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THE ROLE OF THE EXTERNAL AUDITOR IN MONITORING THE COMPLIANCE OF GULF COMMERCIAL AND BAGHDAD BANKS WITH THE INSTRUCTIONS OF THE CENTRAL BANK OF IRAQ REGARDING CAPITAL ADEQUACY RATIOS (CASE STUDY OF GULF COMMERCIAL AND BAGHDAD BANKS)

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Abstract:

The study aims to show the role of the external auditor in monitoring the compliance of Gulf Commercial Bank and Baghdad Bank with the instructions of the Central Bank of Iraq regarding capital adequacy ratios, as the study sought to show this in the study of the two banks, as the ratio that maintains the capital adequacy ratio is not less than (10%) before the formation of the prudential pillar and not less than (12.5%) after the formation of the prudential pillar. The analytical method was used to draw the results, as it was reached through our examination of the accounting records of Baghdad Bank and our review of the nature of the banking operations practiced by the bank during the year under audit. The statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the budget date (52%) and the Gulf Commercial Bank (34%) of the capital and sound reserves, given that the ratio specified by the Central Bank (12.5%). This indicates the bank's compliance with the instructions of the Central Bank of Iraq regarding capital adequacy ratios. The study recommended that commercial banks operating in the Iraqi banking sector should continue to adhere to the regulatory controls related to the capital adequacy standard, during which the banks submit their data in accordance with the applicable controls on the capital adequacy standard along with the new controls in parallel to ensure the integrity of the systems and to ensure the validity of the data.

Keywords: External Auditor - Central Bank of Iraq Controls - Capital Adequacy

INTRODUCTION:

Banks nowadays are making great strides in raising and strengthening their capital. Modern banking management relies on increasing capital, considering it a financial method that contributes to improving the bank's role and development. On the other hand, it is seen as one of the strategic options that banks resort to when exposed to risks that include severe competition from local or foreign banks alike.(Al-Hreith, Hazouri, 2018: 245).

The capital adequacy index is considered one of the most important financial safety indicators that serve as an early warning of any risks or shocks that may be exposed to the financial sector and the banking sector and reflects the nature of the financial and banking sector and its stability, as well as its importance in knowing the financial situation and its safety for the banking sectors and the banking sector is one of the most important sources of internal public debt that governments resort to to cover the deficit in their budget, that is, in the event that state revenues are not

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sufficient to cover expenditures, so governments resort to the borrowing process from the banking sectors, so it was mandatory to know and study the capital adequacy index. (Al-Murshidi, Shahid, 2022: 645), and in this context, the regulatory authorities have worked to introduce various measures of solvency, most notably the capital adequacy standard approved by the Basel Committee in 1988, which was applied by more than 100 countries. The practical application of that standard during the past years has produced many weaknesses in it, which prompted the Basel Committee to make amendments to it and propose a new standard for measuring solvency called 2 Basel. The lending policy is affected by the bank's capital because there is a legal relationship between the amount of capital owned on the one hand and the size of the loan granted to one person on the other hand, as there is a link between the potential losses that the bank may be exposed to and the capital and the capital is used as a protective barrier that prevents the leakage of losses to deposits, and the greater the capital, the greater the bank's ability to bear the loss, in addition to increasing the size of the capital enables the bank to extend the duration of its loans, since deposits are subject to withdrawal while the capital owned is not withdrawn as long as the bank remains in existence. (Zahraa, Ahmed, 2013: 222) For the purpose of completing this study, it was divided into three chapters, as the first chapter presented "Methodology of the study and previous studies" and the second chapter "Review of theoretical literature" and the third chapter "Analytical study (method, procedures and results)"

Chapter one: Methodology of the study and previous studies :

We are now witnessing many changes and transformations at the level of various activities in the field of finance and business, the signs of which have appeared on the horizon. Solvency, of which the capital adequacy ratio is part of its framework, has become the focus of attention of financial, business and economic leaders around the world since the past few years, and it is a key player in all financial institutions because of its effectiveness. And its role during the stages of the life of the financial institution from growth to decline.(Al-Mansouri, Yasser, 2022: 36) It has taken the bulk of the current interest among researchers and those interested in the financial and business environment because it has significant and important effects and implications in determining many aspects within the bank at the level of management and at the level of funding selection. And the sources of the financial structure that are primarily responsible for maximizing shareholder wealth. This prompted local and global central banks to increase their focus on solvency and monitor economic institutions based on it, in order to limit the disasters and economic crises that hit the financial sector. And the commercial side

. These large countries collectively prepared preventive and remedial standards for the deterioration that occurred, which are considered a roadmap that economic institutions in general and banks in particular must follow. Therefore, it has become necessary to pay attention to the effective and real aspects of monitoring the capital adequacy ratio, and attention to it gives a clear impression of what will happen with regard to the choice of the financing structure of commercial banks and financial institutions in general.(Mohammed, Hamid, 2023:271).

