activity in the bank.

**Table 11**

**There are policies and procedures in place to make sure important decisions are made with the proper authority.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	45	40.9	40.9	40.9
Strongly Agree	32	29.1	29.1	70.0
Neutral	33	30.0	30.0	100.0
Total	110	100.0	100.0	

The purpose of this statement was to determine whether managers' important decisions, such as those on new initiatives, asset acquisitions, and other risky investments involving sizably big sums of money, are scrutinized by internal auditors. According to the findings, 70% of respondents agreed or strongly agreed that internal auditors had established precise policies and processes that bank decision-makers should adhere to.

The inference is that by establishing these procedures and ensuring that users follow them, internal auditors are essentially enhancing the bank's financial performance.

**Table 12**

**This bank has an effective back up system.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	26	23.6	23.6	23.6
Disagree	27	24.5	24.5	48.2
Neutral	30	27.3	27.3	75.5
Disagree	19	17.3	17.3	92.7
Strongly Disagree	8	7.3	7.3	100.0
Total	110	100.0	100.0	

A backup system's various levels of availability are displayed in Table 12. Due to the inability to track transactions and crucial information in the event that they are lost, the absence of a backup system raises the danger of fraudulent operations.

More than 50% of respondents either disagreed with the existence of an efficient backup system or were unsure. This is incredibly risky and a fraud opportunity.

**Table 13**

**This bank's internal audit division is separate from the operations it oversees and routine internal control procedures.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	51	46.4	46.4	46.4
Strongly Agree	45	40.9	40.9	87.3
Neutral	11	10.0	10.0	97.3
Disagree	3	2.7	2.7	100.0
Total	110	100.0	100.0	

Internal auditors' roles in commercial banks in Iraq were investigated to determine whether they were distinct from the activity they reviewed. The goal of the study was to determine whether internal auditors are separate from routine control systems. Results show that 86% or more of respondents agreed or strongly agreed that internal audit is independent of bank operations. The outcomes are consistent with the Internal Auditing Standards' recommendation that internal audits be independent of routine operations.

### **Objective 3: Independence**

**Table 14**

**The financial performance of commercial banks in Iraq has improved as a result of compliance with internal auditing standard criteria.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	58	52.7	52.7	52.7
Strongly Agree	40	36.4	36.4	89.1
Neutral	12	10.9	10.9	100.0
Total	110	100.0	100.0	

A survey by the Bank for International Settlements (BIS) found that more than 50% of respondents agreed that banks' financial performance does improve when internal auditing standards are



followed. Additional 36.4 percent strongly agreed with this assertion, while 10% disagreed and 10% were undecided on whether standards compliance genuinely enhances financial performance. The notion that financial performance is based on underlying economic conditions is most likely to blame for this.

**Table 15**

**The performance of commercial banks is influenced by the standards for auditing and audit-related services.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	71	64.5	64.5	64.5
Strongly Disagree	33	30.0	30.0	94.5
Neutral	6	5.5	5.5	100.0
Total	110	100.0	100.0	

The need to make transparent decisions is imposed by auditing services on people trusted with bank funds. Therefore, auditing services increase the veracity of financial reports, thereby enhancing the bank's overall performance and integrity. According to the findings, 94.5% of respondents felt that audit services have an impact on how well commercial banks perform.

**Table 16**

**Internal auditors use a systematic and disciplined approach in the bank to improve risk management, control, and governance.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	69	62.7	62.7	62.7
Strongly Agree	12	10.9	10.9	73.6
Neutral	28	25.5	25.5	99.1
Disagree	1	.9	.9	100.0
Total	110	100.0	100.0	

Because of their position, internal auditors help the bank's overall financial performance. This is accurate and forms the core of internal audit goals. Internal auditors contribute significantly to overall risk management, controls, and governance of bank operations, 73.6 of respondents agreed or strongly agreed.

**Table 17**

**The reliability of audit reports is greatly enhanced when audit tasks are carried out in compliance with internal auditing standards.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	67	60.9	60.9	60.9
Strongly Agree	19	17.3	17.3	78.2
Neutral	24	21.8	21.8	100.0
Total	110	100.0	100.0	

The purpose of this statement was to determine whether carrying out audit tasks in accordance with IAS enhances the credibility of audit reports. According to the findings, 78.2% of respondents believe that how closely audit reports adhere to IAS influences how credible they are.

Therefore, the more care Internal Auditors take to conduct their tasks in compliance with IASs, the more credible their reports will be. This suggests that if auditors' reports are highly reliable, management will receive better suggestions, which would improve the bank's overall financial performance.

