



NEAR EAST UNIVERSITY  
INSTITUTE OF GRADUATE STUDIES  
BANKING AND ACCOUNTING PROGRAM

**AUDIT COMMITTEE QUALITY AND ITS IMPACT ON THE  
OPTIMIZATION OF INTERNAL AUDITING OF COMMERCIAL  
BANKS IN NORTHERN IRAQ**

ZERAVAN KHALEEL

MASTER'S THESIS

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BANKING AND ACCOUNTING PROGRAM

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NICOSIA  
2021

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We as the jury members certify the 'audit committee quality and its impact on the optimization of internal auditing of commercial banks in northern Iraq' prepared by Zeravan Khaleel defended on 28/ 01/2021 has been found satisfactory for the award of degree of Master

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## DECLARATION

I am a master student at the Banking and Accounting Department, hereby declare that this dissertation entitled 'audit committee quality and its impact on the optimization of internal auditing of commercial banks in northern Iraq' has been prepared myself under the guidance and supervision of 'Assoc. Prof. Dr. Turgut Türsoy' in partial fulfillment of the Near East University, Institute of Graduate Studies regulations and does not to the best of my knowledge breach and Law of Copyrights and has been tested for plagiarism and a copy of the result can be found in the Thesis.

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Name Surname: Zeravan Khaleel

## **DEDICATION**

This thesis dedicated to my father and my dear mother who has shaped into the strong and dedicated person that i am today.

## ACKNOWLEDGEMENTS

I first would like to thank God for giving me the strength and ambition to complete this thesis. I dedicate this study to my parents for their sacrifices during my educational journey; especially my mother, who through her diagnosis of cancer showed me that hard work and perseverance, will get one through anything. She encouraged me, even though her own suffering, to continue my education despite the hardships her illness brought upon our family.

I write these additional notes of acknowledgment with a heavy heart. My mother passed away three days ago, on the 20th of January 2021, and yet her presence will forever remain in my heart. I began my education because of her and will continue it for that same reason. May God rest her soul .

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Lastly, I want to thank my friends and family for always uplifting and motivating me to the point I am at today.

## ABSTRACT

### AUDIT COMMITTEE QUALITY AND ITS IMPACT ON THE OPTIMIZATION OF INTERNAL AUDITING OF COMMERCIAL BANKS IN NORTHERN IRAQ

The study audit committee quality and its impact on optimization of internal auditing is a focal study in the accounting and auditing procedures of financial related matters with reference to banks. In this study, the banks of Northern Iraq. The purpose of the study is to explain various aspects of the audit committees while attempting to highlight the role of audit committees and their contribution to improving internal auditing and increasing the quality of their work. The study's objective is to provide a comprehensive understanding of the audit committee's tasks and their impact on internal audit. The research has followed an interpretivist philosophy with the use of questionnaire for primary data. Among these participants are bank managers, directors, internal audit directors, internal auditors, director of finances, directors of administrative divisions. The researcher distributed 150 questionnaires to 20 commercial banks in the cities of Duhok, Erbil and Sulaymaniyah, the three major cities of the northern Iraq and returned 138 questionnaires. The study data was divided into two main category of variables representing audit committee quality and internal audit. Test of normality, power analysis, regression analysis, correlation and descriptive statistics and frequency distribution were used to analyze the variables. The results show that the quality of audit committee improves the effectiveness of internal auditing in banks demonstrated by the result of the regression analysis which shows that a not only a positive relation exist between the two variables but also a strong relationship. Furthermore, the existence of audit committee contributes to the reduction of financial statement manipulation and the audit committee reports gives investors confidence based on accuracy in these financial reports that informs their decision on investments. The study recommended that internal audit optimization can be achieved from placing strict reference and priority on the quality of audit committee members, both internal and external. Secondly, the audit committee should be independent to avoid interference and evaluation of financial reports should be done on regular basis to avoid lapses and eliminate tendency of inaccuracies.

**Keywords:** Audit Committee Quality, Optimization of Internal Auditing, senior management, Iraq Corporate law, Risk management process

## ÖZ

### **AUDIT COMMITTEE QUALITY AND ITS IMPACT ON THE OPTIMIZATION OF INTERNAL AUDITING OF COMMERCIAL BANKS IN NORTHERN IRAQ**

Çalışma denetim komitesi kalitesi ve bunun iç denetimin optimizasyonu üzerindeki etkisi, bankalarla ilgili olarak nişanlılarla ilgili konularda muhasebe ve denetim prosedürlerinde odaklanan bir çalışmadır. Bu çalışmada, Kuzey Irak'ın bankaları. Çalışmanın amacı, denetim komitelerinin rolünü ve iç denetimi iyileştirmeye ve işlerinin kalitesini artırmaya olan katkılarını vurgulamaya çalışırken denetim komitelerinin çeşitli yönlerini açıklamaktır. Çalışmanın amacı, denetim komitesinin görevleri ve bunların iç denetim üzerindeki etkisinin kapsamlı bir şekilde anlaşılmasını sağlamaktır. Araştırma, birincil veriler için anket kullanımıyla yorumlayıcı bir felsefe izledi. Bu katılımcılar arasında banka müdürleri, direktörler, iç denetim direktörleri, iç denetçiler, maliye müdürleri, idari bölüm müdürleri bulunmaktadır. Araştırmacı, Kuzey Irak'ın üç büyük kenti olan Duhok, Erbil ve Süleymaniye şehirlerinde 20 ticari bankaya 150 anket dağıtarak 138 anket geri verdi. Çalışma verileri, denetim komitesi kalitesini ve iç denetimi temsil eden iki ana değişken kategorisine bölünmüştür. Değişkenleri analiz etmek için normallik testi, güç analizi, regresyon analizi, korelasyon ve tanımlayıcı istatistikler ve frekans dağılımı kullanılmıştır. Sonuçlar, denetim komitesinin kalitesinin, iki değişken arasında sadece pozitif bir ilişki olmadığını, aynı zamanda güçlü bir ilişki olduğunu gösteren regresyon analizi sonucunda ortaya çıkan bankalarda iç denetimin etkinliğini artırdığını göstermektedir. Ayrıca, denetim komitesinin varlığı, finansal tablo manipülasyonunun azaltılmasına katkıda bulunur ve denetim komitesi raporları, yatırım kararlarını bilgilendiren bu finansal raporların doğruluğuna dayalı olarak yatırımcılara güven verir. Çalışma, iç denetim optimizasyonunun, hem iç hem de dış denetim komitesi üyelerinin kalitesine kesin referans ve öncelik koyarak başarılabilirliğini tavsiye etti. İkinci olarak, denetim komitesi müdahalelerden kaçınmak için bağımsız olmalı ve mali raporların değerlendirilmesi, hatalardan kaçınmak ve yanlışlık eğilimini ortadan kaldırmak için düzenli olarak yapılmalıdır.

**Anahtar Kelimeler:** Denetim Komitesi Kalitesi, İç Denetimin Optimizasyonu, üst yönetim, Irak Şirketler hukuku, Risk yönetimi süreci



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Background of the Study

The audit committee is seen to be an important self-controlling interior governance mechanism and it's supposed to make available a supervisory function above the whole course of financial reporting, most especially the role of the interior regulatory system coupled with the role of the auditors (Blue Ribbon Committee (BRC), 1999; Hermanson & Rittenberg, 2003). The group of audit is supposed to be conversant with the standards to measure interior regulation, like assessment process and information source (Godwin-Stewart & Kent, 2006). Non-dependent audit group administrators are seen in the working environment as expert fellows that are eager to expedite counsel and guidance (Sori et al., 2009). Argues that audit group fellows with financial accounting know-how need to enhance the financial statement quality. Audit group fellows with accounting experience need to improve on the capability of audit group in curtailing administrators' inclusion in income control operations to cater for personal-interest behavior. Even though, Claessens, Djankov and Lang (2000) in an examination of 238 companies in Malaysia, discovered that 67.2 percent of stake holding bunch in the possession of clan the clan and their household. Thus, there's tendency that the clan will be included in the handpicking course of audit group administrators that possess low tendency to oppose their choice. More so, A-Hamid, Mohammed Sori, and M-Nassir (2006) Stated that the non-efficiency of the audit group starts-off from its incapability to realize its traditional obligations and sustain its practical competency with respect to accounting and psychological and accounting aspects of the interior audit line of work. Zulkarnain and Shamsher (2007) debated that several Malaysian audit groups mainly play



the role of a 'rubber stamp' and are mainly established to conform with the requisites of Bursa Malaysia, as the Bursa Malaysia deems it mandatory for all firms that are publically listed to possess an audit group. So therefore, this research is embarked upon to examine the influence of audit group professionalism and non-dependence on the means obtainable to the interior audit purpose.

An efficient interior audit purpose assists the audit group with: statements that has to do with regulation; non-dependent evaluation of accounting processes and techniques; fraud and risk evaluation (Hermanson & Rittenberg, 2003). Interior audit purpose also acts as a top asset for the audit group to attain its financial accounting role (Bishop, Hermanson, Lapidés, & Rittenberg, 2000). On the other side, the audit group is saddled with the work of rechecking the interior audit strategy and ensuring the reach of the interior audit operation is efficient. (Mat Zain et al. 2006). Moreover, Carcello et al. (2005) debated that an audit group must exert some kind of regulation over the interior audit function to ensure if the interior audit structure acts efficiently in the regulating function and make avail assistance to the audit group. This can be carried out by possessing power on the firm's assets kept aside for interior audit obligations. This research brings about observational proof from an emerging economy that might assist in enhancing the already available study on interior audit and audit group and the knowledge of the worldwide arrangement of the interior audit line, specifically in Malaysia where there's not much study that looks into the investigating the relationship linking audit group know-how, audit group non-dependence and interior audit investment.

## **1.2 Problem Statement**

The research problem can be determined through the following arguments:

- 1- The legal and regulatory framework governing the activities of commercial banks in Iraq have lack with several areas, including a clear identification of the functions and duties of the Audit Committee Board, the identification of the scientific and practical qualifications of its members and the level of independence that they must enjoy.

- 2- The phenomenon of manipulation of published financial statements in participating market-oriented firms has led to increased interest in the services of audit committees in order to enhance the audit of the financial statements preparation and credibility, on the one hand, and to support the independence of the inter-auditing and to increase the efficiency and effectiveness of its performance on the other hand.

### **1.3 Research questions**

- 1- Does the independence of audit committee essentially contribute to reducing the manipulation of financial statements and do they contribute to enhancing internal audit independence?
- 2- Are the management and investors decisions influenced by the audit committee reports?
- 3- Do audit committees play an important role in supervising and evaluating the work of the Internal Audit Department periodically?
- 4- Does the quality of audit committee improve the effectiveness and efficiency of internal audit?

### **1.4 Aims of the study**

- 5- The study aims to highlight the concept of internal auditing.  
It tries to identify internal auditing objectives, methods and ensure quality of its work.
- 6- The purpose of the study is to explain various aspects of the audit committees.
- 7- It attempts to highlight the role of audit committees and their contribution to improving internal auditing and increasing the quality of their work.
- 8- It attempts to provide a full view of the audit committee's tasks and their impact on internal audit.
- 9- The functions of audit committee is evaluated in a sample of private banks listed in the Iraqi stock exchange, the level of the fulfillment of their functions and duties, their members and the required areas of development, in order to enhance the effectiveness of internal auditing of those banks.

## 1.5 Hypotheses

The research has set the following hypotheses:

**The first major hypothesis** is “audit committee exists with having a high quality for the sample banks” and this hypothesis is sub related to the following sub-claims:

- 1- The work of audit committee members is independent.
- 2- The members of the Audit Committees have sufficient scientific qualifications and experience in accounting and auditing.
- 3- The decisions of management and investors are affected by the reports issued by the audit committees.
- 4- Members of audit committees supervise the preparation of financial reports and coordinate between the internal auditor and the external auditor.

**The second major hypothesis** is “there is a significant relationship between the quality of audit committee and the enhancement of internal audit effectiveness for the research sample banks” and this hypothesis is sub related to the following sub-claims:

- 1- The audit committee independence contributes to the effectiveness of the internal auditing in the research sample banks.
- 2- The experience and qualifications of audit committee members play important role in the effectiveness of the internal auditing in the research sample banks.
- 3- The audit committee reports effectiveness affects of the quality of of internal auditing.
- 4- The supervision role of audit committee over the preparation of financial statements affects the effectiveness of internal auditing in our research sample banks.

## 1.6 Significance of the Study

The importance of this study is likely to be the establishment of an effective relationship between the quality of the audit committee and internal auditing

of a sample of commercial banks in a developing rarely studied country such as Iraq. Audit committee is a key requirement in improving internal auditing activities and has taken a great place in the scientific and practical fields that have required support for the practices. This study is based on scientific method whose recommendations contribute to the quality of the audit committee in order to serve the interests of commercial banks' beneficiaries, contributing to the analysis of the status of commercial bank internal auditing; also explaining the relationship is the influence of internal audit committees.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 The concept of audit committees**

The audit committee is determined in agreement with the banking law. This committee is constituted by the Board of Directors which are tasked with the responsibility to monitor and superintend financial reporting and the concomitant disclosures. The committee shall comprise of non-executive members and be presided by a chairperson elected from among the member of the committee. The audit committee is an essential part of the requisite corporate management system; they overview the financial reporting process. The role of the audit committee is principal to stakeholders, as better scripted financial statements boost market performance. Over time, the role of the audit committee has progressed and has gradually been reconceptualized from a voluntary monitoring mechanism utilized in high agency cost circumstances to improve the flow of information to shareholders. The audit committee is now an integral component of the oversight function and the focus of extending public and regulatory interest. The modern responsibility of the audit committee is to offer effective oversight on account, audit, and report the financial process ( Kelly& Nagel&others,2012). The audit committee is administering as a representative of the directors of the board with respect to supervising the organization's financial report statement, disclosure, control activities, and audit; this applies to private, public, and mixed sectors. The audit committee customarily helps the Directors of the Board to assure that the organization meets ethical standards, and relevant regulations; to assure that the auditors of internal are capable, proficient, and independent; to ensure that the

financial statement reports have been developed meticulously, and precisely. It also ensures that the reimbursements paid to the executives were in accordance with professionalism and fairness ( Al-Baidhani,2016). The Committee of Auditors is an integral part of an organization's administrative structure and internal auditing processes. audit committee help build trust and boost confidence in how the organization is governed. The audit committee should implement due diligence when fulfilling its responsibilities. The audit committee generally acts as a connection between the director of boards and auditors; its role may include the assessment of the nomination of the auditors, the audit inclusive scope, audit results, internal financial oversights, and financial statements for publication (Spira,2002).

The audit committee is a link between the director of boards and internal auditing



**Figure 1** (link between the irector of boards and internal auditing )

(source: designed by researcher)

## 2.2 The establishment and development of audit committees

The emergence of the US audit committee was related to the Great Depression of the year 1929. One solitary reason was the weak liberty of the auditor and accountants. The Securities and Exchange Commission (SEC) was established. It is conceivable to say that the audit committee emerged sequel to the scandal of accounting, auditing, and bankruptcies particularly in the United States of America (USA). The unethical behavior and bankruptcies resulted in the restructuring of independent audit, governance structure, and committees of auditors (Kartal, İbiş, Çatıkkaş,2018)

The conceptualization to set up audit committee in the United States emerged sequel to the financial tremor which was as a result of the manipulation of Financial reports by the Mckesson & Robbins company.

This resulted in the New York Stock Exchange (NYSE) and the Securities and Exchange Commission (SEC) recommending that a committee of non-executive members be constituted to appoint an external auditor and to determine the fees to be paid to such persons.

In the year 1967, the American Association of Chartered Accountant recommended that all company listed on the Stock Exchange are necessitated to constitute a audit committee whose primary duty is to work out problems that may come to light between the external auditor and the management of the company in relation to accounting aspects and the financial information disclosed in the financial statement reports. In the year 1972, the Securities Exchange Commission (SEC) issued guidelines for constituting audit committee of non-executive members of the Board. The company also called attention to the necessity of establishing the committee of auditors ( Hamada, 2010).

In a year 1978 The Board of Directors of the New York Stock Exchange issued a resolution asking US companies trading in their securities in the market to establish committee of auditorss consisting of some of their external board members.

