

Impact Of Qualified Auditors On The Finance Performance Of Private Sector Organizations

تأثير كفاءة المدققين على الاداء المالي في الوحدات الاقتصادية للقطاع الخاص

م.م اكرم خاشع بديوي	م.م انس ابراهيم	م.بسام امين صبري
Akram Khashea Bediwi	Anas Ibrahim yousif	Bassam Ameen Sabri Bediwi
akram.bdewi@uoanbar.edu.iq	anasabraham83@uoanbar.edu.iq	bassamsabri80@uoanbar.edu.iq
College of Administration and Economics	College of engineering	Head Manager of Dep. of Finance

تاريخ تقديم البحث: 2022/10/16

تاريخ قبول النشر: 2022/11/29

المستخلص

أن شركات القطاع الخاص، ولا سيما المصارف، هي الوسيط المالي الرئيسي والأكثر أهمية في غالبية الدول، فهي ضرورية للتنمية الاقتصادية. الودائع ورأس المال قصير الأجل والأموال المقترضة هي مصادر التمويل الأساسية الثلاثة للبنوك. تقوم البنوك باستثمارات في العديد من السلع المالية. الاستخدامات الأكثر شيوعاً للأموال المصرفية هي القروض والأوراق المالية والاحتياطيات. البنود الأساسية في الميزانية العمومية للبنك هما القروض والودائع. بسبب التحرير المالي والعولمة والتقدم التكنولوجي، تغيرت إدارة البنوك وعملياتها خلال العقود الثلاثة الماضية. تستخدم هذه الورقة دراسة استقصائية لفحص الآثار المترتبة على جودة التدقيق الداخلي.

Abstract

Since private sector firms, particularly banks, are the main and most significant financial intermediaries in the majority of nations, they are essential to economic development. Deposits, short-term capital, and borrowed money are the three basic funding sources for banks. Banks make investments in many financial goods. The most typical uses of bank funds are loans, securities, and reserves. The two primary items on a bank's balance sheet are loans and deposits. Due to financial liberalization, globalization, and technology advancements, bank management and operations have changed during the past three decades. This paper uses a survey to examine the effects on internal audit quality.

Keywords: Internal Audit, Private Banks, Company directors, Quality Limitations.

Introduction

While these improvements were useful, they also added to the uncertainty, putting institutions in jeopardy. As bank risk increased, banks and central banks were obliged to adopt new risk management systems, emphasising the importance of internal control and internal audits. These divisions must work properly in order for bank regulators to develop safe and healthy financial systems. Many financial crises have happened as a result of economic crises in the past, as well as many financial crises as a result of financial intermediary failures (Pickett, K. 2005). As a result of international trade and business, economic and financial difficulties are spreading over the world. Banks are essential to any economy's long-term health and growth. In the past and present, several international meetings and conferences have been held to aid in the stabilisation of the global financial system. The Basel Committee on Banking Supervision was established in 1974 by a group of ten central bank governors as a banking regulatory authority. The Basel Committee on Banking Supervision established Basel I in 1988 to design rules and regulations for the global banking sector. The Basel I agreement, according to the Bank for International Settlements, requires

international operational banks to have a capital ratio of at least 8% of risk-weighted assets. Many banks faced additional challenges as a result of the financial industry's rapid changes, which were not addressed in Basel I. As a result, the Basel Committee suggests presenting a new agreement, known as Basel II, in 2004. (Wood, D. A., 2009). According to the Bank for International Settlements website, Basel II's principal purpose is to limit the amount of capital a bank must hold to protect against operational and financial risks. The Basel Committee decided in 2013 to work together to modernise international banking laws. According to the Bank for International Settlements' website, Basel III's purpose is to create a regulatory framework for stress testing, market liquidity risk, and bank capital sufficiency. Since the Basel committees, bank regulators and management have paid close attention to internal audits and internal control. Internal auditing and internal control have become essential elements of good bank management. The department in charge of a bank's internal control system is internal auditing. Internal audit verifies that the bank's policies and processes are adequate and adhered to. Internal audit is the most important department in a bank because it serves as the eyes and ears of senior management and the board of directors on the bank's overall operations. The internal control department is in charge of enforcing upper management's and the board of directors' rules and procedures. For banks, having a strong internal control function is essential since it guarantees that objectives and goals are met. Internal controls will be applied to policies, internal rules, banking laws, regulations, and plans.

