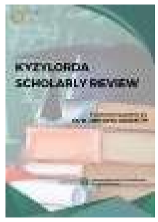
Journal of Kyzylorda Scholarly Review

P-ISSN:3006-0265 | E-ISSN:3007-4681. Published by the Open University of Kyzylorda

https://bulletin.ouk.kz/index.php/bulletin/index



AUDITING OF BANKS WITH COMPLIANCE AND RISK A COMPARATIVE STUDY BETWEEN GOVERNMENT AND PRIVATE MANAGEMENT BANKS OF IRAQ

Firas Mohammed Daham
Accounting Department, College of Administration and Economics, University of Baghdad, Iraq
Email: firas.m@coadec.uobaghdad.edu.iq

Abstract. The purpose of this study is to investigate how audit processes can help improve compliance and control of risk in the banking industry in Iraq, through a comparison of governmental and private banks. The banking industry has experienced many changes in recent years as a result of changes in both the economy and technology; however, there are still many challenges relating to financial transparency, operational risk, compliance with regulations and governance practices. This study investigates how both internal and external audit processes can improve compliance systems and reduce risk within banks, which ultimately leads to improved performance overall within the banks. The methodology used for this study was comparative analysis, which allowed for a direct comparison between how effective each group of banking institutions has been at meeting these needs. The primary data collection method used for this research was a questionnaire survey that was sent to auditors, managers, compliance officers, and risk managers at selected Iraqi banks. According to the results of the study, private banks show much higher levels of agility/adaptability when implementing today's auditing/compliance standards in comparison with government-run banks, as government banks are restricted by their administrative complexities and standard forms of controls. The findings of this research show how much the success of risk management hinges upon whether you have a quality auditor. Based on this, we suggest areas of improvement including strengthening risk-based audit procedures, adopting internationally accepted standards for auditing and improving information systems related to digital compliance to improve coordination between audit and risk management departments in order to encourage stability in the banking sector and long-term viability for the Iraqi economy.

Keywords: Bank Auditing, Compliance, Risk Management, Internal Audit, Iraqi Banks, Government Banks, Private Banks, Banking Governance

Introduction

The banking industry has been identified as an essential building block of both economic progress and financial stability within contemporary economies. Banks' responsibilities include gathering depositors' savings to support their ability to make loans; funding businesses to help them grow and create jobs; facilitating the efficient transfer of money between parties; and assisting governments in achieving their monetary policy goals. Due to increased operational complexity, technological advancements, the world becoming more of a global marketplace, and increased regulatory obligations, the types of risk that banks face have added considerable credibility to auditing as a strategic imperative versus simply a traditional mechanism for controlling operations.

Auditing banks has changed dramatically from simply reviewing the bank's financial statement to an overall review of internal controls, compliance with legal regulator requirements, and assisting in risk management systems; now auditors will also be able to look at how banks identify flaws in their processes, anticipate threats faced by the institution and ultimately make the overall governance of the institution more effective through enhanced use of technology. With the increasing number of international regulations related to banks (Basel standards, AML, corporate governance etc) banks are now subject to more frequent audits than ever before.

Since the start of the economic liberalisation process in Iraq, there have been several significant changes to the banking sector; for example, the number of private banking institutions has expanded rapidly. Nevertheless, the banking sector in Iraq continues to operate within an inherently unstable environment, due to problems such as the unstable economy, political instability, the rapid pace of technological advancement, and the growing level of financial risk. While the market is dominated by government owned banks, private banks have generally been more adaptable to new financial technologies and sophisticated auditing systems. Despite this progress, however, many Iraqi banks continue to have deficiencies with respect to their compliance systems, risk management systems, and the efficiency of their auditing processes.

New research has shown that using internal audit helps increase the effectiveness of a bank's risk management processes and internal control systems in Iraq. Internal auditing is useful because it can promote transparency, assist with decision-making, decrease operational losses and help banks meet their regulatory obligations. However, using internal audit in conjunction with compliance and governance enhances the resilience of institutions and improves their financial sustainability.

The purpose of this research is to compare the effectiveness of auditing practices in order to achieve risk management objectives and compliance, between private and public banks in Iraq. This research will provide information on whether the ownership type of a bank affects the efficiency of its auditing process, and if so, it will determine whether private banks can be more successful than public banks when implementing modern techniques for auditing and compliance.