The Iraqi banking sector, whether at the Islamic or commercial level, contributes to the support, development and development of the local economy through the ability of these institutions, with their technical tools, expertise and human competencies, to redevelop funds in various investment and credit fields, thus meeting the needs and desires of their various customers, and therefore these institutions are usually exposed to various risks resulting from the various banking activities they carry out, and among the most important of these risks are the risks of bank liquidity resulting from cases of low liquidity levels below the required level, and this exposes banks to the risk of facing cases of In light of the above, the issue of the study lies in the following question: "What is the role of the external auditor in monitoring the compliance of Gulf Commercial Bank and Baghdad Bank with the instructions of the Central Bank of Iraq regarding capital adequacy ratios"?

The study is important by identifying the potential risks that the bank is exposed to during non-compliance with the regulatory controls issued by the Central Bank of Iraq, and preventing it from practicing its banking activity in the Iraqi and international labor market.

The study aimed to show the role of the external auditor in monitoring the compliance of Gulf Commercial and Baghdad banks with the instructions of the Central Bank of Iraq regarding capital adequacy ratios, as the study sought to show this in the study of the two banks, as the ratio that maintains a capital adequacy ratio of not less than (10%) before the formation of the prudential pillar and not less than (12.5%) after the formation of the prudential pillar.

In order to achieve the main objective of the study, it is necessary to formulate the following hypothesis, which states that "there is a prominent role of the external auditor in monitoring the commitment of Gulf Commercial Bank and Baghdad Bank to the instructions of the Central Bank of Iraq regarding capital adequacy ratios.

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The study selected Gulf Commercial Bank and Baghdad Bank to be the sample of the study with spatial limits, while its temporal limits were represented in the two years (2021-2022).
The deductive and analytical approach was used to extract and construct the results of the study.

The subject of the study dealt with some studies indirectly, namely:

- **Study (Rehman et al ,2022):**The purpose of this study is to shed light on the extent of intellectual capital efficiency (ICE) and the relationship of its three components (human capital efficiency, structural capital efficiency, and relational capital efficiency) with Islamic banking performance (in terms of return on assets, return on equity, and Tobin's q) in Muslim countries. We develop hypotheses on this relationship drawing on the resource-based theory. The study employs a two-step system generalized method of moments (2SYS-GMM) estimator to analyze the data collected from 129 Islamic banks in 29 Muslim countries over the period from 2008 to 2017. The study provides evidence that the performance of Islamic banks (IBs) is driven primarily by investment in ICE. The results indicate that structural capital efficiency (SCE) and relational capital efficiency (RCE) are the essential drivers of value in achieving high performance at Islamic banks. The results reveal that human capital efficiency (HCE) negatively affects the performance of IBs. Bank size and foreign ownership are also identified as significant drivers of IBs performance. This study helps IBs to maintain their ICE assets because they are the main drivers for sustaining competitive advantage as well as raising bank productivity. Our findings can help stakeholders and policymakers to recognize the significant components of ICE and a reasonable allocation among them for improving bank performance. To the best of our knowledge, this is the first empirical study to evaluate ICE and its relationship with Islamic banking performance in 29 Muslim countries across the Middle East, South Asia, and Southeast Asia.
- **Study (Al-Jajjawi, Al-Rikabi,2022):**The research aimed to employ the role of joint and participatory external auditing and its reflection in users' confidence. The research relied on the descriptive analytical approach by testing hypotheses represented by the first hypothesis (there is a statistically significant relationship between the use of joint and participatory auditing and the parties interested in the auditing process) and the second hypothesis (there is a significant relationship Statistics between the positive and negative effects of joint and participatory auditing and the quality of auditing) by designing a questionnaire consisting of (75) out of (100 questionnaires) and distributing them to a sample of audit offices and the Financial Supervision Bureau in Iraq, to identify the extent of the sample members' knowledge of the role of external and joint auditing. And participatory, as the results of the research showed that there is a positive or significant correlation between the use of joint and participatory auditing and the parties interested in the auditing process, as the result shows that there is a direct correlation between the use of joint and participatory auditing and the level of trust by the parties interested in the auditing process with regard to the first hypothesis. As for the hypothesis Second, the results also showed that there is a positive and significant correlation between the positive and negative effects of joint and participatory auditing and the quality of the audit, meaning that the result of the decision is acceptable with a degree of confidence of (99%), as it is clear that there is a correlation between the availability of positive or negative effects in achieving audit quality, depending on the situation. Of the two types and their appearance
- **Study (ISnurhad et al ,2021):**This study aims to evaluate the relationship between bank capital, efficiency, and risk in Islamic banks. We use data from 129 Islamic banks in the world, retrieved from various data sources. We retrieved specific banking data from Moody's Analytics Bank Focus and Thomson Reuters Eikon, while data at the country level was obtained from the World Bank website. This study uses various estimates both Pooled OLS (Ordinary Least Square) and Random Effect (RE). However, to overcome the issue of serial correlation which could cause bias in the results of the study, we used fixed-effect (FE) cluster estimates. The research results confirm the previous findings that bank capital positively affects bank stability (natural logarithm of Z-Score) and negatively affects credit risk (loan loss provision to total liabilities). The findings also show that efficiency has the same effect. The interaction test of bank capital and efficiency shows that efficiency encourages banks to reduce risk, including when bank capital is relatively lower. This finding is expected to have implications for the authorities to boost bank efficiency in addition to establishing several regulations related to capital. The efficiency implemented by the bank will encourage banks to act prudently so that the bank can maintain its performance through risk mitigation.
- **Study (Onumah,** Duho**,2020):**Various researchers have examined the relationship between intellectual capital (IC) and performance of banks. Yet, only few studies have examined the nexus between IC and bank efficiency especially in Africa. Using the VAIC™ model of Pulic (2000) [and its additive components human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE)] to measure IC and Data Envelopment Analysis to estimate efficiency scores, the current study used Ghanaian data of 32 banks from 2000 to 2015 to examine the

