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TOKAT GAZIOSMANPAŞA UNIVERSITY

GRADUATE EDUCATION INSTITUTE

THE ROLE OF INTERNAL CONTROL IN IMPROVING THE FINANCIAL PERFORMANCE OF BANKS

Prepared by

Kamiran Ibrahim IBRAHIM

Department of Business Administration

Branch of Accounting and Finance

Master Thesis

Supervisor

Asst. Prof. Dr. Atila KARKACIER

TOKAT - 2022

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SCIENTIFIC ETHICS PAGE

According to the thesis writing guide of Tokat Gaziosmanpaşa University Institute of Social Sciences, My Master's thesis named “The Role of Internal Control in Improving the Financial Performance of Banks**”** that I have prepared under the consultancy of “Asst. Prof. Dr. Atila KARKACIER” is based on scientific ethical values and rules. I hereby declare that it is an appropriate, original work, and I will accept any legal sanctions if it is determined otherwise.

... / ... / 2022

Kamiran Ibrahim IBRAHIM

DEDICATION

First of all, I am grateful to dedicate this master study to the spirit of my father, may Allah have mercy on him, I dedicate to my dear mother, may God protect her and bless her long life

I proudly dedicate this study to my family faithful wife who always supported me during challenges, overcoming difficulties and the highest symbols of sincerity, loyalty, and companion on the path and my beautiful daughters, Ashna and Roshna, may God protect them

In addition, I dedicate this study to my brothers and sisters. Furthermore, to everyone who taught me even a letter throughout my educational career and enlightened me on the path of science and knowledge.

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Furthermore, words cannot express thanks and gratitude to all my family members for the hardships they endured throughout the study stage and for providing the appropriate atmosphere for study.

THE ROLE OF INTERNAL CONTROL IN IMPROVING THE FINANCIAL PERFORMANCE OF BANKS

IBRAHIM, Kamiran Ibrahim[1]

Abstract

The internal control system in banks has witnessed a gradual and important development adapted to the rapid and successive developments in the banking sector. Therefore, internal control is no longer only a process to safeguard banking activities and cash, however, it has developed into a set of components set by the senior management to ensure the achievement of the improved financial performance of the bank. In this regard, the importance of internal control is increasing due to its effective role in validating that all banks' activities are carried out in a manner consistent with the policies and strategies set by the board of directors to improve the bank's financial performance. The ultimate purpose of this study was to explore the role played by internal control components in improving the financial performance of banks in Iraq.

This study firstly addresses the information about internal control system and the important internal control for banks. Later, information on the financial performance of banks and their indicators and measurement was included. In the last part of the study, a questionnaire was applied to the managers of Iraqi banks, to investigate whether internal control and its components, had effect on improving the financial performance of banks. As a result of the analyses, it has been concluded that the control environment, risk assessment, control activities, information and communication and monitoring which constitute the components of internal control, positively affect the financial performance of the banks.

Keywords: Audit, Internal Control, The Components of Internal Control, Banking Sector, Financial Performance.

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BANKALARIN FİNANSAL PERFORMANSINI İYİLEŞTİRMEDE İÇ KONTROLÜN ROLÜ

IBRAHIM, Kamiran Ibrahim[2]

Özet

Bankalardaki iç kontrol sistemi, bankacılık sektöründeki hızlı ve birbirini izleyen gelişmelere uyum sağlayarak kademeli ve önemli bir gelişmeye sahne olmuştur. Bu nedenle, iç kontrol artık sadece bankacılık faaliyetlerini ve nakdi korumaya yönelik bir süreç olmayıp, bankanın iyileştirilmiş finansal performansının elde edilmesini sağlamak için üst yönetim tarafından belirlenen bir dizi bileşene dönüşmüştür. Bu bağlamda, bankaların faaliyetlerinin bankanın finansal performansını artırmak için yönetim kurulu tarafından belirlenen politika ve stratejilere uygun bir şekilde yürütüldüğünü doğrulamadaki etkin rolü nedeniyle iç kontrolün önemi artmaktadır. Bu çalışmanın temel amacı, Irak'taki bankaların finansal performansını iyileştirmede iç kontrol bileşenlerinin oynadığı rolü araştırmaktır.

Bu çalışmada öncelikle iç kontrol sistemi ile ilgili bilgilere yer verilerek, iç kontrolün bankalar için önemine değinilmiştir. Daha sonra bankaların finansal performansı ve göstergeleri ile ölçümüne ilişkin bilgilere yer verilmiştir. Çalışmanın son bölümünde ise Irak bankalarının yöneticilerine, iç kontrol ve bileşenlerinin, bankaların finansal performansını iyileştirmede etkisinin olup olmadığını araştırmak için anket tekniği uygulanmıştır. Yapılan analizler sonucunda iç kontrol bileşenlerini oluşturan kontrol ortamı, risk değerlendirme, kontrol eylemleri, bilgi ve iletişim ile izlemenin bankaların finansal performansını olumlu yönde etkilediği tespit edilmiştir.

Anahtar Kelimeler: Denetim, İç Kontrol, İç Kontrol Bileşenleri, Bankacılık Sektörü, Finansal Performans.

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ABBREVIATIONS

AIB	Agricultural Industrial Bank
AICPA	American Institute of Certified Public Accountants
ATM	Automated Teller Machine
CA	Control Activities
CAP	Control Activities Principles
CBI	Central Bank of Iraq
CEP	Control Environment Principles
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FPB	Financial Performance of Banks
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HR	Human Resources
IAASB	International Auditing and Assurance Standards Board
IC	Information and Communication
ICC	Internal Control Components
ICP	Information and Communication Principles
ICS	Internal Control System
INB	Iraqi National Banking
KMO	Kaiser Meyer Olkin
MO	Monitoring Control
MP	Monitoring Principles
NIM	Net Interest Margin
QSM	Quantitative Study Method
RA	Risk Assessment
RAP	Risk Assessment Principles
ROA	Return On Assets
ROE	Return On Equity
SPSS	Statistical Package for the Social Sciences

INTRODUCTION

The banking system of any country significantly contributes to economic growth and plays a crucial role in mobilizing economic resources and financing them, as well as its role in achieving financial and monetary stability for modern economies (Nimalathasan, 2008: 146; Widhiastuti & Sagung, 2019: 1509). Therefore, the banking system and financial services are not limited to the same geographical limits as any country. The banking system is an important source of financing for business operations and activities (Rozzani and Rahman, 2013: 39). In this regard, the Iraqi banking system is one of the eldest systems in the Arab region. It remains a traditional system in its slow development, as the conditions of the war that Iraq has experienced since 1980, the economic blockade in 1991 (Gaban and Mustafa, 2010: 16). The banking sector in the country left a legacy, human frameworks, work contexts, and laws that created a large gap between it and the banking systems prevailing in the region and the world.

Accordingly, the ultimate goal of this study is to explore the role play by internal control in improving the performance of banks, as empirical evidence from Iraq. As for the banking system, the Basel 9 Committee required that the monetary authorities must be intense, ensure that banks put in place internal control systems that are adapted to the nature and extensiveness of their operations to ensure the integrity of the banking system (Ali, 2013: 23). Internal controls have been put in place to ensure that all bank assets are kept safe, particularly to avoid ignoring the bank's assets and to detect and protect potential frauds (Salameh, 2011: 41). There's the same control over maintaining banks' financial performance within what banks expect (Abdul and Mohamed, 2010: 19). Besides internal control is integrated into the process with a set of interrelated components such as the social environment that influences employee behavior, necessary information subject to control, policies, and procedures (Umar & Muhammed, 2018: 21).

Internal control is necessary to support bank managers, staff and other partners understand the position and objectives of the bank. Internal controls provide reasonable assurance to bank clients and other parties that transactions are recorded correctly and promptly (Fakunmoju et al., 2020: 37). The internal control system consists of two parts, the accounting part, and the managerial part. The managerial part is linked to achieving the objectives and concepts of efficiency and effectiveness in operations, and it is called managerial control by promoting efficiency and encouraging adherence to the established managerial policies. Through several methods to evaluate the managerial internal control system on the one hand and several preventive measures, on the other hand (Abdul and Mohamed, 2010: 25). Therefore, banks are formed for specific purposes, so that banks can achieve their objectives and must be able to perform their operations efficiently and effectively. However, banks need to adopt effective business practices to help them achieve their goals as well as maintain their financial performance. Banks' performance is measured in terms of their ability to achieve their specific banking objectives. Performance indicates the ability to work efficiently, profitably, survive, grow, and interact with environmental opportunities and threats (Mawanda, 2014: 11).

Moreover, the performance of the banks is an effective factor for the performance of the financial activity within the banks. Financial performance in its broadest sense refers to the degree to which financial goals are achieved or non-achieved. It is the process of measuring the results of the bank's financial policies and operations in monetary terms. It is used to measure the overall financial health of a commercial bank during a particular period and can also be used to compare similar banks in the same industry or to compare industries or sectors in aggregate (Ahmed and Gábor, 2012: 644). The financial performance of banks is one of the most important topics that has been widely discussed. Thus, there is a vast literature on financial performance and external auditors, which emphasize internal controls as a measure to ensure sustainability and improve financial performance, however, the researcher's perception still has gaps in the research conducted so far (Ali, 2013: 26).

Furthermore, the current study is organized into three sections. In section one, after the internal control system was introduced, the components of internal control, the objectives of internal control, and the importance of internal control for banks were mentioned. Section two addressed the aspect of the performance of banks. Besides this section also dealt with the concept of the performance of banks, indicators of banks performance, the measurement of bank performance, the importance of evaluating the performance of banks, in addition to banking institutions and the banking sector in Iraq. Section three covered the method and statistical tests to empirically analyze the effect of internal control on the financial performance of banks based on the data collected from the survey respondents within the Iraqi banks' sector, mainly governmental banks, commercial banks, and Islamic banks to empirically investigate whether internal control system implemented by these banks enhanced their financial performance. Finally, the study concluded with results and suggestions for future research.

SECTION 1: INTERNAL CONTROL SYSTEM

This section aims to address the internal control system in banks. As an important control system because of the actions, it provides. It means effective control when exercising any activity within the bank. The purpose of having a system of internal control is to protect the assets of the bank and to ensure the accuracy of accounting and statistical data to achieve maximum efficiency and productivity and ensure that employees comply with established policies and management plans. Thus, it becomes clear that the internal control system is not limited to monitoring the financial and accounting aspects it also includes the total activity of the bank.

1.1.THE CONCEPT OF INTERNAL CONTROL

The concept of internal control has captured the authors' attention as a result of the growing interest in the internal control system, the role and tasks of the internal auditor to achieve banks or project objectives, in addition to achieving efficiency and effectiveness in use. From the resources and assets of banks (Abdul Aziz, 2014: 6). To understand the nature of a sound internal control system, it is necessary to clarify the most important concepts that flow in the field of control and auditing, which are criteria for judging the efficiency and effectiveness of internal control. In addition to highlighting the basic components and procedures for operating internal control, especially for banks and large companies (Gabanand Mustafa, 2010: 7).

According to Tayeb (2018: 151), the American Institute of Certified Public Accountants (AICPA) defined internal control, which includes the organizational plan, means of coordination, and measures followed in the bank or project to protect its assets, control, and review of accounting data, to ensure their accuracy and reliability, increase production efficiency, and encourage employees to do so. Adhere to applicable administrative policies. Internal control is a policy and procedure designed to provide sufficient assurance that the Bank's management has achieved its objectives. These policies and procedures are often referred to as the bank's collective internal control (Fatlawi, 2018: 3049).

As indicated by Basel (2010), internal control ensures that senior management establishes and maintains effective and efficient internal control. Systems and processes must be designed to ensure that areas covered include compliance monitoring of financial and operational reporting, internal and external regulations and policies, bank efficiency and effectiveness, and property protection (Salameh, 2019: 45).

As a result of the development of the economic activity, the scarcity of available economic resources, and the separation of ownership from project management, this has led to the development of the concept of internal control aimed at preserving cash and material assets as well as the accuracy of accounts into an effective and integrated internal control system in which the internal control system is one of its rings (Suhail, 2007: 32). The internal audit is one of the control tools within banks and companies to support the administrative function as well as support the external auditors to evaluate the internal control system and determine the scope of the examination when carrying out the audit process (Mawanda, 2011: 12).

In this context, Umar and Dikko (2018: 88) defined internal control as part of corporate governance systems to ensure their performance. Internal controls also allow banks to reduce the number of intentional and fraudulent errors in the course of their work. Effective internal controls are therefore essential for secure banking systems. A properly designed and consistently implemented internal control system helps the Banking Board and management protect assets, prepare reliable financial reports and comply with laws and regulations. Effective internal control also reduces the likelihood of serious errors and irregularities and supports detection as soon as they occur. (Udoayang and Ewa, 2012: 34). The internal control system emphasizes that the system should always remain under control and supervision because employees tend to think more about their interests than those of the bank or company. If there is a failure in the company's financial accounting system, reduced assets, and increased violations will inevitably occur in the absence of an effective internal control system (Yayla, 2006: 112). In this regard, Gamage et al. (2014: 59) stated that an effective internal control system can support and ensure the achievement of banks' goals and objectives. This means that the bank may achieve long-term profitability goals, and maintain reliable financial and management reports if internal control is established and implemented simultaneously and effectively (Mozjat et al., 2020: 151).

The internal control concept is also known as self-monitoring, as it is located within the internal framework of the banks and companies, which is the control of the management bodies on themselves, and the goal of this type of control is to discover deviations and correct them promptly by the management bodies themselves, which are more capable than other external parties to understand mechanisms of work (Samriraay, 2016: 14). The problems that the banks may face, as the internal control bodies' understanding of the nature of the bank's activities, do not make it more capable than others in adopting successful control methods that correct deviations (Abdul Aziz, 2014: 6; Mawanda, 2011: 23).

Besides internal control can provide an appropriate environment to prevent conflicts of interest between managers and shareholders. The Enron scandal in 2001 put the role of auditors in banks and financial markets in question about the quality of audit firms. Previous research studies have focused on the size of audit companies based on their perception and experience in the market (Hakim and Omri, 2009: 61). Further, the bank sets material, moral and human means and then organizes them effectively by dividing the tasks and responsibilities among its employees clearly and soundly.

While defining the methods and procedures that users must apply to achieve its goals related to ensuring the safety of workflow within it and protecting its assets (Salameh, 2019: 44). In addition to ensuring the availability of accurate and correct information and to ensure the optimal use of the bank's resources, with the obligation to respect the legal and regulatory provisions. The general policy, internal procedures of the bank, and managing its business tightly, thus minimizing the risks associated with its activities (Fakunmoju et al., 2020: 37).

The internal control system is not just a defining of procedures or setting up a specific organization, but rather it is a process that is implemented by people when they carry out their work. At all administrative and executive levels in the bank, it should be noted that the existence of an internal control system gives sufficient guarantee to achieve the objectives set, but not absolutely; The existence of an internal control system cannot remedy a wrong judgment of a bad course or decision or any external event that leads to the bank's failure to reach its objectives. The internal control system is not necessarily effective or capable of identifying and controlling all risks (Achim and Chis, 2014: 95).

1.1.1. Elements of Internal Control

The bank management is responsible for the staff actions, which directly affects the banks' financial position and its profits (Suhail, 2007: 26). These actions may come unintentionally, for instance as the result of the mishandling of banks' assets, lack of information, and inefficiency of the bank's management decision-makers, and may result from distrust by some staff (Ali, 2013: 7; Ayagre et al., 2014: 379). The board of directors and executive management promote high standards of ethics, integrity and create a culture that highlights the importance of internal oversight at all bank levels.

In this regard, all bank employees should be aware of the role they play in the internal control system and should be actively involved in this process (Socol, 2011: 397). As shown in Figure 1.1 the internal control included two main elements; the first is management review, and the second is performance appraisal (Gamage et al., 2014: 28). Where both are important, as banks are characterized by a special economic nature, which requires maintaining their financial positions and daily coordination between their resources uses to achieve client service and provide the required liquidity for them while meeting clients' requests for lending.

ŞEKİL, GRAFİK, RESİ, FOTOĞRAF GİBİ BAŞLIKLAR BUNLARIN ALT KISMINDA VERİLİR. TÜM ÖRNEKLERDE BAŞLIĞI ALTA ALALIM LÜTFEN.

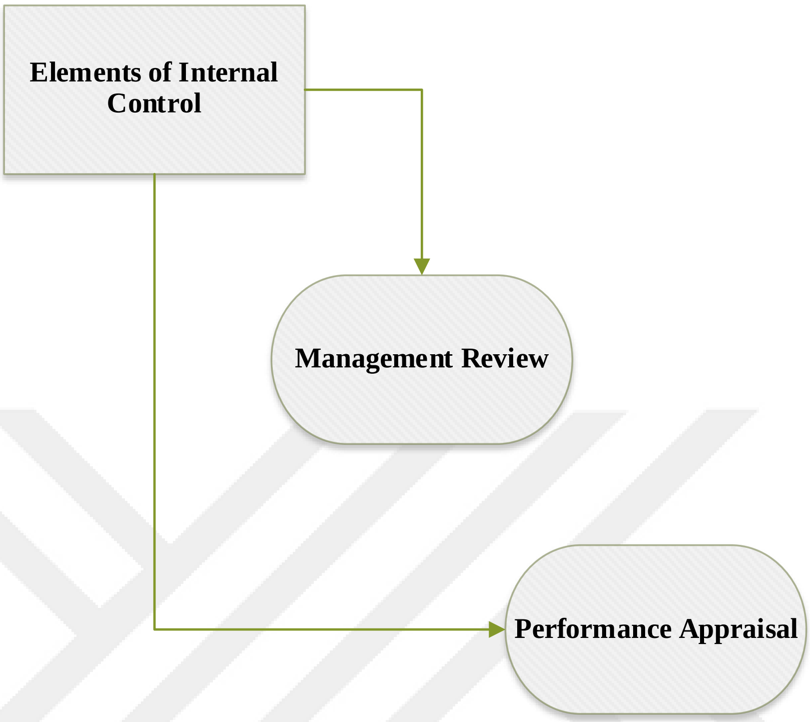

Figure 1.1: Elements of Internal Control
Source: By the researcher based on the reviewed literature

Management review is aimed to determine the efficiency and capabilities of the various administrative levels in the bank, in particular developing plans, policies and their skill in implementing them using social criteria that show the extent of the management's success in providing services to clients, and other sectors that show the administration's capabilities in the face of competition and the efficiency of managers in forecasting demand. Mainly on the unit's services, legal standards that determine the management's efficiency in adapting the unit's activity under governmental laws, regulations, and legislation (COSO, 2011: 94).

As well as standards for the management's ability to control the bank activities, which are standards related to the management's skill in planning the above activities and the efficiency of their implementation. As for performance evaluation, it is not limited to administrative evaluation but extends it is more comprehensive and encompasses all the factors affecting the efficiency of the bank than those resulting from the performance of the departments' responsibilities (Ayagre et al., 2014: 380).

Accordingly, the most important areas that the internal control system evaluates in management review are (Abdul and Mohamed, 2010: 13):

1) Determine the management efficiency in carrying out its tasks.
2) Assessing the validity, realism, and clarity of the bank's objectives and its ongoing response to those objectives from the reality of practical application.
3) Whether the current return on the invested capital is high, adequate, or average.
4) The relationship of the bank with its shareholders and its clients.
5) The relationship between management and staff within the bank.
6) Adequacy and effectiveness of management objectives and duties in its various and successive stages, especially:
   - The extent of the effectiveness of the senior management is represented by the general manager and members of the board of directors, including financial management, planning department, and HR management.
   - Members of the board of directors and whether their management, objectives are all effective, consistent with the terms of their appointment, as and the extent of their cooperation with the general manager.
   - The middle management effectiveness at the departments requires oversight and careful examination concerning the efficiency of each branch or department in achieving the established objectives.
7) Evaluation of the professional and technical qualifications of the bank staff, especially in the accounting department.
8) The percentage of the incentives system applied in the bank.

Evaluation elements of the internal control are used to discover the areas that raise problems. So that this system works on an organized search for problems related to the efficiency of bank performance and makes recommendations through the auditors who express their opinion without bias to a particular party. As showed in Figure 1.2 the results of this evaluation can be known using several elements, the most important of which can be summarized as (Abdul Aziz, 2014: 9; Rozzani and Rahman, 2013: 41):

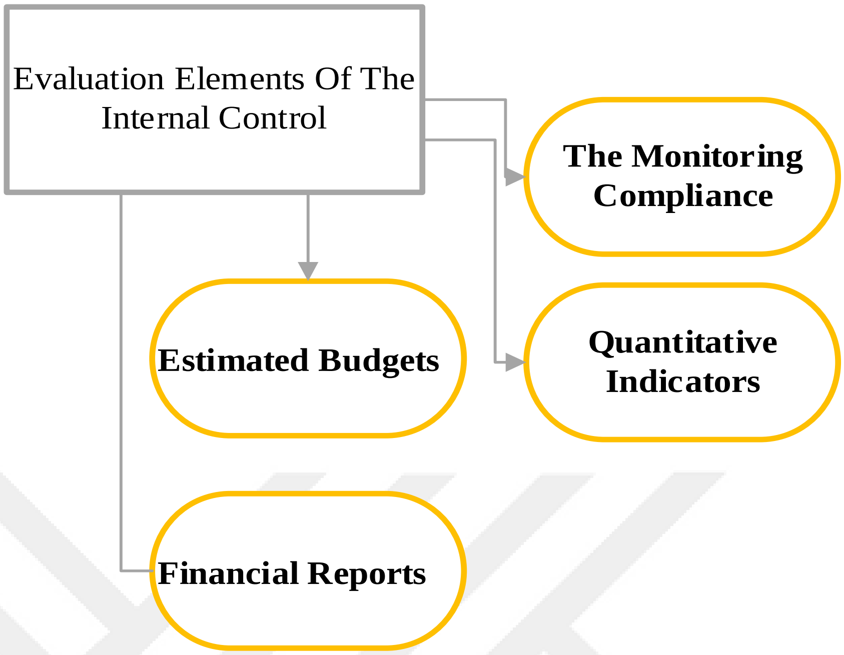

Figure 1.2: Evaluation Elements of the Internal Control
Source: By the researcher based on the reviewed literature

First: The Monitoring Compliance

The monitoring compliance with the official legislative, regulatory, and control environment. The legislative framework has several effects, of interest to the auditors, including (Amudo and Inanga, 2009: 131; Fatlawi, 2018: 3049):

1) The bank is obligated not to deviate from the instructions of the central bank, especially about the limits of lending, provisions for matching losses on loans and advances.
2) The bank is obligated to create legal needs that must be deducted from the distributable profit.
3) There are reports on the bank prepared by supervisory authorities such as the central bank and the capital market authority, which the auditor must examine well.
4) Examining and discussing with management the policy of the bank's board of directors in lending and granting credit.