External Board members are known to members who do not hold any executive office in the company's management, And those who have no family or financial relationship with any employee, executive director, or company management officer.(Sufian, 2015)

In Canada, pressure has emerged to form audit committee after failure and bankruptcy in the sixteenth. One is the bankruptcy of a company(Atlantic Acceptance Corporation Limited) in 1965. The largest event in Canada's accounting history The situation in Canada worsened in 1984 when it declared the collapse of two of the biggest Canadian banks, They are (CandianComercial bank) and (Northland Bank) The Canadian Institute of

Chartered Accountants (CICA) To the Commission on Macdonald To discuss ways to develop control over Canadian companies.( Al-Rehaili, 2008)

In 1987, the Treadway Committee issued a report emphasizing the importance of the formation of audit committee from non-executive members, the report identified that the primary responsibility of the audit committee is to detect and prevent manipulation and fraud in financial reporting. ( Hamada, 2010)

In 1991, the Institute of Chartered Accountants in England And Wales (ICAEW) was released recommendation for applying the concept of audit committee and detailing how they are prepared and their duties, Considering the need for better and more effective auditing. In 1992 The idea of committee of auditorss has come together and has become common in Britain, If the audit committee recommends the finance of British companies known as the Cadbury Commission" Public-shareholding corporations should form audit committee within the next two years"

The committees should prepare a written manual with their tasks which recommended that the committee meet with the external auditor at least once without the administration Its functions are as follows: (Sufian, 2015)

- Make recommendations to the Board on the appointment and fees of an external auditor, so do continue to separate it.
- Audit annual financial statements.
- The external auditor discussed the nature and scope of the audit.
- Audit the management message.
- Auditing the scope of internal control in the company.
- Audit the internal control program.
- Audit any important issues that may arise during an internal audit.

In 1994, Saudi Arabia has taken the lead in requiring economic units to form committee of auditorss The Ministry of Commerce issued the decision No.903, The director of the general joint economic units has been obliged to form audit committee so that the committee will consist of non-executive



members of the board of directors and the company's general administration is free to define the responsibilities of the Committee of auditors, These responsibilities include the nomination of the Legal A( Khalil, 2017)

And in July of the year 2002 the US Congress has passed a law (Sarbanes-Oxley) A number of big American companies have been collapsed. The law stressed the importance of taking into account corporate governance in terms of periodic and rapid mechanisms for providing disclosure and transparency in financial statements In addition, it is mandatory to set up independent audit committee to ensure the independence of the external auditor and enhance the effectiveness of the internal audit.(Al-Sous, 2012)

According to article 5411 of the Turkish Banking Act, Banks must establish an audit committee under the article 24taking into account the discussions, regulations, global trends and bankruptcy we have seen in Turkey,The Banking Law of 4389 was updated in 1999Through the new Banking Law promulgated in 2005 No. 5411, In the new Banking Act No. 5411, the Board of Directors of the Bank formed an audit committee to apply the review and supervision function,the audit committee is composed of at least two members. The members of the Review Committee are appointed by board members who have not performed their duties,For banks operating as branches in Turkey, a member of the Board of Directors will be appointed without any executive management, The audit committee shall notify the Board of Directors of the results of its activities at least every six months and shall have the right to receive documentation and information from all banking units.(Turkey banking law, 2005)

### **2.3 Iraqi Environment Audit committees**

The committee is concerned with the establishment of audit committee in the Iraqi business environment, including the business environment in the Kurdistan region of Iraq We can identify the origins of the audit committee in the 2004 amendments to the Iraqi Economic Units Act, The first section of the 1997 amendments to Economic Units No. 21 reads as follows:

1- A new paragraph is added paragraph (eighth) to Article (117), which we describe the following: The Board of Directors creates two committees from its members to provide action:

- Selection of separate financial auditors who are not working in economic units (Financial Audit and Oversight Committee)
- Determine the nature and amount of fees paid to board members and the authorized director (wage committee)

The members of these committees shall not be ordinary employees or contributors to the economic unit. The value of their shares must exceed 10% of the shares of the economic unit. It must not be directly connected to any relationship, through marriage or for personal or economic interests that affect the fairness of its decisions. Any action that contradicts the recommendations and reasons of one of the Committees shall be announced at the meeting of the General Assembly and recorded in the minutes of the meeting. The Financial Control and Auditing Commission is responsible for ensuring the accuracy of the financial audits. It can be relied upon, and meetings of independent financial auditors are held to achieve this. It includes keeping records of all relevant financial transactions during the year. And meeting internationally accepted accounting standards for discussions with independent financial auditors. (Iraqi Economic Unity Law No. 21: 1997)

In 2004 related to the Iraqi Banking Law No. (94), Article (24) stipulated The formation of the committee of auditors by directors of the board (Iraqi Banking Law, 2004)

1- Each bank shall constitute the audit committee shall hold the following powers

- Audit and approve accounting operations, and give audit plans yearly on bank accounting and risk managerial oversights.
- Recommend and approve an auditor to be appointed as an independent accountant of the bank in accordance with Article 46

- Assess the independent Auditor's report on the organization bank's account statements. Report any findings to the directors of the board prior to the approval of the account statements.
  - Solicit report from auditors of the chief of internal audits .
  - Oversee compliance with the rules and regulations pertinent to the bank and report to the directors of the board.
  - Review accounts to the Central Bank of Iraq.
  - Report any observation to the Directors of the board.
  - Audit of bank proceedings and operations in conformity with the approved plan at the solicitation of the Directors of Board and also at the request of a shareholder which holds more than 10% voting rights as established by the bank.
  - Proffer at the minimum an annual report to the shareholders at their annual general meeting.
- 2- The audit committee shall comprise of a minimum of three members appointed by stockholders in their annual general meeting. For the period of 4years, they are automatic members of the board. They may be reinstated for equal time. Neither the chairman, bank administrator, employee, nor bank's delegated director is a member of the committee of auditors. The chairman of the audit committee is appointed at the general shareholders meeting.
- 3- The Decisions of the audit committee shall be endorsed by a majority vote of the members of the Board present. If the vote is equitable, the President of the Board shall vote.

As for the instructions for implementing the Banking Act (No. 94 of 2004) and No. 4 of 2010 Paragraphs 2 and 3 of Article 65 approved the following: ( Al-Waqai Al-Iraqiyah, 2011)

- A- The composition of these committees shall be in accordance with general procedures established by the Council, which shall include the subject of the work of each committee The functions, responsibilities, number of members and duration of work are the powers granted to them, And how the Council will monitor its work And to communicate its recommendations to the Council.

B- The Council shall continue to work on a regular basis to verify the work entrusted to it. Other committees can be formed according to the requirements of the bank's activity and operations, and these include the following:

The audit committee (audit committee) each bank should establish an audit committee. From the members of the Board of Directors are chosen from the bank's general body, and the functions of this committee will be:

- 1- Review accounting procedures, recommend approval, review, control and follow-up to the bank's annual audit plan.
- 2- Audit of audited financial statements and the audit report, Report to the Governing Council with its observations and recommendations before their adoption.
- 3- Follow up, study and make recommendations on the reports of the bank's internal audit department, In order to take the necessary measures to improve the bank's performance after its approval.
- 4- The follow-up to the Compliance Controller's reports and compliance with the laws and instructions issued by the supervisory authorities and the competent control of the bank's business, reporting, and recommendations for action.
- 5- Review the different bank operations on the basis of approved plans, or as requested by the Board of Directors or the request of shareholders who own 16% and more of the voting rights or according to the bank's statute.
- 6- Report with the necessary recommendations on any matters required by the Governing Council.
- 7- At least a yearly report is submitted to the General Authority of the Bank on its activities and to make recommendations for improving the results and developing the bank's work.
- 8- Work to secure an integrated information system, and to facilitate the flow of information on a timely and permanent basis at the administrative levels to follow the bank's workflow and identify the risks it faces.

- 9- Approval of training courses for bank staff to ensure proper implementation of the internal control system and applying the Bank's policies and strategies to achieve the established goals.

#### **2.4 The definitions of the audit committee:**

The audit committee has dealt with many definitions based on the various stages of development and the diversity of identifiers, so we will include some definitions that have been submitted to audit committee:

Define the audit committee "A committee of non-executive board members is responsible for assessing the performance of the board, ensure individual administrative decisions are made and the internal control system is regularly evaluated, And to assist in the identification of the functions and responsibilities of internal and external audits"( Mallin,2002)

In 1992, the Canadian Institute of Chartered Accountants has definition CICA audit committee are" Committees made up of company managers who see their responsibilities to audit annual financial lists before they are submitted to the Board of Directors, the audit committee are a link between auditors and the board of directors its activities are the scope and results of the audit. the company's internal control and all financial information for publication" (Ali & Yaqoub, 2017)

Audit committee contribute to the selection of the board, internal auditor and external auditor, audit committee have sufficient qualifications and experience in making financial decisions and from this, we conclude that audit committee are a tool used by corporate governance in making corporate financial decision, when you don't have time and experience to know the details about the finances. (Sufian, 2015)

The Audit committee is a Subcommittee of the Board of Directors Its members are limited to non-executive (independant) members, the number of members must be at least three, one member must be an expert on finance and accounting. In addition to improve the credibility and reliability of financial statements prepared by management to shareholders and investors,

and supporting senior management in the effective and effective performance of their tasks, and to support the independence of internal and external auditors, to coordinate work between the external auditor and the competent department, the effectiveness of the audit process and the effectiveness of the internal control structure can be improved. ( Khalil, 2017)

The committees are also defined It is that committee that usually consists of non-executive directors of the business, the main purpose of its composition is to increase the effectiveness of the audit function and increased accountability of management. (Al-Sous, 2012)

And can also be defined: A committee whose members are appointed by the company and by non-executive board members, It is a channel of communication between the board and the company's external auditors It oversees all the company's operations. (Nazif, 2017)

A audit committee is necessary because it is responsible for the accuracy of financial reporting and the accuracy of the financial information disclosed, It serves as a link between external auditors and management to support auditors in an autonomous manner and improving the effectiveness of the review process where the review committee does not have decision-making authority. (Abd & Ibrahem, 2019)

Previous definitions confirmed that the audit committee is appointed by non-executive board members of the company, Since the audit committee has sufficient qualifications and experience in financial decision-making, The audit committee is responsible for performing the annual financial statements before submitting them to the board. It also helps to identify the functions and responsibilities of internal and external auditors.

It supports the independence of auditors and improves the effectiveness of internal audit procedures to improve credibility and the reliability of the financial statements prepared by management to shareholders and investors, And supporting senior management to perform their functions effectively.

## **2.5 Characteristics of Audit Committees:**

The work of these committees must govern a set of controls and standards that enable them to do so, regarding the composition of the audit committee. These control measures can be explained in detail as follows:

### **Independence:**

Independence requires that the audit committee include non-executive board members, the CEO, the Controller and any other member of the company's board of directors were thus prohibited of serving as members of the audit committee, the audit committee independence reduces the possibility of manipulation of profits. The study also showed that there is a positive relationship between the audit committee and the audit costs, this shows that the audit committee independence will lead to higher quality financial reporting, corporate governance with independent audit committee is better, too. (Hayek & Abu Al-Haija, 2016)

### **Experience:**

The comprehensive knowledge of finance and accounting must be in the portfolio of a member of the audit committee, as this increases the effectiveness and efficiency of their role in comprehending the core financial reports presented in the form of the balance sheet, income list, and cash flow list. The members of the Committee of Auditors must show prowess in examining internal auditing systems along with expertise in financial and accounting matters interpretation; as they supervise the financial reporting process and the suitable applicable accounting standards to keep to. The experience under the belt of the members of the audit committee is sacrosanct and essential to meet up with the challenges the executive management and auditors are facing to enhance the quality of financial reporting to a certain extent. The Committee of Auditors attributes that influence performance related to financial proficiency comprises of both education and experience (Abd & Ibrahim, 2019). Proficiency and expertise are specifically recognized as it is required that at the minimum, a member of the committee of auditors should be a financial expert under Sarbanes Oxley Act (SOX), and at least one person should have the required educational

qualifications and relevant experience. It is also required by regulators that some of the members that constitute the audit committee should have an understanding of how the firm's industry is run (Kelly& Nagel&others: 2012).

**To determine the appropriate number of members of the committees:**

The number of the members of the audit committee differs from organizations to organizations, it depends on the number of the director of boards, the size of the organization, and the type of its activity -but in general, the number of members should be sufficient to achieve the objectives of the organization. However, it has been observed that the optimal number of the members of the committee of auditors are between three, and five to seven members (Nazif, 2017).

**Number of meetings of committees during the financial year:**

Congress and laws allow for meetings for the audit committee to discuss matters related to the conduct of operations. The audit committee meetings are an essential tool to substantiate that the members of the committees are performing their assigned tasks toward the organization. The audit committee must perform their duties efficiently by improving the frequency of meetings - by ensuring that the number of its meetings is not less than four meetings annually- in order to maintain oversight function. The audit committee meetings may be attended by many persons; this includes the members of the audit committee, the finance director, and the auditors, as well as others. All board members are usually entitled to attend if they wish. However, it is considered as good practice to hold a private meeting between the audit committee and the external auditors, as the committee members would probably be outnumbered by the additional participants and this may inevitably influence their output. The audit committee should hold a discussion with the auditors, at the minimum of once in a year, without the board members present, to ensure there are no unresolved areas for concern.(Spira,2002).

**Disclosure of audit committees:**



Currently, the terms of many international stock exchanges require As well as reports issued by professional and scientific organizations, the composition, membership, and functions of corporate committee of auditorss are disclosed ,this disclosure includes disclosure of the committees' contract this explains their responsibilities and duties and the nature of the relationship between the members of the committees and between the company's management and the internal and external auditor, and it should not be trusted by the board of directors and disclose the results of their business by issuing an annual report It is published in annual reports that include the activities of the audit committee during the year. publishing the report of the committees of inquiry into annual reports can contribute to improving the integrity of reports It provides assurance as to the extent to which internal and external auditors have implemented their responsibilities in connection with the financial reporting process. The report of the American Society of Certified Accountants (ACPA), issued in 1993, contained the report important suggestions for increasing public confidence in financial reporting, one of these suggestions is the necessity to bind companies whose shares are registered with the Securities Exchange Commission, that their annual reports include a report from the committee of auditorss describing their responsibilities and how they are implemented, which promises to notify shareholders that the committee has fulfilled its responsibilities in an appropriate manner. (Tinah, 2012)

The audit committee rights and obligations must be clearly and detailed so that they can effectively carry out the activities, and there is no conflict or overlap between the work of the audit committee and that of the executive body of the company. (Nazif, 2017)

### **Clearly defining the rights and duties of the Audit Committee:**

The rights and duties of the audit committee must be defined in a clear and detailed way so that it can do its job effectively, In order to cause a conflict or overlap between the work of the committee and the work of the executive organs in the company It has the right to obtain any information it needs in the supervision process an assessment of the policies followed in that the

Committee of auditors must have a right in discussing any topics you see important, and the right to use those you deem appropriate from the external parties the expertise and knowledge of the technical problems faced by the Commission in particular, legal matters that could affect the financial reporting process, and in the safety of disclosing the information contained therein. in return for these rights, members of the Committee must attend meetings of the Committee and to actively participate in their business and preserve the company's secrets, and not to do any executive work in the company and to maintain integrity, credibility, and objectivity, and not to accept things of value directly or indirectly from the company, or it is engaged in any activity that may be in conflict with or harm the Company's interest, The audit committee and the responsibilities and powers of the committee must be disclosed. and a suitable disclosure for the Company audit committee, the nature of their activities and the relationship with the company's burnout, the company's management will increase investor confidence in the quality of the financial statements, have an effect. (Muhammad & AISaker, 2012)

## **2.6 The factors that contributed to the formation of the audit committees and the goals, importance of the audit committees.**

### **2.6.1 Factors that contributed to the formation of audit committees and their location in the organizational structure:**

After all the audit committee assets, features and most important characteristics have been presented, we will discuss the factors that contributed to the composition of the audit committee its location in the organizational structure, its importance, and its most important objectives.

#### **2.6.1.1 Factors that contributed to the formation of commercial bank auditing committees:**

In the past few decades, many factors have influenced the composition of the Review Committee for several reasons, this has led to the enactment of the relevant laws, as follows: (Sufian, 2015)( ( Al-Tamimi, 2017)

- Increased pressure exerted by users of financial statements on companies

and banks to show the results of their business and financial position in a real and sound way.

- The results are contradictory between external auditors on the one hand, and between the company's management on the other hand, This affected the independence of the auditor to show an impartial technical opinion.
- The need to build confidence in the process of preparing and auditing financial statements that can be relied upon in making investment decisions
- Related parties need the companies listed on the stock market to a management mechanism that helps monitor and monitors the agency's performance to corporate divisions, especially in financial and regulatory matters, all of this together leads to the need to establish a corporate committee of auditors, form the general trend supporting the establishment and development of these committees, has become an urgent demand for many interested parties, the goal is to protect shareholders' money and maintain overall financial stability.
- The heterogeneity between the members of the Board of Directors and the large number of them at times not suitable for performing demanding tasks such as those assigned to audit committee members.
- Sometimes there are differences between the interests of the board members, and the interest of the quality of the financial statements in a manner that is not appropriate for the intervention of the executive board members in the reporting process, hence the importance of non-executive members in the audit committee.
- Dates of submission of financial reports, in some countries, these reports require the actual publication of these reports annually, which requires a great deal of time and effort, It may be time-consuming to involve all board members in this process, Inefficient in terms of allocating the resources of the Governing Council.
- Requires effective monitoring of the reporting process, especially for the large listed companies, much experience and practice in accounting and

financial management, this experience does not apply to all members of the Board, but they apply to the Committee of auditors.

