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THE IMPACT OF THE INTERNAL AUDIT SYSTEM ON
IMPROVING THE QUALITY OF BANKING SERVICES IN
COMMERCIAL BANKS

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Maytham Abd AL-Hussien Bandar¹, Makki qasim kuaiber², Oday Jasim Almaliki³: The Impact Of The Internal Audit System On Improving The Quality Of Banking Services In Commercial Banks

Keywords: Internal Auditing System, Quality of Banking Service.

Abstract

The study aims to identify the concept, importance and objectives of internal auditing in banks, as well as the role that internal audit plays and its impact in improving the quality of services provided by the bank to customers. To achieve the objectives of the study, the researcher used some statistical methods in calculating the validity and reliability of the research tool used in the research, such as the Cronbach alpha reliability coefficient. The researcher also used some statistical methods in verifying the validity of the hypotheses, where (57) questionnaire forms were distributed to workers in the commercial banks (13) A bank in Basra and Maysan governorate, and (49) forms were retrieved, i.e. an average of 86%. The researcher has reached the most important conclusions, namely-Lack of care on the part of the bank's administration in raising the level of scientific qualification of those holding higher degrees to work management, as well as not activating internal control systems. The researcher reached the most important recommendations, namely The necessity for the commercial bank management to select auditors from qualified people who have professional experience in the internal audit function, which is reflected in the improvement of the quality of services provided by the bank to customers.

Introduction

Auditing is considered an additional accounting method for communicating information, and increasing confidence in the information that is communicated to the target users. The audit process flourished with the emergence of the Industrial Revolution,

as the need for the formation of major industrial companies arose, and the increased interest in accounting and auditing systems together. Previously, internal audit was a simple administrative procedure consisting mainly of examining documents and assets account, and reporting to the board of directors, and internal audit currently plays an important role in directing the company's operations because it helps in auditing and evaluating financial, administrative and operational activities and provides managers at all levels with the necessary information To help achieve asset protection and monitor operations under their responsibility. Accordingly, the internal audit aims to assist the management and rationalize its decisions by giving independent and objective assurances in addition to the consultative activity that aims to increase and improve the value of operations through independent auditing and evaluation of the effectiveness of operations and control and provide management with objective analysis and suggestions (Nejem, 8: 2013).

Research Methodology

Research problem

Most banks suffer from keeping pace with recent developments of the requirements of internal audit systems, and this is reflected in the performance of the parties affected by the effectiveness of the internal control system, and among these problems is the lack of interest of the internal auditor in the importance of applying internal audit standards when preparing reports, which negatively affects the clarity and credibility of financial reports, which leads to non Enhance confidence in financial reporting. The study problem can be formulated through the following question: Does internal audit affect improving the quality of banking service?

Research objective

The main objective of the current study is the following

- 1- points Identify the concept, importance and objectives of internal auditing in banks.
- 2- Knowing the conceptual framework for the quality of banking services.
- 3- Discussing the impact of the internal audit on the quality of services provided by the bank.

Research importance

The importance of this research stems from the importance of internal audit and through :-

- 1- The main role it plays in preserving the assets and sustainability of banks.
- 2- Preserving financial resources and raising the efficiency, effectiveness and quality of control systems that can be reflected on the nature of banking services of all kinds.
- 3- The importance of implementing the internal audit dimensions, which is the main pillar of the internal auditor's work.

Research hypothesis

The main hypothesis of the research came as follows:-

- 1- There is a statistically significant correlation between internal audit in improving the quality of banking services.
- 2- There is a statistically significant impact relationship between internal audit in improving the quality of banking services.

Research method

In preparing this research, the researcher relied on the following:-

- 1- The deductive method based on the statistical measurement tools in scientific research by preparing a questionnaire to find out the opinions of a sample of the auditors in the commercial banks, which numbered (13) banks. (57) Questionnaire forms were distributed to the aforementioned sample. (49) Questionnaires were retrieved. (86%) to conduct statistical analysis and identify the results.
- 2- Scientific references and various field studies related to the subject of auditing in assessing and extracting the quality of services provided by commercial banks registered in the Iraq Stock Exchange to customers.

CONCEPTUAL FRAMEWORK FOR INTERNAL AUDITING

The concept and definition of internal audit

The IIA Board of Directors in June 1999 described internal auditing as an independent, material, and advisory activity that adds value and improves the performance of the organization. It helps the organization achieve its objectives through a systematic and disciplined method to assess and improve risk management, internal control system, and management processes (Ondieki, 2013: 3).