5) Requesting and examining loan files - or a sample of them - to verify that the loan documents, as they appear in the loan file, do not fall out of the applicable laws and regulations and the policy of the bank's board of directors.
6) In the event of deviation from laws and regulations, the auditor must rule on the effect of this deviation on the financial statements and whether it is considered an illegal act.

Among the risks faced by banks is the risk of non-compliance with laws, instructions, regulations, orders, and standards of professional conduct. This aims to regulate the work of banks on the one hand and protect customers on the other. Especially since adherence to laws is the most important basis and factor for the success of banks and preserves their reputation and credibility, and treats them with transparency and fairness. Hence, banks need to establish a compliance monitoring function, which aims to achieve the primary purposes, the most important of which is to monitor the banks' compliance with the laws by preparing a written compliance monitoring program approved by the bank's board of directors and submitted central bank (Länsiluoto et al, 2016: 21).

Second: Estimated Budgets

Estimated budgets have a vital role in the bank's planning process and the bank's management is usually keen to implement this budget with the best possible performance. The performance of the various units in the bank as a whole is usually evaluated through the possibility of implementing the plans set, and this is recognized by comparing the actual results with the estimates set in the budget (Mawanda, 2011: 15). It is not sufficient for this comparison to take place after the end of the financial year, as this means the accumulation of deviations during a whole year, so the comparisons are made during periodic periods, to discover errors as soon as they occur and work to avoid any shortcomings at the time. sound and with the required accuracy and to convince all levels of implementation and to participate actively in its preparation (Widhiastuti and Sagung, 2019: 1510).

Third: Financial Reports

Financial reports are considered one of the most important tools used in control as the communication means between the different levels. The financial reports include according to their types, loan balances and types of guarantees, the average interest rate, analysis of the bank's revenues and expenses, and the reasons for the change in liquidity, in addition to reports related to the reserve, liquidity ratios, current transactions of the bank, activity reports and other services (Albatat and Mahmoud, 2015: 9). Among the forms of reports are the following:

1. Operational reports, this type of report support bank staff in the implementation of daily activities, as they are related to the bank's activity and the results of operations during a certain period. Since their main purpose is to help the smooth running of the operational activity and take the appropriate decision before its aggravation.
2. Planning reports are considered an important tool that helps managers to make planning decisions related to the future. They are of two types, reports related to planning processes and other planning budgets. The first type helps to make decisions related to the future, while the second type becomes the performance standards for the coming period and with its implementation, the monitoring reports begin to flow, which reflects the differences between the actual performance and those that have been set.
3. Supervisory reports, reports help to verify going operations as planned by comparing actual results and predetermined results.
4. Cost accounting reports, these reports are based on the principle of liability accounting, that is, the events that occur within the bank must be returned to the person in charge of it, that is, each person responsible for managing his department bears full responsibility in the performance of his work.

Fourth: Quantitative Indicators

Quantitative indicators are done by using the aforementioned ratios in the performance evaluation indicators, which measure the time change in banking activity from time to time (Achim and Chis, 2014: 96). The performance evaluation also is one of the bank's main objectives, and performance is one of the key factors and components on which the bank relies to measure success or failure (Umar and Dikko, 2018: 91). The performance of the bank is usually assessed based on several criteria and foundations used to measure the results achieved. The success of the task of evaluating bank performance depends on the accuracy, appropriateness of indicators, standards, and their ability to be measured and calculated to serve the desired purpose. There are a large number of general and analytical indicators that banks can use; to evaluate financial performance (Widhiastuti and Sagung, 2019: 1511).

Although each indicator in it expresses a specific aspect of performance, from the totality of these indicators, it is possible to infer the level of performance of the banks. What is required is the selection of the main, appropriate, and appropriate indicators for the bank to be evaluated (Salameh, 2019: 46).

1.1.2. The Components of Internal Control

As indicated by the Committee of Sponsoring Organizations of the Treadway Commission- COSO (2011: 90), internal control included five key elements: the monitoring environment, risk assessment, information and communication systems, monitoring activities, and monitoring, as shown in figure 1.3 below. For banks to achieve their objectives, including improving their financial performance, the five internal controls must be integrated into management processes at the bank level as a whole, such as subsidiaries, divisions, and units (Ayagre et al., 2014: 379). In their research model, Amado and Inanga (2009: 134) added and showed that measuring the effectiveness of internal control was the presence and performance of the six main control components identified by the model.

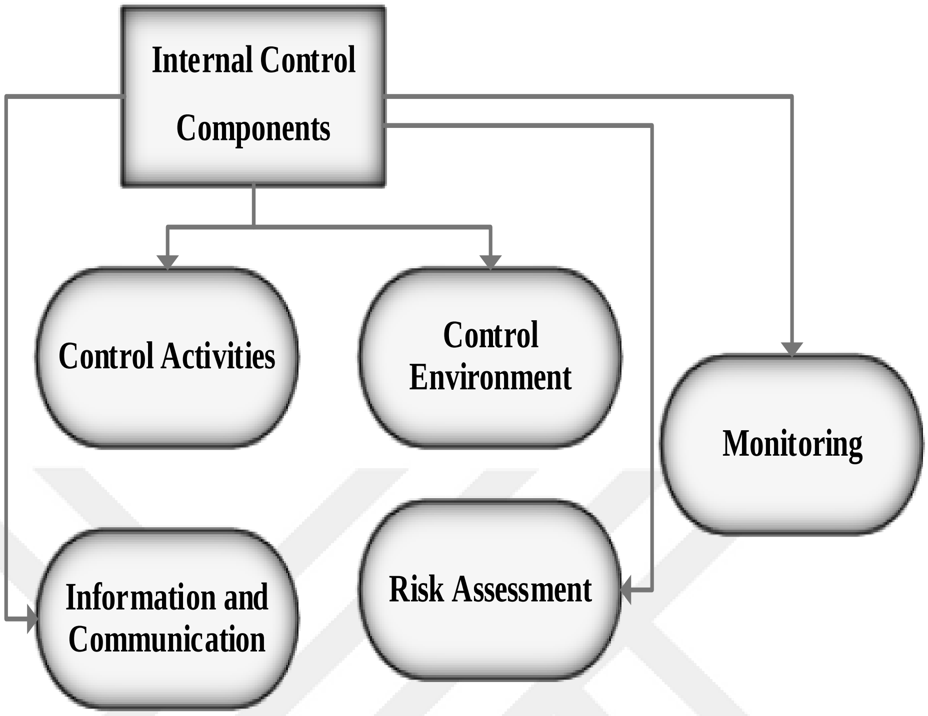

Figure 1.3: The components of internal control
Source: By the researcher based on the reviewed literature

1.1.2.1.Control Environment

The control environment determines the impact of banks on the awareness of their employees. The control environment is the basis for all other internal control components, providing discipline, and structure. Control environment factors include integrity, ethical values, and the competence of the bank's employees; the importance of integrity, management philosophy, and operating style; as well as how the Bank's management appoints authority and responsibility, the organization and development of employee awareness, the attention and guidance provided by the Board of Directors, in other words, the integrated framework for internal control (Ali, 2013: 24).

The control environment means the general situation of managers and management, their awareness and procedures relating to internal control and its importance in the organization, and the oversight environment has an impact on the effectiveness of control procedures, as they represent an umbrella for other components. A positive control environment is the basis of all standards, as it gives a system and environment that affects the quality of control systems, and is influenced by many factors, the most important of which are (Mawanda, 2011: 20):

- The integrity of management, employees, and the ethical values they maintain.
- Management's commitment to efficiency so that they maintain a certain level of efficiency, allowing them to carry out their duties, in addition to understanding the importance of developing and implementing effective internal control systems.
- Management philosophy, which means management's view of accounting information systems, personnel management, and others.
- The bank's organizational structure defines a framework for management to plan, direct and control operations that achieve the objectives.
- The banks' management style in delegating powers and responsibilities.
- Effective manpower policies in terms of employment, training, and other policies.
- The relationship of stakeholders with the bank

According to Bowling and Rieger (2005:30), the control environment ensures that bankers manage risk. The agreement reflects risk management and risk appetite. It also includes the bank's structure, board of directors, human resource policies and procedures, responsibilities, and ethical values. In addition, this component deals with the methods and manner in which internal control initiatives are implemented. A controlled environment, allows the bank to set reasonable goals and ensure that the bank has sufficient assets to look for (Länsiluoto et al, 2016: 23).

In their research, Amudo and Inanga (2009: 93) mentioned that the control environment was an awareness of oversight and an attitude towards internal control, which was built and maintained by the Bank's management and staff. They can be seen as the basis for other internal control components that provide discipline and structure. The Bank must also hold its employees accountable for their internal oversight responsibilities in pursuit of the objectives. This can be achieved through features such as powers and responsibilities, accountability through structures, evaluation of performance measures, incentives, rewards for continued importance, evaluation of individual performance and discipline, and consideration of excess pressures (Janvrin et al., 2012: 193).

The control environment is the basis of the other four components of control, and it determines the bank's style, management influences, and employees' awareness of control (Hall, 2007: 138). According to Louwers et al. (2011: 166), the elements of the control environment are integrity, ethical values, the board of directors, and the audit committee. Management philosophy and operational style, organizational structure, commitment to efficiency, powers, responsibilities, and human resources. The five principles of the control environment can be summarized based on the updated unit framework, as revealed in Table 1.1.

Table 1.1: The Control Environment Principles (CEP).

Principles	Focus
The bank demonstrates a commitment to integrity and ethical values.	- Setting management by example. - Setting standards of behavior. - Assessment of adherence to standards of behavior. - Identify fundamental deviations in time.
The board of directors demonstrates his independence of the direction and exercises oversight in the development and the interpretation of the internal control.	- Defines oversight responsibilities. - Use appropriate experience. - Work independently. - Providing oversight of internal control.
The administration, under the supervision of the board of directors, has the appropriate structures, the reporting lines, and the authorities and responsibilities in the achievement of the objectives.	- Taking into account all the structures of the bank. - Create reporting lines. - Define, assign, and limit powers and responsibilities.
The bank builds a commitment to attract, develop and retain competent people in line with the objectives.	- Establishing policies and practices. - Assessment of competence, titles, and shortcomings. - Attracting, developing, and retaining people. - Develop plans and preparations for changing and replacing individuals.
The bank holds individuals responsible for their actions in the field of internal control to achieve goals.	- Imposing accountability through structures, authorities, and responsibilities. - Determine performance measures, incentives, and rewards. - Evaluate and continuously evaluate performance measures, incentives, and rewards. - Take into account the excessive pressure - Performance appraisals and rewards or specializations individuals.

Source: Piazza. L. M. (2014). The quick reference guide, the committee of sponsoring organizations (COSO) internal control-integrated framework 2013, p39.

1.1.2.2.Risk Assessment

Risk assessment, by evaluating the risks that banks can face and preventing them from achieving their established objectives. The bank's management will be able to prepare and manage them if they occur, and since risk factors include internal risks that may arise from business policy modernization, hiring new staff, or relying on new technology, the risk assessment must be regular and scientifically based (Ayagre et al., 2014: 381; COSO 2013: 34). Consequently, any bank is exposed to many risks in carrying out its business, such as operational, legal, and other risks. It is necessary to identify and analyze these risks, determine their potential, and try to reduce their impact to acceptable levels (Fadila, 2007: 22). Internal control systems reveal the scope of the bank's risk assessment, whether internal or external, and setting clear and consistent bank targets is a prerequisite for risk assessment. Therefore, risk assessment is to identify and analyze the relevant risks associated with achieving the objectives set out in long-term performance plans (Salameh, 2019: 47).

The bank's objectives are the first step in assessing risk. The objectives are prepared as criteria used in evaluating the performance of the management, and the management should set the necessary plans to achieve those objectives, with the need for continuous reports alerting the existence of any risks related to failure to achieve the objectives. These risks may occur due to internal or external factors. It should be noted that most of the internal sources of risk can be known and identified by management, while others can only be known by external parties such as the ineffectiveness of the board of directors or the audit committee. After identifying the internal or external risks that the bank may be exposed to, appropriate measures must be taken to confront and control those potential risks (Ali, 2013: 23).

Accordingly, the bank must identify risks across the levels of the bank to achieve its objectives and must also analyze those risks as a basis for determining how to manage the risks. This can be achieved by some features which involve appropriate levels of management; division, subdivision, functional levels, and operating unit; Analysis of external and internal factors. Determine how to respond to risks, and assess the importance of certain risks (Janvrin et al., 2012: 195). The COSO committee emphasized the existence of two types of risks, namely, the inherent risks, i.e. the risks that exist before the administration takes any control measures to reduce these risks, and the second type is the residual risks, which are the risks that remain after the administration uses the control measures. So the bank estimates the inherent risks and sets appropriate control procedures for them, and then assesses the remaining risks (Romney and Steinbart, 2009: 300). The four principles of this component and the focus aspect of each of them can be clarified as shown in Table 1.2.

Table 1.2: The Four Principles of Risk Assessment

Principles	Focus
The bank sets targets enough to be able to identify and assess risks related to the objectives.	**Operations objectives:** - Reverse management options. - Taking into account the risk tolerance. - Inclusion of financial performance objectives and operations. - Forming a basis for commitment of resources. **Commitment goals** - Reversal of external laws and regulations. - Taking into account the risk tolerance. **External financial reports:** - Complies with applicable accounting standards. - Taking into account the relative importance. - Reversing the activities of the economic unit. **Internal reporting objectives:** - Reverse management options. - Taking into account the required level of accuracy. - Reverse the activities of the economic unit – internal. **Non-financial external reports:** - Complies with standards and frameworks. - Taking into account the required level of accuracy. - Reverse the unit's activities.
The bank identifies risks that prevent it from achieving its objectives and analyzes risks as a basis for determining how to manage risks.	- Includes bank, subsidiary, division, operating unit, and functional levels. - Analysis of internal and external factors. - Include appropriate levels of management. - Estimates of the significance of the identified risks. - Determine how to respond to risks.
The bank considers the possibility of fraud when assessing the risks associated with achieving targets.	- Taking into account different types of fraud. - Assess incentives and pressures. - Assess opportunities. - Assess situations and justifications.
The bank identifies and evaluates	- Assessment of changes in the external environment.

changes that can significantly affect internal control.	- Evaluation of changes in the business model. - Assessment of leadership changes.

Source: Piazza. L. M. (2014). The quick reference guide, the committee of sponsoring organizations (COSO) internal control-integrated framework 2013, p43.

1.1.2.3.Control Activities

The third element is controlled activities. These are policies and procedures that can help ensure that management orders are completed appropriately and effectively (Henderson and Media, 2016:24). In addition, oversight activities occur through the banking organization, at all administrative levels, and in all functions. They include a range of activities, such as licenses, approvals, controls, review of operational performance, resource security, and separation of duties (COSO, 2011: 96).

Control activities express policies and procedures that help ensure that management instructions are carried out correctly and on time (Rittenberg and Schwieger, 2001: 184). Control activities are related to operational control and compliance control. Operational control activities are concerned with evaluating performance at all administrative levels by measuring actual performance, comparing it with planned performance, taking corrective actions, as well as following up on operating reports within each department (Widhiastuti and Sagung, 2019: 1509).

In this regard, Bodnar and Hopwood (2004: 117) classified control activities into the organization's plan for the separation of duties is to reduce the capabilities of employees to cover and disguise abuses and errors committed within the normal context of the tasks performed. It includes the separation of the following duties:

a) Separate the possession of assets from the accounting for them.
b) Separate the authorization of transactions from the possession of assets.
c) Segregation of duties in the context of automated data processing.
d) Implementation of information processing controls to check the accuracy, completeness, and correct authorization of each of the transactions.

The report of the COSO committee concerned control of information systems in light of data automation, whether it is general control or control over applications, as well as oversight related to protection from unauthorized use. Romney and Steinbart (2017: 215) categorized control activities into the proper delegation of activities and operations, separation of duties, control of the development of economic units, change of administrative control, design and use of documents and records, protection of assets, records and data, independent auditing of performance. The COSO committee and audit Standard 94 (SAS. NO. 94) have defined control activities as being focused on the following five categories of control activities (Arens et al., 2012: 318):

1. Adequate separation of duties.
2. Adequate declaration of financial operations and activities.
3. Appropriate documents and records.
4. Physical control over assets.
5. Independent performance tuning.

As for the principles that have been added to this component within the updated COSO framework, and the aspects of focus for each principle, shown in Table 1.3.

Table 1.3: The Control Activities Principles

Principles	Focus
The bank selects and develops oversight activities that contribute to reducing risk to acceptable levels and meeting targets.	- Integration with risk assessment. - Taking into account the factors related to the bank. - Determine the appropriate processes. - Evaluation of a mix of types of control activities.
The bank selects and develops the general technology of oversight activities to support the achievement of the goals.	- Determines the dependence between the use of technology in bank processes and technology. - Establishment of appropriate technical infrastructure monitoring activities. - Establishing control activities on the security management process. - Prove appropriate technology acquisition, development, and maintenance.
The bank is used or deployed in practical control activities through policies that determine what is required, and through procedures that make policies effective.	- Develop policies and procedures to support the dissemination of management guidelines. - Defining responsibility and accountability for implementing policies and procedures. - Performance promptly. - Take corrective action. - Performing with the use of competent personnel. - Re-evaluate policies and procedures.

Source: Piazza. L. M. (2014). The quick reference guide, the committee of sponsoring organizations (COSO) internal control-integrated framework 2013, p47.

1.1.2.4.Information and Communication

Information is the way to identify urgent tasks, as well as determine the extent to which employees are committed to their responsibilities, also maintain communication channels to obtain various reports regularly to identify the variables that can push banks to make different decisions related to work, following up on periodic financial reports helps to detect bank activities, profits, and therefore take the necessary measures to modify them (Ali, 2013: 29).

Information and communications can reduce the risk of fraud in two ways, first, by reducing the possibility of fraudulent concealment using the accuracy of information and integrity, and therefore the person who commits the fraud cannot have the opportunity to hide it for a long time. Second, active and open communication accredited to the bank helps to detect and prevent the possibility of fraud in advance (Hayali et al., 2013: 11). For internal oversight to be effective, appropriate and timely information must be available, and the required information created from the information system must be determined, and this requires data and reports (Konrath, 2002: 210):

1. Obtaining external and internal information and providing managers with the necessary reports on the performance of the organization's management and related to the specific objectives.
2. Providing information to the beneficiary parties in appropriate detail and on time to carry out their responsibilities efficiently and effectively.
3. Developing or modifying the information system if required.
4. Supporting the management of the economic unit to develop the information system if this is proven by committing to the appropriate sources.

In the same regard, Konrath (2002: 210) also noted that these elements included the requirements of internal and external information, the production of financial reports depends on the information system. For this reason, the elements of the information system have a direct impact on the financial report through a set of control objectives. The basic elements of a sound information system are as follows:

- Determining the information.

- Get information.
- Information processing.
- Report information.

The information must be recorded and communicated to the management and to those who need it within the bank in a form and a time frame that helps them to carry out internal control and other responsibilities. So that the bank can work and monitor its operations and make appropriate and reliable communications in the appropriate time concerning internal and external events. As for communication, it is effective when it includes the flow of information from top to bottom or vice versa in a horizontal manner. In addition to the bank management making sure that there is appropriate communication with other external parties that may have an impact on the bank in achieving its goals, and the need for effective management to purify important information to achieve the best communication (COSO, 2013: 27).

The bank's information systems also are among the valuable assets that need to be protected against the possibility of free access or access to it by unauthorized persons, to review records and disclose information, and avoid the risks of using not being responsible for this information (Widhiastuti and Sagung, 2019: 1511). The management is responsible for understanding and comprehending the extent to which the bank relies on automated information, and that is to determine the value of that information and to establish the appropriate control system. That each bank pays attention to studying the appropriate controls, and their costs, to achieve the supervisory objective effectively (Mozjat et al., 2020: 149).

As for communication, control over financial reports requires setting clearly defined duties for employees responsible for implementing control procedures, and that these employees need to know how control works, their tools and responsibilities in this system, and the importance of performing the tasks entrusted to them consistently and effectively, as well as their need for a clear job description. and accounting manuals and manuals of policies and procedures, as well as training programs for them to achieve communication. As for the principles that have been added to this component and the aspects of focus for each of them, they can be clarified as shown in Table 1.4.

Table 1.4: The Information and Communication Principles

Principles	Focus
The bank obtains or generates relevant high-quality information to support the work of other internal control components.	- Determine the required information. - Identifying internal and external sources of data. - Appropriate processes for converting data into information. - Maintaining quality in all processing operations. - Take into account the costs and benefits.
The bank internally communicates information, including the objectives and responsibilities of internal control, necessary to support the work of other elements of internal control.	- Transfer of internal control information. - Communicate with the board of directors. - Providing separate lines of communication. - Choose the appropriate method of communication.
The bank deals with third parties on issues affecting the work of other elements of internal control.	- Communications with external parties. - Receive incoming communications. - Communication with the board of directors. - Providing separate lines of communication. - Chooses a suitable method of communication.

Source: Piazza. L. M. (2014). The quick reference guide, the committee of sponsoring organizations (COSO) internal control-integrated framework 2013, p49.

1.1.2.5.Monitoring

System control, as an element of internal control, assesses the quality of performance each time and ensures that audit results and other audits are handled directly. Make sure audit results are implemented quickly and within a specified time frame (Fatlawi, 2018: 3048). In this context, internal control systems and the implementation of controls change over time. This may be due to the arrival of new staff, the different effectiveness of the implementation of procedures or supervision, the lack of time and resources, or changes in the circumstances for which the internal control system was originally designed (Gamage et al., 2014: 27).

The bank's management should focus on monitoring internal control efforts and reaching the bank's objectives. Monitoring should therefore be carried out regularly to assess the design process, operational procedures and controls to be taken covering the quality assessment of internal control. Continuous follow-up of the internal control system and the discovery of deviations required to achieve the bank's objectives (Hayali et al., 2013: 11).

Monitoring aims to determine whether internal control is effective, properly applied, and adequately designed. The purpose of internal control is to design and apply internal control appropriately if all five internal control components exist and operate as designed (Ofori, 2011). Finally, the ability of banks to identify risks that may occur due to some changes within the Bank, particularly among employees, and the ability to provide continuity of internal control over time, should be monitored (Hayali et al., 2013: 12).

In recent years, interest in the fifth element of internal control has increased. In 2009, COSO issued guidance on monitoring internal surveillance systems, as an integral part of its framework, which means guidance on monitoring surveillance systems in the eastern region, as an essential part of its framework, and oversight. Monitoring is a process by which the quality of internal control performance is assessed over time to provide a reasonable guarantee that the bank's objectives will be achieved and activities monitored when risks change. Includes effective monitoring (Messier et al., 2010: 195):

i. Defining a basic criterion for the effectiveness of control.
ii. Design and implement follow-up procedures based on the importance of business risks related to the objectives of the bank.
iii. Evaluation and reporting of results, including follow-up of corrective actions.

In addition, two forms of follow-up can be distinguished between them (Vaassen et al., 2009: 36):

a) Ongoing activities.
b) Discrete assessments at a specific point in time.