#### **2.6.1.2 The location of the paradise in the organizational structure:**

An independent oversight committee is established and does not perform administrative or executive work it is not considered an administrative cadre, but rather it is derived from the Board of Directors as one of its sub-committees Besides the Appointments Committee and the Remuneration Committee, It is a link between the Board of Directors, the External Auditor and the Internal Auditor (Qteishat, 2010)

And, for the most part, the members of the Audit Committee, they are board members and former managers of other companies, or senior civil servants, pensioners or legal accountants Or former university professor or politician with a background and a process in accounting, business administration, finance or economic fields, with an analytical and fact-finding mindset, the Tad Commission is chosen for a three-year term and may be more than seven years, all members are then changed to ensure their continued independence And to encourage the acquisition of new experiences and ideas, taking into consideration that the term of membership of the committee should not exceed the term of membership of the Board of Directors ( Sisalem, 2018)

#### **2.6.2 Importance of audit committees**

##### **2.6.2.1 For the Board, the Administration:**

Since the establishment of the Audit Committee will assist members of the Executive Board in the performance of their duties through improved communication between the Board and external auditors, and, especially in the area of accounting and auditing, by meeting with the external auditor during the audit at the end of the audit and the results of these meetings were reported to the Governing Council, and help resolve issues that auditors may encounter with company management when preparing financial statements. (Hussein, 2015)

Audit Committees are an evolution of the audit process in their broad sense, it came to provide a technical and regulatory means it works to protect the company's various stakeholders by providing additional assurances, corporate boards perform their responsibilities and agents with purity and effectiveness, audit committees ensure an effective internal control environment, one of its components is an autonomous function, internal audit is of high quality with a sound formal information system ensures the quality of financial and non-financial reporting prepared for both public publication and internal use, and that the presence of an audit committee would support the economic position of the company by providing the rest of the board members with relevant information and enough to improve the Board's decisions management company affairs, it is a formal line of communication between the executive and non-executive board members this reduces the problem of asymmetries in the Board and reduces agency costs, and the subsequent tightening of the Council's control over the company, and then raise the overall quality of the company. ( Saud & Salman, 2019)

#### **2.6.2.2 For the external audit:**

Looking at the financial meltdown at the beginning of this century, the external audit community has received many criticisms of its activities, this has led global institutions to offer solutions that can play their part. one of these solutions is attention to the role played by the audit committees supports the external auditor's independence in the way that the external auditor does functions without pressure or interference from the company's management in this area, the ASB has issued a set of standards concerning the role of audit committees in the United States in the external audit process, which are the criteria (53,54,60,61,71.90) all of these standards are concerned with the nature of the relationship between the Audit Committees and the External Auditor identified a set of responsibilities for the audit committees toward the External Auditor, the role of audit committees in the appointment of external auditor and from them: (Ali & Yaqoub, 2017)

- Role of the audit committees in determining the External Auditor's fees.

- Role of audit committees in resolving problems that may arise between the external auditor and the company's management.
- Role of audit committee in increasing the External Auditor's interaction with the Company's Internal Audit Department.
- The importance of the interaction oversight of the periodic and annual financial statements audit prior to its endorsement by the Board of Directors

Through the previous responsibilities of the audit committee, Clearly, they play an important role in improving the effectiveness and independence of external auditors. In addition, it has a role to play in selecting expenses, it is also committed to solving accounting problems between it and the company's management. in the normal way, this will enable third parties to trust the External Auditor's report and the entire audit industry.

#### **2.6.2.3 With regard to internal auditing:**

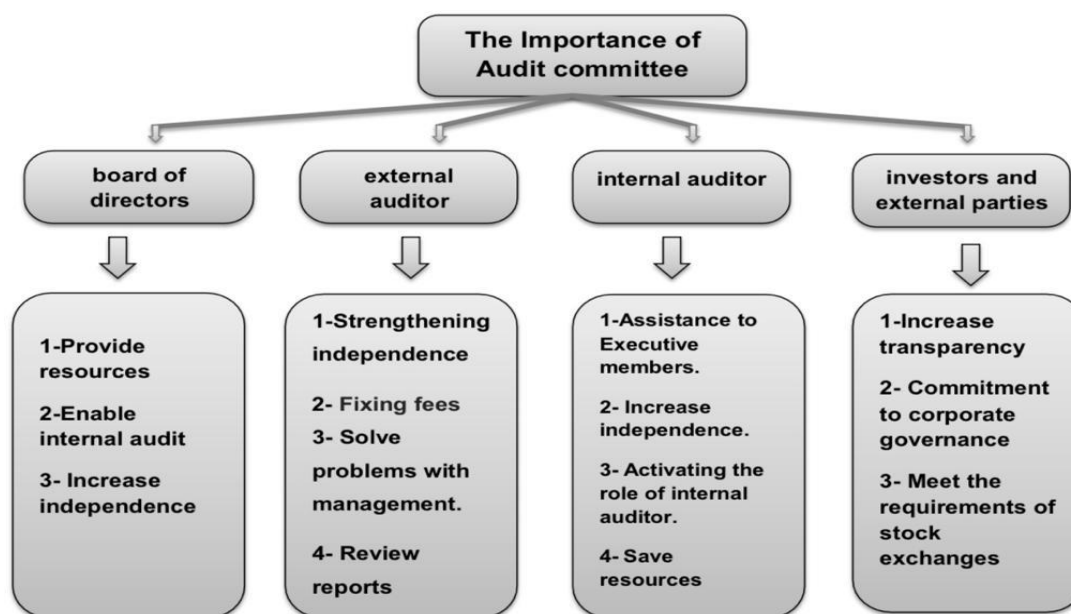
Verifies that internal audit is an internal control tool, the main task of the Audit Committee is evaluating the effectiveness of the internal audit resulting from the internal control system, thus, the effectiveness and efficiency of the internal control system is assessed , as a source of information on compliance with applicable laws, regulations and instructions in the practice of various activities, Brody believes in 1998 that he represents internal scrutiny an important mechanism for achieving the company's goals and preserving the rights of shareholders, this requires a strong internal audit team, and providing mutual cooperation between external auditors and internal auditors, increase opportunities for error detection and fraud, and therefore, the efficiency of internal auditing and its effectiveness will be increased. external auditor's approval is based on internal audits Understand the internal audit management of the company's operations, the subject matter of the report and the quality of performance. The External Auditor shall take them into account when assessing the risk of auditing and establishing its procedures. (Al-Marai, 2009)

The importance of a link between internal audit and the audit committee was mentioned by the Cadbury the committee, The responsibility of the audit

committee includes a review of the internal audit program and any significant findings of internal investigations, as such it is of pertinent importance to create an effective link between the audit committee and the internal and external auditors. The head of internal auditors should have the same access to the chairperson of the audit committee as the external auditor. However, much of the rest of the report is silent on the functions of the internal audit in corporate management (Collier,1993)

#### 2.6.2.4 For investors and external parties:

The Bank audit committee pays more disclosure and transparency of accounting information that are disclosed to outside parties there is an independent audit committee to oversee the preparation of financial reports and supporting the independence and role of internal and external audits, this will enable investors and other stakeholders to trust their decisions, the decisions of these stakeholders are based on the information provided in the financial reports issued by the banks. (Abd & Ibrahem, 2019)



**Figure 2** (The importance of establishing the audit committee)

Source: (Al-Amin, 2016)

### **2.6.3 Objectives of the Audit Committees:**

It is difficult to set the precise objectives of the audit committee, because these goals vary by company, the duties and functions of the committee in different environments, the organization of which it chooses its members, and the goals you want to achieve, and the criteria that you follow for selecting members. the objectives of the Committee of auditors are four key elements:

- Help the external auditor complete his or his work efficiently, effectively and objectively.
- To fully oversee the company's financial and regulatory systems.
- Review accounting policies and practices in order to choose the most appropriate accounting policies, and to recommend to the Governing Council the annual financial statements for the accuracy of the annual financial statements.
- To recommend to the General Body the appointment and fees of the External Auditor.

The main purpose is to have an important impact on the effectiveness of external audits, and the integrity of the financial statements, and administrative disclosure in cases of fraud. The main objective of the Committee of auditors is to achieve the independence and integrity of the financial function, and improving the efficiency and efficiency of the Governing Council, the independence of internal and external auditors to report to the Special Committee to improve the independence of the administration, its members are external managers and are committed to improving the quality of audits, and protecting the interests of investors who rely on audited financial statements. (Qteishat, 2010)

The Securities Exchange Commission has made clear SEC in Bulletin No. 123 of March 22, 1972, the Audit Committees it aims to provide maximum protection to investors who rely on the financial statement for their decisions, and in her report, I prepared it in the year 1976, this is done on audit committees to play a major role in facing fraud, and illegal behavior, this is through a survey conducted among the various companies, it is what has drawn the attention of the US Congress to the benefits of the audit



committees, and the extent to which they are needed, and the possibility of establishing a legal framework to regulate its composition. From the aforementioned, it is required that the use of audit committees within the joint-stock companies and carry out their responsibilities, its duties effectively can achieve the objectives of its composition, the most important of which are: (Ismail, 2014)

1- To assist the Board in meeting its legal responsibilities to shareholders, as their agent in managing the company's affairs and preserving its assets, and maximizing their own fortunes, the existence of audit committees can lead to:

- Providing continuous lines of communication between the Governing Council, and both the external and internal auditors, the management company, and thus providing an opportunity to discuss various areas of concern to the facility and by holding periodic meetings.
- Contribute to preventing or limiting the Commission of fraud, wrongdoing and unlawful conduct, the audit committees monitors compliance with the laws and regulations governing the business of the company, it also monitors the Company's commitment to ethical and environmental responsibilities.
- Increased attention to the internal control structure, and to make sure it is sufficient, and to recommend to the whole board of directors the appropriate procedures necessary to address weaknesses, the core of internal controls, which the external audit noted during the audit, In addition, the board has drawn attention to the company's key problem areas.
- To revitalize the role of the external members of the Governing Council, and giving them an opportunity to get a closer look at the company's activities and operations, this reduces the inconsistency of information between internal and external members, the Governing Council and thus to assist external (non-executive) managers in meeting their obligations.

2- Improve the quality of the financial report and enhance confidence in the accuracy of the financial statements, and the adequacy of accounting

disclosure, and therefore increase public confidence in the financial statements and information published in them.

Audit Committees are helping the board to achieve this goal through:

- Study accounting policies, and procedures in the preparation of annual and tribalized financial statements, and to ensure that their agreements are in line with the well-known accounting principles.
- Monitor the entire review process, including external and internal audits.
- Reduce the risk of serious financial error in financial statements through:
  - Reviewing and examining the financial statements before submitting them to the Board of Directors for approval.
  - Facilitate the exchange of information between the Board of Directors, external and internal auditors and executive management in these places, the Review Committee is a monitoring mechanism designed to link interested organizations the process of preparing financial reports to improve the financial situation and the quality of reports.

3- Support the independence of the audit function:

The Committee of auditors can help maintain independence and review topics by performing the following tasks:

- Nomination of the external auditors to be appointed , identify their fees, and discuss the proposal to dismiss them.
- Discuss the scope of the audit with the external auditor, and coordinate between external and internal auditors.
- Monitor services other than auditing that external auditors may perform.
- Act as a barrier between corporate governance on one hand, and the external auditor on the other hand, and to settle disputes that may arise between them.

- Supervise the internal audit administration and strengthen its independence.

The purpose of the Audit Committee is to monitor all the activities of the Organization to extract the findings of the investigation and submit their reports and recommendations to the Governing Council ,although it is assigned to specific tasks and authorized to perform these tasks, However, he cannot replace the board of directors for final decision-making, the Governing Council remains the largest authority to manage the Organization, the primary purpose of establishing the Audit Committee can be to ensure and improve the credibility of financial statements, to achieve this goal, the Audit Committee should seek to enhance the independence of the audit and management function, external auditors can assist in the execution of the audit without any pressure that adversely affects the reliability or reliability of its results, thus questioning the effectiveness of the organization's financial reports. ( Sami, 2009)

The audit committees are set up with the aim of:

- Increasing the reliability and reliability of the audited financial statements ensure the quality of the information contained therein and increase the effectiveness of internal control systems.
- Assist the company's board of directors in fulfilling its legal responsibilities as an agent for the shareholders, Through formal channels of communication between the committees of the Board of Directors and the auditors (the external and the internal) The internal control structure, on the other hand.
- Enhance the independence and quality of the review function,The Committee shall carry out the function of nominating, isolating or changing external auditors.

Supervision of the internal review function and strengthening of its independence.

## **2.7 Functions, mechanisms, responsibility and core functions the work of the audit committees:**

### **2.7.1 The tasks of the audit committees:**

#### **2.7.1.1 The duties of the committee towards the external auditor:**

- 1- Discuss matters relating to the appointment of external auditors or reset or isolate them, ensure that he meets his qualifications (qualifications and experience)

Without affecting its independence and the extent to which it does any other business, and who is on this independence.

- 2- Examine everything related to the work of the auditor, including, His observations, suggestions, reservations, and follow-up on how the company's management responded to them, and to make recommendations thereon to a Governing Council.
- 3- Corporate correspondence with the External Auditor, and to evaluate the observations and recommendations contained therein.
- 4- Review the audit plan prepared by the external auditor.
- 5- Resolving disputes between management and external audit.
- 6- Review non-audit services that the external auditor provides to the company.
- 7- Help the external auditor get all the information and clarifications he needs.

#### **2.7.1.2 The duties of the committee towards the internal control system:**

- 1- Study and evaluate internal control systems and work for their improvement and continuous development.
- 2- Study and review reports on the development of business systems and accounting systems Financial, administrative and internal audit procedures.
- 3- Examine the fundamental shortcomings referred to by the external auditor in the design of the internal control system.
- 4- Study of the work plan of the Internal Auditor and ensure that the company provides all necessary facilities for the reference.

- 5- Advise the Governing Council on matters relating to the internal auditor's procedures and the internal auditor's work.
- 6- Internal audit effectiveness assessment.
- 7- Coordination between the work of internal and external auditors

### **2.7.1.3 The duties of the committee towards the financial statements:**

- 1- The Company shall comply with the laws, regulations, instructions, and decisions of the Financial statements.
- 2- Before the submission of the periodic report to the Governing Council, research should be conducted and recommendations made.
- 3- Follow-up on all issues raised by internal and external auditors to ensure that they are properly addressed.
- 4- Review of annual financial statements before they are submitted to the Board of Directors, and looking at the availability of the information that its users need
- 5- Understand and assess the quality of the income shown in the income list. (German, 2017)

### **2.7.2 Responsibilities of audit committees:**

#### **2.7.2.1 Responsibilities for accounting and financial reporting issues:**

Supervise internal control of management in the preparation of financial reports, and research, and evaluation of administrative processes and procedures, and to record all the significant estimates used in the financial reporting process, compare the reasonableness of financial results to previous or expected financial results, and a quarterly analysis of key reserves.(Mohamed, 2013)

#### **2.7.2.2 Responsibilities related to the internal audit:**

The primary responsibility of the audit committees is to ensure the normal operation of the internal control system, it must, therefore, operate with full independence from executive management this is not, however, without any conditions of collective responsibility of the members of the Governing Council it is emphasized that the facility is administered faithfully and in an

objective manner, disciplined enabling them to achieve their goals, in particular, executive management must provide the appropriate information to the Committee of auditors before requesting it, or waiting for the committee of auditors to inquire about it, the most important areas of responsibility in the Model audit committees are as follows:( Abdul Rahim, 2016)

- 1- Audit of the company's internal financial controls, control systems and risk management systems(In the event that such work is not done by the whole board or a special risk committee).
- 2- Audit the effectiveness of internal audit.
- 3- An audit of the effectiveness of the audit procedures undertaken by auditors, the extent of their independence and objectivity of their professional judgments
- 4- Approving the terms and fees of the auditors, And make appropriate recommendations for appointment or replacement
- 5- Verifying compliance with ethical standards.
- 6- provide independence for both the external auditor and the internal auditor.
- 7- Proposals and recommendations for improving the internal accounting and management control structure.

#### **2.7.2.3 Responsibilities related to the extent to which professional codes and ethics are observed:**

Customer confidence is an important factor for the company's success, the company must strive to strengthen its confidence in following professional behavior policies, the board of directors must comply with the firm's professional ethics rules, the audit committees must continue to distribute these rules, and confirm the commitment, and take action when violations occur. (Sufian, 2015)

Prepared after the researcher has been informed that he has a set of international and Arab professional codes of conduct it can be approved by the company or any professional organization in Iraq as the Association of Accountants and Auditors, the Council of practice has the task of supervising

and monitoring the performance of the committees. as follows: (Ghali & Hamdan, 2009)

1- The members of the audit committees must be autonomous and independent, they will be considered as independent if they have no relationship between them and the company's management, will affect them in performing their duties. and while this relation is described:

- Not to be employees of the company or one of its subsidiaries.
- That is, not to receive a financial reward from the company, or one of its subsidiaries other than the reward he gets for service in the Board of Directors
- Not be an executive director of a company with commercial relationships with the company or one of its affiliates.
- Not to be a previous auditor of the company.
- No member of the committee should be a shareholder in the company the value of its shares in it (10%) exceeds ten percent of the company's shares.