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nexus. The study found that risk-adjusted efficiency scores are higher than non-risk adjusted scores. There is evidence suggesting that IC instigates efficiency in banks. This is borne largely from HCE suggesting the prevalence of the human capital theory. The results of the impact of SCE and CEE are insignificant except for the significant positive impact of CEE on profit efficiency. Stock exchange listing increases efficiency scores especially risk-adjusted efficiency. Other exogenous variables such as size, leverage and concentration were controlled for with the results discussed into detail. The results have implications for bank regulation, bank management and future research.

CHAPTER TWO : LITERATURE REVIEW:

2 .1The external auditor:

The profession of the external auditor is one of its objectives and with the great development of the objectives of the profession, its importance increases; as measuring the performance of companies receives the attention of many parties such as investors, lenders, management and government agencies, and the external auditor is one of the means that contribute to giving indicators on the effectiveness of companies and banking institutions, and the importance of the external auditor stems from the multiple beneficiary parties; where the owners are interested in the audited financial statements and his opinion achieved in them to judge the effectiveness of the company or banking institution and the possibility of continuing its normal business for which it was established (Aisha and Narges, 2017: 646).

Auditing is defined as a structured approach through a corporate plan, and a reliable (audit plan) for analyzing accounting records by auditors; using a variety of generally accepted techniques (Al-Awwad, 2020: 24), as the authors also agreed on the definition of auditing according to the report issued by the American Accounting Association as follows Auditing is a systematic, objective process of obtaining and evaluating evidential evidence; regarding the veracity of economic facts and events, in order to verify the degree of conformity between the facts and the established standards and communicate the results to interested users of information (Louwers et al. 2018 :5)

The responsibility of the external auditor in general has evolved over time, as Porter showed in his study that before 1920, the main objective of auditing was to detect fraud, and the rewritten International Auditing Standard 240 showed that the auditors' goal is to search for fraud through :(Hien, 2011:15)

- The external auditor should recognize and assess the material risks of misstatement in the financial statements in order to detect fraud.
- The external auditor should recognize and estimate certain material risks of misstatement to detect fraud by gathering sufficient evidence.
- Appropriately request to identify a fraud suspect.

Porter (1997) also showed that the external auditor is responsible for detecting and reporting fraud over the decades, and before 1920, the auditor's goal was to detect fraud, and this goal was changed in 1930 to control the accounts, while in 1960, the external auditor rejected the responsibility of detecting fraud because the public is dissatisfied with the external auditor. In 1980, as a result of technological development, many incidents of fraud occurred, such as reducing costs, spending company and shareholder funds for personal purposes, and Boynton's 2005 study, which showed that after the fall of Enron, the courts changed the auditing standards that emphasize the importance of the auditor's responsibility to detect fraud, especially International Auditing Standard 240 entitled The responsibilities of the external auditor to consider fraud when auditing financial statements (amended) in addition to International Auditing Standard 315 entitled Understanding the organization's environment to assess the risk of material misstatement, and International Auditing Standard 240 indicated in paragraph 5 that the auditor, when performing an audit, is is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement. Paragraph (5) also indicated that the auditor should be proactive in detecting fraud, while ISA 315 requires the auditor to estimate the risk of material misstatement by understanding the organization and its environment during the audit (Hien,2011:15) ,The external auditor is defined as "an independent person who collects and evaluates evidence of information to determine and report on compliance with established standards (Semba & Kato, 2019:3)." (Subhani, 2016:13) The external auditor is a professional person who provides a systematic process plan in terms of organizational structure and expresses a technical and impartial opinion on the integrity and truthfulness of the financial statements of the company he audits; for the benefit of the relevant external parties.