Within the updated COSO framework, two new principles were added. These principles and aspects of focus for each of them can be clarified as shown in Table 1.5 below.

Table 1.5: The Monitoring Principles

Principles	Focus side
The bank selects, develops, and conducts ongoing and/or separate assessments to ascertain whether internal control elements exist and are effective.	- Considering a combination of ongoing and discrete assessments. - Take into account the rate of change. - Establishing a baseline of understanding. - Uses knowledgeable staff. - Integration with banking processes. - Adjust range and frequency.
The bank assesses the shortcomings of internal oversight and immediately reports them to the parties responsible for taking corrective action, including senior management, and the board of directors, as needed.	- Evaluate the results. - Communicate or publish deficiencies or defects. - Monitoring corrective actions.

Source: Piazza. L. M. (2014). The quick reference guide, the committee of sponsoring organizations (COSO) internal control-integrated framework 2013, p49-50.

1.1.3. Internal Control Objectives

The internal control has several objectives to be achieved, including protecting the bank's assets, ensuring the accounting accuracy of the data recorded in the books, so that it can be relied upon before making any plans, maintaining the current performance level, and detecting any deviations from this sudden change in the progress of any future work trends. Or in the level of performance in a way that is reflected on costs, control over the use of available resources, increase the efficiency of the bank's productivity, establish a system of authorities, responsibilities, define competencies, good selection of people, training and human relations, defining operational procedures, regulations, and instructions, working in a way that ensures work (Tayeb, 2018: 151).

Objectives of the internal control aimed to benefit from establishing an internal control system for the bank. However, the question is how does the bank or company benefit from its control system? The answer lies in the security that the system provides to the owner or employers from theft and fraud. Whether external or internal, reducing errors at work, and facilitating workers' access to data and work tools that help them improve performance (Socol, 2011:398).

Thus, increasing productivity and increasing the success of the bank in general. Internal control is the bank of financial and administrative information. It is also of great importance for public companies to maintain internal controls, especially concerning financial matters. This information on financial reports is important for investors, and it helps prove the integrity of the bank’s financial statements and its proper management (Gaban and Mustafa, 2010: 5). The International Institute of Internal Auditors, in 2011, set the objectives of the internal control system, which are:

First: Controlling the bank: by maintaining the management of the bank’s business regularly and permanently, ensuring the implementation of the programmed plans, the achievement of the objectives set by the directorate, and specific laws. Managing the bank’s business regularly necessarily leads to the achievement of its stated objectives (Mawanda, 2011: 31).

Second: By protecting the bank's assets from theft, embezzlement, or loss in the long term and contributing to its development. Thus, the bank is required to manage its loan portfolio as it is an essential component of its assets (COSO, 2013: 38).

Third: Ensuring the quality of information: The bank's management needs certain, complete and continuous information as the basis for decisions, as an internal control system ensures as much as possible the validity and credibility of the recorded information and reduces errors, and fraud (Abdul Aziz, 2014: 29).

Fourth: Ensuring the proper implementation of the management’s instructions and directives: The managers determine the strategy, objectives to be reached, provide the necessary resources, and make sound decisions to ensure the bank’s survival and development. While the other users carry out operations and coordinate between the various interests, and some of them supervise others (Abdul and Mohamed, 2010: 6). Internal control ensures that they work for the bank and that they respect the specific policies and procedures, the laws, and the bank’s internal system (Fakunmoju et al., 2020: 37).

To achieve this, two types of control must be available, such as pre-controlling, which seeks to ensure that the objective of developing policies and procedures is clearly defined, appropriate, understandable, and directed to qualified personnel for its proper implementation. The second is post-control which aimed to ensure that the specified policies, procedures, and laws are implemented by conducting training sessions routine oversight by internal auditors to give assurances about the extent of users' commitment to actual implementation for what is predetermined.

Fifth: ensuring the optimal and effective use of the bank's resources. This is demonstrated by improving the level of performance and managing the bank's business most efficiently and effectively possible, and working to reduce the risks associated with its activity. The internal control system must be able to alert officials in cases of low bank effectiveness (Widhiastuti and Sagung, 2019: 1508).

All banks strive with all their capabilities to reach rapid growth rates while ensuring survival and continuity, and therefore they must take the necessary measures to avoid the risks that may oppose them, the risks posed by the internal and external environment. Hence, banks must build an internal control system that depends on specific criteria in the form of a plan that responds to the reality of the bank within its surroundings, to compare the results with them and measure performance to ensure that it conforms to the drawn plans and corrects it if a deviation is proven. The internal control system in this perspective will make the bank alert and ready to face threats and dangers, and this is within the framework of its available capabilities to achieve its set goals (COSO, 2013: 37).

1.1.4. Internal Control in Banks

The internal control in banks emerged as a result of a scandal that was first revealed in the United States of America in the seventies of the last century. When the US Congress adopted a law called the foreign corrupt practices act, which obliges American institutions to set up internal control systems to help them control the risks they face, then the use of internal control spread to European countries (Gamage et al., 2014: 28; Udoayang and Ewa, 2012: 34). Basel II committee on banking supervision (2006), along with banking supervisors around the world, has increasingly focused on the importance of effective internal controls. However, the authors stressed the need and importance of internal control in the banking system.

In this context, Rittenberg (2013: 23) indicated that the internal control system guarantees that help control the banks and companies to achieve the goal of ensuring protection, maintaining assets, quality of information, applying the directorate's instructions, and improving performance. This is highlighted by the organization and application of the methods and procedures of the institution's activities to maintain the permanence of the aforementioned elements. Since the banks and financial institutions, which are the lifeblood of economic activity, due to their important role in mobilizing savings and providing the necessary support for investment projects, which requires an effective and sound internal control system that encompasses various administrative, accounting, and financial aspects, to ensure the stability of the banking system and the economic system in general (Länsiluoto et al., 2016: 17). The internal control system of any bank and company is the first line of defense that protects the interests of shareholders and all parties related to the bank and the company. Thus, it is the system that protects the production of financial information that can be relied upon to make sound investment and credit decisions (Fakunmoju et al., 2020: 39).

In their research, Hayali et al. (2013: 13) showed that banks' internal control activities are adapting to international standards in Turkey and that there are effective control measures in the banking system. The research also showed that appropriate internal control mechanisms have a significant impact on the strong and stable prospects of the Turkish banking sector. Internal banking control is an effective system to ensure that banks manage their financial activities effectively and efficiently and have a reliable financial reporting system, through applicable laws and regulations. A successful internal control system is not built-in banks overnight but is an ongoing process of controlling the internal business of banks. Many banks summarize internal control systems in operational evidence and evidence so that employees can easily refer to their policies (Umar and Dikko, 2018: 92).

In this regard, banks are the backbone of a country's economic system, as the banking system is one of the most important pillars of economic systems of all kinds and types. Whatever the capitalist, socialist or Islamic, it can rise without a banking system that accumulates savings and pumps them into the body of the national economy. Banks must therefore develop procedures to ensure that the bank's performance, financial position, and obligations are provided to appropriate management levels on a regular and timely basis (Udoayang and Ewa, 2012: 29).

According to Kumbirai and Webb (2010: 36), financial institutions, including commercial banks, are important institutions on which to base the economies of countries. The Bank is the effective unit for economic development, achieving certain objectives by developing banking methods and procedures, using financial and human resources (Alrgaibat, 2016: 92). Banks continue for longer and more effective ways, by creating systems and methods that help the bank's continuity, risk response, and even dedication, including internal oversight, which is one of the most important new issues of importance for good bank management (Kumbirai and Webb, 2010: 37).

Where internal control is a tool to improve the performance of commercial banks as well as improve their profitability, and the importance lies in discovering risks and weaknesses and thus identifying their causes and trying to eliminate them so as not to hinder the activities of banks and those by following appropriate procedures and choices (Gamage et al., 2014: 32). Furthermore, the complete internal control of banks is a professional system that cannot be ruled out or abandoned regardless of the technological development used by the bank. There must be a member of staff dedicated to carrying out the oversight process, and the work of the employees must be followed up to make sure that they are doing the work required of them correctly (Umar and Dikko, 2018: 93).

1.1.5. The Importance of Internal Control for Banks

The importance of internal control in banks stems from the importance that characterizes the banking system in particular and the financial sector in general. This sector is considered the most sensitive economic sector to economic and financial changes and the most developed. Since banks play an important role in financial intermediation by receiving deposits and using them for lending, investment processes, and other processes that contribute to the growth of the national economy (Nimalathasan, 2008: 146). Recent years have seen many positive developments such as the use of modern technology in the banking industry, particularly electronic banking, Internet use, credit and debit cards, and instant transfers (Gamage et al., 2014: 33).

The banking system has also witnessed great openness at the international level, and the degree of this openness is expected to increase with the implementation of the

General Agreement on Trade in Services (GATS), whereby financial services represent one of the most important axes of this agreement (Samriraay, 2016). Despite the positive developments that the banking system has witnessed at the international level since the beginning of the last decade, banks have also witnessed crises that afflicted the economies of some countries (Suhail, 2007: 31).

Hence, the issue of supervision of banks with their various tools has taken on special importance, in comparison with the control of other economic activities, due to the important role that banks play in building the national economy, and the interest in internal control was not limited to banks control one country without another. As the most economically powerful country, the United States of America, which has formed a governing council to monitor the adequacy of the internal control system in banks operating within its borders and periodically headed by the general accounting office. In its report on working capital adequacy (bank adequacy), the Basel Committee referred to the role of banks in building the national economy as follows (Basel, 2010):

a) Converting savings in the national economy into investment loans, thus contributing to transforming the process of economic development.
b) Banks play a role in determining the amount of money within the legislative framework determined by the monetary authorities, such as the mandatory reserve ratio, through the activities of lending banks.
c) Banks in the developed financial markets have become a source of innovation, about the available financial tools and modern technical methods to direct savings.

SECTION 2: ASPECT OF THE FINANCIAL PERFORMANCE OF BANKS

In this section, we dealt with the aspect of the performance of banks. Since the performance of banks reflects the applied dimension of the overall activity of the banks and organizations. Hence, there are several points of view that dealt with the concept of the performance of banks. Performance is also reflecting how banks use their resources and the way they interact with their environment. Besides addressing the concept of the performance of banks, we also deal with indicators of banks performance, the measurement of bank performance, the importance of evaluating the performance of banks, in addition to banking institutions, and the banking sector in Iraq.

2.1. THE CONCEPT OF PERFORMANCE OF BANKS

In general, performance is represented in effectiveness and productivity, for effectiveness determines the level required to achieve the goals, while productivity compares the results obtained with the means used. The effectiveness also means the degree to which the goal is reached. Productivity is efficiency, as some researchers believe that productivity is a criterion and indicator by which the performance of the productive function can be measured (Dadden and Hafsi, 2014: 17).

Performance is accomplishing an activity or carrying out a task, meaning doing an action that helps to reach a goal. Performance is also the practices carried out by the organization, which are expected to be against the objectives set (Kotane and Kuzmina-Merlino, 2012: 211). Performance is a sequence of behaviors and practices that lead to the achievement of established goals. It reflects how banks and organizations use financial and human resources and use them efficiently and effectively.

The performance of banks is also defined as a function of indicators, characteristics, and the choices of the bank managers. Some authors see that performance of banks represents the desired results that the bank pursues to achieve. The factors related to it, so the bank performance represents the continuous holistic activity that reflects the success of it, its continuity, and its ability to adapt to the environment or its failure and contraction according to specific foundations and standards set by the bank under the requirements of its activity and in the light of long-term goals (Ali,2013: 47).

Performance is also known as the real sensor that gives a picture of the functioning of the bank and is useful in answering the need to reconsider the message to the last episode of policies, programs, budgets, and everything related to the planning process and achieve for the bank the strategic position not only at the level of the internal environment and the mission environment but in terms of the external environment as well (Tayeb, 2018: 153). The fields of business performance including banks have been identified in specific fields represented in the financial performance, operational financial performance, and organizational effectiveness.

Financial performance is linked to the financial aspect, a description of the bank's situation now and identifying the trends it has used to reach this situation by studying sales, revenues, assets, and liabilities, and used to measure its financial ratios and indicators such as liquidity, profitability and other ratios that allow the bank to know its strengths and weaknesses as well as its position in the market compared to competing banks (Yayla, 2006: 22).

Financial performance is defined as the extent to which activities contribute to creating value or are effective in using available financial resources, by achieving financial goals at the lowest financial costs. The planned financial goals are only achieved by integrating all activities within the bank, and this leads to the optimal utilization of the available financial resources (Dadden and Hafsi, 2014: 18). Financial performance is also considered as the banks' success in exploiting all the resources available to it from the material, human capital to the best use and achieving the objectives set by the bank management. Effective financial performance can be achieved through the bank's optimal utilization of its resources, and this leads to the achievement of its goals set by the management (Essam, 2012: 24).

Financial performance is also represented in the institution's ability to achieve its financial goals at the lowest possible cost, that is, to achieve a financial balance and provide liquidity to pay off its obligations and achieve a good rate of return at the lowest cost. Thus, the banks’ financial performance is characterized by the bank’s ability to reduce its costs and increase revenues to fulfill its obligations (Tali, 2012: 80). It is believed that financial performance is a mechanism that enables the effective mobilization and use of the bank resources effectively, such as reducing costs and raising returns.

The significance of banks' performance is that it reflects the ability of banks to achieve acceptable results in achieving and meeting the demands of interested groups in banks. As it represents the extent to which it can accomplish a task or achieve a goal with superiority, and in other words, it represents the final result that aims at the banks to reach it. Thus, the performance of the banks is the sum of all operations carried out by the banks, and any defect in any of them must be indicated by performance (Dadden and Hafsi, 2014: 19).

The operational financial performance is combined financial and operational performance, which represent the efficiency aspect, which is based mainly on the trend towards the best use of available resources and in areas that give the greatest returns. This area examines operational indicators and measures such as market share, the introduction of new services, the quality of services and products, the effectiveness of marketing processes, and other measures related to the level of performance of all banking operations, which shows management the true picture of performance that financial indicators cannot disclose (Mary, Albert, & Byaruhanga, 2014: 66).

The performance related to bank effectiveness is referred to the ability of the bank to achieve its goals by predicting the internal and external problems that it will face in the future, adapting to them, and developing appropriate solutions for them. It also refers to the human decision about whether the bank is adequately performing its work, and this decision becomes a basis for fundamental organizational change. When effectiveness is not satisfactory, change becomes necessary. Specialists agree that bank effectiveness is an evaluation method for measuring the performance of banks in important aspects to determine their success in achieving their set goals (Tayeb, 2018: 157).

2.1.1. Indicators of Banks Performance

Mainly, the performance includes three specific areas of a bank and organization’s outcomes, which are the financial performance, the product or services market performance, and the shareholders' return (Richard et al., 2009: 734). Financial indicators are among the necessary tools in the evaluation of a bank's performance and process if they are used accurately and their results are published carefully. As they show the relationships existing between the numbers included in budgets, lists of banking results and these educations are used to obtain various indicators of bank efficiency in carrying out its work and its ability to achieve profits, facing obligations and the level of activities (Kotane and Kuzmina-Merlino, 2012: 209).

Normally, the financial function is looking for a sound methodological basis to evaluate the effective and efficient use of funds in banks and financial institutions to achieve the desired long-term financial goals (Ali, 2016: 15; Achim and Chis, 2014: 97), through appropriate information, a scientific and practical method of analysis in building indicators. Evaluating the financial performance of the banks means providing a decision on the bank management (Alrgaibat, 2016: 90).

That is, evaluating financial performance is measuring the achieved or expected results in the light of determined criteria to decide what can be measured. And then the extent to which the objectives are achieved to determine the level of effectiveness, and to determine the relative importance between the results and the resources used (Dadden and Hafsi, 2014: 19).

The financial statements in their abstract numerical form are considered as devoid of any meaning for the evaluators, but they are the primary material for conducting analyzes on them and linking numbers to each other. The goal lies in calculating the indicators; issuing decisions, comments, and a full explanation about the financial structure of the bank, as the index loses its content without comment, and the automated means has contributed to the completion of financial ratios, which makes the analyst’s effort focus only on giving explanations and interpretations (Kumbirai and Webb, 2010: 36).

Indicators of banks performance are the keys to inference for the financial analyst and to explore the ambiguous situation and the underlying conditions. To reach a sound interpretation that allows those interested, through the deductive or inductive method, to be spread to areas that need further research and investigation (Tali, 2012: 13). The inspection of indicators enables the detection of relationships, as well as the bases of comparison that show conditions and trends that are not monitored. From exploratory the individual components of an indicator, and because like other analysis tools with a future orientation, it requires the interested person to have the competence that enables to examine the relationships and ratios to perceive if they fit with its shape and potential size in the future, and therefore the feasibility of financial indicators depends in its interpretation on the intuition and skill of the assessor (Tayeb, 2018: 155).

2.1.2. The Measurement of Bank Performance

The bank performance evaluation is intended to measure the performance of the activities of the bank as a whole based on the results achieved at the end of the accounting period, which is usually one calendar year. As well as knowing the reasons that led to those results and proposing the necessary solutions to overcome those negative results to reach good performance in the future (Rasheed, 2005: 2).

The bank performance measurement is realized as operations and studies that aim to determine the level of the relationship between the available resources and the efficiency of their use by the bank management, with a study of the development of the mentioned relationship during successive periods or a specific time by making comparisons between the target and the achieved goals based on measurements and certain standards (Umar and Dikko, 2018: 91). It is also known as the tool that is used to identify the bank activities to measure the achieved results and compare them with the set goals to identify deviations and diagnose their causes while taking the necessary steps to overcome those deviations (Tayeb, 2018: 156).

The bank performance assessment consists in requesting to identify the level of implementation of the various activities. Principally, to reach the required and effective steps to raise the efficiency of the use of bank resources by reducing loss, achieving goals with a greater degree of effectiveness, and developing proposals that address deviations and extravagance. In order to direct the performance of the bank towards achieving more efficiency, effectiveness, and economy. This is achieved by linking the results of bank activities with the goals and objectives that are supposed to achieve. Therefore, measurement of bank performance is an essential step at the level of the control process, and its essence is related to the process of comparing actual performance with the indicators specified in advance (Widhiastutiand Sagung,2019: 1510).

In this regard, Tali (2012: 8) mentioned that the emergence of banks and organizations is a response to environmental needs that may be economic, social, or political, and as it is known in business organizations; its message is sure to be expressive of those needs through goals, and of course, the bank financial operates in an environment characterized by change and this requires adaptation through a certain direction of performance that embodies adaptation depending on the group of bank activities that do not lead to any useful results unless integrated concerted with each other. This is because strategic integration in management orientations is considered an essential condition for efficiency, effectiveness, and compensation for cases of dispersion, conflict, and lack of coordination between policies and decisions (Kaplan, and Norto, 2001: 89).

If the management represents a system of integrated processes related to environmental analysis, the formulation, implementation, and evaluation of strategies; Monitoring, and evaluating bank performance is achieved by looking at the bank as an integrated system consisting of an interactive structure of functional systems (Suhail, 2007: 12). Therefore, the banks' performance measure is achieved by defining the role of each system in creating a specific value for the bank and following up on the value-added chain that has a direct impact on providing opportunities for enhancing overall financial performance (Rozzani and Rahman, 2013: 37).

Since the bank depends on amounts of the human element, material, and informational resources, which are characterized by relative scarcity, which requires striving to secure these resources as requirements without which performance cannot be achieved. So, it is necessary to be rational in use by achieving the maximum benefit from the resources and at the lowest cost. Considering the quality requirements and financial performance conditions, and in this context, the role of performance measurement comes to verify this. In other words, the efficiency of the bank is one of the directions of performance evaluation (Mary, Albert & Byaruhanga, 2014: 665).

The limitation to verifying the efficiency of bank performance makes the evaluation process specified in the context of the use of resources. While the goal of the bank is not directed towards the use of resources only. Although resources are nothing more than a means to be governed to achieve the desired goal. It is, therefore, necessary to know the extent to which each activity generates in the course of the performance of activities to create added value in pursuit of the objectives, i.e., the effectiveness of those activities (Widhiastuti and Sagung, 2019: 1515).

2.1.3. Types of Measurement of Bank Performance

The bank performance measurement is one of the effective management's means to verify the extent to which the planned objectives of the bank have been achieved and a tool for detecting deviations and returning them to the responsible authorities. This indicates the level of performance achieved or accomplished by the bank and the efficiency of using the resources available to the bank in reaching the required levels of banking services. Accordingly, the bank performance evaluation process is not viewed in the abstract, but rather within the framework of the overall process of the entire activity in the bank. In light of this, the following types of bank performance evaluation can be identified (Kaplan and Norto, 2001: 94):

A. Planned Performance Evaluation

This type of evaluation is intended to measure the performance of the bank to the extent to which it achieves the planned goals. Through comparing the indicators mentioned in the plan and the established policies with the actual indicators and according to periodic time scales. Such as monthly, quarterly, or annually, and perhaps for medium-term periods (3-5 years). These comparisons show the extent of development in the actual performance of the banks' activities and clarify the deviations and errors that occurred in the implementation process. With an explanation of the causes and the necessary treatments for them (Achim and Chis, 2014: 95).

Regarding the need for the evaluation process to consider the circumstances that surrounded the bank plan during the period between its preparation and its implementation at the beginning of the relevant fiscal year. Since this period is not short, there may be changes and changes in the economic, social, and political conditions that directly affect the reality of the planned goals (Ahmed and Gábor, 2012: 646).

B. Actual Performance Evaluation

This evaluation is proposed to measure the efficiency of the available resources, both material and human, by comparing the actual numbers to each other to identify the imbalances that occurred and indicate the degree and level of performance in employing these resources in the services or production process. Through the seasons of the year mentioned, and in light of what is revealed by the standards and analytical ratios adopted in the banks and companies, it is also necessary to compare these indicators with the actual numbers of previous years in the same unit as well as compare them with the results achieved by similar economic units during the relevant fiscal year and previous years as well (Ali, 2016: 27).

C. Standard Performance Evaluation

The standard performance evaluation is aimed to compare the actual results with the standard values, and this takes two types of comparison. The first either is done by comparing the results achieved by the bank for its various activities such as services sales, profits, and value-added with standard results that had been developed to be a measure for determining whether the actual results were satisfactory or not. As for the other (type) level of comparison, it is done by comparing the actual ratios and rates with the normative ratios and rates, such as the liquidity ratio, investment return, wage productivity, sales rate (Chander and Chandel, 2010: 64).

D. Overall Performance Evaluation

This type of performance evaluation requires the inclusion of all aspects of the activity in the bank and the use of all planned, actual, and standard indicators in the process of measurement and distinguishing between the importance of one activity and another. Through giving weights to the bank's activities. For instance, the volume of service and production gives a higher probability over the rest of the activities, or the profitability of the bank may give this probability or the return on investment. Mainly by using these probabilities and indicators of planned, actual, and standard results, the degree of the comprehensive evaluation of the performance of the bank is reached (Dadden and Hafsi, 2014: 22).