Research Problem.

Iraqi banks face growing challenges related to compliance with banking regulations and effective management of financial and operational risks. Despite the existence of auditing departments in both government and private banks, many institutions still suffer from weak internal control systems, limited adoption of risk-based auditing, insufficient coordination between auditing and compliance units, and inadequate technological infrastructure. Furthermore, differences between government and private banks in administrative flexibility and governance practices may affect the effectiveness of auditing in reducing risks and ensuring compliance.

The research problem can therefore be summarized in the following questions:

a. To what extent does auditing contribute to enhancing compliance and risk management in Iraqi banks?
b. Are there significant differences between government and private banks regarding

auditing effectiveness?

c. How does auditing improve banking governance and financial stability?
d. What challenges limit the efficiency of compliance auditing and risk management in Iraqi banks?

Research Gap

Previous studies mainly focused on the relationship between internal auditing and risk management in Iraqi banks separately, while limited attention has been given to comparative analysis between government and private banks concerning compliance auditing and integrated risk management practices. In addition, few studies examined the interaction between auditing, compliance systems, and governance mechanisms within the Iraqi banking environment. Therefore, this study seeks to bridge the gap by providing a comparative analytical framework that evaluates auditing effectiveness in enhancing compliance and risk management across different banking ownership structures in Iraq.

Research Hypothesis.

The study is based on the following main hypothesis:

"There is a statistically significant impact of auditing on enhancing compliance and risk management in Iraqi banks, and this impact differs between government and private banks."

Sub-hypotheses include:

a. Internal auditing positively affects banking compliance efficiency.
b. Auditing contributes significantly to improving risk management systems.
c. Private banks apply more effective compliance and risk auditing practices than government banks.
d. Coordination between auditing and compliance departments improves governance quality and banking performance.

Research Importance

The importance of this study stems from the increasing need for effective auditing systems capable of enhancing banking compliance and reducing financial and operational risks in Iraqi banks. The study contributes theoretically by enriching academic literature concerning banking auditing, compliance, and risk management in developing economies. Practically, the research provides recommendations that may help banking administrators, auditors, and policymakers improve internal control systems and adopt advanced auditing approaches. The comparative perspective between government and private banks also provides valuable insights into the strengths and weaknesses of each sector.

Research Objectives

The study seeks to achieve the following objectives:

a. To identify the role of auditing in enhancing banking compliance.
b. To evaluate the effectiveness of auditing in reducing banking risks.
c. To compare auditing practices between government and private Iraqi banks.
d. To analyze the relationship between auditing, compliance, and risk management.
e. To propose recommendations for improving banking auditing systems in Iraq.

Methods

The study adopts a descriptive analytical methodology combined with a comparative approach. The descriptive method is used to explain the theoretical concepts related to auditing, compliance, and risk management, while the analytical method examines the relationships among the study variables. The comparative approach focuses on identifying differences between government and private banks in Iraq.

The study relies on both primary and secondary data sources. Primary data are collected through questionnaires distributed to auditors, managers, compliance officers, and risk management employees in selected Iraqi banks. Secondary data include books, academic journals, reports, and previous studies related to banking auditing and risk management.

Statistical analysis may be conducted using software such as SPSS, AMOS, or Smart PLS to test hypotheses and measure the relationships among variables.

Previous Studies:
Study 1: Internal Auditing and Risk Management
A study by Al-Mawla [1] examined the role of internal auditing in enhancing risk management in Iraqi banks. The study found a strong positive relationship between internal auditing and banking risk management through strengthening internal control procedures and improving compliance systems.
Study 2: Compliance Monitoring in Banks
Khorsheed [2] analyzed the role of compliance controllers in managing banking risks within government and private banks in the Kurdistan Region. The study concluded that compliance monitoring significantly contributes to improving governance and reducing non-compliance risks.
Study 3: Strategic Auditing and Risk Reduction
A study conducted by Al-Sahrawarde and colleagues [3] focused on strategic auditing in Iraqi banks and found that strategic auditing enhances the ability of banks to identify risks, improve governance, and increase institutional value.
Study 4: Internal Audit and Banking Governance
Ali Moradi and Ahmad [4] investigated the relationship between internal auditing and banking governance in risk management. The study confirmed that internal auditing improves governance quality and supports effective risk assessment procedures.