2- Committee members must preserve company secrets through what they see as their job, it is only within the limits and contexts of the work and with the approval of the Board of Directors, or in the case of and in the case of a legal obligation to do so.

3- Members of the Committee should not take professional action which they could not do whether due to lack of information or because of the lack of specialists in that area to advise the Committee Or for any other reason that is hindering the completion of tasks.

4- In the fulfillment of their tasks, members of the Committee shall exercise the necessary professional care, the committee is responsible for the level of professional care for the work of others in the interest of the committee for the purpose of the consultation.

5- The committee is considered negligent and neglected in performing its professional work when it conceals its concealment of essential facts that affect the integrity of the firm's financial statements.

6- The Committee should be informed when preparing its report, which is objective and impartial.

7- It is the duty of the members of the Committee to be keen on creating and maintaining positive professional relationships between all board members and employees in the company.

#### **2.7.2.4 Responsibilities related to clients and employees:**

Reflects the interests of customers, especially the interests of permanent customers, the company's employees have been told whether the company can remain a source of its needs, whether for materials or services for clients, or income in the case of employees, the ability of the facility to continue as a source of customer and employee needs is also a concern it depends mainly on its ability to generate cash flows and the adequacy of these flows, this requires background information similar to what current investors, lenders, and prospective investors need, the company's relationship with its employees must be fair and equal, to adopt policies and procedures to provide employees with salaries and rewards with the work they do, in communication with employees, the company must also take into account the following:

- Provision of medical, insurance and pension services.
- The company has allowed employees to criticize the administration without fear of punishment.

The audit committee is interested in helping the board to achieve these objectives by analyzing indicators and verifying the implementation of the policies of the Governing Council, the Committee of auditors also reviews and evaluates some assets or to examine the assessment of some potential obligations, it is also studying the company's transactions with some of its related parties. (Al-Marai, 2009)

#### **2.7.2.5 Responsibilities related to the financial statements:**

- The management and external auditor discuss



- disclosure policy and requirements imposed by regulations and laws imposed by the state and the stock exchange on which the company is listed, in addition, the Commission discussed the quality and appropriateness of the accounting principles applied by the Company.
- discuss management and external auditor how to prepare the company's annual reports and the notes and explanations attached to them.
- discussion of the external auditor in the audited financial reports and in his report.
- Discuss changes in the external audit plan.
- Problems and constraints faced by the external auditor in conducting the audit.
- Discuss what the external auditor should communicate to the audit committees, this is in accordance with the agreed review criteria.
- Discussion of the external auditor on the quality of accounting principles, the company is using to prepare financial statements and reports. (Jomaa & Jamal , 2012)
- Financial reporting is the responsibility of financial management and the identification of accountants, but the committee of auditors's role in this regard is to review all annual financial statements or temporary prior to approval and publication of the Board to ensure its objectivity and credibility and its applicability and display, the role of inspection and supervision in a time-limit.
- Review the results of internal and external audits, and the views contained in the reports or proposals of external auditors to improve performance, operations and internal control systems.
- Examination of all accounting policies adopted to focus on the statement of the implications of change in the financial statements management policies are evaluated in the estimates, which is considered significant and material to the financial statements.

- Consult with management as the external auditor on financial statements, Resolve any concrete differences that may arise between them when preparing them.( Farag & kareem, 2016).

#### **2.7.2.6 Responsibilities that are formed by compliance with regulations and laws:**

- Discuss the procedures followed by the company regarding how to discover and identifying the risks the company faces before certain and uncertain issues, especially not to abide by the laws, and other matters that have a direct impact on the company's operations and financial statements.
- Discuss the advisers we use in legal and tax matters which has a direct impact on the company's operations and financial lists.
- Discuss with the management, and internal auditors, and the external auditor in the Company's applicable Management Information Systems event, the risks you face and how to address them. (Jomaa & Jamal , 2012)

#### **2.7.2.7 Responsibilities related to risk management:**

In addition to the activities previously undertaken by the Committee of auditors, they also have other risk monitoring activities that the company may face, this is through the following points: ( Hamada, 2010)

- 1- Supervision on the risk Management.
- 2- Assisting management in designing risk management strategy based on different types of risk.
- 3- Assessing the risk of fraud at each level of management.
- 4- Contribute to understanding risk investment opportunities and mitigate uncertainty.
- 5- Understand the relationship between risk management as a whole and financial reporting.
- 6- Assessment of adequacy of risk control, including external risk.

### **2.7.3 the mechanisms of work and powers of the audit committees.**

#### **2.7.3.1 The work mechanisms of the audit committees:**

The work of the audit committee must be based on a written system or working manual that provides executive procedures that the committee must abide by when carrying out its tasks, Bromelo and Berlin showed the basic elements which the audit committee should rely on to perform their duties and tasks effectively and efficiently, and they are as follows: (Almoumni, 2010)

- Have a plan of action for its meetings Scheduling during the year, discussing the work that falls under its responsibilities.
- At each meeting, it must have a written agenda, to be distributed to the members of the Committee prior to the meeting, the number of meetings should be at least four per year.
- To distribute the Briefing of materials the members of the Committee are scheduled to meet on the agenda 10 days before the meeting to give them time to study and record their observations on them.
- To be shared Participants both internal and external auditors at the Committee of auditors meeting on financial statements.
- There should be special meetings with both the external and internal auditor when considering issues related to their work.
- The Chairman of the Committee should have a role effective prior to the meeting, meetings are held separately with internal and external auditors and the Finance Manager to discuss relevant issues with them before the audit committee meeting to have a more in-depth understanding of the issues listed.
- The Committee's discussions on the issues on the agenda should be realistic and effective meeting dynamics each member of the Committee shall have responsibility for the effectiveness of the meetings and all the issues listed should be discussed with interest and seriousness.
- To record the minutes of the meetings of the audit committee a detailed reference for the Committee to follow up on the proceedings and discussions and recommendations made to the relevant parties, and a statement of the issues discussed.

- The Committee should report to the Governing Council Regularly, issues discussed in the report are discussed with it.

### **2.7.3.2 The powers of the audit committees:**

1- The audit committee has the right to access all records of the organization or the company, its information, its personnel and principles, whenever necessary to fulfill their obligations in accordance with the agreed objectives.

2- The Committee of auditors can experiment and assign a set of terms of reference to achieve this goal and report received the results in a confidential manner.

3- The Committee should have a contact for legal advice when it needs to make a decision, the Commission could help to identify the legal aspects of a particular topic.

Although these responsibilities are subject to the Board of Directors, the audit committee has the power to make very important decisions this authority can be divided into six types:

- Official authority: It is the result of the formal delegation of the audit committee by the Board of Directors.
- An authority resulting from independence: They are the result of the ability of committee of auditorss to make decisions.
- The authority to obtain information: They result from the audit committee ability to obtain the appropriate information in a timely manner.
- The authority of experience: They are the result of the audit committee members' knowledge of different areas such as accounting, auditing, financial management, finance and the nature of industry.
- Guidance Authority: They are the result of the ability of audit committee members to lead and direct others.
- The authority of management: They are the result of the ability of the review committees to continue and to carry out tasks efficiently and effectively. (Al-Amin, 2016)

#### **2.7.4 Basic functions of the audit committee:**

The main functions of the audit committee are as stated in the 1991 Collier study on UK audit committee, which used more than 250 companies to transfer the number of 50 financial institutions the study found that there is a continuous increase in the number of companies used by audit committee, the functions and procedures of these committees have also been established as follows:

##### **1- Internal Audit functions:**

- Examine the effectiveness of the internal control system.
- Examine the internal audit management planning and objectives.
- Assess the adequacy of resources allocated Internal Audit.
- Discuss internal auditors at the negatives discovered during their work.
- Ensure that the internal audit management is performing and autonomous.

##### **2- Functions for external audit:**

- Auditors discuss the problems they encountered during the audit.
- Discuss the auditors' recommendations, observations and comments.
- Discuss the audit's views on the internal control system.
- Examine factors affecting their independence.

##### **3- Functions for annual financial reports:**

- Examine the policies and procedures used and the most important changes that have occurred during the year.
- Audit the annual and interim financial reports.

"Collier also identified a set of procedures that help these committees perform these functions more effectively, such as providing the necessary information and data and achieving continuous communication with internal and external auditors and the setting of objectives, duties, and powers also specializations with the selection of appropriate competencies as the Chair and membership of these committees and ensuring their independence and continuity" (Collier:1993)

## **2.8 literature reviews**

A study carried out on committee of auditors quality, internal control weaknesses and auditor independence showed the connection between the three variables after the Sarbanes-Oxley act using a number of firms that displayed weakness in internal control weakness (Zhang, Zhou & Zhou, 2007). The study showed that there exists a relationship among the three variables. However, many firms are willing to show their financial vulnerability in terms of internal control even when the audit committee has a relatively lesser financial skills. The study showed changes in audit team is also likely to expose the internal control weakness. Furthermore they are obviously prone to display internal control weakness despite having an independent control committee (Zhang, Zhou & Zhou, 2007).

Another related study on audit committee was the investigation carried out on the impact of committee of auditors characteristics on the implementation of internal audit recommendations (Alzeban, & Sawan, 2015). This study used data from a joint number of auditors from British firms. It revealed that audit recommendation by the audit committee is largely dependent on the perceptions of the internal audit members and their expertise in the field of accounting. The conclusion of the study submitted that meetings held by the internal auditors with the committee of auditors influences and control the implementation of internal audit recommendations (Alzeban, & Sawan, 2015).

A similar study relating to audit committee and the internal audit function characteristics with the assessment of financial audits by the internal auditors (Zain, Subramaniam, & Stewart, 2006). The research used data from Malaysian firms handled by chief auditors. The research revealed that there is a direct relationship of three features; knowledge and expertise in accounting, the magnitude of audit committee review of internal audit programs, the level of independence of audit committee members and assessment of financial statement audits (Zain, Subramaniam, & Stewart, 2006). The result demonstrated that positive relationship between assessment of external audit and effective committee of auditors.

audit committee is another central focus in a study related to Internal Auditor Perceptions using the case study of Malaysian public corporations. In this research, the findings from the survey show that lapse in communication and irregular meetings between audit committee and head of internal audit functions are challenges of audit function while emphasizing on the need for clarity in financial reporting (Zain & Subramaniam, , 2007). The study highlighted the need for audit committee to be forthright in leadership as inquiry into decision-making process of the management can be achieved through the high reverence placed on committee of auditorss. These findings highlight the importance of the leadership role of ACs in supporting the internal audit functions (Zain & Subramaniam, 2007).

In the Turkish banking industry, a similar research was done on committee of auditors and its adequacy in handling audit related matters (Kartal, İbiş & Çatıkkaş, 2018). The case study used 6 deposit commercial banks and survey was carried out using interviews and questionnaires. The report showed a lot of inconsistencies were found in the internal control of the audit committee structures and responsibilities. This study recommended that directors of banks and the management should adopt a more proactive and productive approach that will enable committee of auditorss perform their functions optimally and effectively (Kartal, İbiş & Çatıkkaş, 2018).

In Belgium, the Relationship between Internal Audit and Senior Management was carried out on Expectations and Perceptions on internal audit (Sarens & Beelde, 2006). The research revealed that expectations of the senior management in a company had relevant impact and influence on internal audit performance, and with this expectation the internal audit committee is able to meet up with these demands. The study also revealed that the senior management expects that the internal audit committee should be in a position to support the improvement of risk minimization and supervise internal control with corporate culture(Sarens & Beelde, 2006) Similarly, compensation for loss is expected to be borne by the internal audit committee which culminates into rising organizational complications.

The Role of audit committee in enhancing the responsibility of Internal Auditing was a research carried out on the Jordanian Insurance Companies. The study observed 84 members in the audit committee and 42 Internal Audits (Soud Alqadi, 2017). The study demonstrated that there exist insignificant discrepancies between the perceptions and perspectives of the audit committee and that of the internal audit committee in respect to the function enhancement of internal committee. However, there exist significant statistical differences between the two variables with reference to the independence of these discrepancies observed in the process of revision of internal audit (Soud Alqadi, 2017).



## **CHAPTER 3**

### **INTERNAL AUDITING AND ITS RELATIONSHIP WITH AUDIT COMMITTEE**

#### **3.1 What is the internal audit?**

Banks have been trying to regain investor confidence in capital markets since the passage of the Sarbanes-Oxley Act in the United States of America in 2002, responding to a number of corporate and big accounting scandals. The Oxley Act now obliges companies to expand with Easter and give formal wording to operations that precede corporate financial reporting, banks should establish and maintain internal control systems and review them periodically and regularly. corporate management officials should personally certify the accuracy and completeness of the financial reports. the Directorate must also certify that the requirements of the internal control system have been met. The Oxley Act also raises the question of the independence of auditors, it also contains detailed rules for the audit committee, Internal auditing can be a challenging, rewarding, and varied career path. Many public accountants who work as external auditors eventually become internal auditors, and many internal auditors eventually take management roles within their organizations ((Messier& Glover & Prawitt,2008)

The successive changes that touched all areas of life since the creation of man, we are particularly concerned with the macroeconomic and micro-economic areas, and management areas, it has led to the emergence of multinational or intercontinental institutions and the expansion of large-scale institutions, the thing that led to the growing needs of the latter in all fields, on the one hand, they had to prioritize these needs, and find out how it is met those needs are made possible by their physical and human potential,and

she has the greatest need to have an internal and external regulatory system, the growing need for this led to the development of professional review practice, , from its first practice to her most today, this development has affected its philosophy, concept, method of practice, and its objectives, this development has also led to the emergence of multiple species. (Alnour, 2015)

### **3.2 The establishment and concept of Internal Audit:**

The internal audit profession has emerged in parallel with the development of management science after World War II, it is an effective means of internal control. (Bazi, 2011) Most evidence suggests that the onset of internal scrutiny was in the US with the rise of the big companies in the nineteenth century, the railway was run, Banks, insurance companies and joint stock companies have been valued for internal audit services it has achieved great success beyond auditing and dedicating financial statements to preparing operating reports reliable does not include financial data such as product quality, after the founding of the Institute of Internal Auditors of the United States of America (IIA) in 1941, the importance of internal scrutiny increased a certificate (internal legal auditor) is being awarded by the Institute of Internal Auditor for those who pass four-part qualification examinations, the first exam was held in the United States of America in 1974 and at the end of the nineteenth, and the internal audit field was deserved wouldn't it be called (mature and full profession) because it is subject to the conditions of the seven rigorous and profession-specific challenges: (Najem & Muhammad, 2008)

- 1- It has a range of specialist knowledge and knowledge (a general set of knowledge ratified 1972).
- 2- It is a formal educational process.
- 3- It has criteria that determine the entry of the member to enjoy all the distinguishing characteristics of (IIA).
- 4- Has a set of principles or rules of ethics.
- 5- It has a recognized legal status, either through official leave or through private evidence.
- 6- Has general benefit in the work done by the employers.

## 7- Recognition by professionals of collective will.

Through developments in the environment around the organization that have been reflected on the internal audit profession, you have become a job within organizations and in diverse environments legally or culturally, in institutions with different purposes and size, its organizational structure, legal form and through individuals within the institution (Daho & Jilali, 2018)

### **3.3 Internal Audit Definitions:**

Internal Auditing is a self- supporting, objective assurance, and consulting activities that target to contribute and improve the organization's operations. It supports an organization in accomplishing its objectives by employing a disciplined and systematic approach to evaluate and increase the efficiency of risk management and control processes.(Whittington, Pany,2010)

As the Arab Society of Accountants defined it " an internal audit function of the facility management that expresses an independent internal activityto establish management oversight, including accounting, to assess the system's compatibility with what management requires or working well enough to use resources to be productive". (Al-Madhoun, 2011)

Auditing in its professional sense means a document examination and the books and records of the Foundation are a critical and impartial technical examination of the authenticity of the operations the fair expression of financial reporting is adopted in this respect, the strength and the strength of the internal control system, a critical examination allows for the review of information provided by the organization, and judging the processes that have taken place and the systems established that have produced those processes.( Almkhtar, 2018)

In another sense, internal scrutiny is an autonomous function within an organization with periodic activity in examining and verifying whether the regulations laid down by the institution are in progress, implementation or best-portrayal of the implementation, which is a service of assistance to the

Organization's personnel to carry out their responsibilities with the best effectiveness.(Shiban & Jabari, 2016)

Internal audit is an independent and objective activity that gives the organization a degree of control in its operations, it provides advice to improve it and helps create a added service the Organization is helping to achieve its objectives through evaluations this is through a consistent and systematic methodology for risk management processes and corporate governance and the creation of proposals to support their effectiveness. (Samir & others, 2018)

"And it appears from the previous definitions that the internal audit: An independent, objective and assured activity that is a systematic process according to criteria that helps the institution in achieving its goals, improving its operations and strengthening its internal system and to provide the necessary advice to management, which helps to reduce risk and detect errors by examining the documents, books, and accounting records"

### **3.4 The importance and objectives of the internal audit:**

#### **3.4.1 The importance of internal audit:**

The importance of internal auditing stems from being activity within the economic unit, by individuals appointed by management for specific purposes, as well as being a control tool that helps workers perform their jobs in an efficient and more efficient way, the importance of internal auditing is that it is effective oversight that helps the management of the institution to raise the quality of business, evaluate performance and maintain property and assets of the business, It emerged, developed and increased in importance as a result of the solidarity of a range of factors, which are as follows: (Zubaidi, 2017)

- The large size of the organization and company and the multiplicity of their operation.
- Management has to delegate authority and responsibilities to some branch departments of the facility.