2.1.4. The Importance of Evaluating the Performance of Banks

The performance evaluation process is defined as measuring the performance of the banks and companies' activities, which are combined based on the results achieved at the end of the accounting period. In addition to knowing the reasons for the results. The performance evaluation process is also intended to measure and compare the work done with what should have been done by the pre-prepared planning (Campbell, 2007: 30). The performance evaluation is of great importance to all types of banks and companies in the current period due to what the world is witnessing rapid changes and the bankruptcy of several major banking institutions (Apergis et al., 2011: 691).

The performance assessment at banks aims to measure efficiency in the use of the resources available to them and to assess the different performances from one bank to another (Alrgaibat, 2016: 93). This is following the purpose of the valuation and the quality of its beneficiaries, where depositors focus on liquidity, and shareholders focus on profitability, which makes the issue of performance evaluation increasingly important (Chander and Chandel, 2010: 64).

Banks' performance evaluation is a comprehensive process in which all accounting and other data are used to determine the financial condition of the bank and to determine how its resources were managed during a certain time. A statement of the extent to which those results are consistent with the objectives set for estimating the level of performance effectiveness. It also compares the input elements of the activity with its outputs to ensure that the performance of the banking activity has been carried out with a high degree of efficiency. However, banks use different means, methods and consider specific criteria, which allows, helps in judging the effectiveness and efficiency of the bank (Ali, 2016: 11).

Furthermore, the internal control system is not only a focus of procedures or the development of a particular organization but also a process that is carried out by persons in the course of their work at all administrative and executive levels in the bank. Hence, the existence of an internal control system gives sufficient assurance to achieve the established objectives, but not absolutely; the existence of an internal control system cannot be miscalculated by a bad path or decision or any external event that leads to the bank's failure to achieve its objectives (Campbell, 2007: 31).

The internal control system does not necessarily have to be effective or lead to identify and control all risks, where the bank may encounter certain imbalances that reduce the effectiveness of the system, for example: establishing insufficient reference procedures or not communicating them to all users; unfamiliarity with the automated control processes that facilitate the supervision of oversight; inconsistent application of controls built into procedures. Also, the presence of collusion among many individuals to carry out an operation (Alrgaibat, 2016: 93). Furthermore, the importance of evaluating the performance of banks also embodied in the process that aimed to achieve the following:

1. Determine the level of achievement of the bank compared to the goals included in its production plan.
2. Detecting defects and weaknesses in the activity of the bank and conducting a comprehensive financial analysis of them and stating their causes, to develop the necessary solutions and correct them and guiding the implementers to ways to avoid them in the future.
3. Determining the responsibility of each department in the bank for the shortcomings and weaknesses in the financial activity it undertakes by measuring the productivity of each section of the financial process and determining its achievements, negative or positive, which would create competition between the departments towards raising the level of the bank performance.
4. Determine the efficiency of using the available resources in a rational manner that achieves a greater return at lower costs and with good bank services quality.

5. Facilitating the achievement of a comprehensive performance evaluation at the level of the national economy, based on the results of the performance evaluation for each project, industry, and sector, to reach the required comprehensive evaluation.
6. Correcting the planning finances and setting their indicators on the right track in a way that balances the ambition and the available possibilities. As the results of the bank performance evaluation constitute a large information base in the formulation of scientific and practical policies and plans that are far from moods and unrealistic estimates.

2.2. BANKING INSTITUTIONS

In general, banks are financial institution, which facilitates the financial transactions of customers, saving, and operating funds. Banks grew up and developed in Europe over 400 years, but when they moved to Muslim societies, they faced rejection, as the nature of their work violated the rules of Islamic dealing in several respects, the most important of which is dealing with riba (interest), in addition to many other detailed aspects (Saleh & Zeitun, 2006: 11; Samad, 2004: 6).

The bank is set of material, moral and human means and then organizes them effectively by dividing the tasks and responsibilities among its employees clearly and soundly while defining the methods and procedures that users must apply to achieve its goals related to ensuring the safety of workflow within it and protecting its assets. In addition to ensuring the availability of accurate, correct information and to ensure the optimal use of the bank’s resources, with the obligation to respect the legal, regulatory provisions, the general policy, and the internal procedures of the bank and to manage its business courteously. Therefore, reducing the risks associated with banks’ activity (Samad, 2004: 6).

Islamic banks or Islamic banking means the banking system that is compatible with Islamic Sharia. The interest that banks pay on deposits or that they take on loans comes under the rule of usury, which is considered a major sin. The first Islamic bank was established in Dubai in the early seventies of the last century, and then many Islamic banks were established after that, which amounted to about 500 banks all over the world, the most famous of which is Faisal Islamic Bank and Dubai Islamic Bank. Islamic banks have become an influential and prominent player in the economy of Islamic countries, which explains the great spread and growth until it has become a reality not only in the Islamic nation but also in the rest of the world (Safiullah, 2010: 201). In their research, Jaffar and Manarvi (2011: 65) showed that Islamic banks in Pakistan are superior to commercial banks concerning liquidity and sufficient capital.

The Islamic bank is a banking institution for collecting and utilizing funds within the scope of Islamic law in a manner that serves the building of the Islamic community of solidarity, achieves distributive justice, and puts money in the Islamic path. Islamic banks are developed investment financial institutions and aim to raise funds and optimize the use of their resources under Islamic law to build an Islamic society of solidarity. The Islamic Bank is also a monetary financial institution that brings cash resources from members of society and uses them under Islamic law to ensure their growth and achieve the goal of economic development and social progress of Muslim peoples and communities (Samad, 2004: 6).

Commercial banks are those banks that accept deposits, pay on-demand or for, carry out internal and external financing operations and services to achieve the objectives of the development plan and support the national economy. Besides commercial banks undertake the process of developing savings and financial investment, including contributing to the establishment of projects (Chander and Chandel, 2010: 63). Thus, commercial banks are the significant components of the banking system as they are vital sources of financing economic sectors. Since the role played by commercial banks combining various resources, direct them and various factors affect the performance of banks and effectiveness in mobilizing deposits, attract and provide credit services other banking, and thus affect their role in financing the economy (Samad, 2004: 7).

The activities of commercial banks are no longer confined to a narrow range consisting of only a group of traders. Rather, daily operations have become important to large sectors of entities, institutions, and organizations, and are becoming increasingly important because of the profound transformations taking place in the economy. Commercial banks play an essential role because they provide the right conditions for the economy to develop in a stable situation since it is the sector that is working to obtain the necessary financing. Market economy and increasing financial globalization, the main features of which are the integration and interdependence of financial markets.

2.3. THE BANKING SECTOR IN IRAQ

The Iraqi banking system consists of the central bank of Iraq, in addition to (54) banks, including seven government banks (distributed between commercial banks and specialized banks) and 47 private banks. The private banks are divided into 23 local commercial banks, twelve Islamic banks, and twelve foreign banks. Iraqi government banks operate a network of 471 branches inside and 8 outside Iraq (end of 2012). In contrast, private banks had 511 branches inside Iraq and 4 outside. Accordingly, the seven government banks manage 48 percent of the branch network, while the forty-seven private banks manage 52 percent. Though, Al-Rasheed bank manages the largest branch network in Iraq (200 branches), followed by Al-Rafidain bank (172 branches), see Table 2.1 below.

Table 2.1: The Iraqi Banking System

Type of Bank	Number of Banks	Branches	Operate Network	
			Inside Iraq	Outside Iraq
Government Banks	7	479	471	8
Commercial Bank	23	515	511	4
Islamic Bank	12			
Foreign Banks	12			
Total	**54**	**994**	**982**	**12**

Iraq's banking sector plays a part role in business transactions and economic development. This heavy reliance on cash limits the chances of economic growth. An effective banking system needs interbank and government stock markets to provide liquid tools for short-term investment. Mistrust in the banking sector is linked to the loss of deposits under the previous regime. The collapse of the previous Iraqi government in 2003 and the loss of deposits caused significant damage to the bank's reputation. Although there is no short-term solution to restore confidence in the banking system, steps can be taken to increase public confidence in the banking sector. All efforts to reform the banking sector must make confidence-building a priority (World Bank Group, 2016: 12).

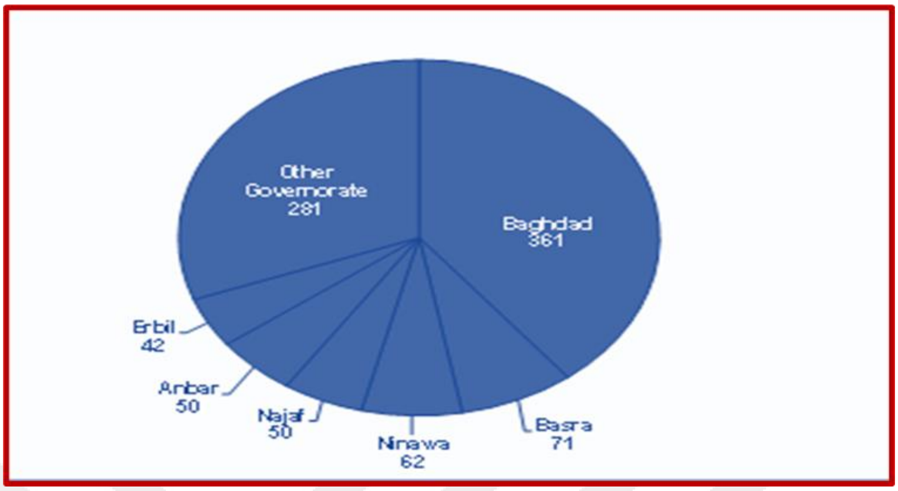

Figure 2.1: Iraqi Bank Branches Distribution by Governorate

Source: Emerging Iraqi Banking Sector (2021). Research reports on financial services. P1.

According to the Iraqi central bank (2020: 3), the banking system in Iraq went through several stages since starting in 1867. The oldest bank known in Iraq was the Ottoman bank, then the Iranian Shah Nasha bank, and the British eastern bank. Then the Iraqi National Banking (INB) stage began in 1935, which witnessed the establishment of the Agricultural Industrial Bank (AIB), which split after 1940 into two banks such as the agricultural bank and industrial bank. Considering the political and economic changes that Iraq witnessed after 2003, the monetary authority took several measures to strengthen the banking sector in Iraq. In the field of improving the competitive environment, the central bank of Iraq (CBI) granted several Arab and foreign banks work licenses to practice banking activities. Other Arab banks also worked to enter as shareholders with local banks.

This has contributed to improving the financial environment and creating competition that would add more efficiency to the work of banks. However, despite the presence of many private banks operating in Iraq, their size and activity are still very limited. For example, government banks manage 90.6 percent of the total assets of the Iraqi banking sector, while private banks manage only 9.4 percent. In 2012, the Central Bank of Iraq adopted several policies and measures aimed at increasing the performance of the banking system and the degree of competition between its units and enhancing its risk management capacity by issuing instructions setting out the regulatory framework governing payment systems administered by non-central bank entities, issuing the electronic payment and electronic transactions law, and asking commercial banks to increase their capital to 250 billion dinars.

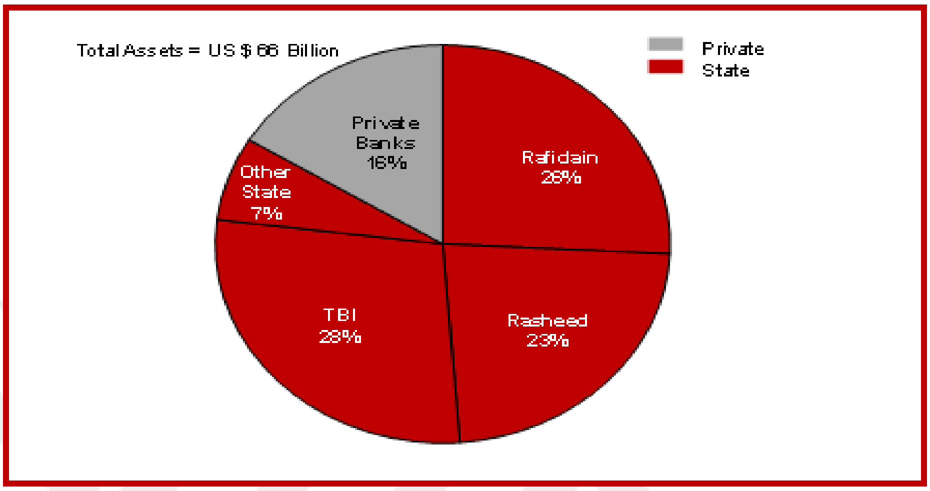

Figure 2.2: Iraqi Banking Assets Distribution by Player

Source: Emerging Iraqi Banking Sector (2021). Research reports on financial services. P2.

According to the Central Bank of Iraq CBI (2013: 5), Al-Suri (2014: 13), and Mahmoud (2015: 30) Iraq's banking sector is suffering from many underdevelopments and shortcomings that limit the possibility of the sector's advancement and keeping pace with Arab and international banking systems and taking its role in supporting growth and financial and economic stability. In this context, several observations and problems in the Iraqi banking system can be highlighted as follows:

1. The low banking density, which currently stands at one bank branch for every 35,000 people, is a low percentage compared to the global standard ratio of one bank for every 10,000 people.
2. Absence of effective banking strategies and annual detailed plans for most banks, which are stipulated in the banking law in its twenty-sixth article. Also, the absence of institutions supporting the banking system, such as a deposit insurance company, another insurance company for large loans, and a market risk study company.
3. The imbalance of banking services with the economic requirements and needs of Iraq market economy trends of growth, where the number of services is up to (20)

services compared to what was provided by Article (27) of the banking law, which amounted to more than (50) banking services, which is less than offered by Arab and foreign banks.

4. Slouching of the administrative structure in many banks, especially in government banks.
5. The policy of government discrimination in dealing with private banks, which is to prevent state departments and public sector companies from depositing their funds in those banks, and not accept certified and ordinary instruments and letters of guarantee issued by them except within certain limits that do not allow competition with government banks.
6. Traditional routine procedures adopted by the registrar of companies, delay the ratification of decisions taken by the public bodies of banks, including capital increases, and meetings of their public bodies.
7. The delay of government banks and some private banks in acquiring comprehensive banking systems or connecting their branches to a communications network with their public administrations, and their failure to take appropriate measures to implement electronic banking, including electronic instruments.
8. The low ratio of credit granted to GDP, as this ratio ranges between 9-10% of this output, compared to 55% in the entire Middle East and North Africa region. While the central bank's instructions allow the credit to reach eight times the bank's capital and sound reserves.
9. Availability of high liquidity at banks close to 60%, which reflects the sector’s inability to operate, invest its assets, deposits in a way that serves the national economy and negatively affects the profitability of banks by wasting investment opportunities.
10. There is a great discrepancy between the credit and debit interest rates in the Iraqi market. The interest rate on fixed deposits and savings ranges between 1-7%, while the interest on credit ranges between 10-15%, which leaves a margin of about 8% between the two rates, which is a large margin when compared to 5% prevailing in the countries of the Middle East and North Africa. There is no doubt

that this rise in interest rates has negative effects on the volume of credit granted, and rather constitutes an obstacle to borrowing for development purposes.

11. The slowdown in the issuance of legislation that moves the banking reform, and the projected banking reform are still on the shelves of the government and the house of representatives, which are waiting for discussion in the Iraqi parliament and approval.
12. Legislation and instructions in force limit the work of banks and limit the expansion and development of the banking sector in the country, including the bureaucratic complications associated with granting investment loans to businessmen.
13. The lack of clarity in economic visions, policies, and the lack of coordination between the fiscal and monetary policies in approving the plans in support of banking reform, as well as the weakness of the interrelationship between the various relevant authorities such as the central bank, the ministry of finance, governmental and private banks), and an example of this is the issuance of instructions from the ministry of finance.
14. There is administrative and financial corruption along with bureaucratic behaviors in the administrative hierarchy of governmental and private banking institutions.
15. Lack of a future vision regarding the local reality of the banking reform process by those in charge of it in the ministry of finance and the central bank, as the specificity of the banking sector's situation and the problems it suffers from necessitates the development of a special vision in harmony with the current reality and with the advanced experiences abroad.

In addition, Iraqi banks, especially government ones, have been the same for decades, in terms of buildings, management in which these banks are managed, and banking policy. The headquarters of these banks are old buildings, whether state-owned or rented. Lacking architecture in design, it is small for most of them, and its locations are inappropriate and do not reflect its role or ancient history. Even the security aspect was not fully secured, as many banks were robbed despite security personnel protecting them (Mahmoud, 2015: 32). When we look at figure 2.3 below, we see that the Iraqi bank ATM network compared to some Middle Eastern countries is very poor.

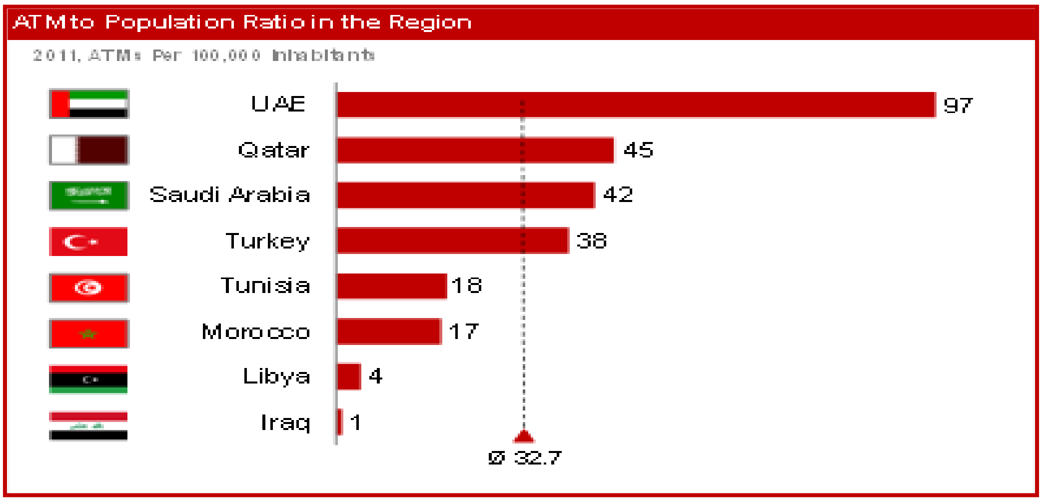

Figure 2.3: Iraqi Bank ATM Network Compared to Middle Eastern Countries

Source: Emerging Iraqi Banking Sector (2021). Research reports on financial services, P3.

Iraqi government banks and even investment banks such as industrial, agricultural, commercial, and housing banks have a long history in their field and are considered one of the leading banks in the region when compared to Gulf banks, but the banking performance related to them is late and very late. Modern banking services are managed with an open scientific mentality, constantly with the global scientific development that has taken place in this field, and benefit from global experiences and experiences such as ATM Network. Gulf banks have the infrastructure, capital, and modern management, but because the policy of these banks reflects the economic reality of their countries in the field of banking facilities and their investment activities and the success of their projects and number. of the profits, they make from these activities. This encourages customers, including foreigners, to deal with these banks through deposits, savings, investment, and even remittances, and that these banks, unlike Iraqi banks, are connected to the global banking network electronically through a solid and honest network, which supports their work globally and facilitates the customer's task of moving capital smoothly and without difficulties (Al-Suri, 2014: 6).

While international banks, especially in the field of infrastructure and modern management used are effective, especially in the field of money circulation and the type of service provided to clients, besides the relationship with the client through a solid relationship based on trust between the two parties. It is also a relationship that achieves the benefit for both parties through the banks' financial, economic, and investment activities that attract capital inside or outside their countries, not to mention the global development in the field of electronic trading of banking transactions and automated teller funds and the link of international banks to an elaborate and honest network of transactions and exchange of money, transactions and information, including stock exchange prices (Mahmoud, 2015: 33).

2.4. LITERATURE REVIEW RELATED TO INTERNAL CONTROL AND FINANCIAL PERFORMANCE

Regarding the internal control and bank performance, extensive pilot studies have been conducted and experimental relationships have been established between effective internal control components such as the control environment, risk assessment, oversight activities, information, communications, monitoring, and bank performance. Hoitash et al. (2008: 124) in their research, modified audit risks through exploring internal control problems, which were revealed within the framework of the requirements of Sarbanes and Oxley Law through articles 404 and 302. The study collected preliminary data from a sample of 962 companies. The results showed that the audit process fees for companies that have internal control problems vary according to the severity of the problem. In research, Ali (2013: 103) examined the relationship between the effectiveness of internal control and financial performance. The results showed that internal controls were positively and significantly linked to enhancing the financial performance of banking institutions.

In Turkey, research conducted by Hayali et al. (2013: 98) explored the importance of internal control in the banking and financial activities sector. The results showed that internal control activities in banks were adapting to international standards in Turkey and that there were effective controls in the banking system. In addition, effective internal control systems have a significant impact on turkey's strong and stable banking sector prospects, improving the performance of banks. Zuraidah et al. (2015: 76) analyzed the impact of internal control systems in avoiding fraud and enhancing the performance of banks. The results showed that effective implementation of the internal control system reduces fraud and enhances the Bank's performance.

Taninah (2017: 119) explored the impact of internal control on the financial performance of the banking sector in the West Bank. The researcher used the descriptive analytical approach and SPSS statistical program to analyze the data of the pilot study. In this regard, the questionnaire was distributed to a sample of the study group of internal control workers in banks. The results showed that internal controls in the banking sector in the West Bank enhance the return on assets, the return on property rights, and the return per share.

In the same context, Dubihlela and Nqala (2017: 132) explored the role that internal control systems play in the performance of companies including financial institutions. The results revealed that internal control significantly enhanced performance. In addition, risk control ensures the reliability of performance reports and compliance with regulations, laws, and policies, thereby enhancing performance. In Algerian commercial banks, research conducted by Aweisha (2018: 128) aimed to examine the role of internal control in enhancing the performance of commercial banks. The results showed that an effective internal control system in commercial banks significantly enhances financial performance.

In their research, Umar and Dikko (2018: 101) investigated the role of internal control systems in the performance of banks. Internal control is a set of organizational plans designed to maintain and control the assets of the bank, and to review the accuracy and documentation of accounting data. The results showed that all components or types of internal control systems, namely environmental monitoring, risk assessment, information, and communication, positive and substantive control affected the performance of banks.

Fateh (2019: 98) analyzed internal control and scrutiny in enhancing the effectiveness of internal control performance in Sudanese banks. The researcher stated that internal control is a set of procedures written in the form of a specific plan aimed at protecting the resources, property, and assets of the association from any unwanted behavior. In addition, achieve the accuracy of the financial data and information produced. Through the association's accounting system, optimizing the use of human and material resources in compliance with policies and regulations. Laws and regulations govern the nature of work within the assembly. Further, for collecting data, the questionnaire was distributed to the target groups, which are represented in the auditors' community of audit managers, and auditors' assistants. The results showed the interest of Sudanese banks to activate the role of internal auditing. Internal affairs, improving the quality of financial reporting information, and increasing effectiveness between the board of directors and auditors in Sudanese banks.