2 .2Capital Adequacy Index:

Capital can be defined in general as the difference between assets and liabilities in any organization and there are two concepts of capital, one of which is limited to paid-in capital and the second expands to include all declared and undeclared shareholders' rights (Ismail, Rasen, 2021: 239) Paid capital usually represents the first nucleus of the

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resources of any economic enterprise that begins its activity to form the necessary fixed assets and finance the direct requirements of this activity, and organizations usually seek to increase their paid capital throughout their productive process and enhance it by accumulating reserves to support their ability to expand and face various risks that may be encountered (Al-Shawarebi, 2002: 68).

Capital plays one of the most important roles in achieving security for depositors, as banks are among the largest financial institutions that are exposed to the risks of leverage, in the sense that a certain decrease in revenues results in a decrease in profits, (Al-Zuhairi, Ahmed, 2023: 277) and may exceed this to losses that devour capital and extend to depositors' funds. The higher this ratio is an indicator of the ability and durability of capital, and the higher the ratio of deposits to total funding sources, the higher the bank's risks, with differentiation according to the nature of the deposits, as this ratio is related to capital and total assets to face any losses that the bank may be exposed to.

While legal scholars view capital as "the total value of nominal cash shares of equal value and indivisible, which are offered to the public by public subscription after the payment of the legally required percentage of the founders (Nines, 2000: 76)

On the other hand, accountants believe that the capital represents the net assets of the company, meaning (assets - liabilities) and this requires accountants to open a separate account for the capital of each partner or a single account for their capital analyzed by partners. The accounting treatment is to make the assets presented a debit and the capital account a credit(Al-Halabi and Al-Jaabari, 2000: 25)

Finance is one of the topics that have received great attention in academic circles and has been considered one of the requirements of economic development, because the process of financing and investment is closely related to economic and financial life in all countries of the world (Gourinchas et al., 2019:3), and it is considered one of the core issues in many developing countries seeking to eliminate the continuous shortage of domestic savings and fulfill obligations and in another place finance is defined as a set of administrative functions related to the management of financial resources necessary to enable economic plans to meet the obligations they incur on time to achieve the desired goals.

-Internal financing, i.e. self-financing :

In internal financing, reliance is placed on funds saved from the profits of self-sufficient economic units, meaning that they do not suffer from a state of deficit and therefore do not need intermediary institutions or the capital market Here, most private projects rely on this type of financing, and public projects can follow this financing if they enjoy financial independence, that is, a self-budget (Mounir et al., 2021:341)

-External financing, i.e. non-self-financing:

The flow of funds saved within this framework, whether directly or indirectly, is redistributed. In direct cases, the flow of funds is redistributed from saved units with a surplus to units with a deficit, which need loans to finance the investment process and here they need the financial markets, while in the case of indirect, it flows from units with a surplus to units with a deficit, and here the role of intermediary institutions that take the role of intermediaries between two groups of units emerges" (Yumeng, 2019:1).

The sources of external financing are (Askar, 2016: 499-498)

-Bank financing sources:

The importance of bank financing in various economic systems comes through collecting savings and directing them towards investment, as these savings contribute to the process of economic growth and development, in addition to facilitating the process of banking exchanges .

-Non-bank sources of finance:

These are those financial institutions that take the role of intermediaries between individuals, i.e. savers, and business organizations in investors that need these savings to sustain their projects or to undertake new investment activities,

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as these intermediary institutions encourage the savings process by giving guarantees and profits or interest to savers, and these institutions also work to reduce the hoarding process.

2.3 Central Bank of Iraq (CBI) regulations on capital adequacy ratios for commercial banks

- Commercial banks operating in the Iraqi banking sector must comply with the regulatory controls related to the capital adequacy standard as of the second quarter of 2020, noting that a transitional period has been set for a maximum of six months (including the second and third quarter of 2020), during which banks submit their data in accordance with the applicable controls regarding the capital adequacy standard along with the new controls in parallel in order to ensure the integrity of the systems and ensure the validity of the data, thus ending the transitional period as of the fourth quarter of 2020. Therefore, the requirement to comply with the minimum capital adequacy criterion in accordance with the new regulations becomes exclusive to the new regulations.
- It requires the calculation of the capital adequacy ratio for both the bank and its branches inside and outside Iraq and affiliated banks and financial institutions (excluding insurance companies) in which the bank has an ownership percentage of 50% or more, or in the presence of control or the ability to control, according to the consolidated / consolidated balance sheet of the bank and more, based on a banking group (including the bank and financial institutions under the control of the bank from banks, exchange companies, real estate finance companies, financial leasing companies, companies engaged in securities activity).
- In case of non-compliance with the minimum capital adequacy ratio in accordance with the new regulations, the Central Bank of Iraq shall be provided with a date-specific plan to comply with the minimum, and shall be submitted no later than the end of November of this year (2020/11/30), with the exception of foreign bank branches, which will take special standards and work procedures with them.
- The capital adequacy ratio criterion is prepared on a quarterly basis and the results are sent attached to the quarterly budget or as specified by the CBI.
- Commercial banks operating in the Iraqi banking sector must maintain a capital adequacy ratio of not less than (10%) before the formation of the prudential pillar and not less than (12, This ratio represents the relationship between the capital base with the numerator of the ratio and the risk-weighted assets determined to offset credit risk, market risk and operational risk (denominator), as this ratio is derived by dividing the bank's capital base by the sum of the elements shown in the denominator of the capital adequacy formula as shown below, provided that the amount of special funds shall in no case be less than the amount of capital specified in accordance with the instructions of this bank, with the right of the Central Bank of Iraq to impose a higher ratio for any bank if necessary or if the level of capital is not commensurate with the risk (Central Bank of Iraq, 2020: 7-8)

