

THE USE OF INTERNAL AUDIT STANDARDS TO ACHIEVE STRATEGIC AUDIT PERFORMANCE FOR BANK DEPARTMENTS, A STUDY APPLIED TO THE INTERNATIONAL DEVELOPMENT BANK

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ABSTRACT

The study aims to demonstrate and present the ability and potential of banking institutions in general and the Internal Audit Division of the International Development Bank in particular to achieve and develop sustainable audit performance of bank departments, by measuring the extent to which they apply international standards of professional practice for internal audit (Institute of Internal Auditors (with sustainable aspects related to attribute standards) and performance to diagnose areas of strength and weakness, where the theoretical and inductive approach to the practical aspect has been followed, and one of the most important conclusions of the study is that the application of international internal audit standards (IIA) with environmental, social and economic aspects, works to achieve and develop management with sustainable thinking and strategic orientation, but it turns out that the reality of practicing the procedures of the profession of the Internal Audit Division/International Development Bank was fluctuating and weak in accordance with international professional standards of internal audit.

Keywords: Internal Audit, Internal Audit Standards, Strategic Audit Performance, Sustainable Management, Dimensions of Sustainable Management.

INTRODUCTION

Banking institutions in general, including banking in particular, seek to achieve success and excellence in the financial, administrative and competitive level, so they resort to paying attention to the quality of their services in a way that satisfies the community and (the beneficiaries) by following criteria with sustainable strategic financial thinking to improve the quality of those services (Maykhan, 2018: 17), all of this This led to the emergence of tools and procedures. That would define and correct paths for the banking institution and direct the administrative and executive processes towards Sustainable Service Organizational work by applying internal audit procedures and standards to consolidate the internal professional practice of institutions in the mother ministry (external parties). The interest in internal auditing began in 1941 AD when the Institute of Internal Auditors was established in the United States of America as a professional embodiment of the internal audit process for banking institutions, Because of its special importance in raising the efficiency of the departments' performance and its success in achieving its goals to serve the related parties, it is a tool for developing and building a

sustainable management (Kolevska, 2018:3) the research seeks to know and reveal the extent to which the research sample possesses a strategic management with sustainable dimensions by applying the International Standards for the Professional Practice of Internal Auditing (Institute of IIA (Internal Auditors): by applying the available data and information in 2019 collected by the researcher with field work and field interviews and a study of sample application.

Previous Studies

The study of Hammadi & Sultan (2018) addressed the embodiment of the role of internal audit and its effectiveness in government institutions (banking) by identifying weaknesses, addressing deviations, and evaluating performance as the agency closest to government banks and the distinctive nature of banking work from other activities, as it operates under a high risk for all its banking activities and transactions, in addition to the importance and role of banks in economic life and their activities related to liquidity and credit. The importance of internal auditing in banks depends on the follow-up and performance monitoring, and subjecting all the bank's activities to the internal audit process, which is characterized by complete independence. The study concluded with the comprehensiveness of internal auditing for all aspects of banking work and its role in improving performance. It also recommended following up on the implementation of what is contained in the internal financial reports and the need to take advantage of the internationally approved modern methods of internal auditing.

The Concept of Auditing - A Historical Aspect

The term audit is derived from the Latin word "*auditor*" where "*Far*" describes that auditing is an ancient science known in China since about 2000 BC. The auditor at that time was independent and responsible for his work and profession. In the sixteenth century AD, auditing was concerned with government and family issues. They used two clerks called "*Sofer*" to document and keep copies of records and financial transactions to prevent fraud and disappearance.

And when the industrial revolution occurred and the owners' ownership separated from the investor's capital of the company and the management of its business, there was a change in the concept of auditing, which Brown described in two directions; The first change: the urgent need for a unified accounting system, and the second change represented by: the need for an independent audit of the business of companies (institutions) , In the middle of the nineteenth century AD, auditing was expensive and inefficient, so the owner of the company checked the production and matched it with the financial statements of the records, and later the great expansion of industrial activities and the large size of the companies became difficult to conduct a comprehensive audit, but the samples were taken completely, which led to control and prevention of fraud and theft (Saud& Marchand, 2012: 10).

Definition of Internal Audit

The internal audit process is carried out by the organization's internal auditors and they are quality officials, ie evaluating the organization's work with a set of standards within a framework for managing and improving the quality and quality of the service provided (Hut-Mossel et al., 2020:2), The Institute's Committee of Internal Au (2: ditors has developed a comprehensive definition of internal auditing expressing it as An independent and objective

activity with a structured approach to assess and improve the effectiveness of governance, risk management and control processes: and provides advisory and assurance services with the aim of adding value to the organization and improving its operations. (Ramachandran et al., 2012:34), The Institute of Internal Auditors standards differentiates between the concepts (independence - objectivity) referred to above, where independence indicates that it is freedom from conditions that threaten objectivity through individual audit, participation audit, and audit of functional and organizational levels. As for objectivity, it is taking a decision and an unbiased mental position to perform audit work with sincere faith and high professionalism and is not affected by external opinions and pressures without compromises from the quality of the audit work (Balkaran, 2008: 21-23), The Institute of Internal Auditors (IIA) also defined internal auditing (IA) in the official statement of the Institute (IIARF) as a tool for evaluating and improving the activities of control risk management and operations. (Kolevska, 2018: 4) Governance is sustainable.