In the Iraqi banking sector, research conducted by Hanoon et al. (2021:2526) examined the impact of internal control on the bank's financial performance. The research used a questionnaire as a key data collection tool. The data were collected from a group of survey participants consisting of accountants, internal auditors, and audit committees. The results revealed that all elements of internal control had a significant impact on financial performance.

SECTION 3 : EMPIRICAL ANALYSIS OF THE EFFECT OF INTERNAL CONTROL ON THE FINANCIAL PERFORMANCE OF BANKS

This section aimed to address the method and statistical tests to empirically analyze the effect of internal control on the financial performance of banks based on the data collected from the survey respondents within the Iraqi banks' sector, mainly governmental banks, commercial banks, and Islamic banks to empirically investigate whether internal control system implemented by these banks enhanced their financial performance. Based on that the chapter is divided into some parts as follows.

3.1. OBJECTIVE AND IMPORTANCE OF THE STUDY

The ultimate objective of this study is to investigate internal control including the control environment, risk assessment, oversight activities, analogy, and communications, monitoring, and its effects on the financial performance of Iraqi banks, namely government banks, commercial banks, and Islamic banks. Effective internal control is one of the important factors against the failure of economic units, internal control is also an important engine of financial performance, risk management, and enables banks to create and maintain the value of their banking services. In addition, internal oversight is an integral part of the governance system, which enables management risks, which are understood, activated, and monitored by the board of directors, management, and other employees working at the Bank to take advantage of opportunities and face threats to achieve the bank's objectives efficiently.

Thus, the importance of this study is therefore reflected in the internal control of banks through their important role in enhancing financial performance, achieving credibility in financial reports, and thus providing accurate information to decision-makers. Accurate information and evidence from research contribute to improving the performance of Iraq's banking sector. As the financial stability of banks is linked to their ability to improve banking performance, make profits, develop the value of invested capital, and pay off their short- and long-term obligations. Improving banks' financial performance depends mainly on various approaches including internal control. The method chosen is often influenced by the use of purpose, time criteria, the nature of information resources, or the degree of development of obligations (Linares et al., 2018: 3). This reflects positively on the banking sector and the improvement of banks' financial performance, which may be resulting in enhanced market share and competitiveness. However, the importance of the study lies in examining the role that internal control plays in banks operating in Iraq and their impact on financial performance. Furthermore, increasing the official’s awareness, employees, auditors, and accountants in banking institutions regarding the internal control in the banking sector.

3.2. SCOPE OF THE RESEARCH

The scope of the current study is involving the empirical analysis and explanation of the internal control and financial performance of Iraqi banks, which means that the study applied within the Iraqi banks' sector such as government banks, commercial banks, and Islamic banks during 2021. The study's main area is investigated is the control environment, risk assessment, oversight activities, information, communications, and monitoring, and their effects on the financial performance of Iraqi banks based on data obtained from branch managers, assistant managers, internal auditors, and the Head of the Department. However, the current study is not without limitations, as data collection was conducted during coronary virus or Covid-19, 2021, affecting our ability to obtain large data.

3.3. THE CONCEPTUAL MODEL AND RESEARCH HYPOTHESES

To propose the study hypotheses, it is necessary to develop the conceptual study model. As shown in Figure 3.1 the model indicates the impact of independent variables or model predictors such as control environment, risk assessment, information & communication, control activities, and monitoring on the financial performance of the Iraqi banking sector. The model is shaped based on the findings of empirical studies and reviewed literature related to the model constructs. When the requirements and procedures for implementing the internal control system are well and appropriately respected, the banks can enhance their performance, especially financial performance. Effective internal control system reflects the status of the banks from different environments, and all parties in the bank seek to enhance financial performance.

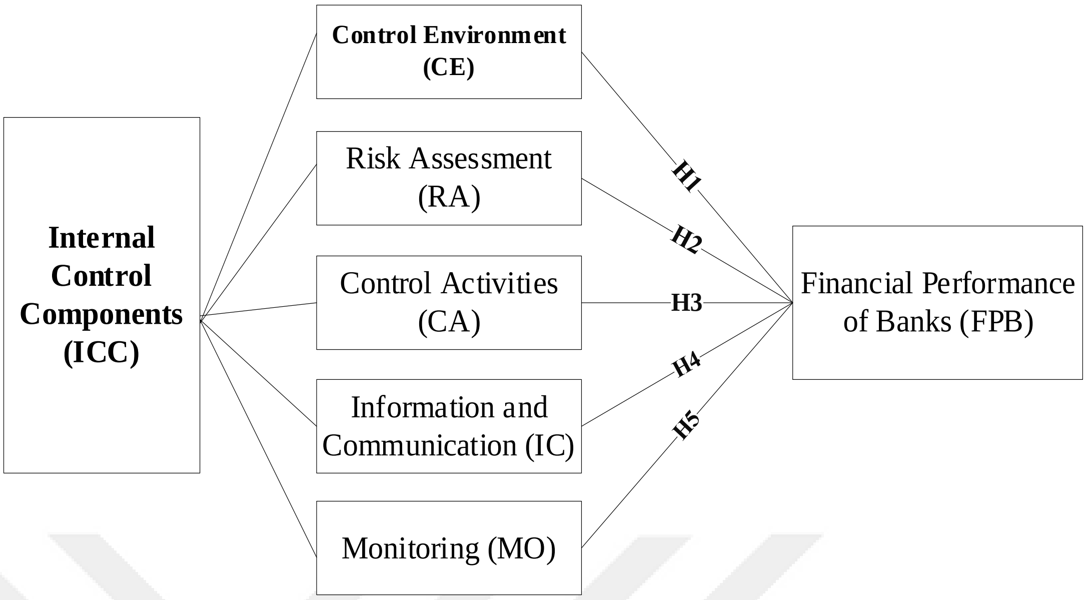

Figure 3.1: The Conceptual Study Model

Based on reviewed literature and the finding of empirical studies, which related to internal control and financial performance of banks, the study hypotheses were proposed as one of the most important procedures to be implemented. The hypotheses are assumed answer to the study's main question, to what extent do the internal control components impact the financial performance of banks.

1. **Hypothesis one (HI)**: Control environment (CE) positively and significantly impact the financial performance of Iraqi banks.
2. **Hypothesis two (H2)**: Risk assessment (RA) positively and significantly impact the financial performance of Iraqi banks.
3. **Hypothesis three (H3):** Control activities (CA) positively and significantly impact the financial performance of Iraqi banks.
4. **Hypothesis four (H4)**: Information and communication (IC) positively and significantly impact the financial performance of Iraqi banks.
5. **Hypothesis five (H5)**: Monitoring (MO) positively and significantly impact the financial performance of Iraqi banks.

3.4. THE STUDY METHODS AND MATERIALS

The ultimate aim of this study was to explore the role played by the internal control system in improving the performance of banks in Iraq. To reach the study purpose, we used the quantitative method. This method is commonly used in studies when analyzing numerical data. According to Hughes (2011: 167), a quantitative study method (QSM) is suitable when the research collects and explores data obtained by purposed survey questionnaires. It is also more raised on the original plans, and data results are more willing and straightforward to achieve (Singh & Manoj, 2015:87; Sekaran and Bougie, 2016: 36). The study also depends on the theoretical aspect of the descriptive approach, which is considered necessary in scientific research. To describe study concepts, especially relevant to internal control. As a practical aspect. It depends on the analytical approach based on designing a questionnaire in internal control components to know the banks' internal control system and improve the banks' performance.

The study design is considered to be more appropriate to its purpose, as it allowed the survey responses to provide relevant data on study questions; however, it is suitable for data collection. As mentioned above, through the study's design, this study applied the method of quantitative research (Rossi et al., 2013: 23).

3.4.1. Data Sources

Both primary and secondary data were used in this study, for the theoretical aspect the secondary data were utilized, by reviewing the literature on the subject represented theses, periodicals, published researches, books, periodicals, evidence, and benefited from previous studies conducted within the scientific concepts of this study. For primary data, survey questionnaires were applied as the main empirical data obtaining tool.

The questionnaire provides free answers as it sends the individual by mail or any other means, and when it is returned, it is assumed that the name of the respondent will not be obtained to keep confidential. This aspect is important in the questionnaire because it provides scientific objectivity in results. In addition, the questionnaire makes it easier for the researcher to collect a lot of empirical data from survey samples at a specific time (Nicholas, 2006: 37). Further, the questionnaire does not cost money in terms of its design and data collection compared to other means that require greater effort and added financial burdens such as travel and transportation from one place to another (Sekaran, and Bougie, 2016: 56).

3.4.2. Study Population and Sampling

The population of the current study is all managers, the population was estimated to be approximately 200 respondents. The samples are collected by using simple random sampling since through this type, each member of the bank managers population has an equal opportunity to be represented within the sample, or the simple random sample is restricted when the original population is homogeneous in its characteristics. The samples set are also according to the study goal and its purpose.

The samples are obtained from the Iraqi banking sector are to test internal control components and the performance of Iraqi banks. The banking sector in Iraq was tested as their internal control components have a significant influence on their financial performance. Based on that the surveys distributed among branch managers, assistant directors of Iraqi banks, internal auditors, and heads of the department were selected for replying to the questionnaire statements as they have good information about internal control components in banks. Further, the sample size is (186) respondents within Iraqi banks.

3.4.3. Survey Measurement

In this part, we aimed to establish the survey measurement, or address the scales of internal control in banks and the financial performance of banks. The internal control in banks is part of the financial risk management process, a critical element in the governance system and the ability to manage bank risks, as well as an essential element in achieving bank objectives, enhancing the financial performance of banks, and protecting the value of stakeholders, as failure leads to the imposition of additional rules and requirements, as well as the long time and high cost of subsequent efforts required to comply (Graham, 2015: 33). Effective internal control also creates a competitive advantage, because the bank that has effective control can enhance its financial performance and bear additional risks(Hayali et al., 2013: 6), based on mentioned above, we addressed the scale of internal control and financial performance of banks as follows:

3.4.3.1. Internal Control Scale

As a result of the banks' financial activities development, the increase of financial institutions size, the scarcity of available economic resources, and more significantly within businesses the separation of ownership from project management. This led to the development of the internal control system, which aimed at preserving monetary and material assets as well as the accuracy of accounts for an effective and integrated internal control system in which the internal control system represents one of its episodes (Hanoon et al., 2021:2521). The internal control system in banks is the supervision and review by a higher authority to define how work is going on within the banks and to ensure that the financial resources are used by established plans and policies (Hayali et al., 2013: 7).

The internal control system is a function of management that aims to measure and correct the performance of staff to ensure that the objectives of the bank and the plans set to achieve them have been achieved (Fakunmoju, Fasola, Fashagbaand Akinbiyi, 2020: 35), and therefore it is the function that enables to ensure that what has been done by monitoring bank activities, bank control environment, risk assessment related to financial activities and services, control activities, and providing information and communication related to control (Mozjat, Vatanparast, Miavaghi, and Azadi, 2020: 148).

Internal control is designed to protect banks from losing or abusing their assets. Proper internal control, therefore, helps to ensure that transactions are properly licensed, that ınformatıon technology systems are well managed, and that the information contained in financial reports is reliable. Internal control is a process in which banks try to reduce the likelihood of accounting errors, irregularities, and illegal acts. Internal control also helps to protect funds and provide efficient and effective asset management. Besides, allowing their validity of financial accounting processes and records. Internal control cannot eliminate all errors and irregularities, but management can be alerted to potential problems (Moeller, 2014:2-3). The internal control within the financial institution is to support the administrative function, in addition to being a support for the external auditor to evaluate the internal control system and determine the scope of the examination when implementing the audit process (Taninah, 2017: 23).

Table 3.1: The Indicators of Internal Control and Financial Performance Constructs.

Author(s) (year)	Constructs	Indicators	Definition
Fakunmoju et al. (2020). Mozjat et al. (2020). Salameh (2019). Umar and Muhammed (2018). Widhiastuti and Sagung (2019).	Control Environment (CE).	*CE1* *CE2* *CE3* *CE4* *CE5*	***Control Environment (CE)*** involves the implementation of internal controls that contributes to improving financial performance, internal control increases the financial performance. Evaluating employees and sharing results with them increases financial performance. Training activities increase financial performance. Integrity and transparency in the implementation of roles, improving financial performance.
	Risk Assessment (RA).	*RA1* *RA2* *RA3* *RA4* *RA5*	***Risk Assessment (RA)*** included awareness of fraud and its consequences lead to the better financial performance of banks. Monitoring, evaluating, and identifying internal and external risks to improve financial performance. Rapid actions taken by management for risky events lead to the improved financial performance of the Bank. Alternative plans for sudden changes can affect the financial performance of the bank. Prevent or reduce risks and follow up on their threads to improve the financial performance of the bank.
	Control Activities (CA).	*CA1* *CA2* *CA3* *CA4* *CA5*	***Control Activities (CA)*** included advanced banking technology, which contributes to internal control in improving financial performance. The principle of fees is considered in all bank transactions. The limits of authority and responsibility to ensure compliance with applicable policies and procedures can improve the bank's financial performance. A well-prepared budget showing the source of funding, an internal control tool that increases the bank's financial performance.
	Information and Communication (IC).	*IC1* *IC2* *IC3* *IC4* *IC5*	***Information and Communication (IC)*** information helps to detect flaws faster, which leads to improved financial performance. Information technology among employees provides a clearer understanding

	Monitoring (MO).	*MO1* *MO2* *MO3* *MO4* *MO5*	of internal control, which increases the financial performance of the bank. The published rules and regulations will improve financial performance. Communication helps assess the quality of the guidelines and policies that affect the financial performance of the bank. ***Monitoring (MO)*** internal auditors' reports improve financial performance. The independence of the internal control work improves financial performance. Monitoring all banking processes helps improve financial performance. The board's ongoing follow-up to the environment, oversight activities, and direct contact with internal and external auditors regarding monitoring processes improve the Bank's financial performance. The board of directors is concerned with customer complaints, takes care of their causes, determines them, and takes the necessary measures, thereby improving the bank's financial performance.

To measure the internal control components in the Iraqi banking sector such as government banks, commercial banks, ıslamic banks. As shown in Table 3.1, we adapted the internal control components from Fakunmoju et al. (2020), Mozjat et al. (2020), Salameh (2019), Umar and Muhammed (2018), and Widhiastuti and Sagung (2019); these components or model constructs are control environment (CE), risk assessment (RA), control activities (CA), information and communication (IC), and monitoring (MO). Fakunmoju et al. (2020), mentioned that a controlled environment is awareness of the supervisory management’s procedures. Determining the responsibilities and duties of supervision. The control environment is included communicating, implementing integrity, and ethical values. Participation of those charged with oversight. In this context, the bank management's philosophy and operational style, including the management style of receiving and following up on risks. Management attitudes and procedures regarding the preparation of financial reports, also management's attitude towards information processing, accounting tasks, and personnel. In addition to the organizational chart, delegating powers, responsibilities, and HR policies and practices.

According to Mozjat et al. (2020: 152), risk assessment is the process of identifying and assessing the response to business risks and results for financial reporting purposes under applicable financial reporting. This included external and internal events, and circumstances that may occur, which adversely affect the Bank's ability to issue, record, process, and report financial information following management's claims. Risk assessment also considers management plans, programs, or procedures to address certain risks that arise or accept risks due to cost or other considerations, or change due to circumstances such as changes in the operating environment, new employees, new or renewable information systems, rapid growth, new technology, models, products, activities, expanded foreign operations as well as new accounting releases.

Regarding the measure of control activities, Salameh (2019: 43) argued that control activities related to policies and procedures assist ensure that management procedures are implemented to review performance, process data, actual controls, separate tasks, and control authorization. Information and communications are an important component of internal control of the information system, which consists of infrastructure (physical elements and computer software), people, procedures, data, and the information system for financial reporting objectives consist of procedures and records established to initiate, record, process, report and maintain assets, liabilities and shareholders' rights (Umar and Muhammed, 2018: 23). Monitoring is a process for evaluating the quality of internal control performance over time. That also included management review, internal auditors evaluating compliance with policies. The legal department supervises compliance with ethical policies or work practices (Widhiastuti and Sagung, 2019:1509). The survey scale used the following measuring: 1= Strongly Disagree, 2= Disagree, 3=Neither Agree nor Disagree, 4= Agree, and 5= Strongly Agree

3.4.3.2.The Financial Performance of Banks Scale

Before discussing the scale of a bank's financial performance, we conceptualize of performance of banks. Despite a large number of research and studies that dealt with performance, no consensus has been reached about a specific concept of financial performance. Researchers are still addressing the levels at which performance is analyzed and the basic rules for measuring it (Essam, 2012: 18). Financial performance is a broad concept and its contents are renewed with the change and evolution of any component of the banks and organizations of all kinds. That the difference in the concept of banking performance stems from the different standards that depend on the study and measurement of performance for managers and banking organizations (Fakunmoju et al., 2020: 35).

With the continuous development of the banking sector, the financial reports are no longer able to give a clear and reflective picture of the working mechanism of banks. And here the importance of financial performance analysis emerges. That has become a basis for banking services planning, effective financial control, and one of the most important tools used in evaluating the performance of banks. Generally, on the process of extracting information from the financial statements, widely examining them, interpreting, and analyzing them according to mathematical and statistical procedures to evaluate the bank's performance in the past and the possibility of improving it in the future (Umar and Dikko, 2018: 91).

Therefore, over the past years, attention increased on banks' financial performance. There have been also a large number of empirical studies on financial performance around the world, despite the fact, there has been little done on the financial performance of banks in Iraq. Thus, this study seeks to explore the role of internal control in the performance of banks in Iraq. The financial performance of banks refers to the capacity to bank efforts successfully, profitably, and to adapt to environmental opportunities and threats. The financial performance of the banks is also defined as the extent to which activities contribute to creating value or are effective in using available financial resources, by achieving financial goals at the lowest financial costs (Ahmed and Gábor, 2012: 654). Financial performance is also defined as the extent to which the bank has succeeded in exploiting all the resources available to it from material and moral resources to the best use, achieving the objectives set by the management, and achieving its goals set by the management (Ali, 2013: 28).

The financial performance of banks indicates confidence in the market, raising investment rates and preserving the rights of owners and investors, including the return on equity (ROE), return on assets (ROA), and net interest margin (NIM), operating profit margin (Umar and Dikko, 2018: 93). The use of financial ratios in financial performance assessment is one of the most important means that supports the bank management to know the bank’s position. The position of the funds available for work and the bank profitability. Profitability also is one of the main goals that banks pursue to achieve through the optimal use of their available financial resources. Profitability ratios reflect the extent to which banks can achieve profits from their assets (Tayeb, 2018: 161).

The profit margin is net income after tax through net sales, which means that the organization makes a profit per dinar of net sales and the typical ratio is 5%. Thus, the strength of revenue is the result of hitting asset turnover by net profit margin from service sales or margin, and knowing the strength of revenue for banks and organizations is an important step towards analyzing the bank's profitability and understanding the factors affecting profitability (Suhail, 2007: 26). On asset turnover and margin on sales or both. As for the margin on sales, it is equal to pre-tax operating profits and interest divided by net sales, and the typical ratio is 14%. According to Miller et al. (2001: 5) return on assets provides a measure of the overall efficiency with which bank assets are used to produce net income from financial services operations. It also points to the effectiveness of management in allocating capital because it can certainly be effective while at the same time in a vulnerable position in how capital is used. ROA is an indicator of the bank's profitability or management efficiency that uses its assets to create profits and is sometimes referred to as ROI. Calculated by dividing the bank's net income by its total assets (Marashdeh, 2014:100): *Return on Assets (ROA) = (Net Income) / (Total Assets).*

Return on equity is also a very useful measure of the performance of banks or equity. Bankers generally have other alternatives to investment in the financial sector and need a basis to compare the potential performance of banking investments with their investment alternatives. Return on equity is not a measure of risk-adjusted returns (Fred, 2012: 37). ROE is measured by a division (net profit after tax minus premium stock distributions (divided by) net equity), this return shows the return that owners achieve before distribution divided by profits and the typical ratio of 1% (Marashdeh, 2014: 100). Return on Equity (ROE) = (Net Income) / (Total Equity).

Return on investment (ROI) is a measure that explores the number of additional profits generated by a particular investment. Banks and financial organizations use this ratio to compare different investment scenarios to see which will produce the greatest profit and interest for the bank (Botchkarev and Andru, 2011: 253). The ROI is computed by dividing the net profit after taxes by the total assets, and it is used to maximize the rate of return on the owners' equity, taking into account the risk, and its typical ratio is 11.4%. Regarding the previous studies ROI can be calculated by using the following formula: ROI= (Gain from Investment – Cost of investment) / Cost of Investment) * 100%. Table 3.2 showed the scale of the financial performance construct.

Table 3.2: The Indicators of Financial Performance Construct.

Author(s) (year)	Indicators	Definition
Umar and Dikko, 2018	FPB1-FPB8	Measuring the bank's return on equity (ROE) in the last three years. Bank's ROE compared to the previous three years. The rate of return on the bank's owner equity exceeds the competitive banks. Measuring return on the owner equity compared to the previous three years. Improvement in ROA in the last three years. Measuring ROI compared to the previous three years. The profit margin of operations compared to the previous three years.

3.5. DATA ANALYSIS

3.5.1. Model's Validity and Reliability

Establishing the model's reliability and validity are among the most prominent perceptions used to assess the quality of research. Also indicates the dependability of statistical analysis methods and techniques used in the research. Reliability relates to the consistency of the study tool (scale), and validity relates to the accuracy of the scale. Reliability and validity are closely linked, but they point to different purposes consistent with the primary objective of assessing the quality of the research, the measurement can be reliable without being honest, and honest measurement is always generally reliable.

Furthermore, it is important to consider reliability and credibility when planning a study, creating research design, and writing results, especially in quantitative research.

3.5.2. The Reliability Analysis

Reliability test applied for the model constructs by using Cronbach's alpha, which is intended to give the same result if the survey redistributed more than once under the same conditions and conditions, or in other words, the reliability of the survey means constancy in the results and does not change them significantly if they are redistributed to respondents several times over certain periods of time. As the results are shown in Table 3.3 the values of the Cronbach alpha were high for all variables. Were control environment, risk assessment, control activities, information, and communication, and monitoring loaded (0.923, 0.876, 0.877, 0.902, and 0.918) respectively, and the values of the Cronbach alpha for the financial performance of banks is (0.845), which all larger than (0.60), these results indicate high reliability and confirming the scale for studying the researched phenomenon.

Table 3.3: Results of Reliability Test.

Variables	Cronbach's Alpha	No. of Items	N	%
Control Environment	**0.923**	5	186	100.0
Risk Assessment	**0.876**	5	186	100.0
Control Activities	**0.877**	5	186	100.0
Information and Communication	**0.902**	5	186	100.0
Monitoring	**0.918**	5	186	100.0
Financial Performance of Banks	**0.845**	8	186	100.0
Overall	**0.905**	**25**	**186**	100.0

Source: By the researcher, based on data analysis results.