Capital Adequacy Ratio = Capital Base/Total Assets weighted by risk weights to offset credit risk, market risk, operational risk

2 .4The relationship between funding structure and banks' financial performance

Determining the best structure is one of the most important decisions taken by banks because of its direct impact on achieving their objectives and practicing their various activities, and it is related to the differentiation between the sources of funding available to banks, whether equity or debt funds, whether long-term, medium-term or short-term sources, and choosing those sources that contribute to reducing costs and maximizing the value of the bank, and the financial problems of business institutions are how to allocate financial resources between allocated expenses and investments, and how these enterprises obtain the necessary financial resources to face expansions in production and finance the purchase of equipment ,Choosing the appropriate financial structure for the bank, which includes searching for sources of financing, choosing between them and deciding between the most appropriate mix for the bank that suits its current and future needs and is consistent with its various objectives and policies, is a very complex process and requires distinctive competence of the bank's management, and that the financial decision taken by the bank's management regarding the financing of productive and operational activities should take into account two main aspects The financial decision taken by the bank's management regarding the financing of productive and operational activities should take into account two basic aspects, namely the expected return to be achieved from the use of these assets and the risks that may be exposed to them in exchange for obtaining this return. In order to make a sound financial decision, it is necessary to conduct sound financial planning, which depends on determining the financial needs before an appropriate period of time, which allows the bank to work on identifying the appropriate sources of financing at the

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lowest costs and the most appropriate conditions, which avoids the bank from falling into financial default and financial difficulties that lead to bankruptcy of the bank, and there is no doubt that the management of business institutions aims to maximize the wealth of owners just as the individual investor aims to maximize his welfare (Yacoub, 2008:2-1).

Many researchers in the field of finance have focused on the relationship between financial structure and financial performance because it affects the options available to the bank to invest based on performance as well as equity, which affects the choice of financial structure and the composition of debt maturity It is expected that the financial performance of companies is positively related to their financial structure (Motanya, 2016:3). Maximizing profitability is an important indicator of the level of financial performance of banks, and a goal that banks seek to achieve, and the importance of this goal stems from its uses related to distribution, or financing the bank's activities as a source of self-financing (Al-Zubaidi, 2006:5). The study conducted by (Rehman et al., 2012) showed that the debt structure has an impact on the profitability of the bank, if the banks have low sales; it is better to use short-term loans because of its strong, positive impact on profitability in addition to the existence of an inverse relationship between long-term debt and profitability (Abu Shamaleh et al., 2018: 252).

Chapter Three: The analytical study (method, procedures and results)

3 .1Study sample:

The study selected Gulf Commercial Bank and Baghdad Bank to be the study sample.

3 .2Limits of the study:

The Gulf Commercial Bank and the Bank of Baghdad were selected as the spatial boundaries of the study, while its temporal boundaries were represented by the two years (2021-2022).

3 .3 Case study:

The study included two case studies, "the case of Gulf Commercial Bank" and "the case of Baghdad Investment Bank", whose main objective is to reveal the extent of compliance with the instructions of the Central Bank of Iraq regarding capital adequacy ratios, and the following are the results of the analysis: -

1. Case Study 1: Gulf Commercial Bank

The first case study shows the role of the external auditor in researching the Gulf Commercial Bank's compliance with the Central Bank of Iraq's instructions regarding capital adequacy ratios.
It is known that the responsibility for the preparation of financial statements is the responsibility of the management that prepares, organizes and submits them to the relevant authorities (internal authorities - and external authorities) and the responsibility of the external auditor lies in expressing an impartial professional technical opinion on the validity and fairness of the financial statements, so according to this study, the work is limited to mining the bank's lists approved and audited by the external audit bodies and approved by the union in detecting the bank's compliance with the instructions of the Central Bank of Iraq regarding capital adequacy ratios, so the financial position of Gulf Commercial Bank should be presented in Table No. (1).

