

## The Impact of Internal Audit Procedures on Limiting Irresponsible Financial and Administrative Practices: An Applied Study on a Sample of Iraqi Islamic Banks

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Received: 26/10/2025

Accepted: 9/11/2025

Available online: 15/12/2025

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**Abstract :** The internal audit department of most of the Iraqi banks is facing several problems that limit their ability to curb the administrative and financial violations and abuses. Technical problems are attributed to a number of reasons. The main reason is the weakness of the staff in the departments in terms of academic qualification and practical experience. The other reason is the limited support from senior management to these units in terms of providing specialized competencies and other resources. Due to that, these departments were not able to execute the critical tasks of auditing and monitoring the banks and ensuring compliance with the approved controls and policies. The auditing profession, with its professional foundations and standards. It is an essential element in the discovery of weaknesses and shortcomings in institutions. With the use of analytical tools and his professional skills, the auditor traces irrational financial and administrative practices. This makes the internal audit an important oversight tool that enhances transparency and ensures institutional commitment to the protection of public and private funds. Additionally, how well an audit system works relies on people being honest within that institution and its processes.

**Keywords:** Internal audit, irrational financial and administrative practices, Iraqi Islamic banks.

**INTRODUCTION:** Banks play a vital role in the financial and economic system of any country. They represent a crucial intermediary that helps to promote economic development and financial stability. The success of Islamic banks is contingent on the existence of an effective auditing and monitoring apparatus that guarantees proper execution of financial dealings and maintenance of institutional performance (Arab Institute of Certified Accountants, 2021). Internal auditing is an oversight tool that serves as the first line of defence against financial and administrative risks as well as irrational financial and administrative practices in all their forms (Al-Ghazali, 2020). In Iraq, Islamic banks in particular suffer from relative weakness in the internal audit systems of banks due to unprofessional working of staff and low institutional support from higher management. As a result of the weakness, these departments were unable to prevent irrational financial and administrative violations and detect any early irrational financial and administrative practices or mismanagement (Al-Halfi, 2019). Iraqi organizations have suffered from irrational financial and administrative practices for decades, the most serious challenge they face. These practices deplete monetary resources and negatively impact confidence in the financial system and the investment environment. This is according to the Federal Commission of Integrity, 2022. Internal audit is a powerful tool to combat irrational financial and administrative practices and promote transparency if conducted efficiently and independently. It involves an examination of financial as well as administrative operations to check compliance of these with applicable policies, instructions, and law (Institute of Internal Auditors, 2020). "There is also an international auditing standard, as well as an Islamic auditing standard, whose role is to raise the integrity and operational efficiency of banks as well. This will make the banking sector even more credible and limit the manifestations of irrational financial or administrative practices. (Arab Institute of Certified Accountants, 2021)" Due to the seriousness of this phenomenon, Iraq has sought to reinforce the principles of oversight and auditing, and it has called for the establishment of specialized oversight institutions, such as the Board of Financial Supervision in 1927. The Public Integrity Commission is one of the bodies that puts forward legislation to reduce irrational financial and administrative practices and increase transparency in financial and banking operations. This topic is essential because it studies the role of internal auditing in the reduction of irrational financial and administrative practices in Iraqi Islamic banks, which represent a scientific and practical method for the development of regulatory performance and governance to achieve sound financial operations within financial institutions..

## **Chapter One: Research Methodology and Previous Research:**

### **First: Research Methodology:**

#### **1. Research Problem:**

The emergence and spread of irrational financial and administrative practices occur in environments that provide appropriate opportunities for it to happen. The institutional and economic contexts determine the form and type of the business setup. Irrational financial and administrative practices are now seen as a phenomenon with global and international dimensions. Such irregular practices are not confined to any particular political or economic system. Their diverging nature also extends to more systems. In various sectors, many internal audit and oversight departments show a clear weakness in their ability to restrain administrative and/or financial violations and transgressions. Recent studies regarding the human resource sector have shown that poor human resourcing in organizations stems from various factors. Most notably, the poor qualification of working personnel in terms of academic competence and practical experience. In addition, the limited support of senior management to these departments, in terms of the provision of specialized competencies and the necessary technical resources. The performance of these departments is also impacted adversely by a direct administrative connection to senior management within the same department, which infringes on their independence and impartiality while discharging their oversight functions. Islamic banks in Iraq face major problems with the growing number of... The most important problems affecting their efficiency and customer confidence are irrational financial and administrative practices. To solve the problem, it is important to activate the role of internal audit to transform it to be an effective regulatory body that relies on modern audit methods and techniques that enable it to detect violations and control manifestations of non-rational financial and administrative practices.