3.5.3. Internal Validity

Internal validity test applied for the components of internal control as predictors to having a role in enhancing the financial performance of the banks. Effective internal control is an important defense against the failure of banks, as internal control is a vital factor for risk management, enabling banks or companies to establish and maintain the value of the bank. While, the financial performance consists of various activities, whether physical or human, to reach the required and effective steps to raise the efficiency of the use of resources by reducing waste and loss, achieving goals with a greater degree of effectiveness. In addition, internal validity also ensures the validity of the survey in measuring the variables of the study. The results of the control environment and financial performance showed a large group of positive and significant correlations, as the correlation values were all high and p-values were all 0.000, see Table 3.4.

Table 3.4. Internal Validity of Control Environment and Financial Performance

Correlation Matrix [a]						
Indicators		**CE1**	**CE2**	**CE3**	**CE4**	**CE5**
Correlation	***CE1***	**1.000**				
	CE2	**0.716**	**1.000**			
	CE3	**0.744**	**0.733**	**1.000**		
	CE4	**0.771**	**0.667**	**0.757**	**1.000**	
	CE5	**0.663**	**0.666**	**0.673**	**0.665**	**1.000**
Sig. (1-tailed)	***CE1***					
	CE2	**0.000**				
	CE3	**0.000**	**0.000**			
	CE4	**0.000**	**0.000**	**0.000**		
	CE5	**0.000**	**0.000**	**0.000**	**0.000**	

As summarized in Table 3.5 internal validity test also applied for risk assessment and financial performance, to establish the performance and measure the questionnaire indicators that have already been developed to measure the role of risk assessment in improving the financial performance of the Iraqi banking sector, which means the clarity of the questionnaire, its vocabulary, the paragraphs of the questionnaire.

The results of risk assessment and financial performance revealed that all indicators have positive and significant correlations, as the correlation values were all high and p-values were all 0.000. The internal control as part of the risk management process and an essential component of governance constitutes a critical element in the governance system and the ability to manage risks, as well as an essential element in achieving bank goals and establishing, enhancing, and protecting the value of stakeholders, as failure leads usually it leads to the imposition of additional rules and requirements, as well as the long time and high cost of subsequent efforts required to comply.

Table 3.5: Internal Validity of Risk Assessment and Financial Performance

Correlation Matrix [a]						
Indicators		**RA1**	**RA2**	**RA3**	**RA4**	**RA5**
Correlation	***RA1***	**1.000**				
	RA2	**0.517**	**1.000**			
	RA3	**0.603**	**0.526**	**1.000**		
	RA4	**0.610**	**0.547**	**0.583**	**1.000**	
	RA5	**0.630**	**0.742**	**0.561**	**0.562**	**1.000**
Sig. (1-tailed)	***RA1***					
	RA2	**0.000**				
	RA3	**0.000**	**0.000**			
	RA4	**0.000**	**0.000**	**0.000**		
	RA5	**0.000**	**0.000**	**0.000**	**0.000**	

The results of the internal validity test, which relates to monitoring activities and financial performance, are to measure survey data designed to measure the role of oversight activities in enhancing the financial performance of the Iraqi banking sector. Surveillance activities are a process in which the bank tries to reduce noncertified activities, errors, irregularities, and illegal acts. Control activities help protect money. Provide efficient and effective asset management and allow financial accounting processors and records to be correct. The results of monitoring activities and financial performance showed that all data or indicators had positive and significant relationships with each other, with relationship values all high and P-values all 0.000, see Table 3.6, below.

Table 3.6: Internal Validity of Control Activities and Financial Performance

Correlation Matrix [a]						
Indicators		**CA1**	**CA2**	**CA3**	**CA4**	**CA5**
Correlation	***CA1***	**1.000**				
	CA2	**0.639**	**1.000**			
	CA3	**0.565**	**0.458**	**1.000**		
	CA4	**0.680**	**0.619**	**.534**	**1.000**	
	CA5	**0.675**	**0.490**	**.726**	**0.574**	**1.000**
Sig. (1-tailed)	***CA1***					
	CA2	**0.000**				
	CA3	**0.000**	**0.000**			
	CA4	**0.000**	**0.000**	**0.000**		
	CA5	**0.000**	**0.000**	**0.000**	**0.000**	

As presented in Table 3.7, the internal validity test used for information and communication of internal control and financial performance, mainly to measure survey, which designed to measure the role of internal control information and communications in enhancing the financial performance of the Iraqi banking sector. The results of information and communications, and financial performance showed that all indicators had positive and significant relationships with each other, with all link values high and p values all 0. 000.

Table 3.7: Internal Validity of Information and Communication

Correlation Matrix [a]						
		IC1	**IC2**	**IC3**	**IC4**	**IC5**
Correlation	***IC1***	**1.000**				
	IC2	**0.720**	**1.000**			
	IC3	**0.650**	**0.683**	**1.000**		
	IC4	**0.617**	**0.716**	**0.765**	**1.000**	
	IC5	**0.502**	**0.636**	**0.545**	**0.645**	**1.000**
Sig. (1-tailed)	***IC1***					
	IC2	**0.000**				
	IC3	**0.000**	**0.000**			
	IC4	**0.000**	**0.000**	**0.000**		
	IC5	**0.000**	**0.000**	**0.000**	**0.000**	

As summarized in Table 3.8 internal validity test applied for monitoring and financial performance, to measure the questionnaire indicators that have already been developed to measure the role of monitoring in improving the financial performance of the Iraqi banking sector, which means the clarity of the questionnaire, its vocabulary, the paragraphs of the questionnaire. The results of monitoring and financial performance revealed that all indicators have positive and significant correlations, as the correlation values were all high and p-values were all 0.000.

Table 3.8: Internal Validity of Monitoring and Financial Performance

Correlation Matrix [a]						
		MO1	**MO2**	**MO3**	**MO4**	**MO5**
Correlation	***MO1***	**1.000**				
	MO2	**0.750**	**1.000**			
	MO3	**0.762**	**0.789**	**1.000**		
	MO4	**0.686**	**0.752**	**0.735**	**1.000**	
	MO5	**0.593**	**0.567**	**0.608**	**0.735**	**1.000**
Sig. (1-tailed)	***MO1***					
	MO2	**0.000**				
	MO3	**0.000**	**0.000**			
	MO4	**0.000**	**0.000**	**0.000**		
	MO5	**0.000**	**0.000**	**0.000**	**0.000**	

3.5.4. Factor Analysis (Measurement Model)

To measure the study model, we used the factor analysis method. The main objective of this analysis is to summarize the multiple structures or variables inherent in a smaller number called factors. so that each of these factors has a function that binds them to each other or all variables. Through this analysis, this factor can be explained according to the variables associated with it strongly. This method originated mainly to analyze experiments and measure a certain set of tests. The idea of factor analysis is based on the extraction of a set of factors related to the original variables. These factors explain as much variation as possible in the original variables (Nicholas, 2006: 43). Factor analysis can be used to convert a relevant set of variables into another independent group associated with the first group with linear relationships. In all cases, the relationship between the original variables and the factors is represented in the form of equations as follows:

$$F_1 = \alpha_{11}X_1 + \alpha_{12}X_2 + \ldots + \alpha_{1n}X_n$$

The full rates are as follows:

$$F_1 = \alpha_{11}X_1 + \alpha_{12}X_2 + \alpha_{13}X_3 + \ldots + \alpha_{1n}X_n$$
$$F_2 = \alpha_{21}X_1 + \alpha_{22}X_2 + \alpha_{23}X_3 + \ldots + \alpha_{2n}X_n$$
$$F_3 = \alpha_{31}X_1 + \alpha_{32}X_2 + \alpha_{33}X_3 + \ldots + \alpha_{2n}X_n$$
$$\ldots\ldots\ \ \ldots\ldots\ldots\ \ \ldots\ldots\ \ \ldots\ldots\ \ \ldots\ldots\ \ \ldots\ldots\ \ \ldots\ldots$$
$$F_n = \alpha_{m1}X_1 + \alpha_{m2}X_2 + \alpha_{m3}X_3 + \ldots + \alpha_{mn}X_n \ , m > n$$

In addition, the analysis of the main component was used as one of the most accurate and common methods and used to analyze factors. This is mainly due to the accuracy of their results compared to other methods. This method has many advantages, including that it leads to precise saturation, extracts each factor maximum variability, leads to as little residue as possible, and the correlation matrix is reduced to the lowest number of non-associated perpendicular factors (Grice, 2001).

To determine inappropriate factor analysis for study constructs, we employed the KMO and Bartlett’s test of sphericity as the first step of using factor analysis. Mainly by indicating the field by measuring KMO on the adequacy of the number of samples and its value must be greater than (0.50) for the sample to be sufficient and this is a prerequisite to be achieved. As for Bartlett's test of sphericity, it is an indicator of the relationship between the variables as the significance level for this relationship must be less than (0.05), based on that we can confirm that this relationship is statistically significant. Table 3.9 revealed that the Kaiser Meyer Olikin (KMO) value is (0.922), which is greater than 0.50. The value loaded on Chi-Square in Bartlett's Test of Sphericity, is (4592.903), df (300), and the Sig or p-value is (0.000), which is significant. Thus, model data are significantly suitable for the study model.

Table 3.9: KMO and Bartlett's Test for Model Constructs

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**0.922**
Bartlett's Test of Sphericity	**Approx. Chi-Square**	**4592.903**
	Df	**300**
	Sig.	**0.000**

Source: By the researcher, based on data analysis results.

When we look at the results in Table 3.10, we can see that all indicators of the control environment and financial performance, loaded high values that ranged from 0.653 to 0.765, these results indicate that the control environment as the first component of internal control promotes the performance of banks in Iraq. Regarding risk assessment and financial performance, results also revealed that this component loaded high scores, which were ranged between 0.661 to 0.765.

Table 3.9 showed that all indicators of control activities and financial performance, significant to measure the impact of control activities on financial performance, as the loaded values of this component were high and ranged between 0.647 to 0.757. Results of control information, communication, and financial performance showed that the indicators of this component loaded high values that ranged between 0.607 to 0.694. Finally, monitoring and financial performance confirmed that this component also is a significant factor that influences the financial performance of the banking sector in Iraq. Based on these results, the model is suitable, which means that the components of the internal control system in the Iraqi banking sector could be improving the financial performance of these banks.

Table 3. 10: Measurement Model

Contracts		Indicators	Loadings
Internal Control Financial Performance of Banks	Control Environment and Financial Performance	*CE1*	0.765
		CE2	0.674
		CE3	0.746
		CE4	0.749
		CE5	0.653
	Risk Assessment and Financial Performance	*RA1*	0.688
		RA2	0.707
		RA3	0.661
		RA4	0.683
		RA5	0.765
	Control Activities and Financial Performance	*CA1*	0.757
		CA2	0.648
		CA3	0.647
		CA4	0.734
		CA5	0.705
	Information and Communication and Financial Performance	*IC1*	0.694
		IC2	0.607
		IC3	0.662
		IC4	0.664
		IC5	0.624
	Monitoring and Financial Performance	*MO1*	0.748
		MO2	0.712
		MO3	0.776
		MO4	0.747
		MO5	0.672

Extraction Method: Principal Component Analysis.
Source: By the researcher, based on data analysis results.

3.5.5. Demographic Variables

First of all, in this study the population were are all Iraqi banking sector, namely governmental banks, commercial banks, and Islamic banks, in addition, the study samples were managers who working within the Iraqi banking sector, particularly those who willingly participated in this study to provide empirical data on the internal control in Iraqi banks that influence the financial performance of the mentioned banks.

The data were collected in these banks by using questionnaires forms, which were self-managed, and in particular asked managers at the Iraqi banking sector, mainly those serving in the financial sector for over five years to reply to the survey indicators.

The performance of banks is one of the topics that occupy great importance for banks in terms of their management, shareholders, and dealers. As the performance of banks measures profitability achieved with the previously planned so that the bank management and others know the deviations from the set plan (see Table 3.11).

Table 3.11: The Banks and Survey Participators.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Government Banks**	**38**	**20.4**	20.4	20.4
	Commercial Banks	**81**	**43.5**	43.5	64.0
	Islamic Banks	**67**	**36.0**	36.0	100.0
	Total	**186**	**100.0**	**100.0**	

As a final step, 186 managers included (branch manager, assistant director, ınternal auditor, head of the department) replied to the questionnaire statements, which were self-administered and distributed in the banks' departments, particularly to the managers who willingly accepted the invitation to participate in the study. As shown in Figure 3.2 the study objects are three types of banks, in governments banks, 38 managers replied to the survey indicators which were aimed to measure the role played by internal control in enhancing the financial performance of the Iraqi banking sector.

In addition, 81 managers within commercial banks respond to the survey indicators. Commercial banks operating in Iraq, have an important role in that they provide financial services, credit facilities, and various social services, so the performance achieved by these banks must be clarified to clients, shareholders, suppliers. Commercial banks are among the most important financial institutions that grant loans, accept deposits and provide various banking services that benefit different individuals, projects, and businesses.

In this context, commercial banks in Iraq play a leading and strategic role in the implementation of economic policies. Thus, the process of evaluating the performance of banks is one of the most important processes that enable access to knowledge of the reality of performance practiced by these banks. Further, 67 managers in Islamic banks participated in this study. However, since its inception in the mid-1970s, Islamic banks have focused on their development role, and their philosophy depends based on participation as a financing mechanism, and debt distance as a mechanism for financing economic activity.

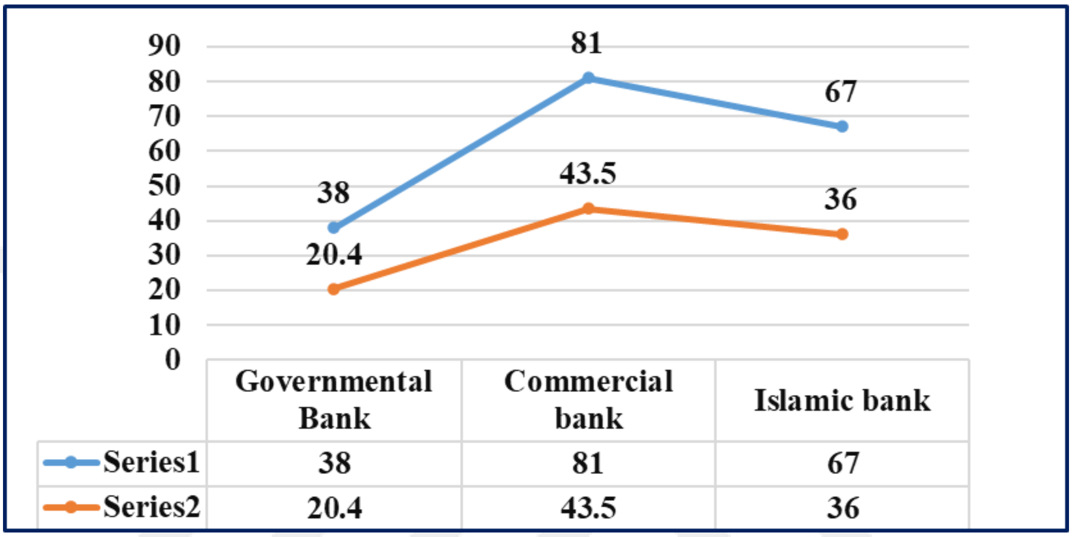

Figure 3.2: Type of Banks and Percentages of Survey Participators.

As we mentioned earlier in this study, we have obtained data from bank managers. Since banks contribute significantly not only to performance enhancement but also to the impact on all economic sectors. The banking sector is also a financial institution that plays a key role in providing liquidity to finance investment projects. Banking institutions occupy a major position in contemporary economies. The study subjects are managers working in the Iraqi banking sector, particularly those who accepted the invitation to participate in the survey by responding it is indicators, which were prepared to measure the role of internal control in enhancing the performance of Iraqi banks. Thus, the questionnaire forms were administered to the branch manager, assistant director, internal auditor, and head of the department within all 54 Iraqi banks, such as government banks, commercial banks, and Islamic banks. However, at the final step of the data collection, 189 completed surveys were returned. Three forms of the 189 surveys were removed as they had lacked data; hence, the final samples were 186, see revealed in Table 3.12.

Table 3.12: The Demographic Features of the Bank Managers.

Profile	Description	Frequency	Percentage	Total
Gender	Male	102	54.8	**186**
	Female	84	45.2	
Age Groups	Less Than 30 Years	35	18.8	**186**
	30-40 Years	100	53.8	
	41-50 Years	31	16.7	
	51- 60 Years	15	8.1	
	61 and above	5	2.7	
Level of Education	High school	5	2.7	**186**
	Diploma	27	14.5	
	Bachelor	67	36.0	
	Master	70	37.6	
	PhD	17	9.1	
Job Title	Branch Manager	39	21.0	**186**
	Assistant Director	26	14.0	
	Internal Auditor	48	25.8	
	Head of the Department	73	39.2	
Specialization	Accounting	61	32.8	**186**
	Banking & Finance Sciences	38	20.4	
	Business Administration	41	22.0	
	Economy	25	13.4	
	Other	21	11.3	
Overall Experience	Less than 5 Years	28	15.1	**186**
	5-10 Years	57	30.6	
	11-15 Years	68	36.6	
	16-20 Years	17	9.1	
	21 years and above	16	8.6	
Experience in Banking Sector	Less than 2 Years	17	9.1	**186**
	2-5 Years	27	14.5	
	6-10 Years	61	32.8	
	More than 10 Years	81	43.5	

Results demonstrated that 54.8% (n= 102) of the Iraqi bank managers who contributed to the study were male and female 45.2% (n= 84) these results showed that in the Iraqi banking sector men are appointed as managers more than female managers, as shown in Figure 3.3.

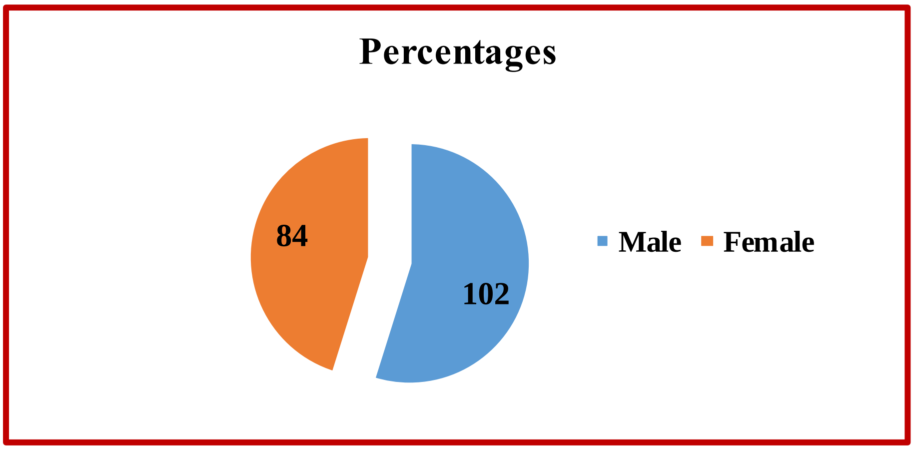

Figure 3.3: Respondent's Gender.

Regarding the bank managers' age groups, results showed 53.8% (n= 100) of overall survey samples were 30-40 years. In addition, 18.8% (n= 35) belonged to less than 30 years, these figures reveal that the majority of bank managers, who participated in this study are in younger ages. 16.7% (n=31) aged between 41 and 50 years. However, 8.1% (n= 15) aged 51- 60 years. Finally, 2.7% (n=5) of total survey samples were aged 61 and above, see Figure 3.4, below.

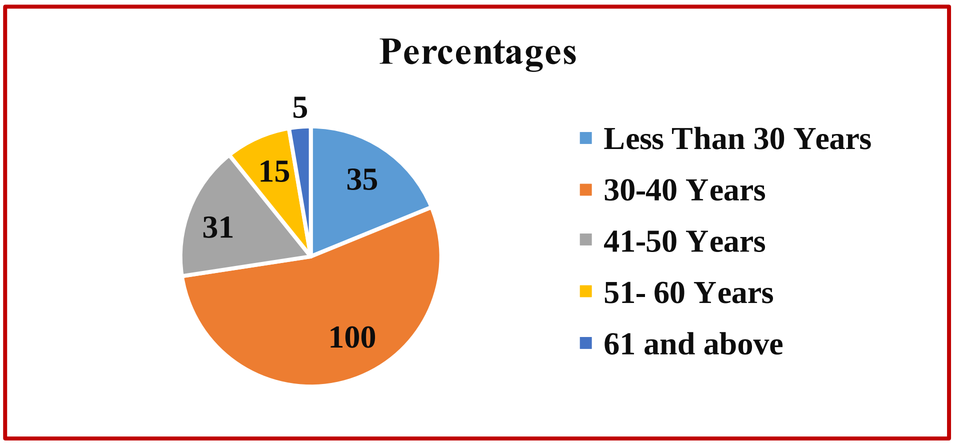

Figure 3.4: Respondent's Age Groups.

Results on level of education showed that master’s degree holders participated in the survey by 37.6% (n=70). This was followed by a bachelor’s degree reaching 36% (n=67) of overall study samples. Diploma degree holders was 14.5% (n=27). In addition to Ph.D. holders as a higher academic degree same at the rate 9.1% (176). High school certificates came at last place by 2.7% (n=5) of the overall sample, these results indicate that most managers who work in the Iraqi banking sector achieved high academic degrees, see Figure 3.5.

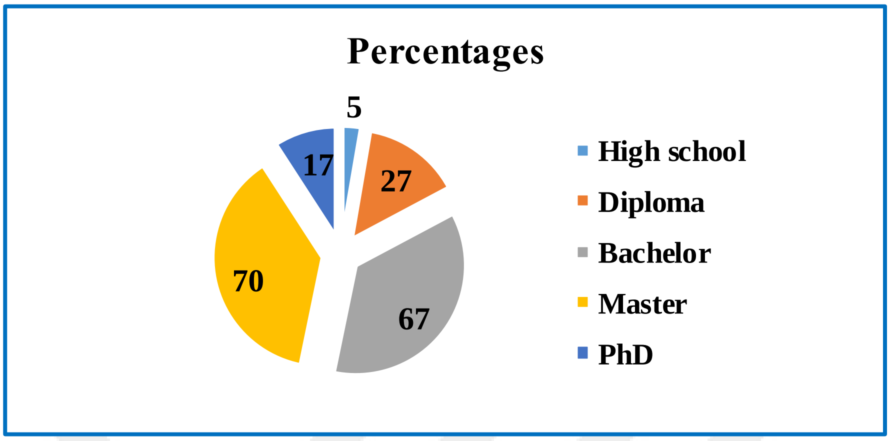

Figure 3.5: Respondent's Level of Education.

As shown in Figure 3.6 the results related to job position revealed that 39.2% (n=73) of study participants were head of the department, followed by internal auditor reached 25.8% (n= 48) of the overall survey samples. In addition, branch managers contributed by 21% (n= 39), furthermore, 14% (n=26) of the samples were assistant director.