1 PREVIOUS STUDIES

"Factors impacting the efficacy of internal auditing in Jordanian firms listed on the financial market from the point of view of employees working in the internal audit function" is the title of a research by Al-Nawaisah et al. (2014) that is an unpublished M.A. thesis. From the perspective of those working in the internal audit function in Jordanian industrial enterprises listed on the financial market, the study seeks to determine the variables influencing the efficacy of internal auditing. The study comes to the conclusion that the demographic characteristics of the internal audit function personnel have no bearing on the efficiency of internal auditing in Jordanian industrial enterprises listed on the financial market. The size of the company, the auditor's position in the organisational structure, or the firm's age have little bearing on how successful internal audits are, but the aspects related to the strategic plan have. "The Impact of the Dimensions of Organizational Culture on the Quality of Internal Auditing in Kuwaiti Public Shareholding Companies - A Field Study," by Al-Nimran (2017), is an unpublished M.A. thesis. Clarifying the influence of the elements of organisational culture is one of the study's key goals. On the quality of internal auditing in Kuwaiti public shareholding businesses, these are the organisational dimension, the administrative dimension, the motivational dimension, and the competitive dimension. In Kuwaiti public shareholding enterprises, the study discovered a consistent correlation between organisational culture aspects and internal auditing quality. However, there are differences in how much each organisational culture factor affects the standard of internal auditing in Kuwaiti public shareholding businesses. It is discovered that the strategic dimension has the most influence on how well internal audit activities are conducted. Then follows the competitive dimension, followed by the administrative dimension, which has the least impact on the standard of internal auditing. The Impact of Organizational Culture on the Effectiveness of Internal Auditing in Iraqi Public Shareholding Companies is a study by Al-Dulaimi (2018) that is an unpublished M.A. thesis. The study's objectives include identifying how organisational culture affects internal auditing effectiveness in Iraqi public shareholding businesses and developing suggestions to improve internal auditing effectiveness. The study has produced a number of findings, the most significant of which are the effects of organisational culture on the effectiveness of internal auditing and administrative support in Iraqi public companies, as well as the absence of any effects of organisational culture on the independence of internal auditors in these firms.

2 INTERNAL AUDIT QUALITY

To assist the business in achieving its objectives, the internal audit function offers assurance and advising services on internal controls, such as risk management and corporate governance. A set of requirements must be met in order to accomplish this, including elements that influence the standard of the internal audit profession, strengthen the development of governance principles, add value to the organisation and aid in the achievement of its objectives by offering a reasonable level of assurance that the risks the organisation faces are properly managed and the requisite improvements. The following criteria apply: 2019:93 (Safiya and Ali) (a) The calibre of the internal auditors: The efficiency of the internal audit function depends on the internal auditors' possession of specific personal traits and skills that guarantee the successful and acceptable execution of audit responsibilities by all corporate employees. These traits and skills are demonstrated by the internal auditor's administrative awareness, self-motivation, patience, and persistence, as well as by his or her drive to finish the task at hand in order to fulfil the mission's goals and objectives. Additionally, in order to avoid any conflicts, the management of work should uncover the facts in order to gather proof and hints on which s/he bases his/her view. Internal auditing demands strong communication skills as well. (2) Using electronic auditing of accounts: The audit profession has grown significantly in prominence as a result of its contribution to the transparency, assurance, and reliability of financial statements. It is necessary for the auditor to keep up with technological advancements and to use and rely on technological means in order to complete the internal audit process given the significant volume of activities caused by the growth in the volume of information that must be processed, stored, and presented. (3) A dedication to implementing internal auditing standards: In addition to developing the field of internal auditing and outlining the significance of these standards, the Institute of Internal Auditors in the United States of America published internal audit standards in 1978 that contained a list of the duties of the internal auditor. Early 2004. It started in the start of 2004. (Kamel, 2009:54-55).