The problem with the research is the weakness of internal audit procedures in use at the Iraqi banks and the choice of unqualified or incompetent auditors to perform the audit tasks. As a result, there is no detection of errors and deviations, which worsens the irrational financial and administrative practices of the banks in question..

#### **2. The importance of the research:**

The research's importance stems from the seriousness of the spread of irrational financial and administrative practices in society in general and in the banking sector in particular due to the strong negative effects of this phenomenon on the various economic, social, and political aspects of the state. The dissemination of excessive financial and administrative practices undermines confidence in the performance efficiency of financial institutions and negatively impacts the sustainability of the economic resources of banks. This study is important because it explains the key contribution of internal audit in minimizing irrational financial and administrative conduct. It is achieved by monitoring actions of various financial and administrative organizations in banks and the collection of errors and deviations from the standard as soon as possible. The banking process is improved further via internal auditing, which is not only involved in error finding. But it is also responsible for strengthening good procedures and correcting malpractices. The research is essential because it highlights the close link between the effectiveness of the internal audit system and the stability of the banking system. If a bank's auditing process is not strong and resilient, there are greater chances that it will engage in unfounded behaviour, which is financial and managerial. This can disrupt its continuity and expose it to financial risk that can eventually lead it to bankruptcy. The research aims to show how internal auditing can help banks protect their resources and improve their operational and financial sustainability..

#### **3. Research Objectives:**

This study aims to set of scientific and practical goals that would enhance the efficiency of oversight work in the Iraqi Islamic banks. These objectives can be summarized as follows.

To what extent has internal auditing been activated to reduce irrational financial and administrative practices of Iraqi Islamic banks? Auditing has been effective in discovering and preventing irrational financial and administrative practices.

B- Start working on the development of the profession of the internal auditor and the elevation of the level of the internal auditor, through the emphasis on academic qualifications and professional qualifications, which will contribute to strengthening the oversight role of the profession and raising its efficiency in banking institutions.

C- Presenting the propositions and recommendations, a group of practical could contribute to mitigating the manifestations of irrational financial and administrative practices in the Iraqi Islamic banks, support the principles of integrity and transparency, and enhance customer.

#### **4. Research Hypothesis**

Internal auditing in Iraqi Islamic banks enhances financial and administrative performance efficiency. It helps correct errors, document, and monitor financial and accounting procedures to ensure their integrity.

Option B indicates the availability of a set of indicators with a global character to measure the level of irrational financial and administrative practices in banks, and to be able to evaluate the banking environment in Iraq

Internal auditing is effective in combating irrational financial and administrative practices in Iraqi Islamic banks through its early detection of violations and improving oversight of banking activities.

##### **5. Research Population and Sample:**

The research project focused on effective systematic analysis in a number of banks. This is a sample of at least an accountant, an auditor, an accounting manager, an audit manager, and a group of specialists in internal auditing and irrational financial and administrative practices. The focus was put on this sample experience as a factor in influencing the quality and accuracy of the responses to the questionnaire. Out of the 40 questionnaires circulating, 36 were returned for the statistical analysis, which is 94%. To ensure result accuracy and speed, a direct method of distribution and retrieval was adopted..

##### **6. Research Methodology**

The descriptive analytical approach was used with the statistical program "SPSS" based on the five-point Likert scale. This is one of the popular scales used for measuring opinion because it is easily understandable and it has equal scores. The analysis of the questionnaires was carried out based on a five-point Likert scale. The two sub-variables consist of questions that firstly deal with (internal auditing in Iraqi Islamic banks), and second with (the irrational financial and administrative practices in Iraqi Islamic banks)..

##### **Second, previous studies:**

###### **1- Jinan M. Al-Mawla's study, 2024, "The role of internal auditing in enhancing risk management: An applied study on a sample of Iraqi banks listed on the Iraq Stock Exchange.**

The purpose of this study was to assess the effect of internal auditing on the effectiveness of risk management in Iraqi public banks listed on the Iraq Stock Exchange. Questionnaires were based on international auditing standards in this study. Given the word count, I would like you to paraphrase the above text while retaining its meaning. The degree of compliance with these internal standards was observed to be relatively high level..

###### **2- Fatima et al.'s study, 2025, "The effectiveness of internal audit procedures in Iraqi banks.**

The purpose of the current study is to assess the effectiveness of internal auditing procedures in Iraqi banks in curbing illogical financial and administrative practices. For this purpose, a questionnaire was designed and submitted to a sample of internal auditors working in Iraqi banks. The results of the research revealed a significant positive relationship between the efficiency of the internal audit and the success of the procedures implemented to reduce irrational financial and administrative practices..