It is defined as: "a monitoring tool that displays the evaluation of policies, plans, and administrative procedures drawn up and a consultative function to suggest the improvements needed to be introduced (Al-Eid & Najat, 2013: 372).

It is defined as: "Ensuring that the desired performance is achieved in accordance with auditing standards, and ensuring compliance with the specific policies and procedures set in place that lead to the achievement of the tasks required of auditing (Ajila & Khaira, 2017: 64).

The researcher believes that internal auditing is a systematic process to obtain information and confirmations objectively and evaluate it in order to ensure the degree of compliance with the specified standards, and to communicate these results to management for the purpose of decision-making.

in the most dangerous and high-level areas of the facility (Makhlouf, 2007: 2) The internal audit in banks is defined as an independent function established within the bank to examine and evaluate all the internal activities of the bank, whether financial or administrative, in order to help all its employees to accomplish the duties assigned to

them, through analysis, evaluation, and providing guidance and consultations that Related to the various activities in the bank. And to ensure the optimal use of resources and capabilities, in accordance with the general policies of the bank. The internal audit unit in the bank prepares reports for the internal use of the bank to enable the management to carry out its various responsibilities, and it is based in issuing its decisions on correct information consistent with the policies, plans, procedures, and laws and regulations through which the bank operates (Amin, 1998: 255).

Types of internal audit (Modibbo, 61: 2015):-

1- Compliance Audit

This type of auditing aims to ascertain the extent of the facility's compliance with the laws, regulations, and applicable plans in force, in addition to ensuring that all compliance with the laws and instructions is carried out. Usually all audits include the element of compliance, because the auditor relies on laws, policies and regulations in measuring the organization's performance.

2- Management audit

It involves reviewing every aspect of the management activity and its goal is to ascertain whether the resources of the organization are used or not by its management in the economic manner necessary to achieve the maximum possible result in the shortest possible time to achieve the objectives of the organization.

3- Performance Audit or Operational Audit

It is an examination and audit of all the facility's various operations with the aim of ensuring their completion and implementation in accordance with the policies and plans approved by the administration, and verifying that the various administrative levels accomplish their functions and operations efficiently and effectively.

4- Financial Audit

It aims to evaluate the relevant accounting procedures and practices, the accuracy and correctness of financial data and information, and the extent to which they can be relied upon, such as ensuring the correctness of disbursements and their compliance with the laws and instructions in force within the economic unit.

Benefits of internal auditing

It means the existence of an independent department with the tasks of the internal audit function that achieves a number of benefits and benefits to the organization, which can be summarized as follows (Ajila & Khaira, 2017: 66):-

1- Internal auditing gives an indication of the extent to which the organization's goals and objectives are achieved and the extent of deviation from the objective standards. This helps the management to correct the organization's path and assist it in adopting policies, planning and making decisions.

2- The presence of the internal audit in the organization gives the advantage of continuity to the audit process, which has a psychological impact on the behavior of workers in terms of the degree of interest in performing the work required of them, which helps to suggest ways of treatment and the convergence of their occurrence in the future.

3- Reducing the costs of the external audit, by providing the internal auditor with assurances that the financial statements are free of errors. Especially with regard to evaluating the internal control system, which results in reducing the value of the external auditor's fees.

4- The ability of the internal auditor to bring about development, by dealing with various activities in the organization.

QUALITY OF BANKING SERVICE

Defining the quality of banking service

Quality of service is defined as: "A measure of the extent to which the level of quality provided matches the expectations of the beneficiary. Providing a quality service means in the end result that the service is in line with the expectations of the beneficiaries (Niley, 2016: 33). The quality of banking services is defined as "the gap between the expectation of a customer. The level of performance in providing banking service and his awareness of the actual performance that was taught during the service experience. Sometimes Overcoming It (Ould Arousi, 2015: 64).

It is defined as: "Satisfying customers' requirements, and studying the bank's ability to define these requirements and the ability to meet them. If the bank adopts a process of providing high-quality services, it must strive to outperform the customer's requirements (Al-Sarn, 7: 2005).