3 PROBLEM FORMULATION

The worldwide economic organisation has faced a number of challenges as a result of the current state of lockdown and wars, limiting its natural expansion and ability to continue operations. The state's oversight procedures have been weakened by political upheaval, allowing financial corruption to spread across the administration. A flurry of violations and irregularities, as well as the spread of theft, embezzlement, and manipulation throughout multiple organisations, came from bank supervisory deficiencies, as well as criticism of some commercial banks' refusal to activate internal audit units. In order for the auditing process to be successful, there are a number of challenges to overcome. The audit controllers must keep track of the parameters that are linked to auditing results and are important to auditing quality. However, most financial sectors, particularly in developing countries, do not take use of artificial intelligence (machine learning and deep learning) technologies, which are a key component of the century's development. The impact of computer tools and new technology on banking performance is always being studied.

4 RESEARCH QUESTIONS

In the banking industry, what factors influence the quality of internal audits?

The following are some of the questions that have arisen as a result of it:

- 1- Does a bank's internal auditor's independence affect the quality of the internal audit?
- 2- Does internal auditor training help to increase the quality of internal audits?
- 3- Does the Internal Audit Department's support from the Board of Directors have an impact on the quality of the internal audit?
- 4- Does the size of an internal audit department have an impact on the quality of the audit?
- 5- Does the internal auditor's level of experience affect the quality of the internal audit?

5 RESEARCH HYPOTHESES

- H1- The independence of the internal auditor affects the quality of the internal audit.
- H2- The quality of the internal audit is influenced by the internal auditor's training courses.
- H3- The Board of Directors' support for internal audit management has an impact on the quality of internal audit.
- H4- The size of the internal audit department affects the quality of the audit.
- H5- The level of experience of the internal auditor affects the quality of the internal audit.

Using an analytical descriptive technique and two types of data: secondary data and preliminary data, the researcher proposes to investigate the following factors that influence internal audit quality:

5.1 Secondary data

Previous studies, unpublished studies, periodicals, and books, as well as a review of accounting and financial literature on the subject of internal audit in banks, as well as the American Institute of Internal Auditing's professional performance standards issued in 1978 and the Basel Committee's decisions, were used to develop the study's theoretical framework. In order to evaluate the practises of internal audit departments.

The study's initial data came from a specially designed questionnaire that was delivered to the study's target audience of internal auditors.

The objectives are made then as herein:

- a) Analyzing the data collected using artificial intelligence technology such as Neural Networks.
- b) Make suggestions for how to develop deep learning technology that can perform high-precision data analysis.
- c) Increasing the performance of the neural network by using particle swarm optimization (improved/new version).
- d) Determine the predicted development's performance metrics using a variety of performance metrics such as accuracy, mean square error, mean absolute error, and root mean square error (optimised neural network).
- e) To compare the findings with those obtained using other machine learning approaches like Random Forest and Support Vector Machine.

6 STUDY LIMITATIONS

Due to the sensitivity of the study's subject matter in practise, the researcher anticipates certain difficulties in gathering the data and information required for the investigation. As a result, some employees may develop reservations or misgivings about the organisation. Offices are characterized by many characteristics that have a direct impact on the efforts of the auditors during their implementation of the audit process. Therefore, this impact is positively reflected on the quality of the audit process, i.e., the characteristics that characterize the auditing offices have a positive correlation with the quality of auditing and also considered as a competitive advantage in light of the increasing number of offices.

The characteristics that the researcher addresses through this research include (the size of the audit office, the period of association between the auditor and the client, professional experience, the reputation of the office), and the following is a detailed presentation of each one of these characteristics:

1. The size of the audit office: the size of the office is one of the important characteristics that characterize audit offices, and a basic indicator for assessing the quality of the audit. It is also considered one of the easily measurable indicators based on quantitative and objective criteria, as it is measured through the indicators represented by (the number of clients, the number of office branches, the number of employees in the office, the volume of its revenues). The large-sized audit offices are distinguished by possessing all the professional qualifications that enhance the quality of its work. It is also characterized by its high ability to provide capabilities and means of training for its workforce, which gives it a competitive advantage and allows it to

perform the audit task with high quality, which results in an increase in the number of its clients compared to small offices, and earns them more revenue (Flesher, D.L. 1996).