- The need for plant management to produce periodic and accurate data for policy-making, planning, and decision-making.
- The need for the management of the facility to protect and maintain the property's funds from fraud and theft.
- The needs for accurate data on economic planning and government control is needed by government agencies.
- External audit procedures evolve from a full-length to a statistical sample method-based test.

As management is increasingly concerned with auditing, some companies have begun recruiting employees to conduct internal audits from within the organization, internal auditing is of great importance through the role it plays, this process is practiced by the human worker at all levels within the institution and includes items of equipment, buildings, money, individuals and actions behaviors and actions from the beneficiaries of internal scrutiny are the following: (Warda & Maimouna, 2017) (Anis & Osama, 2018)

- Managers and institutions: Managers and organizations are going to a great extent to make sure that the objectives are met, and to verify that the system of periodic internal audit of accounts submitted is convincing and honest, which can serve as a basis for management decisions. the management of the enterprise is based on accounting data used for control, planning for the future to achieve the objectives of the organization with great efficiency and there is no guarantee that accounting data are accurate except by examining them by a neutral technical body.
- Shareholders and state property: This is to be sure:
  - 1- Responsible management ability.
  - 2- The good and optimal use of invested funds before committing to new decisions.
  - 3- Detect and prevent errors and fraud or at least limit their spread.
- Creditors and Suppliers: A sound financial position gives the required confidence in transactions, which is done between the institution and its customers and creditors, where they can draw on the internal auditor's view of the financial statements and the financial center, and the degree of liquidity

and profit is of great importance to them and they are therefore the basis for determining the integrity and direction of the financial situation. The auditor's report is an important reference for the various creditors of the enterprise by knowing how sound the financial position of the enterprise is and degree of liquidity to make the right decision on how to deal with the organization in the future.

- Tax Administration: This is to see the size of the real taxable container based on the internal auditor's output. Respect for legislative texts, generally accepted accounting principles also allow for the reliability and trust of accounts, tax administration and tax liability determination, and give credibility tax declarations.
- Owners and Users: This community has recourse to approved financial statements the approved shall use its data to determine the financial situation of the economic units economic and the strength of its financial position to make decisions in directing their savings and their investments so that they achieve the greatest possible return with regard to the element of protection possible.

#### **3.4.2 Internal Audit objectives:**

In order to be able to define the most important objectives of internal audit on the one hand and the objectives of the internal audit department personnel are, on the other hand, those of the internal we must distinguish between these two types of goals. If we want to address the goals of internal auditing It can be said that although the main objective of a section Circle or cell internal auditing of any organization is to contribute to the achievement of the overall objectives of this organization , Internal auditors are primarily seeking to achieve the following objectives: (Kadida, 2015) ( Samira, 2019) (Shiban & Jabari, 2016)

- Review and evaluation of internal control systems.
- How to apply accounting and financial control to operations and to make them effective at the lowest cost.

- Undertake regular and periodic reviews of various activities and report proposals, findings and recommendations to senior management.
- Verify that adequate asset protection is in place.
- Development of the business system and internal control system through proposed recommendations for improving staff performance, develop an accounting system by continuous monitoring of application, with the possibility of making suggestions for its development.
- To hold the company's funds and lost assets, embezzlement, manipulation and abuse.
- Detect errors and fraud, ensuring that financial records and data are intact while maintaining the enterprise's assets.
- Verification and evaluation of the implementation of the plans and management policies by the senior management of the project to express their views, analyze deviations from these plans and make suggestions to avoid future deviations and fill in gaps that lead to the loss of project funds here, internal audit officers write periodic reports on an evaluation of the plans implemented.
- Collaborate with the external auditor to identify areas for external review in order to avoid duplication of work.
- To participate in reducing costs, preventing wasteful and wasteful and setting up actions for them.
- Ensure that the information before the Department is accurate and sufficient and is correct.
- Determine the objectives that maximize the benefits from using the appropriate methods and methods by utilizing the available material and human resources.

### **3.5 Types of internal audit and its standards.**

#### **3.5.1 Types of internal audit:**

**1- Financial audit:** It means auditing operations, financial and accounting documents and analyzing accounts and results and extraction of existing deviations and procedures used in the conduct of this aspect, and how it is in conformity with reality and in an orderly manner on specific techniques and

procedures according to standards. It is intended to analyze economic activity of economic unity and to evaluate accounting systems and financial information systems and reporting and their reliability, internal financial audit is an examination of internal controls, data and documentation and the accounts and books of the project under auditing are critically structured, The tasks performed by this type of audit are :(Amin & Others, 2017) (Anis & Osama, 2018)

- Ensure the validity and fairness of financial statements.
- Ensure external audit costs are reduced.
- Verify that the financial operations are completed correctly.
- Check the responsibility of finance managers.

**2- Operational audit:** The aim is to verify the efficiency and economic effectiveness of the activities to be audited and to assist the Department Solve problems by making meaningful recommendations for a realistic approach, Defines operational audit(process audit) As "the comprehensive examination and evaluation of project operations for the purpose of informing the administration, The audit also includes assessing the efficiency of the use of material and human material, in addition to evaluating the actions of different processes, the audit should also include crisis-response crisis recommendations and the path to increased efficiency and profitability. and to help the Department solve problems by making meaningful recommendations for the sake of realistic working methods, the most important thing that the Department benefits" and operational audit is Create new and effective ways of communicating between different levels of management, use available resources efficiently and effectively, increase profitability, which is known as the comprehensiveness of modern internal precision. ( Makhoulouf, 2006) (Salima, 2015)

This type of audit involves two types Pre-disbursement internal financial auditing and post-disbursement internal financial auditing, the first type refers to one stage of internal self-control, this is to assign a particular employee to review the work of another verification employee, the integrity of the procedures, the completion of the documents and the approval of the



competent authority for implementation. As for audit after disbursement, it is carried out according to the internal audit plan by selecting and examining samples through the Internal Audit Department, senior management ensures that financial operations are in line with laws, regulations and regulations applicable to ensure that the objectives are achieved. Internal financial auditing is an important tool for enabling senior management to be reassured to the accuracy of financial statements, the preservation and physical existence of assets and to protect them from manipulation, loss or embezzlement. (Alrawi, 2012)

**3- Special task auditing:** This type of audit relates to the tasks that the internal auditor performs depending on what you find from the top management cost to do and it is consistent in style or scope with the former two types, but it differs in timing, as it is often sudden and not included in its internal audit line. ( Ibtisam, 2014)

**4- Administrative audit:** Review of financial controls and activity controls, and what has to do with laws and regulations, to determine compliance with approved standards and expectations, and to make sure that they match what is already a topic and set up, and the extent of compliance with the laws and regulations in force, and this audit may act as an administrative audit (Amin & Others, 2017), This type of internal audit seeks to examine and evaluate the company's business, as a whole for efficient and effective use of available resources, this is in accordance with an advanced plan agreed upon by the highest authorities of the organization. (Al-Naami & Others, 2014)

**5- Commitment audit:** Aim to verify compliance with applicable laws and regulations, and procedures established by the enterprise, the internal audit department has the burden: (Abdul-Razzaq, 2017)

- Ensure that general law, regulations, and instructions are applied.
- Be fully familiar with general laws and regulations.
- Control of the extent to which different departments are bound to apply the rules of procedure in their administration.



**Figure 3** (Types of internal audit)

(Source: designed by researcher)

### 3.5.2 Internal Audit Standards:

The Institute of Internal Auditing (IIA) issued in 1978 a list of standards for the professional practice of internal auditing that covered various aspects of internal audit, it is based on five main departments: (Al-Omari, 2006)

- Independence.
- Professional care.
- The scope of the internal audit.
- Internal audit operational performance.
- Management of the Internal Audit Department.

The Internal Audit Standards are an official record of the American Institute of Internal Auditors which was even established to govern the professional practice of the latter, the most important of these standards is the following:

**1- Internal auditor independence:** The goal of having internal audit as a job is to serve the organization, despite the fact that the internal auditor's work is called for to be autonomous, has only a specific scope and scope of work by the administration, it also receives instructions and orders to comply with it, the conflict between the independence of the auditor and his subordination to management is clear because it is difficult to ensure this independence because it is the duty of the Department to report to an individual or official in the organization. to ensure independence in internal auditor interventions, a special status with privileges must be established within the organization, and features that ensure the auditor does his work with all independence and objectivity and are divided into: ( Lutfi, 2004)

- The distinct position of the organization's internal audit of the independence of the audit: Evaluates how far you are within the organization, internal audit must be linked to an institution as the Director-General or senior management or the governing council, this link ensures that it covers the entire organization's activities and ensures that the Auditor's report arrives the auditor is a set of suggested tips and corrections, to an experienced official who can evaluate these proposals.

- Internal Auditor special properties: Internal auditors must carry out their task objectively to achieve these, they must have a set of characteristics and apply the most important rules concerning them.

**2- Scientific and practical qualification standards:** The importance of this standard stems from the presence of multiple parties that rely on the auditor's opinion on the project's final financial statements, which requires with him the need to have confidence in these parties in the extent of efficiency and impartiality of the auditors, this confidence will not be achieved except through the availability of their independence, in the technical opinion of the financial statements subject to examination. (Warda & Maimouna, 2017)

3- Standards for the scope of work : Review the organization's systems for the purpose of ensuring compliance with policies plans, procedures, laws, reviewing systems that have their impact on operations, reports, and preparing proximity in compliance, the audit means protection, rights, and verification of its existence, and assessing the efficiency and effectiveness of the organization in the use of resources. (Najem & Muhammad, 2008)

4- Internal Audit function performance standards: Requires that an advance plan for the audit process is defined and its implementation followed, the objective report of the results was submitted to the competent authorities and the results of an implementation were followed up of the observations received and action taken thereon. (Salloum & Al-Mahayni, 2007)

5- Management of the Internal Audit Department standards: This standard shows that the internal audit manager should do the following:

(Daho & Jilali, 2018)

- To achieve the goals and responsibilities that senior management wants.
- Efficient and effective use of the economic resources of its administration
- That the work of internal auditing conforms to the professional standards of internal auditing

As part of the response to global financial crises and the latest developments in the global economy as a remedy in developing the role and functions of internal scrutiny, This will be facilitated by developing internal audit standards, in the implementation of this order, the Institute of Internal

auditors has issued modern standards to keep up with economic developments economic as it is modern auditing standards in two groups as follows: ( Radwan, 2012)

**Attribute Standards:**

It is a set of four key criteria issued by the Institute of Internal investigators which covers the characteristics and characteristics of companies and individuals who perform internal audit activities as follows: ( Radwan, 2012)

- Standard No. 1000 The purpose of the responsibilities of the internal audit activities and the purpose of the powers granted to them and that they must be recorded officially in the internal audit list which is approved by the highest authority in the company.
- Standard No. 1100 independence for internal and objective audit activities in the performance of these activities and objectivity in the final opinion of internal auditors.
- Standard No.1200 Efficiency in the performance of the internal auditor of internal audit activities and exerting the necessary professional care in performing it.
- Standard No1300 Internal audit quality and subject to calendar operations.

**Performance Standards:**

- **Standards No. 2000 Managing the Internal Audit Activities:**Which requires the Executive Director of the Internal Audit Unit to manage the department, including the contribution that includes adding value to the organization. (Messier& Glover & Prawitt,2008)
- **Standards No. 2100 Nature of Work:** An internal audit activity should help the company evaluate the governance process in the company and it makes appropriate recommendations for improvement, and identify and assess important risks, and to help the company maintain effective systems of control and ways to develop it. ( Nawal, 2018)
- **Standards No. 2200 Planning the audit process:** The standard provides that internal auditors must prepare and document an internal audit plan,

includes the scope, objectives, timing of the audit process and the resources required to carry out the audit activity. (Messier& Glover & Prawitt,2008)

- **Standards No. 2300 Performing the Engagement:** This standard states that "Internal auditors must analyze and evaluate and they record sufficient information to achieve the objectives of the audit" ( Ibtisam, 2014)

- **Standards No. 2400 Communicating Results:** This standard provides that internal auditors should report on the results of the senior management audit, and its compatibility with mission objectives, scope, recommendations and customer plans (delivery standard), with the process of communication being accurate, objective and clear (standard of quality of delivery), and delivery of standards that have not been complied with, why, and the effect (the standard of non-compliance disclosure), finally, the results should be disseminated to all the appropriate persons (the standard for the dissemination of the results). (Whittington, Pany,2010)

- **Standards No. 2500 Monitoring Progress:** This standard stipulates that the Director of Internal Audit must establish a system it is appropriate to follow the process of disposing of and monitoring the results brought to management, it must create a follow-up mechanism and ensure that management decisions are effectively implemented, and respond to the results of their reports. (Whittington, Pany,2010)

- **Standards No. 2600 Communicating the Acceptance of Risks:** This standard states that when the Internal Audit Manager sees it the administration has accepted some of the essentially unacceptable risks to economic unity, it should discuss this matter with the general manager, and if this debate does not help, they all have to raise this issue and discuss it with the board to get the solution and decide on it. (Messier& Glover & Prawitt,2008)

### **3.6 The Factors that helped to the establishment and develop internal auditing:**

There were many factors that helped to seems the internal audit and increased attention to them within enterprises and greatly enhanced their role, among them the following: (Afifi, 2009) (Balkhrosh, 2016)

**1-The large size of business establishments:** The emergence of joint-stock companies and modern projects have complicated their operations, to the administration's inability to know everything, which necessitated the use of internal control systems. To assure management of the integrity of internal control systems and the commitment of those working in them, management used the internal auditor. Internal audit has thus become an internal control branch, that is working to assess the efficiency and effectiveness of the remaining branches of internal control.

**2-The Separation of ownership from management:** Corporate governance has become an agent of its stakeholders, especially shareholders, and that management as an agent for shareholders is charged with designing and operating effective internal control systems to ensure that financial statement are prepared free of intentional and unintentional fundamental distortions, and ensure compliance with company-bound laws and regulations, and finally ensuring the efficiency and effectiveness of the company's activities and operations. In order to fulfill this administrative responsibility, the administration must develop and implement effective internal control mechanisms, among these mechanisms is the internal audit.

**3-The emergence of financial institutions such as banks and insurance:** This type of facility has constant and continuous contact with others, which became required not to wait for the external audit to verify the accounts and financial statements after the end of the year, the need for the clear internal audit function has emerged to continuously audit these processes.

**4-issuance of the standard specifications for global quality ISO:** International quality certification has become a passport to foreign markets in various countries of the world, as some countries and economic blocs stipulated the necessity of access for suppliers of goods and services, the international

quality certificates issued by the International Organization for Standardization ISO which requires the facility to extend the internal audit work to include the internal audit quality to ensure compliance with global quality requirements and specifications, that is, we have extended internal audit work to include quality review and preparing a report on the results of this review and giving procedures on how to improve and communicate it to the management to take action to maintain the application of global quality requirements.

### **5-Increasing the failure and bankruptcy of the establishments and banks:**

Studies have come up about the reasons for increasing failure and bankruptcy of facilities in the United States during the forties, the main reason was poor oversight performance, in these facilities due to a lack of independence of the board of directors, or a decrease in the quality of the performance of the committee of auditors, or the absence of an internal audit function in it, this called for recognizing this position as an independent profession it has a resistance that enables it to achieve its intended purpose.

### **3.7 Internal Audit components**

#### **3.7.1 The rights and duties of the internal auditor:**

In order for the internal auditor to perform his work in full and with a kind of efficiency and effectiveness, he must have rights and duties, and all of this from the rules and principles of auditing on the one hand and what was the practice in the other hand:

#### **Internal Auditor's Rights:**

The internal auditor's rights can be summarized below:

( Malik, 2014) ( Salem, 2012)

- Right to full access to all documents and records of the institution.
- The right to full access to the company's human resources, assets, and property.
- The right to request any data and clarifications that the auditor deems necessary to help carry out his or her work.
- The right to determine the inventory time and obligations of the enterprise in order to ensure that the financial statements are fairly portrayed.