Table (1) Statement of Financial Position for the years (2021-2022) of Gulf Commercial Bank

Assets	2021	2022
Cash and balances with the Central Bank	223157019162	237089094691
Balances with banks and other financial institutions	47485613341	43057595524
Direct credit facilities - net	112006582419	91885760983
Investment in subsidiaries	11300000000	500000000
Investment in associates	34000000000	39000000000
Financial assets at fair value through other comprehensive income	20775439837	22492326710
Financial assets at amortized cost	3042294417	28870000000
Property and equipment, net	32638818456	34500279174
Projects in progress	5275025469	14238681704
Other assets	48809962296	41423589856
Total assets	538490755397	553057328642
Liabilities and shareholders' equity		
Required		
Customer deposits	204966518867	225447864091

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Cash collateral	3341056208	3618788590
Long-term loans	6944848615	5833175000
Other liabilities	18912554870	9516637951
Total liabilities	234164978560	2444165632
Shareholders' equity		
Capital	300000000000	300000000000
Mandatory reserves	9413152988	9413152988
Other reserves	696500360	696500360
Fair value change reserve	6075239433	3493241593
Revised profit (loss)	291362922	(4962031931)
Total shareholders' equity	304325776837	308640863010
Total liabilities and shareholders' equity	**538490755397**	**553057328642**

Based on this, and through the examination of the bank's financial reports, the researchers are of the following opinion :-

- Based on the decision of the Central Bank of Iraq No. (110) for the year 2020, which includes the approval of the supervisory controls related to the capital adequacy standard for commercial banks in accordance with Basel requirements (II & III) and through our examination of the accounting records and our review of the nature of the banking operations practiced by the bank during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, as the capital adequacy ratio as of the balance sheet date on 31/12/2022 reached (34%) of capital and sound reserves, given that the ratio specified by the Central Bank (12 .5%) This gives clear evidence that Gulf Commercial Bank has complied with the instructions of the Central Bank of Iraq regarding capital adequacy ratios.
- From the income statement and other comprehensive income, it is clear that during the current year, the bank realized a loss of (5131100000) dinars, and after adding the increase in the market value of financial investments and the change in the fair value of financial assets amounting to (9568481000) dinars, the total comprehensive income amounted to a profit of (4437381000) dinars.
- that the cost of shares of companies - listed on the Iraq Stock Exchange as of 31/12/2022 amounted to (18914288000) dinars, while the cost of shares of companies not listed on the Iraq Stock Exchange amounted to (3578038000) dinars, in this regard, we would like to indicate that the market value according to the last session of the Iraq Stock Exchange for the year 2022 regarding the shares of companies listed on it amounted to (21618057000) dinars, while the value of shares of companies not listed on the market at cost. The change in the fair value of these shares was calculated at (9568481,000) dinars (credit), so that the balance of the reserve for change in fair value as of 12/31/2022 (3493241000) dinars (credit) and represents 15% of the total balance of investments in shares amounting to (22492327000) dinars, noting that the family value of shares is (25985568) dinars with a difference of (3493241000) dinars included in the account of other assets.
- The total cost of investments as of 12/31/2022 amounted to (61992326) dinars (20%) of the total capital and sound reserves, noting that the calculation of investments in shares was not affected by the difference of (3493214000) dinars, and when this amount is added, the ratio of investments to capital and reserves becomes (21%).
- The number of shares of the companies listed below as of 12/31/2022 has not been endorsed to us despite the bank's management contacting these companies, but no response has been received.

Table (2) Name of Companies and Number of Shares Owned by Gulf Commercial Bank for Listed Companies

Company	Number of shares	The cost is one thousand dinars
Northern Region Soft Drinks Company	150000000	**109113000**
Bank of Warka	49019607	**30412000**
Generator Manufacturing Company	75000000	**214525000**

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2- Second case study: Baghdad Investment Bank

The second case study illustrates the role of the external auditor in researching the Baghdad Investment Bank's compliance with the Central Bank of Iraq's instructions regarding capital adequacy ratios.

It is the responsibility of the bank's management to present the accounting information in the financial statements in a way that enables the audience to compare the information horizontally (for two or more years) or vertically (using financial ratios, for example) or with the financial statements of other companies similar in activity, and in order to do so The company's management should follow the approved accounting system and accounting standards in preparing and presenting the financial statements, not only that, but also consistency in the presentation of the financial statements from year to year by following the same accounting policies, otherwise the bank's management must disclose any change in the accounting policies used.

As for the external auditor, after receiving the financial statements and final accounts of the bank subject to audit, he should audit the activities and accounts of the bank and examine the financial statements and financial statements and the report of the Board of Directors and the information contained therein, and it is also his responsibility to add the characteristic of reliability in its three elements to the accounting information, starting from verifying the verifiability of the accounting information by ensuring that the results to be obtained from the audit are the same results obtained by another external auditor if he uses the same auditing standards and procedures in the audit. Therefore, the statement of financial position of Baghdad Investment Bank should be presented in Table (3).