Quality characteristics of banking service

Five main characteristics are attributed to the quality of banking services, which are (Al-Qassem, 2012: 24):-

1- Intangible: The service does not have a physical entity, but it represents a tangible or theoretical field.

2- Diversity and homogeneity: in the sense that the service is not normative, that is, it is not measurable and highly variable because the conditions for providing the same service may differ from each time it can be provided according to the different surrounding conditions, or the different moods of each service provider or applicant.

3- Associative: the service is produced and consumed simultaneously and with the participation of the service consumer in the process. Also, the service can be separated from the entity supplying it (the service provider) as well as it is inherent to the customer who obtains that service.

4- Not to be made in advance or stored: Since the service is intangible, and it has an interrelated and interconnected characteristic, it cannot be stored and faded once it is provided, and the service is not only consumed by one individual, but it is possible

for a group of individuals to consume the service together and at the same time without its destruction such as services Transportation and railways.

5- Its inability to own: Since the service is intangible and consumed directly, it is not capable of ownership, but it may result in the transfer of the service provider's benefit to its consumer or from the service provider to another provider.

Factors of the spread of banking services

There are many factors that have contributed to the spread of the concept of services in commercial banks, the most important of which are (Fajki, 14-15: 2017):-

1- The offer of banking services shall be cautious in the sense that it is possible to increase the efficiency of the performance of existing services or to introduce new services through the existing banking units.

2- The successive social, economic and political changes, the nature of competition and the extent of this impact on the shape of banking markets.

3- The rapid development in banking activity, the multiplicity and complexity of operations, the complexity of the account burden, and the work of banks as holding companies for a larger number of companies.

4- Desire to improve the quality of banking service and thus needs special marketing efforts.

5- Banks' provision of specialized technical services, which in turn need continuous and long-term relationships.

6- Increasing the global spread of commercial banks, as many commercial banks have expanded in opening banking units for them in other countries, in provincial centers, or in banking free zones, with the aim of creating new activities that cover the objectives of their establishment in those places.

THE PRACTICAL SIDE

Discuss the results of statistical analysis and hypothesis testing

This topic presents the results of the statistical analyzes that the researchers were able to reach through the questionnaire tool that was prepared according to the study variables, where (57) questionnaires were distributed and (49) questionnaires were retrieved from them, i.e. approximately 86% of some bank employees There are 13 commercial banks in Maysan and Basra, and Table (1) shows the process of distributing the forms to the research sample.

Table(1) Research sample

No.	Research sample	No. distributed forms	No. retrieved forms	Ratio
1	Banks managers	13	11	
2	Associate managers	6	5	

3	Head of department	6	5	
4	Division officials	5	3	
5	Accountants and auditors	27	25	
	Total	57	49	86%

1- Cronbach's alpha test to find out the stability of the paragraphs of the questionnaire.

The Alpha Cronbach method was used to measure the reliability of the questionnaire, and as shown in Table (6), the reliability coefficients ranged between (0.687-0.775), which indicates that the stability coefficients are fixed for the questionnaire axes.

Table (2) Stability coefficients for the questionnaire axes

Research axes	Titles axes	Number of questions	Alpha Cronbach coefficient for stability
First axes	Internal audit	12	0,687
Second axes	Quality of banking service	10	0,775
Total		22	0,628

2- The questionnaire is valid and reliable

A- The questionnaire is validated

View the researchers questionnaire on a group of arbitrators professors who are members of the faculty in the College of Management and Economics in the departments (Business Administration and Finance and Banking) Maysan University, has been responding to the views of teachers and the attic were deleted and modified paragraphs of the questionnaire and were thus out form the final questionnaire.

B- Validate the internal consistency of the paragraphs of the questionnaire

The internal consistency of the questionnaire items was calculated for the study sample of 22 items, as well as the correlation coefficient between all those items.

First: - The first axis (internal audit)

As table (3) includes the results of the sample members answers about the extent of acceptance or rejection of the study sample members for the items of the first axis, using the sample t-test.