An Integration Relationship between the Internal audit Function and Sustainable Management

Value based on sustainable enterprise management

At the beginning of the twentieth and twenty-first centuries, many incidents caused the failure of institutions and the emergence of a state of tension regarding the value of the internal audit function (IA), as the owners of institutions did not trust internal audit services, while the Institute of Internal Auditors confirmed that the internal audit function is a fundamental pillar of corporate governance. The main reason for the failure is that the management of institutions does not accept the results of the audit process, despite the management's acceptance of the internal audit procedures, but it ignores the auditor's warning of the risks of the audit process and continues to violate it, and this is the reason for what we hear about the loss and failure of major companies (Kolevska, 2018: 1), Evaluating the audit performance of the departments of institutions leads to the creation of a sustainable financial and administrative value for these institutions. Increasing the value and efficiency of institutions is a problem facing the departments, and there are many institutions calling for development and improvement of their performance (Morad & Alsalmani, 2020: 4505) with the contribution and participation of audit dimensions within their operations to measure their performance with sustainability indicators and identifying weaknesses, addressing them, as well as supporting and maintaining them (Al Kaabi & Jowmer, 2018:213-214).

Dimensions of sustainable management to provide sustainable internal auditing

Many previous researches confirmed that there are many dimensions and factors that affect the internal audit process (IA) for organizations to provide and create an appropriate environment and climate for the implementation of the internal audit process to achieve sustainable organizational management, including: acceptance and implementation of the recommendations of the internal audit committee by the organization, the size of the audit department The extent of compliance with auditing standards, Locate the audit department in the organization, the type of relationship of executives and the degree of interaction with the audit committee of the organization, support for senior management, the experience of employees when implementing the audit plan, audit communications, Linz & Sarins (2012) and Linz and others (2014) concluded that the internal audit process has four main dimensions sustainable

performance of the internal audit function as shown in Figure 1 (Lenz et al., 2014; Lenz & Sarens, 2012:56):

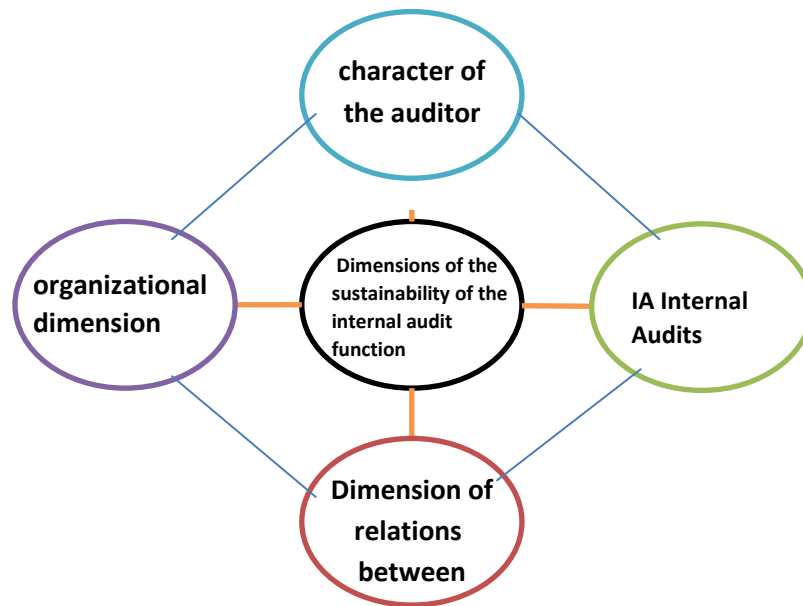


Figure 1
LENZ & SARENS (2012), LENZ ET AL. (2014) BUILDING BLOCKS OF IAF CHARACTERISTICS ACCORDING

The following is an explanation of the four dimensions of internal auditing for the sustainability of corporate departments: (Lenz et al., 2014:131).