###### **3- Alaa Hussein Al-Shafei's study, 2020, The Role of Internal Auditing in Reducing Irrational Financial and Administrative Practices in the General Tax Authority**

The study's focus is on the internal audit role to mitigate unreasonable financial and administrative practices at the Iraqi General Tax Authority. The result showed that compliance with regulatory instructions and efficiency of internal control significantly reduces unreasonable financial and administrative practices.

###### **4- Abbas Murad Khnaitel's study, 2022, The Role of Internal Audit Reports in Reducing Financial and Administrative Corruption**

The purpose of this research is to identify the role that internal auditing reports play in curtailing irrational financial and administrative practices by improving the efficiency of spending of the IRIQI units of government. Based on the findings from the study, the preparation and implementation of internal audit reports are capable of uncovering financial mismanagement while enhancing the transparency of public resources' management..

###### **5- Al-Ju'ani's study, 2023, Islamic Banks and Their Role in the Economic Development Process**

This study seeks to assess the performance efficiency of the innovative experience of Islamic banks in Iraq from the financial and economic perspectives. Several Islamic banks in Iraq, the UAE, and Jordan were compared for their performance efficiency according to the study. According to the results, Iraqi Islamic banks face a challenge in enhancing their financial and administrative performance, but despite that, they are still effective in contributing to economic development through the provision of banking services that comply with the provisions of Islamic Sharia..

###### **6- Study, Al-Mawla, 2024, The Impact of Internal Audit on Risk Management in Iraqi Banks**

The purpose of this study is to analyze the effect on risk management of banks in Iraq as per the international standards of internal audit. The study included a sample of banks operating in Iraq. Questionnaires were sent to the relevant participants, and that formed data for analysis through applied research methods. The study's findings illustrated that having an effective internal audit system can improve risk management procedures and strengthen internal control at the bank's level, which would further assist in curtailing the financial and administrative risks.

##### **What distinguishes this study from previous research:**

A review of the earlier studies indicated that some of them were focusing on work internal auditing, the concept of audit, the origin, its application, and tools, and whatnot. Various studies focused on financial and administrative irrational practices of economic units and conventional banks, and other studies dealt with the work of Islamic banks

and their development. Unlike most previous studies, this study also performed a test on the role of internal auditing in the discovery and minimization of irrational financial and administrative practices at Islamic banks and the cost of not engaging a highly qualified auditor capable of auditing the bank's records. The significant characteristic of this study is the fact that it has been applied to two Islamic banks: Elaf.

Islamic Bank and Iraqi Islamic Bank for Investment and Development..

## **Section Two: The Theoretical Aspect:**

### **First: Internal Auditing:**

#### **1- The Concept of Internal Auditing:**

Internal auditing is one of the essential functions that contribute to the increased efficiency and transparency of institutions of different types. It refers to a supervisory and advisory tool to enable the management to improve performance and use the available resources optimally. An independent and objective activity within an organization that, given due authority (Designed Function), is accountable to the board and senior management but does not assure operational effectiveness of risk management, internal control, and governance system (IIA, 2017). The purpose of internal auditing is to help senior management and the board of an entity in the achievement of its strategic objectives. This goal was reached by the secure assessment and analysis of sufficient internal control systems, adherence to policies and procedures, managing the efficiency and effectiveness of financial reporting, and acquiring the best possible use of the resources at a low cost (Sawyer et al., 2019). The internal auditor's role in compliance has shifted. Its role is no longer limited to discovering mistakes or fraud; it is also to advise on improving performance and complying with local and foreign laws and regulations (Al-Mutairi, 2019). Internal auditing in the modern age helps organizations to act efficiently and resolves to be accountable (Whittington & Pany, 2021). Internal auditing nowadays is a critical component of the corporate governance system as it connects executive management and the Board of Directors through its independent reports, which enable decision makers to assess strategic performance and the soundness of procedures and systems (Al-Abdali, 2020).

#### **2- Essential Characteristics of Internal Auditing:**

- The auditor must be completely independent from the departments whose operations are audited to ensure professional impartiality and objectivity in assessment (IIA, 2017).
- Internal auditing is based on objective analysis that is free from bias or personal interests. (Al-Abdali, 2020)
- The internal audit activity will cover all kinds of work done in the company, whether it is financial, operational, or administrative (Sawyer et al., 2019).
- Internal auditing is an ongoing process implemented all year long; it's not seasonal (Al-Mutairi, 2019).

#### **3- Objectives of Internal Auditing:**

- According to Al-Mutairi (2019), improving operational performance and enhancing productivity can be achieved through the application of lean tools.
- Making sure that laws, regulations, and internal policies are followed.
- We must spot errors early on and tackle them before they grow into a bigger problem.
- The enterprise risk management system, and making it more effective (Sawyer et al, 2019).
- We assess how well internal controls at the regional commercial bank manage risks to ensure that these systems are efficient and effective.)