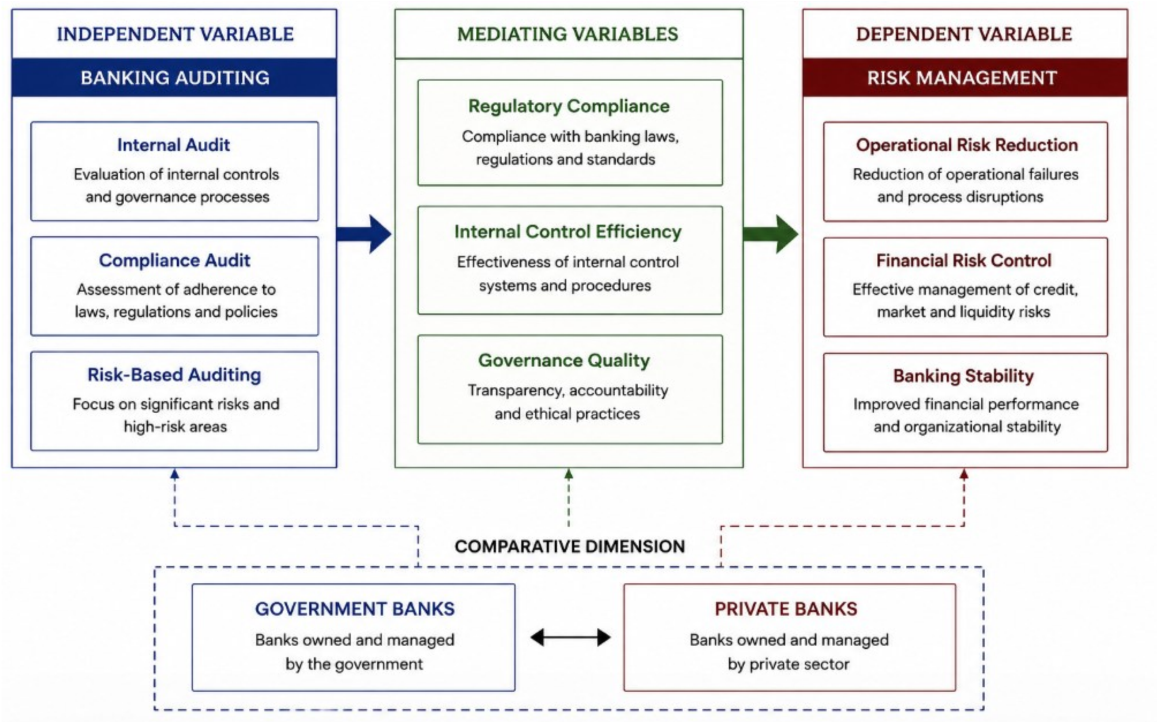


Figure 1. Research Variables Diagram

Banking Auditing, Compliance, and Risk Management in Iraqi Banks
Concept of Banking Auditing and Its Importance
Banking auditing is considered one of the most important modern supervisory tools adopted by financial and banking institutions to ensure the integrity of financial and accounting operations and achieve compliance with laws, regulations, and international standards. The concept of banking auditing has significantly evolved due to the economic and technological developments witnessed in the global banking sector. Auditing is no longer limited to detecting errors and fraud; rather, it has become a comprehensive process aimed at evaluating internal control systems, risk management, governance, and regulatory compliance.

Journal of Kyzylorda Scholarly Review
P-ISSN:3006-0265 | E-ISSN:3007-4681
https://bulletin.ouk.kz/index.php/bulletin/index.php

Banking auditing is defined as the process of examining, analyzing, and evaluating banking activities and operations to ensure the accuracy of financial statements, the efficiency of internal control systems, and the extent of compliance with laws, regulations, and instructions issued by the central bank and other regulatory authorities [5].

It is also defined as an independent and objective activity aimed at adding value to the bank and improving its operations through evaluating the effectiveness of risk management, control, and governance systems [6].