Table(3) One-Sample Test

NO.	Particle	Arithmetic	standard	t-test
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		average	deviation	
1	sufficiency	3.5465	1.02674	32.534
2	Iraqi banks adopt certain procedures to achieve the verification and evaluation function of compliance and include all financial events in the accounting and financial records	3.4663	0.98737	27.022
3	The ultimate goal of the internal auditor's report, as a product of verifications, testing and evaluation, is to provide information to decision makers on time	3.5444	.97865	28.876
4	The ultimate goal of the internal auditor's report, as a product of verifications, testing and evaluation, is to provide predictive power for decision makers	3.7322	.92312	31.651
5	Planning the internal audit activity is a necessity to develop goals, define the scope of work, and obtain sufficient information to form a background on the activities to be audited	3.9743	.93131	32.087
6	Internal auditing is a feedback tool, and its outputs are inputs restarted by top management to product new recommendations that positively impact related processes and activities	3.6734	.86734	33.940
7	Iraqi banks adopt internal audit procedures that lead to the production of reliable data and information	3.8819	.94178	32.899
8	Iraqi banks adopt internal audit procedures that lead to the production of impartial data and information by the person performing the measurement.	3.8463	1.00321	29.890
9	Iraqi banks adopt internal audit procedures that lead to the production of impartial data and iformation through measurement tool	4.0125	.82841	40.524

10	Iraqi banks have adopted their own accounting procedures that produce common bias data and information	4.3455	.85732	41.980
11	Iraqi banks adopt internal audit procedures that lead to the production of verifiable data and information	3.8596	0.31169	39.990
12	Iraqi banks adopt internal audit procedures that lead to the production of reliable data and information by users	3.5465	1.02674	40.285
	Total	3.4663	0.98737	

Table (3) shows that all the paragraphs of the axis got a higher arithmetic mean than the adult default arithmetic mean, as the arithmetic means ranged (4.3455 - 3.4663), and the standard deviation of the axis paragraphs ranged between (1.09237 - .70448). As for the t score for the axis paragraphs, it ranged between (41.980 - 27.022), which is higher than the tabular t score, and the level of significance for all paragraphs of the axis is at the level of 0.00 which is less than 0.05. As for the axis in general, the trend of the respondents' responses towards agreement strongly, as the arithmetic mean and the standard deviation of the axis, respectively, reached 3.8596 - .3169, that is, they strongly support the importance of the role of internal audit.

Second:- The Second axis: - (Quality of banking services)

Table (4) One-Sample Test

NO.	Particle	Arithmetic average	standard deviation	t-test
1	The quality of services for commercial banks contributes to the increase in real gross domestic product through the loans and investments they grant	3.8176	.90988	33.581
2	Commercial banks need special marketing efforts in order to improve the quality of banking services	3.6509	.85995	31.688
3	Commercial expenses use different methods in order to define target market segments and determine the changing customer needs	3.9145	1.01658	29.624

4	The marketing services of banks contribute to the establishment of industrial projects in the form of joint-stock companies after verifying their economic and technical feasibility	4.1098	.87564	33.973
5	Commercial banks follow the best practices in the field of providing services, including deposits, loans, ATMs, and others	4.2001	.81237	36.824
6	Commercial banks continue to spend some costs in order to find appropriate solutions when there are problems related to the customer	3.7854	.85118	33.981
7	Commercial banks adopt best marketing practices in the field of lending and investment in order to achieve customer satisfaction	4.1748	.81561	38.089
8	Leading to fundamental changes in the strategy and methods of marketing banking services to attract new customers and clients	4.2345	1.12854	31.751
9	Workers in commercial banks contribute to improving or developing the banking services provided to customers or clients	4.1098	.78729	38.816
10	Bank management changes its practices when the feedback from customers or clients indicates the need for change	3.7428	1.23100	23.847
		3.9742	0.30960	

Table (4) shows that all the paragraphs of the axis obtained a higher arithmetic mean than the default arithmetic mean of adults, as the arithmetic means ranged from (4.2345-6509 3.) and the standard deviation of the axis paragraphs ranged between (1.23100 - .78729). As for the t score for the axis paragraphs, it ranged between (38.089 - 23.847), which is higher than the tabular t score, and the level of significance for all paragraphs of the axis is at the level of 0.00 which is less than 0.05. As for the axis in general, the trend of the respondents' responses towards agreement was strong, as the

arithmetic mean and the standard deviation of the axis, respectively, reached 3.9742-30960 .

That is, they strongly support the role of internal auditing in improving the quality of banking services.

A- Test the validity of the study hypotheses

For the purpose of testing the extent of acceptance or rejection of the research hypotheses, the researchers used correlation analysis and regression analysis of the relationship between the dependent variable, the quality of banking services, and the independent variable internal auditing, using the statistical software package SPSS, as follows:

The first hypothesis: There is a positive moral correlation between internal audit and improving the quality of banking services.