## **Second: Irrational Financial and Administrative Practices:**

### **1- The Concept of Irrational Financial and Administrative Practices**

Unreasonable financial and administrative behaviors are one of the most threatening phenomena that current societies have to deal with. They are one of the greatest impediments to economic and social development and have an adverse effect on the effectiveness of state institutions as well as the trust people have in them. The definition of irrational financial and administrative practices depends on the angle in which it is contemplated (legal, economic, or social), but they all support the notion that it consists of the application of power to derive personal or group gains at the cost of civic interest (Transparency International, 2023). According to Transparency International, irrational financial and administrative practices are: "The misusing of vested power to personal benefit" (Transparency International, 2023). Under the United Nations view, irrational financial and administrative practices as stipulated in the United Nations Convention against Irrational Financial and Administrative Practices of 2003 is the one which encompasses a spectrum of illegal actions encompassing bribery, embezzlement, influence peddling, abuse of office, and illicit enrichment which undermine the integrity of public work and results in wastage of resources (United Nations, 2003). Rationally, irrational financial and administrative activities are some of the causes that result in diluting the growth of the economy, the distorted investment environment, and the unequal wealth distribution. The United Nations also contributes to the erosion of government institutions and confidence in administrative and financial systems (Rose-Ackerman, 2016). According to the United Nations, the United Nations Convention against Irresponsible Financial and Administrative Practices of 2003 defines illicit financial and administrative practices as a set of illegal actions,

including, but not limited to bribery, embezzlement, influence peddling, abuse of office, and illicit enrichment, which have degraded the integrity of the work of the state (United Nations, 200 Finance and administrative irrationality are economic aspects that weaken the economic growth, distort investment environment, and evenly allocate wealth. They also help to undermine government institutions and erode trust in administrative and financial systems (Rose-Ackerman, 2016).

## **2- Types of Irresponsible Financial and Administrative Practices:**

Unscrupulous financial and administrative practices are multiple and diverse in accordance with the political and administrative systems in the countries. They may be categorized into a number of fundamental types, which indicate their different forms. The most common types are irresponsible administrative, financial, and administrative practices, which are the misuse of an administrative office to obtain a personal advantage by practicing practices like favoritism, mediation, and abuse of power (Abdul Rahman, 2019). Actions that entail a direct attack on the public finances, as in the cases of bribery, embezzlement, and manipulation of government contracts and procurement, are related to irresponsible financial and administrative practices. Among the forms of Irresponsible Financial and Administrative Practices, this is a condition provided in the United Nations Convention against Irresponsible Financial and Administrative Practices (United Nations, 2003). Political, irrational, financial, and administrative practices are the most perilous of them all since they engage the use of political influence or power to gain personal advantage, or to manipulate the formulation of laws and government policies in favor of a particular group at the prejudice of the common good. (Rose-Ackerman, 2016).

## **3- Reason behind Irrational Financial and Administrative Practices:**

The reasons for the proliferation of irrational financial and administrative practices are many and different, both in organizational and institutional terms. Weakness in the administrative and oversight frameworks of institutions results in the development of irrational financial and administrative practices. The strongest of these reasons is inefficient internal control systems, lack of principles of transparency and accountability, and the accumulation of power in the hands of a small number of officials, which leaves the possibility of using influence for self-enrichment open. Poor wage levels, the poor level of ethical awareness, as well as poor institutional culture are also some of the factors that predispose the development of dishonest behavior in government agencies (Transparency International, 2023). Moreover, ineffective rule of law and lack of effective governance systems are another factor that leads to the provision of a conducive environment that encourages the development of irrational financial and administrative practices.

## **4- The impact of unreasonable financial and administrative operations:**

Research shows that corruption has serious adverse effects on both the economic and social levels, since it causes the squandering of government funds, compromises the effectiveness of investments, and destroys the confidence of government institutions among citizens (Rose-Ackerman, 2016). There are also irrational financial and administrative practices that contribute to the increase of poverty, social divisions, and deterioration of the efficiency of state administrative performance. Corruption is the wrong tool that has to be fought, as it is critical to achieve financial growth and social justice (Abdul Rahman, 2019). To minimize irrational financial and administrative practices, Transparency International highlights the need to embrace and institute the principles of transparency, accountability, and integrity in all institutions of the state as well as the reinforcement of civil society and media in reviewing and tracking government performance to demand the integrity of the administrative process (Transparency International, 2023).

