



THE RELATION BETWEEN THE AUDITOR OF THE FEDERAL FINANCIAL SUPERVISION BUREAU AND THE INTERNAL AUDITOR: A FIELD STUDY IN THE BANKS OF THE IRAQI GOVERNMENT

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Article history:	Abstract:
Received: 20 th November 2021 Accepted: 20 th December 2021 Published: 30 th January 2022	The study aims at clarifying the relationship between the Federal Auditor of the Financial Supervision Bureau and the internal auditor in the Iraqi banks. This will be done through creating and developing a questionnaire to collect data from the community of the study (the auditors of the financial supervisory Bureau and the internal auditors of the Iraqi banks). In one hand, 55 copies are distributed on the auditors of the Bureau and 48 copies are returned back for statistical analysis. In the other hand, 60 copies are distributed on the internal auditors of the Iraqi banks and 50 copies are returned back for the statistical analysis. The total of the samples is 98 auditors are selected depending on random method, where the packages of statistical analysis (SPSS) are used in analyzing the data. This study comes up with some results, including: audit committee plays its role in strengthening the relationship between the auditors of the Federal Financial supervision Bureau and the internal auditors in the Iraqi banks, as is seen by the data of the study. The committee has the responsibility of executing the observations and recommendations provided by the system of internal control in the banks, that the Bureau's auditor uses the reports and worksheets of the internal auditor to obtain a full understanding of the control system as well as evaluating the effectiveness and efficiency of the internal control system. The study recommended that a committee must ensure holding periodical meetings with the auditors of the Bureau and the internal auditors, attended by the internal auditors to exchange ideas, discuss plans and developments and solve problems. The auditor of the Bureau should take into consideration the work accomplished by the internal auditor, to repeating work and wasting time. The auditor must also depend on the reports of the internal auditor in his audit of the branches and departments affiliated with the bank.

Keywords: Board of Supreme Audit, internal auditors

INTRODUCTION

There is no doubt that the continuous development of the economic, social and political life, as well as the expansion of institutions, the complexity of functions and the increase in the degree of their complexity, and the separation of ownership from management, led to the need for the audit, both internal and external, and the emergence of external audit was long before internal audit caused by the society's need for external audit before its need for

internal audit. Each of them has its own objectives, responsibilities, powers, and its own operational method which are derived from the rules, principles and standards that govern the audit process. Organizations, including government banks, face many risks arising from its activity or the environment in which it operates, therefore, these risks must be dealt with by an appropriate mechanism. The task of internal audit in banks is to examine and evaluate their internal control systems, and review their internal



activities, to help management carry out its responsibilities effectively. The importance of developing internal control systems through applying accounting standards gives effective basis for preparing useful financial reports that banks adhere to in order to follow an accounting approach that guarantees them success and continuity.

On the other hand, the Federal Financial Supervision Bureau in Iraq is considered one of the important and effective supervisory systems that are concerned with the supervisory procedures and related to the financial statements published by the state through its interest in the requirements of obligations under international and professional norms issued by the relevant authorities. Accordingly, the coordination and cooperation between the auditors of the Audit Bureau the Federal Finance and the internal auditors are necessary for the proper management of public funds. Especially that all of these systems adopt a unified goal that strengthens and activates the movement of the organization and contribute to the control of the state's public resources as well as the optimal and effective use of these resources. Therefore, this study is concerned with showing the scope of the relationship between The auditor of the Federal Financial Supervision Bureau and the internal auditor in Iraqi government banks.

CHAPTER ONE: RESEARCH METHODOLOGY

1. Research Problem.

The problem of the study is manifested in having errors and abuses as a result of the large, diversity and complexity of the business

environment in for-profit and non-profit organizations. Such errors include the weak relationship of regular consultation and cooperation, the mutual professional trust between auditors of the Federal Financial Supervision Bureau and the internal auditors in government banks. These errors may lead to more errors and Obstacles. Wrong personal behaviors may delay projects and disrupting work, prompting departments to work to encourage this cooperation and activate communication channels through the having internal auditors who have experience, competence and objectivity.