1. The dimension of interpersonal relations: It is the dimension that deals with the relationship of internal auditing (IA) with the important parties in the management of governance, such as the senior management and the board of directors.
2. The Personal Factors Dimension: It is a dimension that deals with the characteristics of the audit function IA and the characteristics of the auditor's personality, such as communication skills, personal domination, standing and presence, the auditor's strategic thinking, the ability to exercise sound judgment, and the ability to communicate clearly about audit issues.
3. The organizational factors dimension: It is the dimension that deals with the factors that affect the efficacy and the role of the IA organization and how to delegate it, such as size first, the context of overall administrative governance, the organization's having legal requirements to establish an internal audit function (IA).
4. Internal audit operation dimension (IA): It is the dimension that deals with how to comply with the audit plan by measuring the number of plans planned to be implemented against the accomplished, compliance with the allocated budgets, the degree of satisfaction with (IA) any management according to the audit procedures (planning, field work and completion), Reporting time management) i.e. preparing final reports and lists in their actual time.

Standards of Internal Auditing

Internal audit is practiced in different and diverse legal and cultural environments, for the benefit of organizations that differ in objectives, size, complexity and structure. These differences affect the practice of internal auditing in each environment, but the extent of adherence to international standards for the professional practice of internal auditing is essential

to enable internal auditors to fulfill their responsibilities The internal audit standards are divided into two main groups, the first is the attributes standards and the second is the performance standards, which will be dealt with in detail in the practical aspect, and the purpose of the internal audit standards is represented in (The Institute of: Internal Auditors, 2017: 3-4):

1. Directing compliance with the mandatory elements of the international framework for professional practices.
2. Providing a reference framework for the performance and development of a wide range of added value for internal audit activities.
3. Laying the foundations for evaluating the performance of the internal audit.
4. Promote the improvement of the facility's operations and paths.

METHODOLOGY

The Internal Audit and Control Division of the International Development Bank was chosen as one of the financial banking institutions, where the number of auditors of the Internal Audit Division is 51 auditors out of the total number of the bank's employees of 453 workers, according to a statistic carried out by the researcher, and according to the requirements of the Central Bank of Iraq, the International Development Bank was established in the year (2011) with a capital of (100,000,000,000) Iraqi dinars, this bank increased the capital in stages during the years (2013-2015) to become with a paid-up capital of (250,000,000,000) Iraqi dinars, equivalent to (210,000,000) US dollars and quickly became one of the leading banks on the local and regional levels.

The Chairman of the Board of Directors represented by Mr. "*Ziad Khalaf Abd*" relied on comprehensive policies and strategies in various banking operations, as the International Development Bank succeeded in obtaining a large market share in Iraq from the total business of trade finance, issuing electronic cards and comprehensive banking operations.

To ensure accuracy and transparency in all banking operations, the bank assigned two independent departments, the first for the bank's internal control departments, represented by the Internal Control and Audit Department, the Compliance Department, and the Anti-Money Laundering and Terrorist Financing Department, and the second through contracting with Ernst & Young as external auditors for the years 2017-2019.

At the present time, the bank has become present in all the main governorates in Iraq, including the Kurdistan region, through the opening of (16) branches with a number of employees of up to (550) employees or more, and with (220) ATMs and (3000) direct sales points spread in all the Iraqi governorates. In addition to external representative offices in Lebanon and the United Arab Emirates, the researcher decided to choose the Internal Audit and Control Division to reveal the extent to which it applies internal audit standards by employing the dimensions of sustainable management, In terms of the role of the internal audit function in creating and developing sustainable management by following the (IA) standards of the first two dimensions after the attributes standard and after the performance standard, the administration that is looking for sustainability must apply the dimensions of internal auditing with the four main pillars.

RESULTS AND ANALYSIS

Designing a Matrix for the Integration of Internal audit Standards with the Dimensions of Sustainable Management

Table 1 shows how the two dimensions of internal auditing standards (characteristics and performance) are integrated with the four dimensions of sustainable management (personal, public and private relations, IA operations, and organizational performance) as shown:

Dimensions of sustainable management of internal audit	Internal audit standards to achieve sustainable management	Integrated standards and dimensions
Dimension of the personal factor = <ul style="list-style-type: none"> • Communication skills about audit issues • personal power • Prestige and attendance • Expressing judgment and sound opinion • Academic and professional qualifications 	Standard features (attributes) (Edited) Restore original	Independence and objectivity Necessary professional skill and care Continuing Professional Development
Dimension of personal relationships= <ul style="list-style-type: none"> • An integrative relationship between the Audit Division and senior management • Follow and implement all senior management instructions from the audit • Delegation of authority to exercise audit function to follow the style of rewards and encouragement 	Standard attributes	Governance management in the interrelationship between (Senior management and the board of directors Resource Management. individual objectivity general opinions
Dimension of the internal audits= <ul style="list-style-type: none"> • Size of the Audit Department • Reports issued by the audit • deliver results • Follow up the workflow • Coordination and work planning 	performance standard	Work performance deliver results Follow up the workflow coordination work planning
organizational dimension= <ul style="list-style-type: none"> • Size of the organization or research sample • The applicable governance system • The extent to which they have legal systems 	performance standard	Methods of overall governance of the institution followed Owing legal requirements for the establishment of internal audit function Authority and responsibility of the administration