Third: Iraqi Islamic Banks:

## **2- The Concept of The Islamic Banks in Iraq.**

The Islamic banks in Iraq are financial institutions that are specialized and offer banking and financial services that adhere to the provisions of the Islamic Sharia, which outlaws interest and promotes the application of financing methods that are based on profit and loss sharing, among other economic activities in a fair and transparent way (Abdullah, 2020). The mission of these banks is to fulfill the financial requirements of individuals and businesses according to the religious and cultural beliefs of the Iraqi society, which is to provide various products including Murabaha (cost-plus financing), mudarabah (profit, sharing), musharakah (joint venture), and Ijarah (leasing); the Islamic banks in Iraq also strive to contribute to the financial stability, the support of small and middle-sized enterprises and the achievement of the sustainable economic and social growth by financing the projects according to Sharia requirements (Al-Amin, 2019). However, despite the success, the Islamic banks in Iraq are struggling with several issues, most of which are the lack of specialized expertise in the Islamic bank industry, the lack of Sharia-compliant creditors, and the lack of regulations and a supervisory framework. But these banks are continuously trying to increase their services and performance to provide a balance between compliance and Sharia and the needs of the modern banking standard (Al-Hashemi, 2021).

## **2- Strategic Objectives of Islamic Banks.**

The aim of the Islamic banks is to attain a set of strategic objectives among them the most critical ones being to offer Sharia-compliant financial services that satisfy the religious and economic demands of the customers (Fitch Ratings, 2024). Promoting economic growth through funding projects of both small and large scale, thereby boosting the economy of the country and encouraging investment (Khaleej Times, 2025). Improving financial stability through the application of advanced risk management controls in line with Sharia level (The Banker, 2024). The attainment of social justice through the provision of projects that can enhance the equitable allocation of economic opportunities (WAM, 2024). Innovative products and services should be developed to meet the requirements of the market and to be on the level with modern economic and technological changes (Central Bank of the UAE, 2025).

### 3- Islamic Banking Products and Services.

Islamic banks provide numerous Sharia-compliant banking products, the most noticeable of which are:

Murabaha: It is a sale of goods at a pre-determined profit margin between the customer and the bank (Central Bank of the UAE, 2025).

Mudaraba: The bank is involved in capital and profits and still shares risks (Fitch Ratings, 2024).

Musharaka: Share of funds in common projects between the bank and the clients, and both sides share profit and loss (Khaleej Times, 2025).

Ijara: The leasing of assets and real estate according to the Sharia principles (The Banker, 2024).

Islamic financial advisory: Consultation of specialists in banking services to achieve Sharia in every transaction (WAM, 2024).

## **Part Three: The Applied Part:**

### **The brief overview of the research sample:**

#### **Elaf Islamic Bank**

Elaf Islamic Bank is a bank that was founded in the year 2001 and is based in Baghdad, Iraq. The bank is considered one of the most well-known privately owned banks that operate within Iraq, as the banking operations of the bank began in June 2007, and the bank was listed on the Iraq Stock Exchange in April 2011 under the symbol (BELF) (Iraq Stock Exchange, 2011). The bank offers an extensive variety of banking services that comply with Sharia requirements, and some of them are current and savings account, customer financing via Murabaha and Mudarabah, and electronic banking services such as bank cards and ATM (Elaf Islamic Bank). The bank also takes part in various development and service projects in Iraq, which strengthens its contribution to supporting economic and social development because the capital of the bank is 250 billion Iraqi dinars, and the bank provides various banking services in accordance with the requirements of the Islamic Sharia, such as current and savings accounts, loans and financing according to Murabaha and Mudarabah, and electronic services, such as bank cards and automated teller machines.

Islamic Iraqi Bank of Investment and Development.

Iraqi Islamic Bank, Investment and Development was founded on December 19, 1992, and the official start of the work of this institution took place when the Central Bank of Iraq gave it permission on February 23 of the next year (Iraqi Islamic Bank, 2024). The bank is also among the pioneer Islamic banks in Iraq that follow the Sharia principles in all its banking deals.

The bank has a full scope of financial and banking products such as current and savings accounts, trade finance, loans, and letter of guarantee services. Another way the bank provides its clients with fewer face-to-face transactions and makes its services fast and efficient is through the use of advanced electronic banking services, including internet banking (Iraqi Islamic Bank, 2024). By the year 2025, the capital of the bank will have reached 400 billion Iraqi dinars, with a rise in its capital of 250 billion dinars to 300 billion dinars in January 2024, as a decision of the General Assembly. Iraqi Islamic Bank of Investment and Development is a bank that provides a range of banking facilities, such as current accounts, savings accounts, trade finance, loans, letters of guarantee, among other sophisticated electronic banking services.