Based on the previous presentation of the research problem, the problem can be formulated in the following question:

What is the level of the relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in Iraqi government banks?

II. The Value of the Study

This study presents to the auditors of the Bureau and internal auditors in government banks an empirical information that play an effective role in understanding, evaluating and testing control in an efficient and effective manner. It reflects the quality of the work of the two groups` auditors to ensure the application of governance and raise the capabilities and skills of the internal auditor. It also contributes in increasing and improving the performance and efficiency of the internal auditor, which leads to reducing the difficulties that face auditors of the two groups. Concludingly, the importance of the research comes through clarifying the scope of the relationship and regular cooperation between the two groups in preserving public funds and its role in preventing being tampered with or infringing upon, and providing a database on the extent of the relationship and cooperation between the two groups; the auditors of the Federal Financial Supervisory Board and the internal auditors.

III. Aims of the Study

The study aims at:

- stating the benefits and advantages of consultation, cooperation and exchanging information between the auditors of the Bureau and the internal auditors.
- Defining and clarifying the problems that face the auditors of the Bureau in their work with the internal auditors in the bank.
- Strengthening the role of the auditors of the Audit Bureau in understanding, documenting, evaluating and testing the internal control system.
- Identifying the basis of the relationship and the regular cooperation between the auditors of the Federal Financial Supervision Bureau and the internal auditors in government banks.

IV. Hypotheses of the Study

Based on what is presented in the statement of the problem and the aims of the study, as well as on the study question, the study hypotheses can be formulated as follows:

Ho 1: the relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in government banks has is no statistically significant effect. The following hypotheses are derived from this hypothesis:

Ho 1-1: The effect of the Audit Committee in strengthening the relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in Iraqi government banks has no statistical significant.

Ho 1-2: : the reliance of the auditors of the Federal Financial Supervision Bureau on the work of internal



auditors has no statistically significant effect in strengthening the relationship between them in Iraqi government banks.

Ho 1-3: There is no statistically significant effect between the commitment of the auditors of the Federal Financial Supervision Bureau and the internal auditors to professional development and its impact on strengthening the relationship between them in Iraqi government banks.

Ho 1-4: : the presence of regular and effective communication and consultation between the auditors of the Federal Financial Supervision Bureau and the internal auditors has no statistically significant effect in strengthening the relationship among them in Iraqi government banks.

In light of the research aims and its hypotheses, the research plan is divided into the following axes:

CHAPTER TWO: THE THEORITICAL FRAMEWORK

I. The concept of Financial Supervision:

Financial supervision is represented by procedures that ensure the proper implementation, and practice of public financial management, public financial systems, government regulations and financial standards. Financial supervision grants sufficient independence that qualifies exercising the supervisory role over financial behavior to eliminate negative performance. It submits reports with sound oversight to the supreme and legislative state aiming at building a performance evaluation system (Timotic, 2017: 406).

Financial control is defined as the legal right that grants certain systems in the state to issue important decisions for the success of planned projects, as well as to preserve public funds. It ensures that work is carried out properly in accordance with the laws and provisions in force, and to take appropriate measures to verify the correctness of financial statements and to address deviations, if any (Kafia , 2015: 145).

II. Guidelines of the International Organization of Public Financial and Accounting Supreme Audit Institutions

INTOSAI (INTOSAI GOV 9150) has developed a qualitatively appropriate method through which cooperation, regular consultation, and coordination can be fulfilled as well as the presence of communication channels and professional development between the supreme control systems and internal auditors working in government sector. For this sake, external auditors started to be more interested in the internal auditor and how to get benefit through relying on it in some of the audit. The basis of coordination between them is based on commitment, communication, mutual

understanding and trust. Systems that regulate auditing in the world have issued standards by which this relationship between the two functions is outlined. In addition of that, the International Accounting Standards Committee that emanates from the International Federation of Certified Public Accountants has issued the International Auditing Standard (ISA 610) which aims to take into account the work of the internal audit within the set of standards for external auditors, and the second paragraph of it stipulates that, (the external auditor should take into account the work of the internal audit and its impact, if any, on the procedures of the external auditor).