2. Engagement period: The engagement period means the number of years in which the client stays with the audit office, i.e. the extent to which the auditor undertakes the audit process for the same client. The length of the connection period between the audit office and the client has a positive impact on the efficiency of the audit process. Thus, the long engagement period achieves for the auditor an accurate and deep knowledge of the nature of the client's activity and the variables affecting it, which leads to an increase in the efficiency of the audit process (Bernstein, P.L. 1996).
3. Professional experience: The concept of experience is the time spent by the office or the auditor in performing a specific task or job. In addition, it can be defined: as the sum of the period of practicing the profession for each of the auditing office and the employees of the audit office, in addition to familiarity with the audit procedures, accounting standards, and full knowledge of the client's activity or industry, which leads to the effectiveness and efficiency of the implementation and planning of the audit process (Moeller, 1999).
4. The reputation of the audit office: the reputation of the audit office is one of the important factors that can increase the dependency of the auditors. The reputation of the office depends on giving confidence to the beneficiaries of the audit services. It means the continuous circulation of the name of the office in the profession market, meaning that the audit office is characterized by high performance quality through the credibility of the financial reports that are audited. The auditor's behavior must be consistent with the reputation of the office in which s/he works and to refrain from any method that offends it. The office's reputation is also measured by the large size of the office and the large number of clients, meaning that the auditing offices with a good reputation are have a high ability to identify and confront the problems encountered during the implementation of the audit process, which leads to the outputs of the audit process being of high quality (Brink, 1958).

7 METHODOLOGY

Using an analytical descriptive technique and two types of data: secondary data and preliminary data, the researcher proposes to investigate the following factors that influence internal audit quality:

Table 1: responses encoding keys.

feedback Code key

Strongly agree Two (2)

Agree One (1)

NeutralZero (0)

Disagree Minus one (-1)

Strongly disagree Minus two (-2)

To illustrate the score systems in Table 1, the following norms can be used:

1. If the response is "Neutral," a zero will be entered. 2. A value of one will be substituted if the response is "Agree." 3. A value of two will be replaced if you respond with "Disagree." 3. If you respond with "Disagree," a value of two will be replaced.

3. A value of two will be substituted if you select "Strongly Agree."

4. If the response is "Disagree," a negative one number will be substituted.

5. If the option "Strongly disagree" is selected, a negative two value will be displayed.

When each candidate has gotten 35 responses, the algorithm will review previous data processing points to ensure that each Table 1 answer is reviewed for analysis, and the respected answers are replaced with their Table 1 values. Finally, each applicant will give each question (parameter) a summative score, resulting in a total number of scores for this parameter (question) when all candidates' responses are added together.

8 RESULTS

Questions in Appendix (I) elicited a less neutral response (2, 7, 10, 11, 12, 28). For questions 2, 7, 10, 11, 12, and 28, just one neutral response is more likely. With 12 candidates replying yes to question 18, it garnered the most reported neutral responses.

Question 18: One of the most important factors in audit quality is top management's support for the internal audit department with adequate financial resources.

The question is answered negatively since giving the monies to the auditors could jeopardise their reputation. This is most likely owing to the applicants' interpretation of the inquiry; however, the goal of this investigation is to provide the resources necessary to execute the audit, such as machines and other costly equipment. Furthermore, these candidates had a neutral response when asked about making audit reports (conversation) between internal and external auditors public. On questions 9 and 19, ten applicants acted neutrally, as indicated in Figure 1.

Figure 2 shows that questions 13 and 29 received the most "very agreed" replies, whereas question 18 received none.

Question 18: One of the most important factors in audit quality is top management's support for the internal audit department with adequate financial resources.

The strongly agree measure's minimal agreement with this parameter follows the same rationale as the "neutral" response above (question 18). On the other hand, the vast majority of applicants strongly support the following criteria:

Question 13: Training auditors is one of the most essential ways for developing and improving the quality of internal auditing.

Internal audit management is improved by recruiting highly skilled internal auditors, according to Question 29.

Internal auditor experience is the most essential aspect in increasing the effectiveness of any internal audit process; nonetheless, internal audit experts may require training in order to ensure quality.

Figure 1: the response of neutral monitored for every question in the survey.