Iraqi Islamic Bank was founded on December 19, 1992, and began its operations officially after receiving the permission of the Central Bank of Iraq on February 23, 1993 (Iraqi Islamic Bank, 2024). It is also one of the pioneer banks in Iraq that conforms to the Sharia principles in all its banking operations.

The bank provides an inclusive scope of financial and banking services such as current and savings accounts, trade finance, loans, as well as letters of guarantee. There is also the availability of high-tech electronic banking products like internet banking that facilitate customer transactions to enable speed and efficiency in the bank (Iraqi Islamic Bank, 2024). By 2025, the bank had a capital of 400 billion Iraqi dinars after the bank expanded its capital by buying an additional 250 billion dinars to 300 billion dinars in January 2024, a move approved by the General Assembly. The bank provides full service banking facilities that comprise of current and savings accounts, trade finance, loans, letters of guarantee, and some sophisticated electronic banking services.

### What is meant by internal audit in Islamic banks

Result	Standard Deviation	Arithmetic Mean	Strongly Disagree		Disagree		Somewhat Agree		Agree		Strongly Agree		Paragraphs
			%	T	%	T	%	T	%	T	%	T	
Strongly Agree	0.72	4.38	0	0	2.77	1	5.55	2	41.66	15	50	18	1
Agree	0.73	4.16	0	0	0	0	19.44	7	44.44	16	36.11	13	2
Agree	0.87	4.02	0	0	5.55	2	13.88	5	50	18	30.55	11	3
Agree	0.88	4.19	0	0	5.55	2	13.88	5	36.11	13	44.44	16	4
Agree	0.86	4	2.77	1	0	0	19.44	7	50	18	27.77	10	5
Agree	1.04	3.77	2.77	1	5.55	2	33.33	12	27.77	10	30.55	11	6
Agree	1.22	3.58	11.11	4	2.77	1	27.77	10	33.33	12	25	9	7
Agree	0.94	3.83	0	0	8.33	3	27.77	10	36.11	13	27.77	10	8
Agree	1.29	3.55	8.33	3	11.11	4	30.55	11	16.66	6	33.33	12	9
Agree	0.91	3.44	0	0	11.11	4	50	18	22.22	8	16.66	6	10
Agree	1.02	3.52	2.77	1	11.11	4	36.11	13	30.55	11	19.44	7	11
Agree	0.85	3.80	0	0	2.77	1	30.55	11	47.22	17	19.44	7	12
Disagree	1.18	2.55	16.66	6	38.88	14	27.77	10	5.55	2	11.11	4	13
Agree	0.93	3.91	2.77	1	2.77	1	22.22	8	44.44	16	27.77	10	14
Agree	0.79	4.05	0	0	2.77	1	19.44	7	47.22	17	30.55	11	15
Agree	0.90	3.91	2.77	1	2.77	1	19.44	7	50	18	25	9	16
Strongly Agree	0.80	4.44	2.77	1	0	0	2.77	1	38.88	14	55.55	20	17

### Tracing the Results of an Internal Audit Survey in the Iraqi Islamic Banks.

Independence of Internal Audit: The findings indicated that internal audit is connected with the highest level of management, which is independent of other departments. The positive responses were about 91.66, the mean was 4.38, and the standard deviation was 0.72, which indicated that the responses were strong, and there was a low level of dispersion of responses.

Presence of an Audit Committee in the Board of Directors: The findings indicated that it has an Audit Committee to oversee and follow up with an average of 4.16 and a standard deviation of 0.73, and this strengthens the independence and objectivity of the internal audit.

Presence of a clear manual and operating procedures of the audit department: The findings revealed that the audit department possesses clear programs of work with a mean of 4.02 with a standard deviation of 0.87, which shows that work systems are clear in Islamic banks.

Preparation of Periodic Reports: The findings indicated that the audit department prepares periodical reports to the top management with a mean of 4.19 and a standard deviation of 0.88, which was an indication of the ability of the audit department to communicate and follow up effectively.

Instead of going with a loose set of standards, the availability of definite standards to direct internal audits, mean of 4 and a standard deviation of 0.86, enhances the quality of audit work and makes sure that there are no weaknesses left unchecked.

Following up on auditor recommendations: The findings revealed that the auditor follows up on the implementation of their recommendations with a mean of 3.77, with a standard deviation of 1.04, with a higher dispersion in the responses, indicating some implementation difficulties.

Specialization and competence of staff: It was observed that not all employees are working in their areas of specialization that is shown by a mean of 3.58 and a standard deviation of 1.22 which shows that better job distribution should be adopted.

Defining staff objectives and authorities: The findings showed the significance of defining the authorities and tasks of internal audit employees, whereby a mean is 3.83 and a standard deviation of 0.94.