1- Pearson correlation coefficient

Table (5) shows the values of the Pearson correlation coefficient for the relationship between the dependent variable, quality of banking services, and the independent variable, internal audit.

Table (5) Pearson Correlation Coefficient

Correlations			
		M.P.S	M.S.B
Internal audit	Pearson Correlation	1	.767**
	Sig. (2-tailed)		.000
	N	49	49
QBS	Pearson Correlation	.767**	1
	Sig. (2-tailed)	.000	
	N	49	49
**. Correlation is significant at the 0.01 level (2-tailed).			

It is seen from the table above there is a correlation between a positive moral independent variable (internal audit) of the quality of banking services(dependent variable). This proves the first hypothesis (the existence of a correlation statistically significant between internal audit and improve the quality of banking services).

2- Corrected coefficient of determination (to test the second hypothesis: the existence of an impact relationship between internal audit in improving the quality of banking services)

Table (6) includes the calculation of the corrected coefficient of determination

Table (6) Corrected Determination Coefficient

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.767a	.585	.577	.23765
a. Predictors: (Constant), internal audit				

Clear from the above table that the debugger value of the coefficient of determination is equal to 0577 and represents the ability of the independent variable to interpret and explain the overall change in the dependent variable values the quality of banking services, and the rest of the percentage is due to random error in the estimate or not independent variables included in the model

3- ANOVA test: The following table shows the results of the ANOVA test for the regression equation ;

Table (7) analysis of variance test

ANOVAa						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.395	1	4.395	76.859	.000b
	Residual	3.025	48	.053		
	Total	7.330	49			
a. Dependent Variable: QBS						
b. Predictors: (Constant), Internal Audit						

It is evident from the previous table that the value of the (F) test is 76.859, with a significance level less than 0.05, which indicates the significance of the statistical model used, and confirms the effect of the independent variable internal audit on the dependent variable improving the quality of banking services, meaning that the degree of internal audit has a material effect. On the quality of banking services, at a level of morale less than 0.05.

The regression equation: The following table represents the regression equation

Table (8) regression model coefficients

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.618	.360		1.695	.089
	Internal audit	.808	.085	.767	8.775	.000
a. Dependent Variable: QBS						

The above table shows the significance of the independent variable, internal audit, using a t-test with a significance level less than 0.05,

which is consistent with the results of the previous correlation analysis

From the previous countries, the values of the parameters of the regression equation can be deduced as follows ;

$$QBS = .618 + .808 \text{ Internal Audit}$$

From the above, it becomes clear that the second hypothesis is correct, that there is a positive moral impact relationship between internal audit in improving the quality of banking services.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Through statistical analyzes of the questionnaire questions, periodic reviews of the research, and personal interviews that the researcher conducted with some managers and workers (accountants and auditors) in commercial banks, the following conclusions were reached.

- 1- Internal auditing is a systematic process to obtain information and confirmations objectively and evaluate it in order to ensure the degree of compliance with the established standards, and to communicate these results to management for the purpose of decision-making.
- 2- Commercial banks need special efforts in order to further improve the quality of banking services by supporting them with human cadres who have professional service and experience in the field of banking auditing.
- 3- Lack of care on the part of the bank's administration in raising the level of scientific qualification of those holding higher degrees to work management, as well as not activating internal control systems.
- 4- There is a significant link between internal audit in improving the quality of banking services.
- 5- There is a significant impact between internal audit in improving the quality of banking services.

RECOMMENDATIONS

- 1- The necessity for the commercial bank management to select auditors from qualified people who have professional experience in the internal audit function, which is reflected in the improvement of the quality of services provided by the bank to customers.
- 2- Spreading investment awareness about commercial banks through media channels and social media technologies in order to attract new clients and customers. Spreading investment awareness about commercial banks through media channels and social media technologies in order to attract new clients and customers.
- 3- The necessity for commercial banks to conduct periodic procedures through which the internal control systems are examined in terms of identifying their strengths and weaknesses.

- 4- The need to implement the internal audit system and the quality of banking services, as they have a moral link in activating the work of commercial banks.
- 5- The necessity to implement the internal audit system and the quality of banking services, as they have a significant impact on activating the work of commercial banks.

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