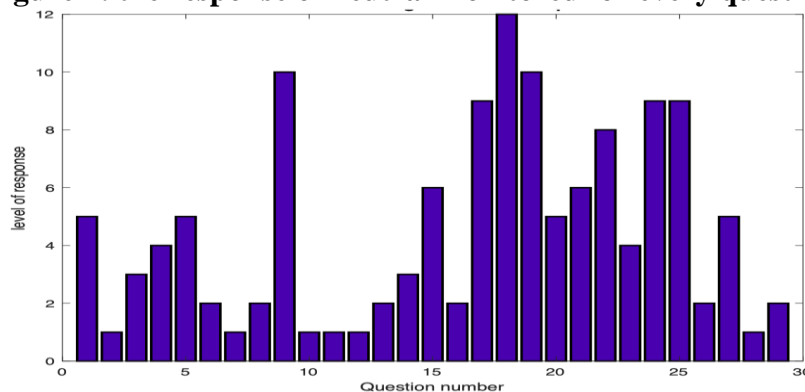


Figure 2: the response of strongly agree monitored for every question in the survey.

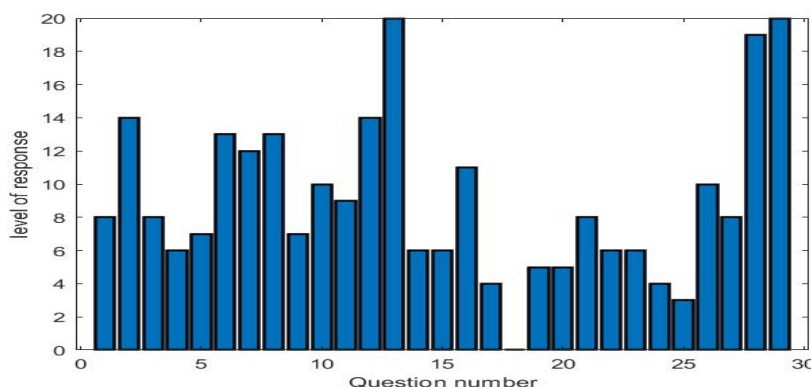
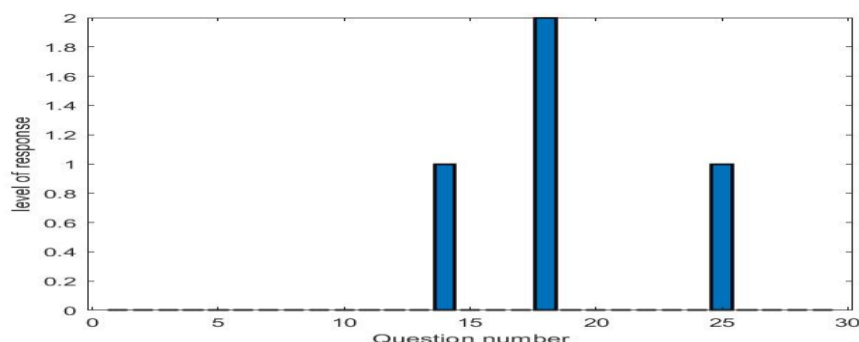


Figure 3: the response of strongly disagree monitored for every question in the survey.



9 CONCLUSION

Internal auditing is an important part of a company's corporate governance. Internal auditors must actively contribute to the formation of an organization's ethical culture, according to the IIA 2130-1 advising practise on the role of the internal auditor in the ethical culture of an organisation. As a result, it can help catch corporate asset theft. Each bank must have an internal audit charter endorsed by top management and supported by the board of directors in order to elevate the internal audit function's stature and power. Because modern banks' operations are getting increasingly complicated, internal auditors must have strong professional competence and adopt risk-focused approaches in their work. "Recent events have highlighted the need of these efforts to establish a culture of strong internal controls and robust internal audit operations in banks as cornerstones of sound corporate governance," said Basel Committee member Professor Arnold Schilder. A high-quality audit is required to safeguard the integrity of public financial reports.

10 REFERENCES

1. Brink's Modern Internal Auditing. Moeller, R., and H.N. Witt. 1999. 1999, 5th Ed. New York: John Wiley & Sons, Inc.
2. Internal Auditing . Brink, V.Z., and J.A. Cashin. 1958. 1958, New York: Ronald Press.
3. Internal Auditing: Business Policy Study No. 111 . Walsh, Jr., F.J. 1963. 1963, New York: National Industrial Conference Board.
4. Internal auditing. Reding, K., Sobel, P., Anderson, U., Head, M., Ramamoorti, S., Salamasick, M. and Riddle. 2013. 2013, Altomonte Springs, Fla.: Institute of Internal Auditors, Research Foundation.
5. The essential handbook of internal auditing.