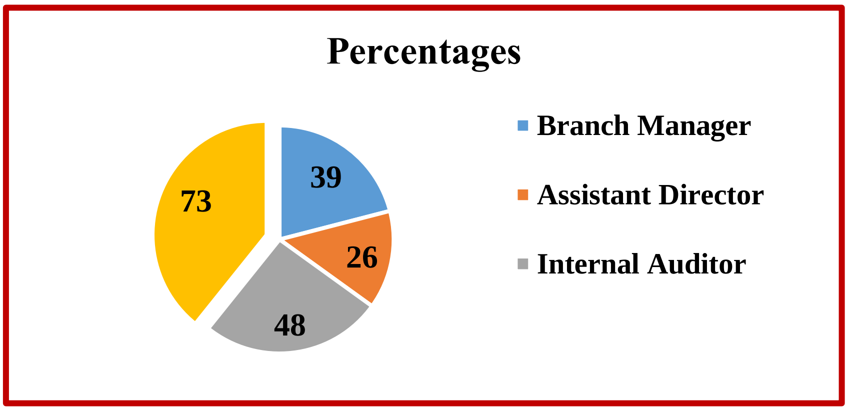

Figure 3.6: Respondent's Job Title.

Results related to bank managers' specialization demonstrated that 32.8% (n= 61) of the Iraqi bank managers who contributed to the study were specialized in accounting. Business administration came at the second by 22% (n= 41), while those who specialized in banking & finance sciences participated by 20.4% (n= 38), in addition, 13.4% (n= 25) of the study samples were specialized in economy. Further, other specialization like IT, and marketing reached 11.3% (n= 21) these result shows that Iraqi banks have employed different specialized staff, as shown in Figure 3.7 below.

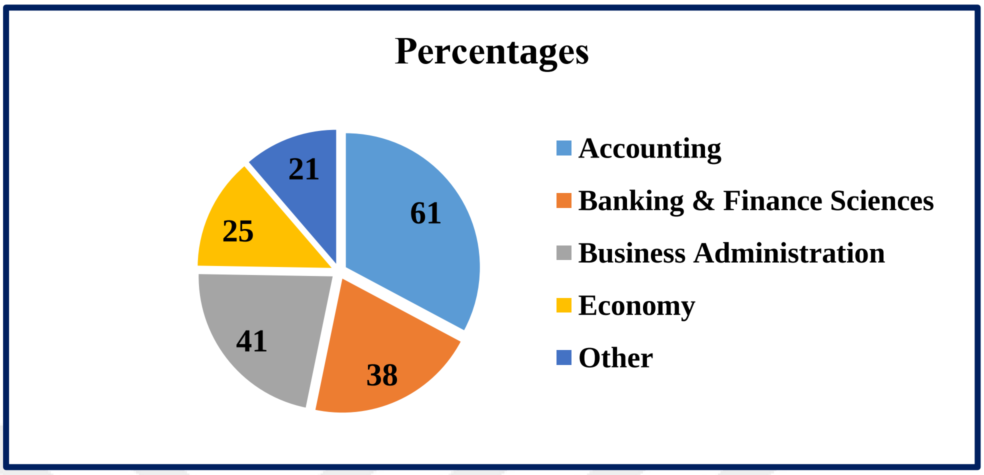

Figure 3.7: Respondent's Specialization.

As shown in Figure 3.8 the results related to bank managers' overall working experience showed that 36.6% (n=68) managers total experienced between 11-15 years. 30.6% (n= 57) experienced was fall in a group 5-10 years. In the same regard, 15.1% (n=28) of managers experienced less than 5 years. Those who overall working experience between 16-20 years reached 9.1% (n= 17). Lastly, 8.6% (n=16) experienced 21 years and above, these results indicate that indeed the majority of managers who work in the Iraqi banking sector are young.

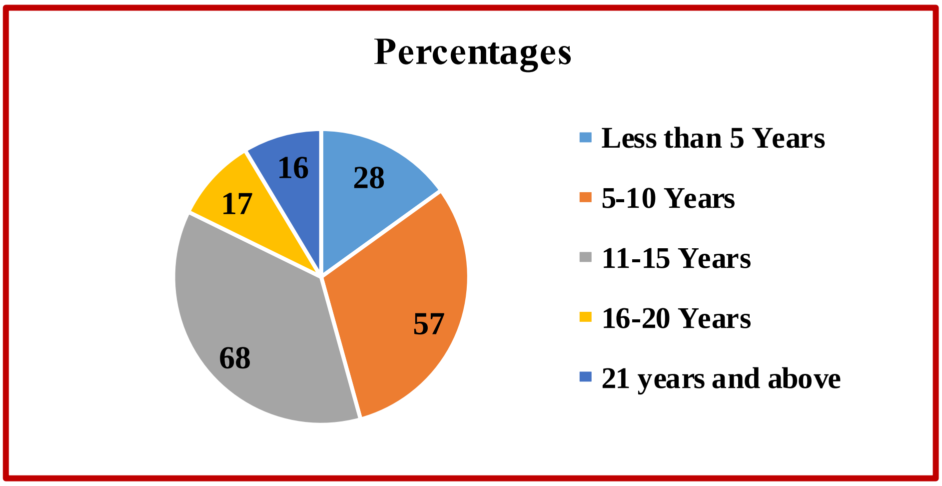

Figure 3.8: Respondent's Overall Working Experience.

Results on managers' experience in the banking sector displayed that 43.5% (n=81) practiced banking jobs for more than 10 years. Followed by those who are experienced in the banking sector are between 6-10 years by 32.8% (n= 61). In addition, 14.5% (n=27) managers experienced belonged to 2-5 years. Lastly, 9.1% (n=17) experienced less than 2 Years, which means that they recently started working in the banking sector, as revealed in Figure 3.9

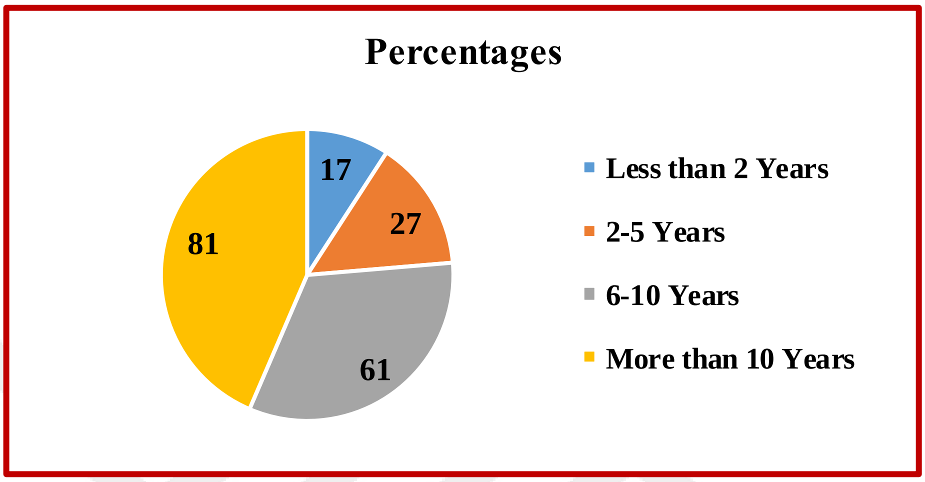

Figure 3.9: Respondent's Experience in Banking Sector.

3.6. ANALYSIS AND FINDINGS

In this part, we analyzed the empirical data obtained from managers working within the Iraqi banking sector and interpreted the results that already established reliability and validity of the survey and data reached by the researcher, since the data analysis and interpretation of the results is one of the basic stages of this study. The results and their interpretation in the current study are considered as a base for scientific research. That depends on the methodology, which is a set of specific scientific steps that are supported in conducting the current study. Mainly in testing the study hypotheses, thus we started with descriptive analysis, then hypotheses testing, in addition to correlation analysis, regression analysis, and finally accepting/rejecting the hypotheses addressed.

3.6.1. Descriptive Analysis

For analyzing the perceptions of Iraqi banks managers, which were obtained to measure the role played by the internal control in enhancing the performance of the Iraqi banking sector, we used descriptive analysis. This statistical analysis is a group of processes that examines the perceptions, or survey samples viewpoints by using mean values, Std. deviation, and weigh of agreement. First, we reviewed the results of the study constructs or internal control components and financial performance of Iraqi banks.

The descriptive analysis results showed that managers who contributed to the survey agreed that the Iraqi banking sector applied a controlled environment to enhance the performance of banks. The mean and Std. deviation values were reached (4.062, and 0.9137) respectively, the weight of agreement is 81.24%. This result indicated that the control environment as policies and behaviors that hinder the management’s orientations regarding the internal control in the banks. It has a fundamental impact on how activities are managed and risks are assessed, thus the control environment significantly influences the financial performance of banks, see Table 3.13 below.

Based on the results shown in Table 3.13 below, Iraqi banks effectively practice risk assessment to support the banking activities and avoid financial risks thus practice risk assessment enhances the financial performance of banks; the values of mean and standard deviation are (3.880, and 0.8447) respectively, the weight of agreement is also high and reached 77.61%, thus indicating that the Iraqi banks' management evaluates the risks as part of the design and operation of the internal control system to reduce errors and violations.

The results of descriptive analysis showed that about 79.91% of the respondents agreed that control activities are significant to promote the financial performance of banks; the values of mean and standard deviation are (3.995, and .7959) respectively, this indicates that Iraqi banks have introduced the right procedure to deal with clients for better satisfaction as well as the banking performance.

The study results showed that about 80.99% of the overall respondents who participated in the survey agreed that there was information and communication related to implementing control in the banks to improve the financial performance of banks; the values of mean and standard deviation are (4.049, and 0.8362) respectively, adequate information aims to add confidence in financial reports, and includes the information system basic methods and records for identifying, analyzing, categorizing and recording of banks transactions and disclosure.

The descriptive analysis results showed that respondents agreed that the Iraqi banking sector applied effective monitoring to enhance the performance of banks. The mean and Std. deviation values were reached (3.996, and 0.9091) respectively, the weight of agreement is 79.93%.

The descriptive analysis outcomes also demonstrated that respondents agreed that the Iraqi banking sector enhanced the financial performance of their banks as a result of practicing internal control components. The mean and Std. deviation values were reached (3.898, and 0.8437) respectively, the weight of agreement is 77.96%.

Table 3.13: Results of Study Constructs.

Descriptive Statistics						
Constructs	**N**	**Min**	**Max**	**Mean**	**Std. Deviation**	**Weigh of Agreement**
Control Environment	186	1.00	5.00	**4.062**	**.9137**	**81.24%**
Risk Assessment	186	1.00	5.00	**3.880**	**.8447**	**77.61%**
Control Activities	186	1.00	5.00	**3.995**	**.7959**	**79.91%**
Information and Communication	186	1.00	5.00	**4.049**	**.8362**	**80.99%**
Monitoring	186	1.00	5.00	**3.996**	**.9091**	**79.93%**
Financial Performance of Banks	186	1.00	5.00	**3.898**	**.8437**	**77.96%**

As revealed in Table 3.14, all indicators of internal control components highly agreed by respondents. This establishes that when banks and companies implement internal control risk assessment, control environment, provide information and communication related to effective internal control, control activities, and practicing effective monitoring they significantly influence financial performance.

Table 3.14. Results of Model Indicators.

Descriptive Statistics						
Indicators	**N**	**Min**	**Max**	**Mean**	**Std. Deviation**	**Weigh of Agreement**
CE1	186	1	5	**4.34**	**1.029**	**86.8%**
CE2	186	1	5	**3.98**	**1.005**	**79.6%**
CE3	186	1	5	**3.97**	**1.078**	**79.4%**
CE4	186	1	5	**4.05**	**1.041**	**81%**
CE5	186	1	5	**3.96**	**1.072**	**79.2%**
RA1	186	1	5	**3.89**	**1.045**	**77.8%**
RA2	186	1	5	**3.88**	**1.118**	**77.6%**
RA3	186	1	5	**3.95**	**1.057**	**79%**

RA4	186	1	5	**3.72**	**.970**	**74.4%**
RA5	186	1	5	**3.96**	**.972**	**79.2%**
CA1	186	1	5	**4.28**	**.968**	**85.6%**
CA2	186	1	5	**3.89**	**1.117**	**77.8%**
CA3	186	1	5	**3.81**	**.877**	**76.2%**
CA4	186	1	5	**3.86**	**.971**	**77.2%**
CA5	186	1	5	**4.14**	**.908**	**82.8%**
IC1	186	1	5	**4.25**	**.978**	**85%**
IC2	186	1	5	**3.98**	**1.027**	**79.6%**
IC3	186	1	5	**3.90**	**.984**	**78%**
IC4	186	1	5	**3.95**	**.963**	**79%**
IC5	186	1	5	**4.17**	**.980**	**83.4%**
MO1	186	1	5	**4.06**	**.973**	**81.2%**
MO2	186	1	5	**3.96**	**1.077**	**79.2%**
MO3	186	1	5	**4.09**	**.977**	**81.8%**
MO4	186	1	5	**4.06**	**1.038**	**81.2%**
MO5	186	1	5	**3.81**	**1.165**	**76.2%**
FPB1	186	1	5	**4.08**	**0.787**	**81.6%**
FPB2	186	1	5	**3.75**	**0.805**	**75%**
FPB3	186	1	5	**3.87**	**0.873**	**77.4%**
FPB4	186	1	5	**3.86**	**0.762**	**77.2%**
FPB5	186	1	5	**3.96**	**0.741**	**79.2%**
FPB6	186	1	5	**3.87**	**0.791**	**77.4%**
FPB7	186	1	5	**4.05**	**0.735**	**81%**
FPB8	186	1	5	**3.82**	**0.799**	**76.4%**

Note. CE= Control Environment, RA= Risk Assessment, CA= Control Activities, IC= Information, and Communication, and MO= Monitoring, and FPB= Financial Performance of Banks.

Results of Control Environment and Financial Performance

To further analyze managers' perceptions regarding the control environment and financial performance, we conducted an in-depth analysis of each indicator. Figure 3.10 presented that (CE1 and CE4) reached a high agreement among bank managers at 86.8% and 81%, respectively, which means that having competent bank staff to carry out internal control processes contributes to improving its financial performance. In this context, planning and conducting the necessary training activities increases the bank’s financial performance. The results showed that other indicators (CE2, CE3, and CE5) agreed by over 79% of the overall respondents, which means that the Iraqi banks' management interest in performing the internal control function led to an increase in the financial performance of the banks. In addition, evaluating the employees' performance and sharing the results with them increases the financial performance. Further, the management efforts with a significant degree of integrity and transparency in implementing its roles led to improving the financial performance of banks.

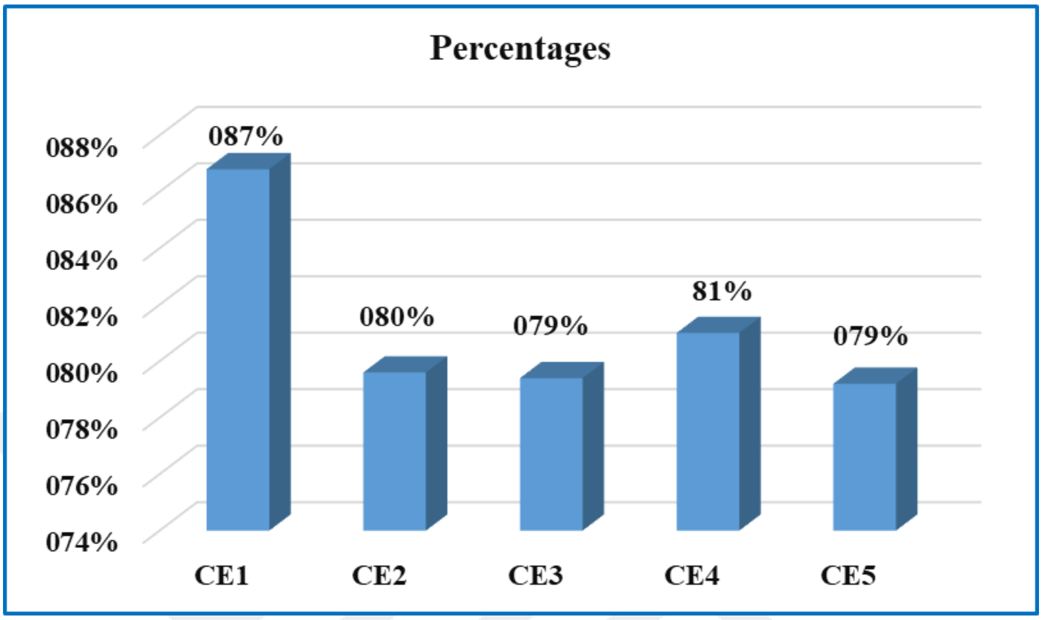

Figure 3.10: The Agreement Percentages on Control Environment and Financial Performance.

Results of Risk Assessment and Financial Performance

Regarding the risk assessment and financial performance results in Figure 3.11 showed that (RA5 and RA3) reached a high agreement of bank managers at 79.20% and 79%, respectively, which means that having plans to prevent or reduce risks led to improving the bank's financial performance. In addition, management's fast actions for risky events led to improving the bank's financial performance. The results showed that other indicators (RA1, RA2, and RA4) agreed by over 77.80%, 77.60%, and 74.40% respectively, of the overall respondents, which means that fraud awareness among bank staff led to improving financial performance. In the same context, having a specialized unit responsible for monitoring, and identifying internal and external risks, led to improving financial performance. Moreover, the bank's alternative plans for sudden changes can affect the bank's financial performance.

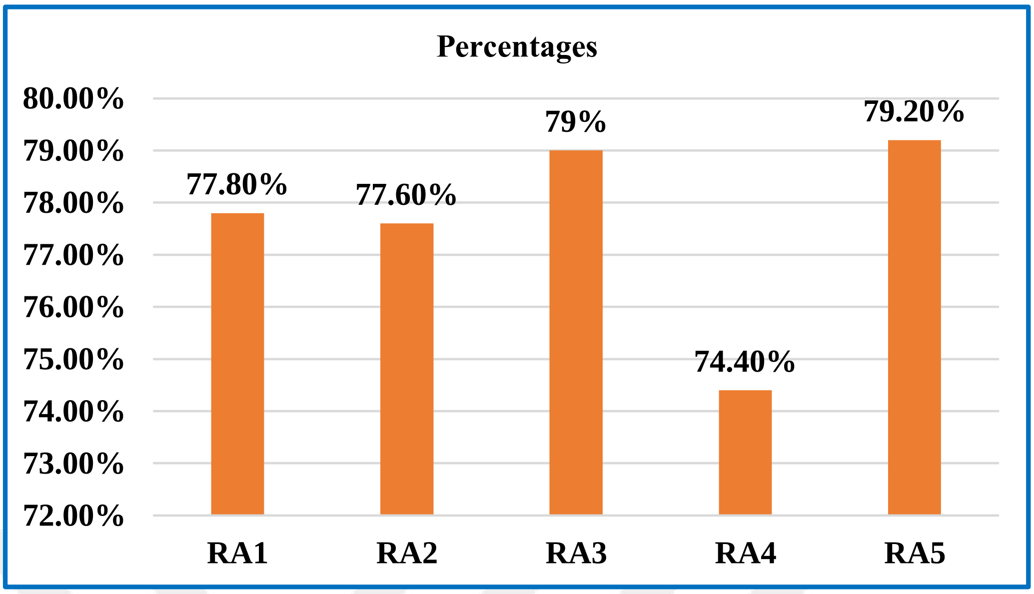

Figure 3.11: The Agreement Percentages on Risk Assessment and Financial Performance.

Results of Control Activities and Financial Performance

Results in Figure 3.12 presented that (CA1 and CA5) reached high agreement among managers of Iraqi banks at 85.60% and 83.80%, respectively. This indicates that advanced technology and computers in internal control contribute significantly to improving the bank's financial performance. However, having a detailed and well-prepared budget showing the financing source, a tool for internal control increases the financial performance. The study results displayed that (CA2, CA4, and CA3) respectively agreed by 77.80%, 77.20%, and 76.20%, these results indicate that when the banks perform a monthly reconciliation to properly reconcile the various records and resolve all discrepancies, it effectively improves the financial performance of the bank. Additionally, setting limits on authority and responsibility to ensure compliance with established policies and procedures can improve a bank's financial performance. Moreover, the principle of division of duties is considered in all banking transactions, this situation is effective in improving the financial performance of the bank.

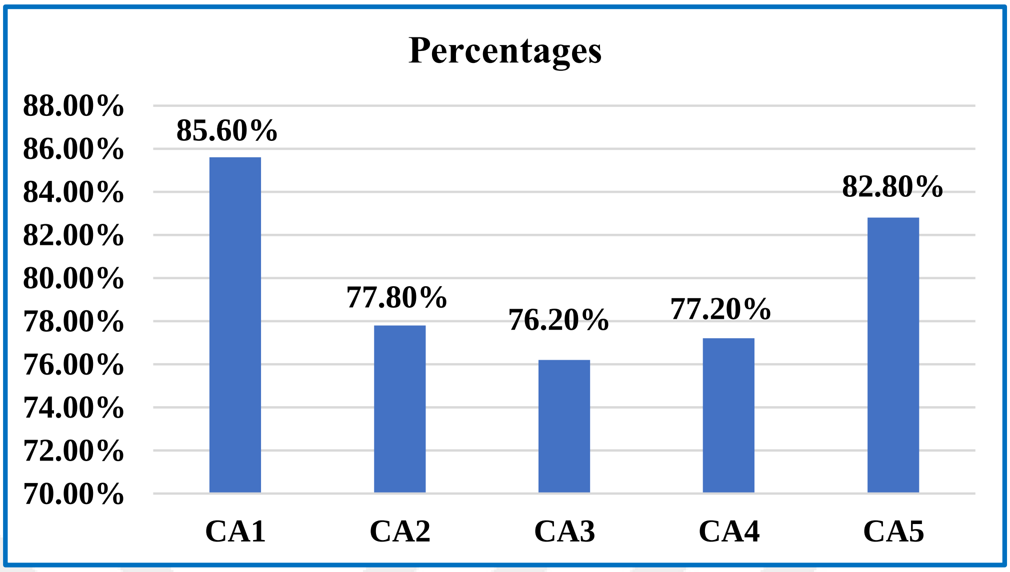

Figure 3.12: The Agreement Percentages on Control Activities and Financial Performance.

Results of Information and Communication

Figure 3.13 demonstrated that indicators (IC1 and IC5) were highly agreed by managers of Iraqi banks they reached 85% and 83.40%, respectively. This indicates that information technology helps discover defects faster, leading to improved financial performance. In addition to matching the information and communication methods used by the internal control with the central bank’s instructions contributes to improving the bank’s financial performance. The results displayed that (IC2, IC4, and IA3) respectively agreed by 79.60%, 79%, and 78%, indicate that modern banking IT provides a clearer understanding of internal control, which increases the bank's financial performance. However, effective communication helps assess and implement the success of the bank's guidelines and policies, which positively affects the bank's financial performance. In this context, known and published rules and regulations will improve the bank's financial performance.