**Table 18**

**Internal auditors offer services related to information other than financial reports, and this is acknowledged by auditing standards.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	67	60.9	60.9	60.9
Strongly Agree	27	24.5	24.5	85.5
Neutral	13	11.8	11.8	97.3
Disagree	3	2.7	2.7	100.0
Total	110	100.0	100.0	

According to the data in the table above, 84.4% of respondents believe that internal auditors' services related to information other than financial reports are acknowledged by auditing standards. This means that internal auditors are able to undertake audits other than financial audits that help the bank function better all around.

This suggests that auditors will take the required action to notify the appropriate authorities if they are conducting a financial audit and discover a red flag or a risk area in compliance. This will lower risks and enhance the bank's overall performance.

**Table 21**

**The bank has elements incorporated into control audits to guarantee that fraudulent actions are recognized or made challenging to complete.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	61	55.5	55.5	55.5
Strongly Agree	30	27.3	27.3	82.7
Neutral	19	17.3	17.3	100.0
Total	110	100.0	100.0	

The goal of the study was to determine the effectiveness of internal control audits and their capacity to stop or identify fraud. The findings demonstrate that more than 70% of those surveyed agreed or strongly agreed that control audits are expertly crafted to find any fraudulent activity.

This suggests that control audits help the bank's overall financial performance by identifying fraud and creating controls that make it challenging to carry out fraudulent actions.

## **4.1 Discussion**

The research's findings are contrasted with the literature and other theoretical studies done by other academics. According to the findings, the internal auditing department has a significant and considerable impact on regulating internal operations and enhancing the financial performance of commercial banks in Iraq.

- The findings showed that the majority of respondents thought internal auditors at commercial banks were impartial and diligent in their work. This raises the audit reports' level of reliability.
- The findings show that risk management and internal auditing services provided by commercial banks in Iraq work in tandem. This means that by spotting fraud and fixing flaws in internal controls to lessen frauds and related fraudulent activities, the internal audit section in commercial banks is playing a significant role in supporting risk management and enhancing overall financial performance. This aligns with the literature mentioned in Chapter 1 of the book.
- The results show that the internal audit function is crucial in reviewing and evaluating the internal control framework of Iraqi commercial banks. This enhances the bank's ability to regulate risk and its financial performance. This is consistent with the obligations set forth in the Internal Auditing Standards for Internal Auditors.
- It is evident that commercial banks that have supported and successfully implemented internal audit sections have increased the credibility of financial statements and that decision-makers are more likely to make the best decisions that are observable and in line with bank objectives. This eliminates fraud and enhances transparency within the bank.
- The findings of this study are consistent with those of numerous other studies carried out in the past by different academics. According to general agreement, internal auditors have enhanced financial performance by regularly examining internal controls, confirming the accuracy of financial reporting, and examining compliance with banking laws and regulations. The bank management also receives guidance from internal auditors.

## **4.2 CONCLUSION**

The results of this study unequivocally demonstrate that the department of internal auditing's services play a crucial role in the financial performance of commercial banks in Iraq. It is obvious that the efficacy of internal controls, professional competence, independence, and internal auditing standards have a substantial impact on the financial performance of commercial banks in Iraq.

The study found that internal auditors are particularly interested in the efficiency of internal controls and check to see if management and employees are following policies and procedures in a professional manner. As a result, the Internal Audit function makes financial reports more credible and provides the bank's risk management division with the best possible support.

Therefore, it is obvious that all steps taken by a bank's stakeholders to improve the effectiveness of internal auditors are viewed as important for identifying fraud, controlling risk, and enhancing the bank's overall financial performance. As a result, the findings substantially agree with the auditing standards and the literature that has been examined.

## **4.3 RECOMMENDATIONS**

### **Recommendations to commercial banks**

- Internal auditors in Iraqi commercial banks must be hired based on their credentials and ability to carry out their jobs skillfully and on their own.
- Commercial banks must take action to demonstrate their commitment to the ongoing professional development of their internal auditors by planning frequent workshops and ensuring that they stay up with technology advancements.
- Regardless of their size, all banks must have an internal audit department to enhance governance and the reliability of reports.
- To ensure that internal auditors are carrying out their responsibilities, competent authorities must also review their work.

### **Recommendations for further studies.**

Internal auditing is a topic that has received little research. It will be more intriguing to see further research on the difficulties internal auditors encounter, risks to their professional competence and independence in commercial banks, and many other related topics.

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