Table (3) Balance Sheet for the years (2021-2022) of the Bank of Baghdad

Assets	**2021Amounts (in thousands of dinars**)	**2022 Amounts (in thousands of dinars**)
Cash and balances with central banks	706104609	**722854049**
Balances with banks and other financial institutions	181712652	**145683305**
Investment in associates	1136627	**1197494**
Financial assets at fair value through other comprehensive income	2368857	**2378166**
Financial assets at amortized cost	442311497	**664735996**
Direct credit facilities, net	60520275	**89496407**
Property and equipment, net		**73537949**
Intangible assets, net	364886	**1013274**
Right to use leased assets	-	**2104736**
Other assets	23652971	**21198202**
Total assets	**1418172374**	**1724199578**
Liabilities and shareholders' equity		
Liabilities		
Deposits with banks and banking institutions	863909	**857122**
Customer deposits	1157462988	**1309292958**
Cash insurances	14677854	**15194507**
Income tax provision	7168178	**10635320**
Miscellaneous provisions	6583550	**5449465**
Borrowed funds	1616256	**579381**
Commitments for the right to use leased assets	-	**2146146**
Other liabilities	42316043	**30418413**
Total liabilities	**1230688778**	**1374573312**
Shareholders' equity		
Authorized (Paid-up) Capital	250000000	**250000000**
Mandatory reserve	15405776	**18003470**

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Other reserves	58441	**58441**
Fair value reserve	(3068025)	**(3504393)**
Foreign currency translation differences	1092265	**1092265**
Rounded profits	45641421	**83976483**
Total shareholders' equity	309129878	**349626266**
Total liabilities and shareholders' equity	**1418172374**	**1724199578**

Based on this, and through the examination of the bank's financial reports, the researchers are of the following opinion:-

- Based on the decision of the Central Bank of Iraq No. (110) for the year 2020 approving the supervisory controls related to the capital adequacy standard for commercial banks in accordance with Basel II and III requirements, and through our examination of the accounting records and our review of the nature of the banking operations practiced by the bank during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the budget date amounted to (52%) of capital and sound reserves, given that the ratio specified by the Central Bank (12.5 %)
- The result of the activity for the fiscal year ending on 12/31/2021/2022 was a net profit before provisions and before tax, as shown below:

Table (4) Net Profit Before Provisions and Before Tax for Baghdad Bank

Details	2021	2022
Profit before provisions	**56979461000**	**80953536000**
Net profit before tax	**37148542000**	**63789805000**
Net profit after tax	**19830919000**	**17163731000**

The increase in net profit after income tax for the current year amounted to (48%) compared to the previous year.

- The net cash balance as of the budget date amounted to (868,537,354) thousand dinars compared to the previous year's balance of (887,817,261) thousand dinars, a decrease of (2%), due to directing an amount of (95) billion dinars to invest in government bonds and treasury bills.
- Cash balances abroad accounted for (47%) of capital and sound reserves, including the six-month deposit with the United Gulf Bank, which matures on 6/30/2023, which is excluded from the specified percentage. (20%) under the approval of the Central Bank of Iraq.
- Solvency and Liquidity: The Liquidity Coverage Ratio (LCR) according to Basel III is 272% while the minimum required by the Central Bank of Iraq is 100%, and the Net Stable Funding Ratio (NSFR) according to Basel III is 384% while the minimum required by the Central Bank of Iraq is 100%. According to the above ratios, there are no concerns in terms of the bank's ability to fulfill its obligations to depositors during the subsequent period.
- The balance of other assets amounted to (21,198,202) thousand dinars, or 1.3% of total current assets, which is less than the 10% required by the Central Bank of Iraq's letter on improving financial statements.

Through the previous presentation, it is clear that the external auditor has a significant role in indicating the extent of compliance of the Commercial Gulf and Baghdad banks with the instructions of the Central Bank of Iraq regarding capital adequacy ratios, as it was reached through our examination of the accounting records of Baghdad Bank and our review of the nature of the banking operations practiced by the bank during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the balance sheet date (52%) and Gulf Commercial Bank (34%) of capital and sound reserves, given that the ratio specified by the Central Bank (12. 5%). This indicates the bank's commitment to the instructions of the Central Bank of Iraq regarding capital adequacy ratios, and for this reason we prove the hypothesis of the study which states that "there is a prominent role for the external auditor in monitoring the commitment of Gulf Commercial Bank and Baghdad banks to the instructions of the Central Bank of Iraq regarding capital adequacy ratios.