Based on the foregoing, the regular cooperation, consultation, and good communication channels between the Audit Bureau and the internal auditors can be achieved only if both groups are willing and committed to developing a coordinated and effective oversight service. Managing audit committees has an effective role in achieving that harmonious cooperation. In addition to that, it is necessary to identify the scope of cooperation and consultation that achieve indicators of effectiveness, efficiency and economics in auditing (Hamdan & AL-Haddar, 2016:254-255).

III. The Relationship of the External Auditor and the Internal Auditor and The Aspects Of Complementarity between them

The internal audit system practiced by the organization's management through its employees is considered within the scope of the external auditors, which requires coordination between the internal and external auditors, aiming at creating the required integration between the two groups. Especially that, the external auditor relies on the internal auditor's reports in preparing a report on the financial statements (Alkasabeh, 2016).

(Malaescu, 2013) states that the external auditor tends to rely on the internal auditor's work in the continuous environment more than the traditional one which increases the total hours of work. It needs to be stated that, having a regular and effective communication between the internal and external auditors help strengthening the relationship between them as well as enhancing the internal control system. It helps also having lower costs through relying on the work performed by the internal auditor .

The international auditing standards recommend the dependence of the external auditor on the internal auditor's work in order to raise the efficiency of the audit process. The performance of the external audit is one of the most significant elements that determine



the extent to which external auditors can rely on internal audit work. Being an employee at the department of internal auditing, the internal auditor of the organization bears the greatest burden in auditing all the operations that take place during the fiscal year, whatever their nature. The internal auditor provides assistance to the external one in preparing any data or information needed, as the main responsible auditor with the employees in the administration (Mihret,2011).

The researchers conclude that there is an integral relationship between the internal and external auditors in terms of the external auditor's dependence and, in a large way, on the work of the internal auditor. The internal auditor tests and evaluates the control systems, if it follows an effective system auditing that saves effort as well as quantity and quality of tests carried out by the external auditor in the process of examination and evaluation.

Until this point, what is stated earlier shows that the relationship between the internal and external auditors has many benefits, like; strengthening of the roles and requirements of auditing, creating a contact channel based on understanding and knowledge awareness of the risks that may face the organizations

as a result of the exchange of ideas, strengthening of mutual capabilities between them, which leads to strengthening institutional governance obtaining high quality control results. An efficient cooperation between the two groups leads the audit process to a better understanding of the role of each group and the prevention of duplication in the audit process.

CHAPTER THREE: The Practical (Exploratory) Aspect of the Study

I. The Community and the Research Sample

The sample of the study consists of (48) auditors from the auditors of the Board of Supreme Audit and (50) auditors from the auditors in government banks. Samples are chosen randomly from the study population. After reviewing, it was found that there are (5) copies that are invalid for statistical analysis. The researcher distributed (60) copies to auditors in government banks. Only (54) copies are returned. After reviewing , it was found that there are (4) invalid copies. For statistical analysis, the study sample numbered (98) auditors, which are selected based on the random method. Table (1) shows the results of the distribution of the research sample according to personal variables.

Table (1)
(Description of the respondents, the study sample).

Qualification							
other		Master		Bachelor		Diploma	
%	No.	%	No.	%	No.	%	No.
7.2	7	23.5	23	57.1	56	12.2	12
Practical experience							
16 years and more		From 10- less than 16 years		From 6 - less than 10 years		Less than 6 years	
%	No.	%	No.	%	No.	%	No.
16.3	16	20.4	20	37.8	37	25.5	25
Job title							
other		Account Manager		Auditor		accountant	
%	No.	%	No.	%	No.	%	No.
68.4	67	14.3	14	12.2	12	5.1	5



Table (2)
The Stability of coefficients (Cronbach's alpha) for all domains of the study

coefficient (Cronbach's alpha)	Domain
0.83	The relationship between the auditors of the Bureau of Supreme Audit and the internal auditors

Table (3) shows the values of the stability of coefficients (Cronbach's alpha) that are high, which indicates the high

credibility of the tool of the study.