**Audit work comprehensiveness:** The internal audit work is comprehensive of most of the areas of banks, although there are a few areas lacking in some of the departments, with a mean of 3.55 and a standard deviation of 1.29.

**Employee Development Programs:** There are employee development programs, which are inadequate, with a mean of 3.44 with a standard deviation of 0.91.

**Objective Staff Appointment:** The objective staff has seen some improvement in the hiring process, with a mean of 3.52 and a standard deviation of 1.02, although in some cases, there is still some favoritism.

**Continuous Training Programs:** Banks offer training programs to employees, with an average of which is 3.80 and a standard deviation of 0.85 to boost their efficiency.

**Staff Qualifications:** The audit and accounting department has a weakness in employee qualification, with a mean of 2.55 and a standard deviation of 1.18, and this needs to be improved.

**Focus on the Implementation of Audit Recommendations:** The management has a commitment to implement the recommendations with a mean and a standard deviation of 3.91 and 0.93, respectively, which improves the independence and effectiveness of the auditors.

**Education qualification of the auditor:** The mean difference of 4.05 and standard deviation of 0.79 have a significant influence on the success of an audit.

**Qualified staff:** The findings indicated that the audit department has access to qualified staff in terms of education and skills, with an average of 3.91 and a standard deviation of 0.90.

**Staff competence and integrity:** This is one of the determinant factors of the effectiveness of the internal audit department, with the mean being 4.44 and the standard deviation being 0.80, indicating that **individuals are confident with the outcome of internal auditing.**

**How does internal auditing limit irrational financial and administrative practices in Iraqi Islamic banks?**

Result	Standard Deviation	Arithmetic Mean	Strongly Disagree		Disagree		Somewhat Agree		Agree		Strongly Agree		Paragraphs
			%	T	%	T	%	T	%	T	%	T	
Strongly Agree	0.76	4.25	0	0	0	0	19.44	7	36.11	13	44.44	16	1
Somewhat Agree	1.31	2.77	13.88	5	41.66	15	11.11	4	19.44	7	13.88	5	2
Disagree	1.52	2.52	36.11	13	22.22	8	11.11	4	13.88	5	16.66	6	3
Somewhat Agree	1.11	3.30	5.55	2	16.66	6	36.11	13	25	9	16.66	6	4
Disagree	1.56	2.30	47.22	17	19.44	7	5.55	2	11.11	4	16.66	6	5
Somewhat Agree	1.19	3.22	11.11	4	11.11	4	38.88	14	22.22	8	16.66	6	6
Agree	1.18	3.41	8.33	3	13.88	5	22.22	8	38.88	14	16.66	6	7
Agree	0.81	4.16	0	0	2.77	1	16.66	6	41.66	15	38.88	14	8
Agree	1.07	3.41	2.77	1	13.88	5	44.44	16	16.66	6	22.22	8	9
Agree	0.95	3.77	2.77	1	0	0	41.66	15	27.77	10	27.77	10	10
Agree	0.97	3.97	2.77	1	0	0	30.55	11	30.55	11	36.11	13	11
Agree	0.71	3.72	0	0	2.77	1	33.33	12	52.77	19	11.11	4	12
Somewhat Agree	0.81	3.27	0	0	13.88	5	52.77	19	25	9	8.33	3	13
Agree	1.22	3.55	5.55	2	13.88	5	30.55	11	19.44	7	30.55	11	14

#### **Executive summary of the Survey findings on Irresponsible Financial and Administrative practices in Iraqi Islamic Banks.**

The analysis of the survey, which contained a sample of employees working in Iraqi Islamic banks, showed that there is a complex of significant indicators of the reality of internal control, the degree of transparency, and the high degree of irrational financial and administrative practices.

Presence of Unexpected Inspection Committee. The outcome was that there were unforeseen inspection committees both within and outside the banks to check performance and identify mistakes and manipulations. The average was 4.25, and the standard deviation was 0.76, which showed that the response rate was very high, and the opinions were not widely spread. The researcher, however, observed that the number of these committees, especially the ones that are linked to the Central Bank, is minimal and inadequate.

Poor Administrative follow-up of Employees. The evaluation has found that employee performance monitoring was a relative weakness of the administration, and the average was 2.77, which is a weak response with a high dispersion. The researcher suggested that periodic administrative control has to be enhanced to provide efficient performance. Bribery, favoritism, and mediation are common. The scores show that there are partially administrative/financial malpractices manifested through favoritism, mediation, and an arithmetic mean of 2.52. The percentage is not high, but these phenomena threaten the integrity of the banking activities and need to be prevented and controlled continuously.