3. 4 RESULTS (CONCLUSIONS):

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1. It is the responsibility of the bank's management to present the accounting information in the financial statements in a manner that enables the audience to make comparisons between that information. As for the external auditor, after receiving the financial statements and final accounts of the bank under audit, he should audit the activities and accounts of the bank and examine the financial statements, financial statements, the board of directors' report and the information contained therein. He also has the responsibility to add the reliability characteristic with its three elements to the accounting information starting from verifying the verifiability of the accounting information by ensuring that.
2. Through our examination of the accounting records of Baghdad Bank and our review of the nature of the banking operations practiced by the bank during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the budget date amounted to (52%) of capital and sound reserves, noting that the ratio specified by the Central Bank (12.5), indicating the bank's compliance with the instructions of the Central Bank of Iraq regarding capital adequacy ratios.
3. Through our review of the nature of Gulf Commercial Bank's banking operations during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the budget date on 31/12/2022 amounted to (34%) of capital and sound reserves, knowing that the ratio specified by the Central Bank (12.5%), and this gives clear evidence that Gulf Commercial Bank has complied with the instructions of the Central Bank of Iraq regarding capital adequacy ratios.
4. The solvency and liquidity of Baghdad Bank is clear as the Liquidity Coverage Ratio (LCR) according to Basel III reached 272(III) % while the minimum required by the Central Bank is 100%, and the Net Stable Funding Ratio (NSFR) according to Basel III reached 384(III) % while the minimum required by the Central Bank of Iraq is 100%, and according to the ratios, there are no concerns in terms of the bank's ability to fulfill its obligations towards depositors during the subsequent period.
5. The total cost of investments for Gulf Commercial Bank as of 12/31/2022 amounted to (61992326 000)dinars (20%) of the total capital and sound reserves, noting that the calculation of investments in shares was not affected by the difference (3493214000) dinars, and when this amount is added, the ratio of investments to capital and reserves becomes (%21)

3 .5 RECOMMENDATIONS (SUGGESTIONS):

1. It is necessary to maintain and continue the commitment of Baghdad and Gulf Investment Banks to the instructions of the Central Bank of Iraq regarding capital adequacy ratios and not to exceed them in accordance with the Basel II and III decisions.
2. Commercial banks operating in the Iraqi banking sector must adhere to the regulatory controls related to the capital adequacy standard as of the second quarter of 2020, noting that a transitional period has been set for a maximum of six months (including the second and third quarter of 2020), during which banks submit their data in accordance with the applicable controls on the capital adequacy standard along with the new controls in parallel in order to ensure the integrity of the systems and ensure the validity of the data, thus ending the transitional period as of the fourth quarter of 2020. Therefore, the requirement to comply with the minimum capital adequacy criterion will be in accordance with the new regulations
3. Commercial banks operating in the Iraqi banking sector must maintain a capital adequacy ratio of not less than (10%) before the formation of the prudential pillar and not less than (12. This ratio represents the relationship between the capital base with the numerator of the ratio and the risk-weighted assets determined to offset credit risk, market risk and operational risk (denominator), as this ratio is derived by dividing the bank's capital base by the sum of the elements shown in the denominator of the capital adequacy formula, provided that the amount of own funds shall in no case be less than the capital amount determined in accordance with the instructions of this bank, with the right of the Central Bank of Iraq to impose a higher ratio for any bank if necessity requires it or if the capital level is not commensurate with the risks it faces.
4. There is a major role for the external auditor in monitoring the compliance of Iraqi commercial banks with the CBI's instructions regarding capital adequacy ratios, accounting for them and issuing this in the financial reports.

CONCLUSION :

The study occupies its importance by defining the potential risks that the bank is exposed to during non-compliance with the supervisory controls issued by the Central Bank of Iraq, and preventing it from practicing its banking activity in the Iraqi and international labor market.

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The study aims to show the role of the external auditor in monitoring the compliance of Gulf Commercial Bank and Baghdad Bank with the instructions of the Central Bank of Iraq, regarding capital adequacy ratios, as the study sought to show this in the study of the two banks, as the ratio that maintains the capital adequacy ratio is not less than (10%) before the formation of the prudential pillar and not less than (12.5%) after the formation of the prudential pillar. The analytical method was used to draw the results, as it was reached through our examination of the accounting records of Baghdad Bank and our review of the nature of the banking operations practiced by the bank during the year under audit, and the statements prepared for the purpose of calculating capital adequacy, where the capital adequacy ratio as of the budget date (52%) and the Gulf Commercial Bank (34%) of the capital and sound reserves, given that the ratio specified by the Central Bank (12.5%). This indicates the bank's compliance with the instructions of the Central Bank of Iraq regarding capital adequacy ratios. The study recommended that commercial banks operating in the Iraqi banking sector should continue to adhere to the regulatory controls related to the capital adequacy standard, during which the banks submit their data in accordance with the applicable controls on the capital adequacy standard along with the new controls in parallel in order to ensure the integrity of the systems and to ensure the validity of the data.

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