- The right to attend the meeting of the General Assembly of contributors.
- Right to obtain a photo or copy of the inquiries or statements that the Board of Directors faces to shareholders.

### **Internal Auditor duties:**

When the internal auditor performs an internal audit program that is intended for this purpose, the internal auditor shall perform the following duties: (Mamouni & Others, 2014), (Ghorban & Alaiwi, 2011)

- Preserving interests, the General Tax Authority, by limiting deviations and errors and developing tax revenues.
- Develop a comprehensive plan of action, the method and the program of time required to complete the task .
- Coordinate with the auditor's management coordinator regarding obtaining the necessary documentation, and identifying the needs to carry out the task.
- To take care to perform the verification work within the tax accounting mechanism.
- Auditing and checking everything related to the verification of the income of the taxable subject to withholding of data, accounts, records, documents, and others.
- Provide an enhanced, competent opinion on the procedures of the tax authority (before the audit stage), or object to it under a particular mechanism.
- By the nature of his work, he is conducting a continuous audit of all employees, and the operation of tax accounting units in all stages and its steps to reduce deviations and mistakes and fight administrative corruption.
- Carrying out the first field survey for the audited activity, to understand and define the working method and make recommendations for audit needs.

### **3.7.2 Internal Auditor's Principles:**

The Basel Committee on Banking Supervision in its document Basel Convention of 2001, the subject of internal audit and the audit relationship with auditors is to establish several principles (Warda & Maimouna, 2017)( Nawal, 2018)

- 1- **Permanent work (continuity):** Each organization must have an internal audit function and while carrying out its duties and responsibilities and senior management must take all measures to enable the bank to rely on the internal audit function continuously appropriate for the size and nature of the operations it performs, as these procedures include providing resources and personnel for internal auditing in order to achieve their purposes.
- 2- **Independent work:** The internal audit function of the organization must be independent of the audit work, it also provides independence from daily internal audits, this means that auditing has an important role within the institution and performs its work objectively and impartially.
- 3- **Confidentiality:** The internal auditor must respect the value and ownership of information that he or she receives, and that information is not disclosed without the necessary authorization or authorization, this is unless there is a legal or professional obligation to disclose such information.
- 4- **Neutrality:** The internal audit function must be objective and neutral, which means that they must be in a position to perform their functions freely, free from prejudice and interference, the subject and neutrality implies that the internal audit department itself is free from conflicts of interest between them, Therefore, you should periodically exchange tasks between employees in the department at some point in time, internally recruited auditors must not review activities or work they did last year and neutrality requires that the Internal Audit Department not be linked any bank operation or selection and application of internal adjustments and it will not be responsible for such actions, which will affect its independence in the assessment.
- 5- **Professional competence:** The professional competence of each internal auditor, and for the internal oversight function as a whole is essential for the internal audit function of the organization to function properly, the professional competence and continuous training of all internal auditors are key to the internal audit competency, in assessing

professional competence, the nature of the role of the Comptroller of Accounts must be taken into account and its absorptive capacity to collect information, perform examination and evaluation, the auditor must use the knowledge, skills, and experience needed to perform internal audit services.

- 6- **Scope of Activity:** Each activity that the organization and its subsidiary must fall within the scope of internal audit, any activities undertaken by the Commission, including those of branches and subsidiaries, may not be excluded, as well as to the activities of external sources from the scope of the internal audit department of the investigations section has the right to see any records, files, or data, including management information, the details of the advisory and decision-making bodies whenever this is related to the Department's performance of its tasks.

### 3.7.3 the stages and methods of internal audit

#### **The Stages of Internal Audit:**

The Internal Audit Professional Performance Standards (IAS), issued by the Institute of Internal Auditing (IIA), were set out in the United States of America in 1978 the completion of the internal audit process must include the following: (Al-Naami & Others, 2014)

- **Planning the internal audit process:** internal Audit Professional Performance Standards have indicated the following: (Osama, 2019)
  - A- A documented internal audit plan must be developed based on the risks, provided that they are reviewed at least once a year, the Senior Management and Board Directives should be considered in this process.
  - B- the internal audit manager should consider accepting proposed consultations based on their usefulness in improving risk management, And adding the value of real estate business, the plan must also include advisory work that is accepted.

- **Check and evaluate information:**The internal auditor collects, analyzes, interprets, and documents information to support the results of the internal audit process: (Salima, 2015)
  - A- The collection of information should be governed by the objectives of the scope of the audit.
  - B- The information must be sufficient, efficient, appropriate, and useful, and to provide a sound basis to reach sound results of the audit process.
  - C- Procedures including preview methods must be pre-defined.
  - D- The process of collecting, analyzing, and interpreting data must be supervised by the internal auditor.
  - E- The working papers of the internal audit process must be prepared by the internal auditor, The internal audit manager should examine them.
  
- **Communicating the Results (internal audit reports):** The internal auditor communicates the results of his internal audit by reporting in written form, and it must be signed, after the completion of the examination process:(Salima, 2015)
  - A- The report must be objective, impartial and free from any misrepresentation.
  - B- The report should be understandable, logical, and contain as little specialized technical language as possible so that it is understood by all workers, and that it contains sufficient information to support the facts and conclusions contained in the report.
  - C- A report can contain background information for the subject under audit can contain a summary of specific things, such as some explanatory information and some conclusions from previous internal audit reports.
  - D- The look of the internal audit report and the contents of this report vary depending on the nature of the audit itself, but there is a common minimum shared in all report types is that they must contain the purpose of the audit and the scope of the examination and finally his findings.

- **Follow-up process:** The Internal Audit Manager must create the follow-up system results reported to management and these steps take three forms :(Osama, 2019)
  - A- The senior management inquires from the audited entity to reinforce a decision whether and when these recommendations can be applied and how.
  - B- Recommendations are implemented directly by the audit process.
  - C- The internal auditor, after giving the entity subject to the audit process sufficient time to implement the required corrective actions by following these procedures or making sure that the administration communicates responsibility for not taking such actions.

**Internal audit methods:**

In order for the internal audit to achieve its objectives, the internal auditor achieves the following:(Balkhrosh, 2016)

- 1- Examining, studying and analyzing the systems of internal control and evaluating their adequacy and effectiveness.
- 2- Verify the existence of the facilities assets, the correct record of them in the books, and the adequacy of their means of protecting them from losses of all kinds.
- 3- Reviewing books and records and checking documents to discover errors and tampering that are taking place in the future,when selecting restrictions for review, it is considered that the selected restrictions are an example of all types of restrictions in the books,they should be the same as each employee and be at different intervals throughout the year.
- 4- Validate accounts data shown in financial statements or reports prepared by different departments and senior management.
- 5- Evaluating the quality of performance in implementing the established policies.
- 6- Make recommendations for improving working methods.
- 7- Check whether policies are being considered and adhered to for plans drawn.
- 8- Achieving the largest possible administrative and production sufficiency in providing services to members of the administration.

### **3.8 The relationship between Internal Audit and Audit Committees, External Audit and Management, The impact of the Quality of Audit Committees on Improving the Internal Audit Activit.**

#### **3.8.1 The relationship between Internal Audit and Audit Committees, External Audit and Management:**

##### **The relationship between Internal Audit and Audit Committees:**

The Audit Committees is one of the Main Committees of the Board of Directors and is composed of non-executive members of the Board, the composition of the Audit Committees should be seen as a development of the audit process in its broad sense, these committees can support the objectivity and credibility of financial reporting, they can also help executives manager meet their responsibilities, it supports and strengthens the role of non-executive directors, it supports the independence of auditors and improves audit, improved communication between managers, auditors and management, in addition, it helps to create some kind of control by shareholders over management, it can be considered a useful tool and a helpful tool for the Board of Directors to monitor the performance and conduct of the business, the Internal Audit Department has direct obligations to the Audit Committees, we offer the most important areas of internal audit services to the Committee of auditors: (Kerzan, 2014)

- **Financial reports and accounting disclosure:** It is well known that the Board of Directors has primary responsibility for preparing the financial reporting and accounting principles, the board of directors is forming a Committee of auditors to help it fulfill this responsibility and this is to ensure specific expertise in the technical issues associated with these reports, although the Audit Committees receives significant assistance from the external auditor in this regard, but it must seek other mechanisms to help, one of these mechanisms is the internal audit, therefore, there is a common goal and interest between the internal auditors and the Audit Committees with regard to accounting disclosure and financial reports.

**-The appropriateness of financial accounting control:** The Audit Committees has a particular responsibility in the area of the adequacy of the internal accounting control of the facility, it must search for multi-party assistance, such as internal audit, financial management, and external audit, internal audit is a good place to help the Audit Committees, to link its work to the adequacy and effectiveness of the overall system of internal control.

**- Audit activities:** The internal auditor should be able to meet the needs of the Audit Committees other than that you obtain from the external auditor, the internal auditor must provide services as an integral part of the overall audit program which is organized by the committee of auditors as it should on the Audit Committees determine whether audit activities are carried out in accordance with the auditing standards.

**The relationship between internal audit and external audit:**

There is almost complete consensus among professional bodies on the need for coordination between the external and internal auditors, this helps to provide more efficient and effective, comprehensive check coverage, for example, some believe that audit managers should work more extensively with external auditors to enhance their reliance on internal auditors as one of the modalities for developing a strategy to ensure the sustainability of joint cooperation this collaboration requires a level of coordination between internal and external audits this reduces duplication of work and redundancy and is the result of increased governance requirements, the importance of internal scrutiny has been reinforced particularly as external audit funding for internal audits increases to meet requirements this governance made the relationship between internal and external audits more integrated . this clarified US auditing standard 65 by focusing on paragraphs the external auditor takes into account when he or she is assigned to an audit function for an economic unit by performing the following audit tasks: (Saffar, 2015)

- Obtaining an adequate understanding of the internal audit of the economic unit.
- Assessing the competence and objectivity of internal auditors.
- Study the nature of the impact of the work of the internal auditors on the external audit process.

- Test the effectiveness of the work of internal auditors.

### **The relationship between Internal Audit and Senior Management:**

Due to an regularly solid coordinate or roundabout relationship between internal audit and the CEO and/or CFO, as recommended over, it is sensible to anticipate that senior administration is in a position to apply a noteworthy impact over internal auditing examining which monetary directors' desires of inner review are noteworthy in connection to their part and improvement, the number of observational thinks about that have explored the relationship between senior administration and internal auditing is restricted. In case the hiring/firing specialist is vested with the committee of auditors, but senior administration proceeds to have specialist over the budget and assessment of the internal auditing division, internal auditing remains profoundly 'dependent' upon the CEO and/or CFO. (Sarens and De Beelde,2006)

### **3.8.2 The impact of the quality of audit committee on improving the internal audit activity:**

The audit committees have the potential to improve the adequacy of the internal audit work as well as external audit hones, and this, in turn, has suggestions for audit quality. The reason of this paper is to examine the relationship between audit committees and internal audit's work. (Nelson&Yassin:2012)

Connections with internal auditors Posting all the assignments of the internal auditors is past the scope of this paper. In any case, I would allude to the assignments that are specifically related to the committee of auditors exercises as takes after: after the U.S. corporate embarrassments and the collapse of Enron and WorldCom, as well as Arthur Andersen and others, the internal auditors assignments have been changed, particularly compatible to the issuance of Sarbanes-Oxley Act passed by U.S. Congress in 2002. One of the most duties of the committee of auditors is to improve and keep up the internal auditors' autonomy in order to empower them to attain their obligations. The relationship between the audit committees and the internal



auditing is vital for both parties to fulfill their work commitments. The internal auditors give the committee with the essential data to which they have coordinate get to, same as the organization's administration, in arrange to empower the audit committees to achieve its oversight and checking mission. On the other hand, the committee of auditors underpins the position of the internal auditing's work and submits management's abnormalities and other pertinent administrative and monetary issues to the board of executives, after examining such issues with the internal auditing and pertinent other parties. The committee of auditors is concerned with selecting and ending the head of the internal auditing, and the recurrence and length of the gatherings with the inner inspectors, as well as guaranteeing that the internal audit, particularly their head, can communicate straightforwardly with the audit committee anytime. The audit committees gatherings with the head of the internal auditing improve the autonomy of the internal audit's work, supporting the parties' talk approximately management's blunders, abnormalities, infringement, and extortion. ( Al-Baidhani:2016)

The internal audit's work has gotten to be an critical component for corporate administration within the final few a long time, To begin with of all ,we examine whether firms have an internal audit work and moved forward corporate administration Besides, we see at whether the committee of auditors and the internal auditing work have a great relationship they may improve great corporate administration. The internal auditing work is one of the four foundations of corporate administration. The head of the internal auditing work ought to advise around their advance to the audit committees. A few creators claim that a great relationship between the audit committees and internal auditors is fundamental for the adequacy of great internal control components and to move forward the quality of financial statements. (García ,Barbadillo. Pérez: 2012)

## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

Study Approach in reference to this research explains the methodology and methods of analysis and investigation for this study. The study is descriptive as it seeks to describe the impact of audit committees quality on internal auditing in Iraq. Many factors of research were put into consideration before following a quantitative research method.

#### **4.1 Research Philosophy**

Majorly, there four philosophies in research, which are pragmatic, positivist, realist and interpretivist philosophies. However, in this case the researcher seeks to follow an interpretivist philosophy as it implies to interpret the views and positions of accounting experts in the study case, especially the internal auditors, by answering the questions that the current study poses.

#### **4.2 Research Approach**

The research approach chosen is inductive because it seeks to collect people's views through the questionnaire. It also seeks to gather opinions on the phenomenon of auditing with a view to achieving quality in internal auditing. The views, opinions and thoughts will be from accounting professionals who are participants in this study.

#### **4.3 Data Sources**

The researcher has employed the use of primary data as the research method involved is quantitative. The researcher has used only primary sources of data to gather information on the study phenomenon.

#### 4.4 The Data variables

The variables are divided into three, the demographic scales and the auditing committee quality and internal auditing scales. The demographic scales

**Table 1** The demographic scales

1	Gender
2	Age
3	Level Of Education
4	Work Position
5	Scientific Specialization
6	Practical Experience

(Source: designed by the researcher)

**Table 2** The audit committee quality variables

1	Iraq's corporate law has clearly pointed to the importance of establishing audit committee for Iraqi companies.
2	The members of the audit committee are independent
3	The members of the audit committee have academic qualifications and practical experience in the financial and accounting fields
4	The Members Of The audit committee Organize Meetings And Issue Their Periodic Reports
5	audit committee Supervise The Preparation Of Financial Reports And Coordinate Between The Internal Auditor And The Auditor
6	audit committee Members Supervise, Evaluate, And Resolve Company Risk Management Processes
7	The Relationship Between audit committee And Senior Management Is Close And Continuous And Regular Contacts Are In Place
8	The Chairman Of The audit committee Who Is In The Process Of Assigning The External Auditor
9	The Internal Audit Members Educate Corporate Administrators About The Importance Of Having audit committee That Help Reduce Risk
10	audit committee Periodically Ensure That There Is Continuous Improvement In Asset Protection And Internal Audit Systems
11	audit committee Ensure That Risk Information Is Provided To Decision Makers In Time To Address It
12	The audit committee Publish A Positive Culture About The Importance Of Their Work And Their Preventive Role In Reducing Risk And That Their Role Is Not To Fend For Mistakes
13	The audit committee Helps Board Members To Obtain Regular

3	Information About The Performance Of Executive Management.
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(Source: designed by the researcher)

**Table 3** The internal auditing scales /variables are;

1	The audit committee Sets Out The Conditions To Be Available In The Internal Audit Manager And Plays A Key Role In His Appointment.
2	The audit committee Supports The Internal Auditor's Opinion If It Is True And Contradicts The Administration's Opinion.
3	The audit committee Provides Internal Audit Staff With High Scientific And Practical Skills.
4	The audit committee Periodically Evaluates And Motivates Employees' Internal Audit Management Capabilities Accordingly.
5	The audit committee Ensures That Internal Auditors Adhere To Professional Ethics And Business Conduct.
6	The audit committee Helps To Provide The Necessary Needs, Resources And Facilities So That The Internal Auditor Can Perform His Task Without Hindrance.
7	The audit committee Monitors Management Response To Internal Audit Observations For Appropriate Corrective Action.
8	The audit committee Shall Inform The Board Of The Internal Audit Comments And Recommendations For Action In This Regard.
9	The audit committee Discusses With The Internal Auditor The Extent Of The Risk And Fraud Cases Identified During The Audit And How They Are Handled
10	The Committee of auditors Requests The Internal Audit Section To Provide Objective Evidence To Prevent Delays In The Implementation Of The Plan Or Action Plan.
11	The existence of the audit committee contributes to the efficiency and effectiveness of the internal audit process.
12	The audit committee is making sure of internal audit activities to improve risk management and control.
13	The audit committee shall follow up on the implementation of the Internal Auditor's observations and recommendations.