Poor remuneration of the employees. The survey also revealed that the majority of the employees feel that their salaries do not match the standard of living, with an arithmetic mean of 3.30. The researcher suggested better payment to ensure that the employees are motivated to work efficiently and lower the chances of malpractices.

Penalties for malpractice offenders. The findings have shown that the current punitive measures are not deterrent enough, and the mean arithmetic value was 2.77, so the punishments should be made stricter to promote institutional sanctions and deterrence.

Weak media system amongst banks. The survey revealed that the media system is weak in Iraqi Islamic banks and the average is 3.22. The coverage of the media is restricted to spreading activities and services, without discussing the instances of irrational financial and administrative practices and barriers to the work.

Coordination amongst Islamic banks. The findings indicated little coordination among Islamic banks in order to attain transparency, where the mean was 3.41 and there was partial cooperation and further institutional development is needed.

Presence of a superior number of committees to fight irrational financial and administrative practices. These findings validated that the banks possess bigger committees devoted to the identification of unreasonable financial and administrative practices, with an average of 4.16 and a standard deviation of 0.81. Nevertheless, the researcher revealed that the sessions of these committees are not regular and that there is a need to be more regular.

Control Mechanism of Employee Rotation: It was observed that employee rotation is not common among the Islamic banks, although it is essential in the identification of mistakes and restricting manipulation. The mean was 3.14, indicating the need to apply the principle of rotation on a regular basis.

Embracing sophisticated systems in order to curtail illogical monetary and administrative cultures. The findings indicated that the control systems employed by Islamic banks are rather modern, with an overall score of 3.77, a positive tendency in creating governance and transparency systems.

Creating continuous preventive strategies for unreasonable financial and administrative habits. The findings show that the banks have preventative strategies to fight unreasonable financial and administrative measures, with a mean score of 3.97. Yet, they tend to be ancient and not revised to consider contemporary trends.

Recruitment on the basis of personal experience of managers: It is evident that personal relations with managers are important, and the average score is 3.72, which may result in the hiring of incompetent human resources and a higher probability of favoritism.

Submission of financial statements by the employees. These findings indicated that the majority of employees fail to present their financial statements on a timely basis, with an average score being 3.27, which indicates poor implementation of the rules of transparency and internal accountability.

Outsourcing to external auditors. The findings indicated that banks rely on outside oversight professionals and committees, though to a small degree, as the mean score was 3.55. The researcher suggested multiplying the number of such committees and increasing the scope of their activity to cover all administrative and financial issues.

## **Conclusions**

First: Theoretical Aspect

The internal auditing role has experienced a remarkable growth due to the changes in the world economy and finances. Internal audit is focused on the enhancement of administrative and operational performance and accuracy of information.

The availability of an effective internal audit department in Islamic banks helps in curbing irrational financial and administrative practices and financial and administrative risks.

Unreasonable financial and administrative practices are a common phenomenon that has adverse effects on the work of state institutions.

Developing countries have a higher number of irrational financial and administrative practices because of poor laws, regulatory authorities, and poverty.

The lack of proper control and auditing is a significant contributor to the development of unreasonable financial and administrative traditions.

The internal audit also helps to fight irrational financial and administrative practices, as it oversees the use of regulations and instructions.

Certain Islamic banks also have poor diversification of investment and specialize in Murabaha only.

### **Second: The Practical Aspect**

There is a shortage of trained and qualified staff in the internal audit departments of the bank administrations.

The information system among the Islamic banks is small and does not capture issues and instances of unreasonable financial and administrative operations.

Central Bank committees are not visiting enough to improve the oversight.

The training and development initiatives to curb irrational financial and administrative practices are poor and ineffective.

Lack of coordination between Islamic banks in the field of oversight work.

The fact that there were few internal auditors and a poor employee rotation system.

Personal relationships are more effective in the selection of employees than competence.

The absence of adequate awareness among employees about the idea of irrational financial and administrative practices and the means of reporting them.

### **Recommendations**

Launch the continuous training and development of employees of the internal audit departments.

Enhance the presence of more inspection committees under the Central Bank in order to have good checks and balances.

Improve collaboration and coordination among the Islamic banks in the auditing field.

Back the internal audit departments with specialized and qualified staff.

Improve the media system through more transparency and disclosure.

Introduce regular employee rotation in order to identify mistakes and manipulation.

Empower internal audit committees with greater powers in monitoring and checking.

Create bank branches' internal audit departments that are directly connected with the general management.

It should embrace objective professional norms of appointment and promotion to diminish favoritism.

The researcher suggests that it is necessary to mobilize modern internal control systems, increase transparency, and make human resources work more efficiently, as well as work out the preventive plans and the collaboration between the Iraqi Islamic banks.

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