Sustainable Management within the Framework of Internal audit Standards and Dimensions

Measure and reveal the level of application of the research sample to the internal audit standards for the year 2020 through the matrix of internal audit standards measures to achieve the level of sustainability for the research sample in particular and for banking institutions in general, as shown in Table 2:

Table 2		
MATRIX OF RESULTS AND SAMPLE LEVEL OF THE INTERNAL MODEL FOR MANAGEMENT OF A SUSTAINABLE MODEL FOR THE YEAR 2020		
Scale of standard dimension of internal audit	The specialist → standard → for internal auditing	Actual results of the status of the research sample
The growth rate in the number of staff in the Internal Audit Department Percentage of employees with accounting specialization = skill standard 1210 Staff with the highest proportion of scientific qualification from a qualified diploma The growth rate in the number of employees of higher education Percentage of employees with experience [more than (5) years]	= Standard 1110 = skill standard 1210 = skill standard 1210 Standard for developing professional skills =1230 = skill standard 1210	Positive increase by 27% = 67% and imposed a 100% average = 74%, and it is supposed to be 100% higher than the intermediate diploma = 50% (3-2/2 * 100) poor For audit staff, 77% average, the higher the better As for the director of internal audit, it is against the conditions and standards
The growth rate in the amounts spent on staff service, The percentage of growth in the amounts of bonuses and incentives, percentage of new hires Percentage of operations with a social or environmental impact that the internal auditor performed Percentage of site inspection visits	= Standard for resource management by senior management 2030 = same standard 2030 = Standard 2020 Notification and Approval = Individual services - 1120, and public opinions - 2450 (. = Compared to the scheduled number of site inspection visits	= 7% increase from the previous rate of which is poor. 0% very poor = 30% good = 15% poor A small percentage equivalent to 7% because there is no audit program
Completion rate vs planning audit process Percentage of reports issued annually Percentage of errors detected by the internal auditor Average time to complete a task/activity audit Growth rate in reports issued by internal audit	= Planning for the Internal Audit Function – 2020 = Reporting to senior management 2060. Compare the number of errors detected with the total number of audited transactions. The delivery of results is 2400 and the quality of delivery is 2420. Comparing the number of reports for the current year with the previous year and its ratio to the previous year	Good, as the audit process plan is prepared The absence of regular periodic reports submitted to the Office of Financial Supervision only annually, amounting to the equivalent of 55%. There are no statistics due to the lack of an audit program = Calculated on the amount of existing work = 86% = 35% increase in the number of reports plan over the previous year
Percentage of participants in training courses The growth rate in the training and rehabilitation expenses Percentage of employees who are qualified to use computers Percentage of spending on technology adoption	= Continuing Professional Training . 1230 Increasing the money spent on the current comparison with the previous year and the percentage of the difference → to the money spent → on training for the current year	= 5% is a very poor rate = 12% a slight increase and the reason is the increase in the number of new hires = Equivalent to 14% of the total number of audit staff = 50% increase in the number of computer applications.
The percentage of implementation of audit recommendations	Comparing the number of recommendations implemented with the proposed → number → of recommendations made	= 13% for the absence of a system that measures the extent to which the administration follows up on the implementation of the recommendations.

CONCLUSIONS AND DISCUSSION OF RESULTS

The conclusions of the study were drawn up based on the results of the researcher's field study as well as based on the data of the audit; administrative and financial records of the bank for the year 2020 and field interviews conducted by the researcher, through which she collected all the information through an applied study and extensive field work. The actual results indicated the poor level of application of the research sample to the internal audit standards, Which, in turn, was reflected in the failure to develop and build sustainable audit performance, and the reason is as follows: Measures the growth rate in the increase in employees of the Internal Audit Division for the current year compared to the previous year and it was positive. As for the percentage of the accounting specialization of employees, the actual situation is in violation of ministerial instructions and controls, which must be 100%. As for the number of graduate degree holders, the previous year was 2 and the current year is 1 out of a total of 51 auditors. And the number of auditors with experience of more than 5 years was good, except for the audit manager who was in violation of the terms and controls in terms of not being an accounting major and having no experience in auditing for at least (8) years, and experience as a department head in the field of auditing, financial and administrative affairs for a period of (5) years. Also, does not have experience in internal or external auditing for at least two years. The amounts allocated for preparing training courses and granting rewards and incentives to auditors and spending on adopting technology are very few and almost non-existent. The percentage of field visits is only at the end of the fiscal year in a month. The auditors are present for the research sample. There is no audit plan program that reveals the percentage of completion, the percentage of detected errors and the rate of growth in the reports to the internal auditor.

What was presented above indicates the weak application of the research sample to internal audit standards to build an effective and efficient sustainable management inspired by the performance of a sustainable strategic audit.

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