(Source: designed by the researcher)

The study population consisted of high managers and audit experts working in the commercial banks in the region of northern Iraq. Among these participants are bank managers, directors, internal audit directors, internal auditors, director of finances, directors of administrative divisions. The researcher distributed 150 questionnaires to 20 commercial banks in the cities of Duhok, Erbil and Sulaymaniyah, the three major cities of the Kurdistan Region of northern Iraq and returned 138 questionnaires. All

returned surveys were valid for analysis, the total response rate is 92%(138 out of 150), a high proportion of scientific reliability and can be relied upon.

### The Questionnaire Design

The questionnaire is comprised of three main sections:

Phase I- Demographic Details

Phase II - Audit committee quality survey questions

Phase III- Internal auditing survey question

The structure of the questionnaire is in such a way that it captures the theoretical framework of the study. It also includes the preliminary demographics of status, employment and education. It boldly outlines the questions based on the objectives and research questions in which the participants will respond based on scales. The standard scale used in the questionnaire is the likert scale which categorizes the responses of the respondents into five levels. Each level or category has a statistical attachment and numerical significance in understanding and adapting the position/opinion of the participants. The table below shows

**Table 4** The degrees of Likert scale

The degree of the scale	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The relative weight	0-20%	21 -40%	41 -60%	61 - 80%	% 81 -100
The degree of approval	1	2	3	4	5

(Source: designed by the researcher)

The degrees of likert scale used ranges from strongly disagree to strongly agree which constitute the level of relevance of each question construct in the questionnaire and as it is going to be applied by the application software SPSS, for analyzing these importance. For statistical

purposes, the employment of a criterion is based on the categories of calculation i.e. high, medium and low.

In order to achieve the purposes of the study, this study performs correlation matrix and regression analysis using SPSS software.

#### 4.5. Conceptual framework



**Figure 4** (Audit committee quality impact on the Internal auditing)

(source: designed by researcher)

## CHAPTER 5

### FINDINGS AND DISCUSSION

#### 5.1 Introduction

The introduction on this chapter provides a brief outline of the list of analysis to be carried out statistically on the data gathered from the survey. The array of analysis will include diagnostic tests, descriptive statistics and multivariate analysis. The diagnostics will include test of normality, power analysis, and reliability test. The descriptive statistics will contain the frequency distribution analysis, mean, standard deviation, mean deviation, skewness and kurtosis. The multivariate test will include mean comparisons and correlation analysis.

#### 5.2 Test of Reliability of the Study

Cronbach Alpha test: this test is usually carried out on SPSS to ascertain the degree of reliability, dependability and validity of a study. In standard results, cronbach alpha results of above 50% shows the strength of reliability of the study samples. It is also used to capture consistency in the outcomes and the responses of the entire respondents in a survey.

**Table 5** Reliability Statistics

Cronbach's Alpha	N of Items
.892	32

Source: computed by author with SPSS

The coefficient of Cronbach's alpha coefficient is 0.892 which corresponds to 89.2% which is far beyond 50%. Hence, the the entire study

is reliable and valid as much as approximately 90% which is alternatively a good measure of fit of the study.

### 5.3 Power Analysis

Power analysing method will be used to determine the sample size (The main purpose underlying power analysis is to help the researcher to determine the smallest sample size that is suitable to detect the effect of a given test at the desired level of significance).

$$n = \frac{N * X}{X + N - 1}$$

$$X = (z_{\alpha/2}^2 * p(1 - p)) / MOE^2$$

Where

MOE= margin of error

N= Population size

p= sample proportion

n= sample size,

$z_{\alpha/2}$  = The critical value of the normal distribution at a  $\alpha/2$  (for a confidence interval level of 95%,  $\alpha$  is 0.05 and the critical value is 1.96)

Thus, N=138, p= 0.5, MOE= 0.05, and  $z_{\alpha/2}$  = 1.96

$$X = \frac{1.96^2 * 0.5(1 - 0.5)}{0.05^2}$$

$$X = 384.16$$



$$n = \frac{138 * 384.16}{384.16 + 138 - 1}$$

$$n = \frac{53014.08}{521.16}$$

$$n = 101.72$$

#### 5.4 Test of Normality

Shapiro-Wilk and Kolmogorov-Smirnov test for normality is chosen in this study because of the data type which the variables are in scales and subscales. The test results show that the scales for violence are all found significant at first and second level with  $p < 0.05$ . It also shows that the occurrence of the violence scales in the entire study was not normally distributed.

**Table 6** Test of normality

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Iraq's corporate law has clearly pointed to the importance of establishing audit committee for Iraqi companies.	0.275	138	0.000	0.815	138	0.000
The members of the audit committee are independent	0.269	138	0	0.862	138	0
The members of the audit committee have academic qualifications and practical experience in the financial and accounting fields	0.294	138	0	0.826	138	0
The Members Of The Audit Committee Organize Meetings And Issue Their Periodic Reports	0.318	138	0	0.819	138	0
Audit Committee Supervise The Preparation Of Financial Reports And Coordinate Between The Internal Auditor And The Auditor	0.233	138	0	0.855	138	0
Audit Committee Members Supervise, Evaluate, And Resolve Company Risk Management Processes	0.244	138	0	0.88	138	0
The Relationship Between Audit Committee And Senior Management Is Close And Continuous And Regular Contacts Are In Place	0.243	138	0	0.862	138	0
The Chairman Of The Audit Committee Who Is In The Process Of Assigning The External Auditor	0.288	138	0	0.861	138	0

The Internal Audit Members Educate Corporate Administrators About The Importance Of Having Audit Committee That Help Reduce Risk	0.258	138	0	0.884	138	0
Audit Committee Periodically Ensure That There Is Continuous Improvement In Asset Protection And Internal Audit Systems	0.299	138	0	0.855	138	0
Audit Committee Ensure That Risk Information Is Provided To Decision Makers In Time To Address It	0.273	138	0	0.867	138	0
The Audit Committee Publish A Positive Culture About The Importance Of Their Work And Their Preventive Role In Reducing Risk And That Their Role Is Not To Fend For Mistakes	0.271	138	0	0.871	138	0
The Audit Committee Helps Board Members To Obtain Regular Information About The Performance Of Executive Management.	0.271	138	0	0.853	138	0
The Audit Committee Sets Out The Conditions To Be Available In The Internal Audit Manager And Plays A Key Role In His Appointment.	0.25	138	0	0.844	138	0
The Audit Committee Supports The Internal Auditor's Opinion If It Is True And Contradicts The Administration's Opinion.	0.237	138	0	0.878	138	0
The Audit Committee Provides Internal Audit Staff With High Scientific And Practical Skills.	0.225	138	0	0.87	138	0
The Audit Committee Periodically Evaluates And Motivates Employees' Internal Audit Management Capabilities Accordingly.	0.222	138	0	0.878	138	0
The Audit Committee Ensures That Internal Auditors Adhere To Professional Ethics And Business Conduct.	0.267	138	0	0.849	138	0
The Audit Committee Helps To Provide The Necessary Needs, Resources And Facilities So That The Internal Auditor Can Perform His Task Without Hindrance.	0.229	138	0	0.845	138	0
The Audit Committee Monitors Management Response To Internal Audit Observations For Appropriate Corrective Action.	0.226	138	0	0.83	138	0
The Audit Committee Shall Inform The Board Of The Internal Audit Comments And Recommendations For Action In This Regard.	0.231	138	0	0.844	138	0
The Audit Committee Discusses With The Internal Auditor The Extent Of The Risk And Fraud Cases Identified During The Audit And How They Are Handled	0.22	138	0	0.837	138	0
The Audit Committee Requests The Internal Audit Section To Provide Objective Evidence To Prevent Delays In The Implementation Of The Plan Or Action Plan.	0.225	138	0	0.843	138	0

The existence of the Audit Committee contributes to the efficiency and effectiveness of the internal audit process.	0.224	138	0	0.831	138	0
The Audit Committee is making sure of internal audit activities to improve risk management and control.	0.238	138	0	0.828	138	0
The Audit Committee shall follow up on the implementation of the Internal Auditor's observations and recommendations.	0.243	138	0	0.823	138	0
a. Lilliefors Significance Correction						

Source: computed by author with SPSS

The above table shows that the entire variables used in this study have shown normality in the distribution of data used for the variables. Two measures of normality were used by the researcher namely; Kolmogorov-Smirnov and Shapiro-Wilk test of normality. The readings of their df and statistic significance shows that all the variables are normally distributed.

## 5.5 Frequency Distribution

**Table 7** Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	68	49.3	49.3	49.3
Female	70	50.7	50.7	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

The bar chart above shows the distribution of respondents that filed the questionnaire. Study shows that almost 50% were male while slightly above half of the respondent were female. This demography is not an independent variable and as such is not to be considered on impact or relationship with the quality of internal auditing carried out by the audit committee.

**Table 8** Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid > 30	49	35.5	35.5	35.5
31-40	60	43.5	43.5	79.0
41-50	18	13.0	13.0	92.0
< 51	11	8.0	8.0	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

The chart above also show the distribution of age brackets that responded and partook in the survey bar chart shows that almost 45% of the participants were between the ages of 31-40 which was the highest group respondents. The smallest quotas of respondents were above the age of 50 which was below 10 % while 14% were between the ages of 41-50.

**Table 9** level of the education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High School	8	5.8	5.8	5.8
Diploma	29	21.0	21.0	26.8
Degree	93	67.4	67.4	94.2
Masters	4	2.9	2.9	97.1
PhD	4	2.9	2.9	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

The histogram represented above depicts the distribution of qualification of the respondents in the survey. The survey was open to only educated people with background education not lesser than high school certificate. The distribution revealed that first degree holders were above 65% followed by diploma holders with almost 25%. The least were doctorate degree and masters degree holders.

**Table 10** work position

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bank Manager	11	8.0	8.0	8.0
Director, Internal Audit Division	23	16.7	16.7	24.6
Internal auditor	48	34.8	34.8	59.4
Director, Division of Finance	42	30.4	30.4	89.9
Director, Division of Administration	14	10.1	10.1	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

Bank manager, directors of internal audit divisions, directors of finance, internal auditors and directors of administration were the range of accounting experts that were surveyed according to the pie chart above. Categorically, 35% were internal auditors and they carried the most fraction of participants in the survey, 30% were from the office of directors of finance and the least were bank managers at 8%. In aggregate, 62% of the entire participants in the survey were directly linked in their profession and routine work with auditing.

**Table 11** Scientific Specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Business Administration	28	20.3	20.3	20.3
Accounting	49	35.5	35.5	55.8
Economie	28	20.3	20.3	76.1
Otherwise	33	23.9	23.9	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

Scientific specialization is another category used for the classification of the respondents. The above pie chart shows that the distribution did not exceed four. They are; economics, business administration, accounting and other disciplines. However, accounting accounted for the largest percentage which was 35% and the least was economics with 20%.

**Table 12** Practical Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5	38	27.5	27.5	27.5
6-10	55	39.9	39.9	67.4
11-15	24	17.4	17.4	84.8
16-60	21	15.2	15.2	100.0
Total	138	100.0	100.0	

Source: computed by author with SPSS

The diagram above demonstrates the varying degrees of number of years in terms of experience that the respondents have in the field of auditing. The spread of practical experience was charted into four categories; 1-5 years, 6-10 years, 11-15 years and 16-60 years. Statistically, the bar chart shows accounting professionals with 6-10 years of experience were the majority in the survey with 40% while the least were those with above 16 years of experience. The category of 1-5 years of experience was equally dominant but lesser than those with almost 10 years of experience and they constituted 18% of the total survey participants.

## 5.6 Mean and Standard Deviation Analysis

1. The work of committee of auditors members is independent.

**Table 13** Audit committee independence

No.	Item	Obs.	Missing	Mean	Std. Dev.
XQ2	The members of the audit committee	138	0	3.76	.859

	are independent				
XQ6	Audit Committee members supervise, evaluate, and resolve company risk management processes	138	0	3.71	.945
	<b>Mean average</b>			<b>3.735</b>	

Source: computed by author with SPSS

One of the measurements of audit committee quality is when the work of audit committee members is independent. We used two items to measure this variable in our study, X2, and X6 (see table 5.11.1). The mean values show the level of the acceptance of the statement by the observant. The average mean of the two items is 3.735, i.e.the work of audit committee members is independent, from the perspectives of the observant.

2- The members of the audit committee have sufficient scientific qualifications and experience in accounting and auditing.

**Table 14** Audit committee Experience and Qualifications

No.	Item	Obs.	Missing	Mean	Std. Dev.
XQ3	The members of the audit Committee have academic qualifications and practical experience in the financial and accounting fields	138	0	3.98	.749
XQ9	The Internal Audit Members Educate Corporate Administrators About The Importance Of Having audit Committee That Help Reduce Risk	138	0	3.54	.945
XQ12	The audit Committee Publish A Positive Culture About The Importance Of Their Work And Their Preventive Role In Reducing Risk And	138	0	3.72	.936

	That Their Role Is Not To Fend For Mistakes				
	<b>Mean average</b>			<b>3.746</b>	

Source: computed by author with SPSS

One of the measurements of audit committee quality is when measure this variable in our study, XQ3, XQ9 and XQ12 (see table 5.11.2). The mean values show the level of the acceptance of the statement by the observant. The average mean of the three items is 3.746, i.e. The members of the audit committee have sufficient scientific qualifications and experience in accounting and auditing, from the perspectives of the observant.

3- The decisions of management and investors are affected by the reports issued by the audit committee.

**Table 15** Audit committee reports on decision making

No.	Item	Obs.	Missing	Mean	Std. Dev.
X7	The relationship between audit Committee and senior management is close and continuous and regular contacts are in place	138	0	3.84	0.922
X11	Audit Committee ensure that risk information is provided to decision makers in time to address it	138	0	3.76	
X13	The Audit Committee helps board members to obtain regular information about the performance of executive management.	138	0	3.82	
	<b>Mean average</b>			<b>3.806</b>	

Source: computed by author with SPSS

One of the measurements of audit committee quality is when the reports issued by the audit committee affect the decisions of management and



investors in the firm. We used three items to measure this variable in our study, X7, X11 and X13 (see table 5.11.3). The mean values show the level of the acceptance of the statement by the observant. The average mean of the three items is 3.806, i.e. the decisions of management and investors are affected by the reports issued by the committee of auditorss, from the perspectives of the observant.

- 4- Members of audit committee supervise the preparation of financial reports and coordinate between the internal auditor and the external auditor.

**Table 16** Audit committee supervision on the preparation of financial reports

No.	Item	Obs.	Missing	Mean	Std. Dev.
XQ4	The Members Of The Audit Committee Organize Meetings And Issue Their Periodic Reports	138	0	3.91	.753
XQ5	Audit Committee Supervise The Preparation Of Financial Reports And Coordinate Between The Internal Auditor And The Audi	138	0	3.93	.856
XQ8	The Chairman Of The Audit Committee Who Is In The Process Of Assigning The External Auditor	138	0	3.69	.950
XQ10	Committee of auditors Periodically Ensure That There Is Continuous Improvement In Asset Protection And Internal Audit Systems	138	0	3.59	.949
	<b>Mean average</b>			<b>3.78</b>	

Source: computed by author with SPSS

One of the measurements of committee of auditors quality is when theMembers of committee of auditorss supervise the preparation of financial reports and coordinate between the internal auditor and the external auditor.

We used four items to measure this variable in our study, XQ4,XQ5,XQ8and XQ10 (see table 5.11.4). The mean values show the level of the acceptance of the statement by the observant. The average mean of the four items is 3.78 i.e. the members of committee of auditorss supervise the preparation of financial reports and coordinate between the internal auditor and the external auditor, from the perspectives of the observant.

## 5.7 Correlation Analysis

Pearson correlation test was used in investigating relationships between two or more quantitative variables. It reads the direction and degree of relationship between variables. The researcher proposed to study the relationship between audit committee quality and optimization of internal auditing of commercial banks with a view to understanding the impact of the former on the latter. Studying this impact will require that the independent variables are tested by the dependent variables to see how much of an influence is established between them even if there exist some degree of relationship.