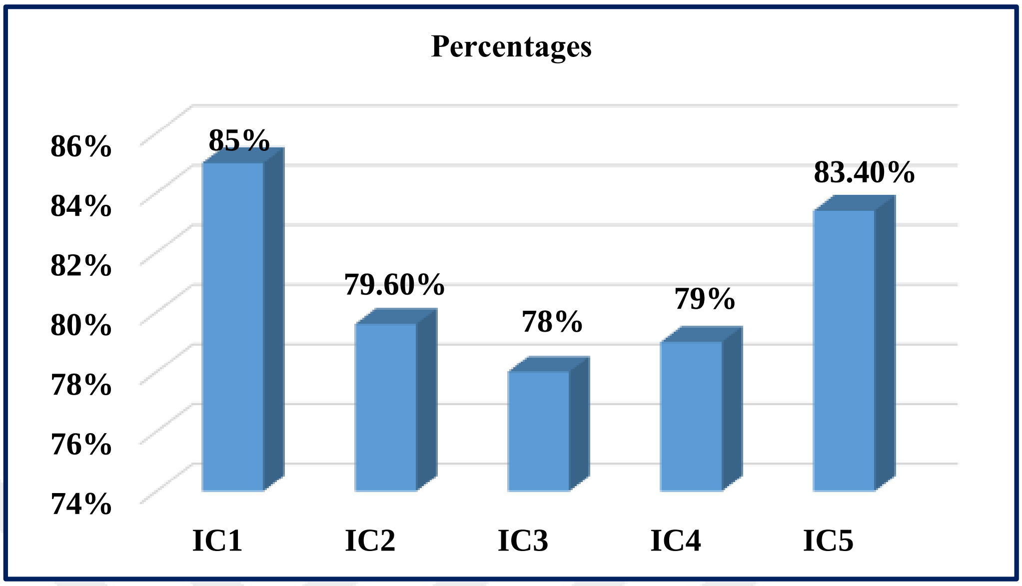

Figure 3.13: The Agreement Percentages on Information and Communication.

Results of Monitoring and Financial Performance

As demonstrated in Figure 3.14, results revealed that (MO3, MO1, and MO4) reached a high agreement among Iraqi banks managers by 81.80%, 81.20%, and 81.20%, respectively, these results indicate that monitoring all banking services and operations helps in improving the quality of the bank's financial performance over time. A serious adoption of the internal auditors' reports by the management also leads to improving the financial performance. In this regard, the board of directors' continuous follow-up of the environment, control activities, and direct contact with the internal and external auditors regarding control operations lead to improving the bank's financial performance.

In the same regard, indicators (MO2 and MO5) also achieved a high agreement among managers or survey samples by 79.20% and 76.20%, which means that independence of the internal control work leads to an improvement in the financial performance of the bank. Finally, the board of directors is concerned about clients' complaints, considers, and determines their causes, and takes the necessary measures, thus improving the bank's financial performance.

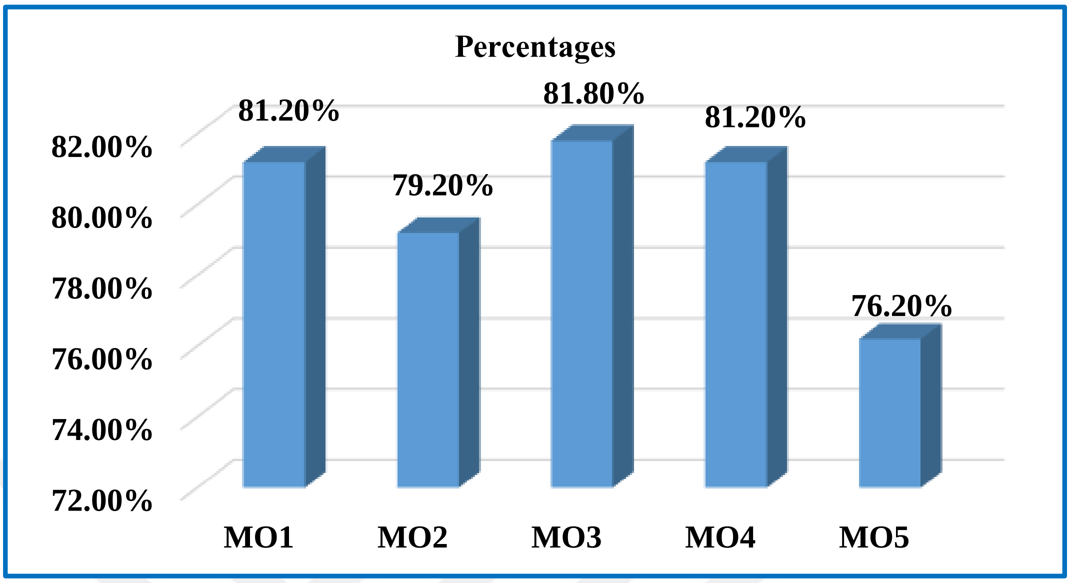

Figure 3.14: The Agreement Percentages on Information and Communication and Financial Performance.

Comparative Analysis of Internal Control for All Banks

To analyze further managers' perceptions among Iraqi government banks, commercial banks, and Islamic banks operating in Iraqi regarding implementing internal control components and their role in enhancing the financial performance of these banks, the comparative analysis was also applied. This analysis refers to comparing perceptions, analyzing the differences between them, and revealing the results. The comparative analysis has the advantage that it can be very intuitive to see the changes or gaps in a particular aspect of perceptions, and it can accurately identify the differences.

As revealed in Table 3.15, the results of the comparative analysis showed that there were no significant differences among Iraqi banks regarding implementing internal control components and their role in enhancing financial performance, as the mean values of all banks were high. However, government banks and Islamic banks to the same degree implemented internal control components. While the commercial banks more effectively implemented internal control components.

Table 3.15. Results of Comparative Analysis of all Banks.

Type of the Bank		***CE***	***RA***	***CA***	***IC***	***MO***
Governmental Bank	Mean	**3.810**	**3.378**	**3.710**	**3.578**	**3.515**
	Std. Deviation	1.201	1.006	1.193	1.121	1.224
	Variance	1.444	1.014	1.424	1.258	1.500
Commercial Bank	Mean	**4.323**	**4.172**	**4.264**	**4.340**	**4.209**
	Std. Deviation	.513	.571	.524	.519	.637
	Variance	.264	.327	.275	.269	.406
Islamic Bank	Mean	**3.889**	**3.811**	**3.832**	**3.964**	**4.011**
	Std. Deviation	1.030	.884	.694	.830	.891
	Variance	1.061	.782	.482	.690	.795

Note. CE= Control Environment, RA= Risk Assessment, CA= Control Activities, IC= Information, and Communication, and MO= Monitoring.

3.6.2. Hypotheses Testing

This part aimed to test the study hypotheses, by using some statistical analysis to accept or reject the hypotheses. Thus, we applied some statistical analysis, and the results may statistically significant when there is a relational impact between the independent variables and dependent variables.

3.6.3. Correlation Analysis

The correlation analysis was used, to establish relationships between the study constructs, as the significant step before conducting regression analysis and testing the study hypotheses. As summarized in Table 3.16, the results demonstrated that all model constructs are positively and significantly related to each other. Furthermore, the results presented that the components of internal control namely control environment, risk assessment, control activities, information, communication, monitoring all positively and significantly related to enhancing the financial performance of banks. The relationship coefficient r (0.66, 0.53, 0.68, 0.65, and 0.59) respectively, based on these results, the regression analysis is appropriate to test the study hypotheses.

Table 3.16. Results of Correlation Analysis

Constructs	CE	RA	CA	IC	MO	FPB
CE						
RA	0.58					
CA	0.63	0.57				
IC	0.68	0.67	0.59			
MO	0.58	0.54	0.47	0.71		
FPB	**0.66**	**0.53**	**0.68**	**0.65**	**0.59**	**1.000**

Note. CE= Control Environment, RA= Risk Assessment, CA= Control Activities, IC= Information, and Communication, MO= Monitoring, and FPB= Financial Performance of Banks

3.6.4. Regression Analysis

The regression analysis was applied, to explore the impact of internal control components in improving the performance of banks. The results in Table 3.17, presented the R square value, where the R square value for the financial performance of banks is 0.638, and the adjusted R square value is 0.635. The result of the model R square has shown a significant explanation of the empirical study data, which is supported by the F-test value were reached (284.481) and the p-value is 0.000.

Results of path analysis coefficient, t-value, and p-value displayed that control environment positively and significantly impacted the financial performance of Iraqi banks, with a high coefficient of impact up to (0.827), t-value (20.035) and (p-value = 0.000) that is less than (0.05), which means that this component of internal control significantly affects the perception of the bank's employees. Therefore, the control environment is the basis for all other components of internal control. Since the control environment involves awareness, approaches, reliability, and ethical values of all members of the bank, management procedures, managers, and those charged with effectively implementing internal control in banking operations and enhancing the financial performance of banks.

Results established that risk assessment is positively and significantly impacted the financial performance of Iraqi banks with a high impact value (0.747), t-value (20.009), and (p-value = 0.000). The component of risk assessment is the application of control system procedures, policies, and control to identify inaccuracies to prevent them. Risk assessment can also be the detection and analysis of risks related to the achievement of objectives and improving the financial performance of banks.

Results demonstrated that control activities positively and significantly impacted the financial performance of Iraqi banks, with a coefficient of impact up to (0.493), t-value (10.701) and (p-value = 0.000) that is less than (0.05), which means that control activities significantly affect the awareness of bank employees. As audit-related monitoring activities include the bank's financial performance review; oversight activities, information processing; physical control; separation of duties.

As shown in Table 3.17 results related to hypothesis four proved that information and communication positively and significantly affected the financial performance of Iraqi banks with a low impact value (0.261), however, it is significant, as t-value (7.053), and (p-value = 0.000).

Furthermore, results in Table 3.17, showed that monitoring positively and significantly impacted the financial performance of Iraqi banks with a coefficient of impact up to (0.520), t-value (15.829) and (p-value = 0.000) that is less than (0.05), which means that the impact is significant.

Table 3.17: Path Analysis Coefficient, t-value, and p-value

Hypotheses	Interaction	Standardized Path Coefficient	t-value	p-value	Decision
H1	CE -> FPB	β **= 0.827**	20.035	**0.000**	Supported
H2	RA -> FPB	β **=0.747**	20.009	**0.000**	Supported
H3	CA -> FPB	β**= 0.493**	10.701	**0.000**	Supported
H4	IC -> FPB	β **=0.261**	7.053	**0.000**	Supported
H5	MO -> FPB	β **=0.520**	15.829	**0.000**	Supported
	R Square	***0.638***			
	Adjusted R Square	***0.635***			
	Std. Error of the Estimate	***0.33978***			
	F	***284.481***		**.000b**	

a. Dependent Variable: Financial Performance of Banks
b. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

3.6.5. Accepting/Rejecting the Hypotheses

The ultimate purpose of this study was to explore the role played by internal control components in improving the financial performance of Banks in Iraq. In this regard, the results of the regression test are considered based on the influence strength of the internal control components on the financial performance of Banks in Iraq, which was determined by path analysis coefficient, t-value, and p-value that shown in Table 3. 17 above, mainly to determine the acceptance or rejection of the hypotheses. Finally, all the study hypotheses are accepted, as a result of tested hypotheses shown in Table 3.18 below.

Table 3.18: Result of tested Hypotheses.

	hypotheses	**Path coefficient and p-value**	**Results**
H1	Control environment (CE) positively and significantly impact the financial performance of Iraqi banks.	**β = 0.827 *p*=0.000 Significant**	**Accepted**
H2	Risk assessment (RA) positively and significantly impact the financial performance of Iraqi banks.	**β = 0.747 *p*=0.000 Significant**	**Accepted**
H3	Control activities (CA) positively and significantly impact the financial performance of Iraqi banks.	**β = 0.493 *p*=0.000 Significant**	**Accepted**
H4	Information and communication (IC) positively and significantly impact the financial performance of Iraqi banks.	**β = 0.261 *p*=0.000 Significant**	**Accepted**
H5	Monitoring (MO) positively and significantly impact the financial performance of Iraqi banks.	**β = 0.520 *p*=0.000 Significant**	**Accepted**

RESULT AND SUGGESTIONS

The main aim of this study was to investigate the role of internal control components in improving the financial performance of banks in Iraq. To reach the study aim, the quantitative method was applied, since this method is commonly used in studies when analyzing numerical data. The questionnaire form was also used as the primary method for obtaining empirical data from Iraqi bank managers. The sample includes 186 managers namely branch managers, assistant directors, internal auditors, and heads of the departments. The data were analyzed using SPSS and Amos 24, as this statistical program was suitable for exploring the study model. By applying path analysis of modeling, the study conceptual model was tested and established reliability and validity and also established the significance of all indicators of all study variables. All indicators of internal control components and financial performance were generated significant loading values. Therefore, the scores showed the study model's reliability and validity, which means a high correlation between all constructs. The empirical analysis results supported all study hypotheses.

The scope of the current study is involving the empirical analysis and explains of the internal control and financial performance of Iraqi banks, which means that the study applied within the Iraqi banks' sector such as governmental banks, commercial banks, and Islamic banks. The study's main area is investigated control environment, risk assessment, control activities, information and communication, monitoring, and their effects on the financial performance of Iraqi banks based on data obtained from branch managers of these banks, assistant directors, internal auditors, and head of the department. However, the current study is not without limitations, since the data collection process was done during the coronavirus or Covid 19 period which affected our abilities to obtain large data.

Results of the correlation analysis showed that the components of internal control namely control environment, risk assessment, control activities, information, and communication, monitoring positively and significantly related to enhancing the financial performance of banks.

According to the regression analysis results displayed that the control environment statistically positively and significantly impacted the financial performance of Iraqi banks, which means that this component of internal control significantly affects the perception of the bank's employees. Having competent employees in the bank to carry out internal control processes; the management’s interest in performing the internal control function; planning and conducting the necessary training activities every year; the management to work with significant honesty and transparency while performing its duties; leads to an increase in the bank’s financial performance.

Regression analysis results established that risk assessment is statistically positively and significantly impacted the financial performance of Iraqi banks. Thus, indicating that the Iraqi banks’ management evaluates the risks as part of the design and operation of the internal control system to reduce errors and violations. Especially, the fact that banks have a special unit responsible for monitoring, evaluating, and identifying internal and external risks leads to improved financial performance.

Regression analysis results demonstrated that control activities statistically positively and significantly impacted the financial performance of Iraqi banks, which means that control activities significantly affect the awareness of bank employees. This indicates that Iraqi banks have introduced the right procedure to deal with clients for better satisfaction as well as banking performance. Observing the principle of segregation of duties in all transactions of banks, setting limits of authority and responsibility to comply with established policies and procedures, in addition, on-site audit activities can improve the bank's financial performance.

Regression analysis results provide evidence that information and communication statistically positively and significantly affected the financial performance of Iraqi banks. So, adequate information aims to add confidence in financial reports and includes the information system basic methods and records for identifying, analyzing, categorizing, and recording banks' transactions and disclosure. The presence of rules and regulations that are well known and published also faster detection of defects by using information technology leads to increased financial performance.

Furthermore, regression analysis results showed that monitoring statistically positively and significantly impacted the financial performance of Iraqi banks. A serious adoption of the internal auditors' reports by the management, independence of the work of internal control and monitoring all banking operations help improve the quality of the bank's financial performance over time. The results revealed that all components of internal control had a significant impact on Iraqi banks' financial performance.

The result is showing similarity to the results of the studies performed by Hayali et al. (2013), Ali (2013), Zuraidah et al. (2015), and Hanoon et al. (2021). In the similar studies reviewed, could not find a study with different results.

In addition, the study provides unique information to banks managers in Iraq regarding effectively implementing the internal control system. In this context, the study suggested that banks in Iraq fully implemented an internal control system. Since the results showed that internal control is one of the most important defenses against the failure of banks, and it is an important driver for banks' financial performance and risk management, and it is an integral part of the governance system.

It is necessary for Iraqi banks to adopt the recent developments of the updated global internal control frameworks and to try to disseminate them among professionals through the training courses they hold. In this regard, the study recommends that Iraqi bank management more consider the updated COSO framework, which aimed to establish clear principles for banks and companies' development and evaluation of internal control, broaden the focus on operations, compliance, non-financial reporting objectives, and reflects changes in business and operating environments.

This study was analyzed in line with the opinions of managers working in public banks, commercial banks, and Islamic banks in Iraq. In future studies, researchers may create a larger sample or can include institutions other than banks in the sample.

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APPENDICES

T.C.
TOKAT GAZIOSMANPAŞA UNIVERSITY INSTITUTE OF GRADUATE STUDIES

Dear Respondent

I am Kamiran Ibrahim IBRAHIM, a master's student, and the purpose of this survey is to obtain empirical data and information, or a study entitled "**The role of internal control in improving the financial performance of banks**." I will be delighted if you participate in the survey by responding to it is questions, in which the responses are reflecting on your information, as it would have a positive effect on finalizing the study at a significance level. Please respond as sensibly as possible to the following statements by marking (√) in an appropriate place. However, all responses will keep confidential and used only for scientific study, and information about the participants will not be identified.

Thanks in advance for your time.

Researcher
Kamiran Ibrahim IBRAHIM

First: General Information

This section of the survey comprises information on the surveyed banks and general information about survey samples.

Information about the Surveyed Banks

The identity (nature) of the bank	Governmental Bank
	Commercial bank
	Islamic bank

General Information about Survey Samples

1. Gender	Male	**5. Specialization**	Accounting
	Female		Banking & Finance Sciences
2. Age	Less Than 30 Years		Business Administration
	30-40 Years		economy
	41-50 Years		Other …………………..
	51- 60 Years	**6. Overall Experience**	Less than 5 Years
	61 and above		5- 10 Years
3. Level of Education	High school		11- 15 Years
	Diploma		16- 20 Years
	Bachelor		21 years and above
	Master	**7. Experience in Banking Sector**	Less than 2 Years
	PhD		
4. Job Title	Branch Manager		2-5 Years
	Assistant Director		6-10 years
	Internal Auditor		
	Head of the Department		More than 10 Years
	Other ………………		

Second section: Survey Questions

This section of the survey comprises five parts. Part1, control environment (CE). Part 2, risk assessment (RA). Part 3, control activities (CA). Part 4, Information and Communication (IC), Part 5 includes monitoring (MO), and Part 6, Financial Performance of Banks (FPB).

In each part, please read the statement indicate your answer to the statement using the scale below:

1= Strongly Disagree, 2=Disagree, 3=Neither Agree nor Disagree, 4= Agree, and 5=Strongly Agree

Part 1: Control Environment (CE)

CE1	Having competent employees in the bank to carry out internal control processes contributes to improving its financial performance.	**1 2 3 4 5**
CE2	The management's interest in performing the internal control function leads to an increase in the bank's financial performance.	**1 2 3 4 5**
CE3	Evaluating the performance of bank employees and sharing the results with them increases the bank's financial performance.	**1 2 3 4 5**
CE4	Planning and conducting the necessary training activities every year increases the bank's financial performance.	**1 2 3 4 5**
CE5	The management works with a significant degree of integrity and transparency in implementing its roles, which leads to improving the bank's financial performance.	**1 2 3 4 5**

Part 2: Risk Assessment (RA)

RA1	Employees' awareness of fraud and its consequences leads to improve banks' financial performance.	**1 2 3 4 5**
RA2	The bank has a specialized unit responsible for monitoring, evaluating, and identifying internal and external risks, leading to improved financial performance.	**1 2 3 4 5**
RA3	Fast actions taken by management for dangerous events lead to improve the bank's financial performance.	**1 2 3 4 5**
RA4	The bank management's alternative plans for sudden changes can affect the bank's financial performance.	**1 2 3 4 5**
RA5	Having strategic plans and goals to prevent or reduce risks and follow their leads to improving the bank's financial performance.	**1 2 3 4 5**

Part 3: Control Activities (CA)

CA1	Advanced technology and computers in internal control contribute significantly to improving the bank's financial performance.	**1 2 3 4 5**
CA2	Reconciliation is done monthly to correctly resolve various records, resolve all inconsistencies, and effectively improve the bank's financial performance.	**1 2 3 4 5**
CA3	The segregation of duties principle is considered in all the banks' transactions. This situation is effective in improving the financial performance of the bank.	**1 2 3 4 5**
CA4	Establishing authority and responsibility limits to ensure	**1 2 3 4 5**

	compliance with established policies and procedures can improve the bank's financial performance.	
CA5	Having a detailed & well-prepared budget showing the financing source, a tool for internal control increases the bank's financial performance.	**1 2 3 4 5**

Part 4: Information and Communication (IC)

IC1	The use of information technology helps discover defects faster, leading to improved financial performance.	**1 2 3 4 5**
IC2	Information technology among employees provides a clearer understanding of internal control, which increases the bank's financial performance.	**1 2 3 4 5**
IC3	The presence of rules and regulations that are well known and published would lead to the bank's improved financial performance.	**1 2 3 4 5**
IC4	Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented. This situation positively affects the financial performance of the bank.	**1 2 3 4 5**
IC5	Matching the information and communication methods used by the internal control with the Central Bank's instructions contributes to improving the bank's financial performance.	**1 2 3 4 5**

Part 5: Monitoring (MO)

MO1	A serious adoption of the internal auditors' reports by the management leads to improving the bank's financial performance.	**1 2 3 4 5**
MO2	Independence of the work of internal control leads to an improvement in the financial performance of the bank.	**1 2 3 4 5**
MO3	Monitoring all banking operations helps in improving the quality of the bank's financial performance over time.	**1 2 3 4 5**
MO4	The board of directors' continuous follow-up of the environment, control activities, and direct contact with the internal and external auditors regarding control operations leads to improving the bank's financial performance.	**1 2 3 4 5**
MO5	The board of directors' cares about customer complaints, considers and determines their causes, and takes the necessary measures, thus improving the bank's financial performance.	**1 2 3 4 5**

Part 6: Financial Performance of Banks (FPB).

FPB1	Our bank has had valuable enhancements related to return on equity (ROE) in the last three years.	**1 2 3 4 5**
FPB2	Our bank has a better ROE compared to the previous three years.	**1 2 3 4 5**
FPB3	The rate of return on the bank's owner equity exceeds the competitive banks.	**1 2 3 4 5**
FPB4	Our bank has made a positive change in return on the owner equity compared to the previous three years.	**1 2 3 4 5**
FPB5	Our bank has had an upright improvement in ROA in the last three years.	**1 2 3 4 5**
FPB6	Our bank has made a positive change in ROI compared to the previous three years.	**1 2 3 4 5**
FPB7	Our bank has made a positive change in the profit margin of operations compared to the previous three years.	**1 2 3 4 5**
FPB8	Our bank' Profit margin from operations exceeds the competitive banks.	**1 2 3 4 5**