II. Testing Hypothesis

The hypothesis is; **There is no statistically significant effect of the relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in government banks.** The statistical results show that there is a relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in government banks in terms of the aspects of the

study: (the commitment of the Audit Committee to strengthen the relationship, the dependence of the auditor on the work of the internal auditor, the commitment of the two groups for the sake of professional development, the presence of communication and consultation). The hypothesis that states: there is no relationship between the auditors of the Federal Financial Supervisory Board and the internal auditors in government banks is disapproved.

Table (4) shows the responses of the sample members after cooperation and visits

Table (3)
Arithmetic averages and standard deviations of the answers of the sample members (n = 98)

The sample as a whole			Public Universities			Financial Supervision Bureau			Item	No.
evaluation score	standard deviation	Arithmetic average	evaluation score	standard deviation	Arithmetic average	evaluation score	standard deviation	Arithmetic average		
High	0.44	4.22	High	0.48	4.19	High	0.40	4.28	The commitment of the Audit Committee to strengthen the relationship	.1
High	0.42	4.15	High	0.42	4.11	High	0.42	4.19	The auditor's dependence on the work of the internal auditor	.2
High	0.55	3.87	Low	0.66	3.84	Low	0.44	3.90	Commitment of both parties to professional development	.3
High	0.88	3.67	mid	0.78	3.43	High	0.90	3.87	The presence of communication and consultation	.4

Table (3) shows that:



- 1- The averages of the answers of the Auditor of the Supreme Audit Bureau are ranged between (3.87- 4.28), where the highest was the commitment of the Audit Committee to strengthen the relationship (4.28), and the lowest was meetings and exchange of opinions with a high rating score(3.87).

CHAPTER FOUR: Conclusions and Recommendations

I. The Conclusions

Based on the above results, the researcher concludes the following:

1. The Audit Committee plays its role in strengthening the relationship between the auditors of the Federal Financial Supervision Bureau and the internal auditors in Iraqi banks. This role has its importance as the members of the sample see. It shows how both sides implement the recommendations and observations, thus strengthening the internal control system in bank.
2. The accreditation of the Bureau's auditors on the work of the internal auditors has its influence in strengthening the internal control system in banks that the Bureau's auditor uses the reports and worksheets of the internal auditor to have a full understanding of the bank's internal control system and evaluate the effectiveness and efficiency of the internal control.
3. The commitment of the internal auditor and the auditor of the Bureau to professional development to keep up with developments activates the relationship between them, and helps in strengthening the internal control system, through the commitment of both parties to exercise due professional care in studying and evaluating the internal control system.
4. The results of the study show that the presence of regular and effective communication and consultation between the two groups helps strengthening their relationship as well as enhancing the internal control system in the bank.

II. Recommendations

Depending on the results obtained in this study, the study recommends the following:

1. The Audit Committee plays its role in strengthening the relationship in the banks, but it must ensure that regular meetings to be held with the Auditors of the Bureau and the internal auditors. These meeting are attended by the internal auditors to exchange ideas, discuss plans and developments, and solve problems

2. The auditor of the Bureau shall take into account the work performed by the internal auditor, to reduce his working hours and avoid repetition of work, and he shall rely on the reports of the internal auditor in his audit of the branches and divisions affiliated with the bank.
3. The necessity of keeping up to date with developments in the business environment to have sufficient knowledge of the standards regulating the complementary relationship between them.
4. Work to pay attention and activate the internal audit department in the banks to increase the dependence of the Bureau auditor on the work of the internal auditor.

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