**Table 17** Pearson correlation for Internal Audit

		Correlations				
		Internal Audit	ACI	ACEQ	ACR	ACS
Internal Audit	Pearson Correlation	1	.497**	.607**	.566**	.582**
	Sig. (2-tailed)		.000	.000	.000	.000
ACI	Pearson Correlation	<b>.497**</b>	1	.406**	.420**	.568**
	Sig. (2-tailed)	.000		.000	.000	.000
ACEQ	Pearson Correlation	<b>.607**</b>	<b>.406**</b>	1	.763**	.654**
	Sig. (2-tailed)	.000	.000		.000	.000
ACR	Pearson Correlation	<b>.566**</b>	<b>.420**</b>	<b>.663**</b>	1	.616**
	Sig. (2-tailed)	.000	.000	.000		.000
ACS	Pearson Correlation	<b>.582**</b>	<b>.568**</b>	<b>.654**</b>	<b>.616**</b>	1
	Sig. (2-tailed)	.000	.000	.000	.000	

Sig. (2-tailed)	.000	.000	.000	.000
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\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: computed by author with SPSS

A Pearson correlation test was run to examine the association between the quality of the audit committee and internal audit and between the explanatory variables of the study. The results revealed that there are positive and significant relationships between the used measures of the quality of audit committee and internal audit. The significant (2-tailed) level of 0.000 shows that the variables are correlated at 1% significance level. This implies high quality of audit committee corresponds with optimized internal auditing function. Moreover, the results show that explanatory measures of audit committee quality are moderately correlated at significant level of 1%. The relationships are positive and all below 70%. This could indicate that the explanatory variables could be used in a single regression model and the model would be far from the issue of multicollinearity.

## 5.8 Simple Regression Analysis

Regression I- Internal Audit Optimization and audit committee Quality

**Table 18** Model summary of the simple regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.697 <sup>a</sup>	.487	.483	.46494

a. Predictors: (Constant), The quality of the audit committee

Source: computed by author with SPSS

The R squared is the measured goodness of fit of the regression model. The R squared reading of the estimation output is 0.487. The R-squared shows the percentage of variation internal auditing variable that was accounted for by variation in the quality of audit committee variable. It also indicates that

only 48.7% is accounted for by the stochastic term in explanation of internal auditing variables. The fitness of every regression result is based on its R-squared. The Goodness of Fit shows is high and it informs that internal auditing-dependent variable, is adequately explained by the audit committee quality.

**Table 19** Simple regression ANOVA<sup>b</sup>

<b>ANOVA<sup>b</sup></b>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	27.854	1	27.854	128.849	.000 <sup>a</sup>
	Residual	29.399	136	.216		
	Total	57.253	137			

a. Predictors: (Constant), The quality of the committee of auditors

b. Dependent Variable: Internal Audit effectiveness

Source: computed by author with SPSS

It is observed that the F value is 128.849, this implies that there is variance between both the set of dependent and independent variables. The F-statistic is also found to be significant at 1% level of significance. This implies that there is significant and substantial amount of variance and at least one independent variable of audit committee quality affect the dependent variables of internal auditing.

**Table 20** simple regression Coefficients<sup>a</sup>

<b>Coefficients<sup>a</sup></b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.888	.270		3.288	.001
	Audit committee quality	.799	.070	.697	11.351	.000

### a. Dependent Variable: Internal Audit

Source: computed by author with SPSS

Basic Regression Model

$$\gamma = \beta_0 + \beta_1 X_1 + \varepsilon \dots (i)$$

Regression equation derived from the

$$IA = \beta_0 + \beta_1 ACQ + e \dots (ii)$$

Where;

IA is the dependent variable of internal audit optimization.

$\beta_0$  is the constant

ACQ is the combination of Simpleregressors characterized as the committee of auditors quality variables and;

e- is the error or stochastic term.

Therefore, the estimation output is as follows;

$$IA = 0.88 + 0.799ACQ + e$$

The regression equation shows that for there to be 1 unit improvement in internal auditing, there has to be an aggregate .799 unit increase in committee of auditors quality variables. Otherwise, it can imply that every 100% enhancement or accuracy in internal auditing can be achieved r is derived by 79.9% rise in quality of the audit committee members of the Iraqi banks.

## 5.9 Multiple Regression Analysis

**Table 21** Model summary of multiple regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.686 <sup>a</sup>	.470	.454	.47762

a. Predictors: (Constant), ACS, ACI, ACR, ACEQ

Source: computed by author with SPSS

The R squared is the measured goodness of fit of the regression model. The R squared reading of the estimation output is 0.470. The R-squared shows the percentage of variation internal auditing variable that was accounted for by variations in the measures of quality of audit committee variables. It also indicates that 47% is accounted for by the stochastic term in explanation of internal auditing variables. The fitness of every regression result is based on its R-squared.

ACI: audit committee independence

ACEQ: audit committee members' experience and qualification

ACR: audit committee reports effectiveness

ACS: audit committee supervision upon financial statements preparation

**Table 22** Multiple regression ANOVA<sup>a</sup>

		ANOVA <sup>a</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.913	4	6.728	29.495	.000 <sup>b</sup>
	Residual	30.340	133	.228		
	Total	57.253	137			

a. Dependent Variable: Internal Audit

b. Predictors: (Constant), ACS, ACI, ACR, ACEQ

Source: computed by author with SPSS

The results of ANOVA test shows that the F value is 29.495, implying that there is variance between both the set of dependent and independent variables. The F-statistic is also found to be significant at 1% level of significance. This implies that there is significant and substantial amount of variance and at least one independent variable of audit committee quality affect the dependent variables of internal auditing. This shows the goodness of fit for the explanatory variables in the regression model and informs that

internal auditing is adequately explained by the audit committee quality variables.

**Table 23** Multiple Regression Coefficients<sup>a</sup>

		<b>Coefficients<sup>a</sup></b>				
		Unstandardized		Standardize		
		Coefficients		d		
Model		B	Std. Error	Coefficients	t	Sig.
				Beta		
1	(Constant )	.976	.278		3.508	.001
	ACI	.195	.070	.217	2.811	.006
	ACEQ	.295	.104	.297	2.831	.005
	ACR	.112	.082	.138	1.363	.175
	ACS	.180	.095	.179	1.902	.059

a. Dependent Variable: Internal Audit

Source: computed by author with SPSS

Multiple Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots(i)$$

Regression equation derived from the

$$IA = \beta_0 + \beta_1 ACI + \beta_2 ACEQ + \beta_3 ACR + \beta_4 ACS + \varepsilon \dots\dots(ii)$$

Where;

IA is the dependent variable of internal audit optimization.

ACI is audit committee independence

ACEQ is audit committee members' experience and qualification

ACR is audit committee reports effectiveness

ACS is audit committee supervision upon financial statements preparation

$\varepsilon$  is the error or stochastic term.

Therefore, the estimation output is as follows;

$$IA = 0.976 + 0.195ACI + 0.295ACEQ + 0.112ACR + 0.180ACS + \varepsilon$$

The results of the regression model indicate that audit committee quality positively affects internal auditing. Precisely, all the four measures of audit committee quality has positive impact and statistically significant at 10% level except for audit committee reports effectiveness. 1% increase in ACI, ACEQ and ACS separately leads to an increase in internal auditing effectiveness by 0.195, 0.295 and 0.18 respectively. The impact of ACR is also positive but statistically not significant.



## **CHAPTER 6**

### **CONCLUSION AND RECOMMENDATION**

#### **6.1 Introduction**

This conclusive section of this research work is divided into three parts the first two parts are dedicated to conclusion based on the research questions and answers to the research hypothesis set forth in chapter one. The third part of this section is focused on the recommendations given as a result of the conclusions derived for the discussion of findings of the empirical analysis.

#### **6.2 Conclusion based on research Questions**

1- Does the independence of committee of auditors essentially contribute to reducing the manipulation of financial statements and do they contribute to enhancing internal audit independence?

Answer – Yes, the existence of committee of auditors contributes to the reduction of financial statement manipulation. This was agreed by the respondents and a mean of 3.93 shows that above average which constitute 78.6 % agree that committee of auditors supervising the preparation of financial reports and coordinating between the internal auditors enhance internal audit independence.

2- Are the management and investor's decisions influenced by the committee of auditors reports?

Answer – Yes, the committee of auditors reports gives investors confidence based on accuracy in these financial reports that informs their decision on investments. With a mean score of 3.76, 75.2% of the respondents confirm

and agree that risk information provided by the committee of auditors enables to decision makers in making investments.

3- Do committee of auditors play an important role in supervising and evaluating the work of the Internal Audit Department periodically?

Answer- with a mean score of 3.93, the committee of auditors ensures evaluation and supervision of the internal audit department through coordination of the preparation of financial reports and coordinates between the internal auditors. 78.6% of the respondents agreed to this.

4- Does the quality of committee of auditors improve the effectiveness and efficiency of internal audit?

Answer – Yes, the quality of committee of auditors improves the effectiveness of internal auditing in banks. That has been demonstrated by the result of the regression analysis that shows that a not only a positive relation exist between the two variables but also a strong relationship.

### **6.3 Conclusion based on Hypotheses**

The first major hypothesis is “the committee of auditors exists with having a high quality for the sample banks” and this hypothesis is sub related to the following sub-claims:

1- The work of audit committee members is independent.

Answer – The study has supported the major hypothesis because the members of the audit committee seem to be independent with a mean score of 3.735 and the standard deviation is 0.859. Similarly, approximately 74.7% of the participants also agree that the function and the work of the audit committee experts are independent.

2- The members of the audit ommittee have sufficient scientific qualifications and experience in accounting and auditing.

Answer- The hypothesis is supported because the respondents agree that audit committee members have sufficient scientific qualifications and experience in accounting and auditing with a mean score of 3.746 and a standard deviation is 0.749. Likewise, 75% of the participants also agree that

the audit committee has high scientific credentials and experience in auditing and accounting.

3- The decisions of management and investors are affected by the reports issued by the committee of auditors.

Answer- The hypothesis is supported to the major one because the decisions of management and investors are affected by the reports issued by the audit committee, according to the results of data analysis. This category has a mean score of 3.806 with a standard deviation is 0.856. Correspondingly, 76.12% of the participants also agree that the audit committee supervise the preparation of financial reports and coordinate between the internal auditor and the auditor.

4- Members of committee of auditorss supervise the preparation of financial reports and coordinate between the internal auditor and the external auditor.

Answer- The hypothesis is supported because the respondents agree that audit committee has ability to supervise the preparation of financial reportsand participants that agree thatcommittee of auditors coordinate between the internal auditor and the auditor. This scale has a mean score of 3.78 while the standard deviation is 0.856. Also, above 75% of the participants also agree that the committee of auditors has committee of auditors coordinate between the internal auditor and the auditor and supervise the preparation of financial reports.

The second major hypothesis of this stady states that there is a significant relationship between the quality of audit committee and the enhancement of internal audit effectiveness for the research sample. This hypothesis is sub related to the several sub-hypotheses.

The audit committee independence contributes to the effectiveness of the internal auditing in the research sample banks. This hypothesis is supported according to the p-value of t-statistics 0.006 (probability<0.05) for the coefficient of this explanatory variable.

The experience and qualifications of audit committee members play an important role in the effectiveness of the internal auditing in the research sample banks. This hypothesis is also accepted according to the p-value of t-statistics 0.005 (probability $<0.05$ ) for the coefficient of this explanatory variable.

The audit committee reports effectiveness affects the quality of internal auditing. This hypothesis is rejected since the p-value of t-statistics 0.175 is greater than 0.05 for the coefficient of this explanatory variable.

The supervision role of audit committee over the preparation of financial statements affects the effectiveness of internal auditing in our research sample banks. This hypothesis can only be supported in the 10% level of significance because the p-value of t-statistics 0.059 (probability $<0.10$ ) for the coefficient of this explanatory variable.

#### **6.4 Recommendations:**

1. Managers should consider that, internal audit can be achieved from placing strict reference and priority on the quality of audit committee members, both internal and external.
2. The audit committee should be independent to avoid interference from the financial organization or banks.
3. Evaluation of financial reports should be done on regular basis to avoid lapses and eliminate tendency of inaccuracies.
4. Supervision of internal audit team should be emphasized in banks to serve as checks and balances for audit committee members.
5. Standard requirements should be followed in recruitment processes for qualifications and practical experience of audit committee members to ensure elimination of risks.
6. Audit committee members should ensure zero-tolerance of audit and financial reports as the financial standing of the bank and other financial organizations inform investors and the management on their investment decisions and involvements.
7. The relationship between audit committee and senior management is kept independent to minimize possibility of fraud inclinations and influence from the senior management of the banks.

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## APPENDIX

### Section 1: Demographic details

1. Gender;     Male         Female

2. Age;

Under 30	30-40	40-50	50 or above

3. Level of Education

High School	Diploma	Degree	Masters	PhD

4. Work position

Bank manager	Director, Internal Audit Division	Internal auditor	Director, Division of Finance	Director, Division of Administration

5. Scientific specialization:

Business Administration	Accounting	Economic	Otherwise

6. Practical experience

Under 5 years	5-10	10-15	15 or above

**Section 2:** Questions related to the subject and Please answer the questions

by ( x)

Use five point scale ranking. 1 2 3 4 5

<b>Strongly disagree</b>	<b>disagree</b>	<b>neutral</b>	<b>agree</b>	<b>Strongly agree</b>
1	2	3	4	5

**The first Axis :** The reality of the banks' audit committees in northern Iraq and the development justifications

NO	Paragraph	Strongly disagree	disagree	neutral	agree	Strongly agree
1-	Iraq's corporate law has clearly pointed to the importance of establishing audit committee for Iraqi companies.					
2-	The members of the audit committee are independent					
3-	The members of the audit committee have academic qualifications and practical experience in the financial and accounting fields					
4-	The Members Of The Audit Committee Organize Meetings And Issue Their Periodic Reports					
5-	Audit Committee Supervise The Preparation Of Financial Reports And Coordinate Between The Internal Auditor And The Auditor					
6-	Audit Committee Members Supervise, Evaluate, And Resolve Company Risk Management Processes					
7-	The Relationship Between Audit Committee And Senior Management Is Close And Continuous And Regular Contacts Are In Place					
8-	The Chairman Of The Audit					

	Committee Who Is In The Process Of Assigning The External Auditor					
9-	The Internal Audit Members Educate Corporate Administrators About The Importance Of Having Audit Committee That Help Reduce Risk					
10-	Audit Committee Periodically Ensure That There Is Continuous Improvement In Asset Protection And Internal Audit Systems					
11-	Audit Committee Ensure That Risk Information Is Provided To Decision Makers In Time To Address It					
12-	The Audit Committee Publish A Positive Culture About The Importance Of Their Work And Their Preventive Role In Reducing Risk And That Their Role Is Not To Fend For Mistakes					
13-	The Audit Committee Helps Board Members To Obtain Regular Information About The Performance Of Executive Management.					

**The second Axis:** The role of the quality of audit committees in improving the effectiveness of internal audit

NO	Paragraph	Strongly disagree	disagree	neutral	agree	Strongly agree
1-	The Audit Committee Sets Out The Conditions To Be Available In The Internal Audit Manager And Plays A Key Role In His Appointment.					

2-	The Audit Committee Supports The Internal Auditor's Opinion If It Is True And Contradicts The Administration's Opinion.					
3-	The Audit Committee Provides Internal Audit Staff With High Scientific And Practical Skills.					
4-	The Audit Committee Periodically Evaluates And Motivates Employees' Internal Audit Management Capabilities Accordingly.					
5-	The Audit Committee Ensures That Internal Auditors Adhere To Professional Ethics And Business Conduct.					
6-	. The Audit Committee Helps To Provide The Necessary Needs, Resources And Facilities So That The Internal Auditor Can Perform His Task Without Hindrance.					
7-	. The Audit Committee Monitors Management Response To Internal Audit Observations For Appropriate Corrective Action.					
8-	The Audit Committee Shall Inform The Board Of The Internal Audit Comments And Recommendations For Action In This Regard.					
9-	The Audit Committee Discusses With The Internal Auditor The Extent Of The Risk And Fraud Cases Identified During The Audit And How They Are Handled.					
10-	The Audit Committee Requests The Internal Audit Section To Provide Objective Evidence To Prevent Delays In The Implementation Of The Plan Or					



	Action Plan.					
11-	The existence of the Audit Committee contributes to the efficiency and effectiveness of the internal audit process.					
12-	The Audit Committee is making sure of internal audit activities to improve risk management and control.					
13-	The Audit Committee shall follow up on the implementation of the Internal Auditor's observations and recommendations.					

## PALGIIRISM REPORT

# AUDIT COMMITTEE QUALITY AND ITS IMPACT ON THE OPTIMIZATION OF INTERNAL AUDITING OF COMMERCIAL BANKS IN NORTHERN IRAQ

by Zeravan Sharanshi

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## Ethic Committee Approval



YAKIN DOĞU ÜNİVERSİTESİ

BİLİMSEL ARAŞTIRMALAR ETİK KURULU

22.09.2020

Dear Zeravan Sarbast Khaleel

Your application titled “**Audit committee quality and its impact on the optimization of internal auditing of commercial banks in northern Iraq**” with the application number YDÜ/SB/2020/588 has been evaluated by the Scientific Research Ethics Committee and granted approval. You can start your research on the condition that you will abide by the information provided in your application form.

Assoc. Prof. Dr. Direnç Kanol

Rapporteur of the Scientific Research Ethics Committee

**Note:**If you need to provide an official letter to an institution with the signature of the Head of NEU Scientific Research Ethics Committee, please apply to the secretariat of the ethics committee by showing this document.