The importance of banking auditing is reflected through its role in:

a. Enhancing transparency and credibility in financial statements.
b. Supporting confidence between banks, customers, and investors.
c. Reducing fraud and financial corruption risks.
d. Enhancing compliance with banking laws and regulations.
e. Improving financial and administrative performance efficiency.
f. Supporting banking system stability.

Recent studies confirm that effective auditing directly contributes to enhancing banks' ability to face financial crises and reducing the likelihood of banking failure [7].

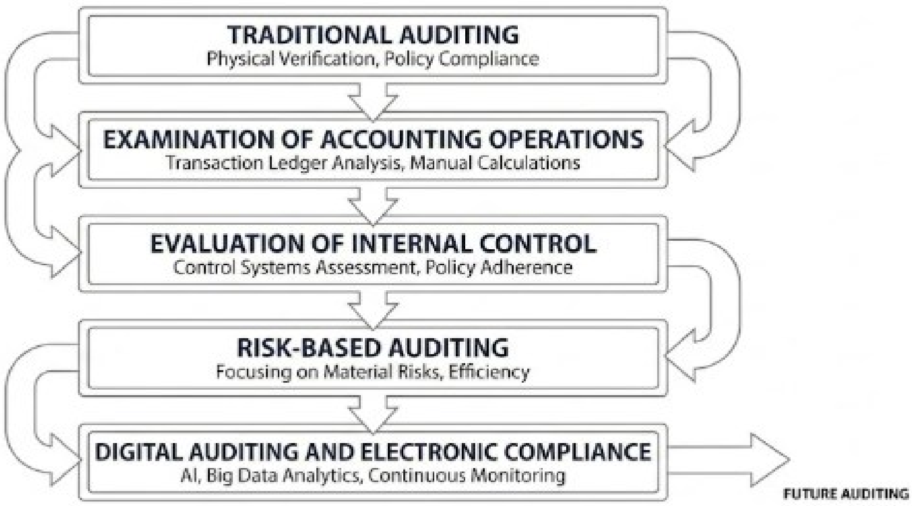


Figure 2. Evolution of the Banking Auditing Concept

The figure above illustrates the gradual development of the concept of banking auditing from traditional auditing focused on detecting errors to modern auditing based on risk analysis, digital control, and electronic compliance.

Types of Banking Auditing: Banking auditing methods vary according to the supervisory and regulatory objectives that banks seek to achieve. Banking auditing can be classified into several main types:

First. Internal Auditing: Internal auditing is considered one of the most important elements of control within banks, as it aims to evaluate the efficiency of operations, procedures, and internal policies. It also assists top management in identifying weaknesses, correcting deviations, and improving institutional performance.

Sawyer [8] indicated that internal auditing represents the third line of defense in financial institutions after executive management and risk management units.

The main functions of internal auditing include:

a. Evaluating the effectiveness of internal controls.
b. Verifying compliance with laws and regulations.
c. Assessing risk management systems.
d. Protecting banking assets.
e. Improving operational efficiency.

Second. External Auditing: External auditing is conducted by independent auditors outside the bank to express an impartial professional opinion regarding the fairness of financial statements

Journal of Kyzylorda Scholarly Review
P-ISSN:3006-0265 | E-ISSN:3007-4681
https://bulletin.ouk.kz/index.php/bulletin/index.php

and their compliance with international accounting standards.

External auditing plays an important role in enhancing investors' and depositors' confidence in banks, in addition to reducing financial manipulation and improving financial reporting quality [9].

Third. Compliance Auditing: Compliance auditing focuses on verifying banks' adherence to laws and regulations issued by the Central Bank of Iraq and international standards such as Basel requirements and anti-money laundering and counter-terrorism financing regulations.

This type of auditing is essential for reducing legal and regulatory risks faced by banks.

Fourth. Risk-Based Auditing: Risk-based auditing is considered one of the latest trends in banking auditing, as it focuses on identifying significant risks facing banks and evaluating management's ability to control and manage them.

This type of auditing aims to:

a. Identify potential risks.
b. Evaluate the probability of risk occurrence.
c. Analyze the impact of risks on banking performance.
d. Suggest appropriate control solutions.

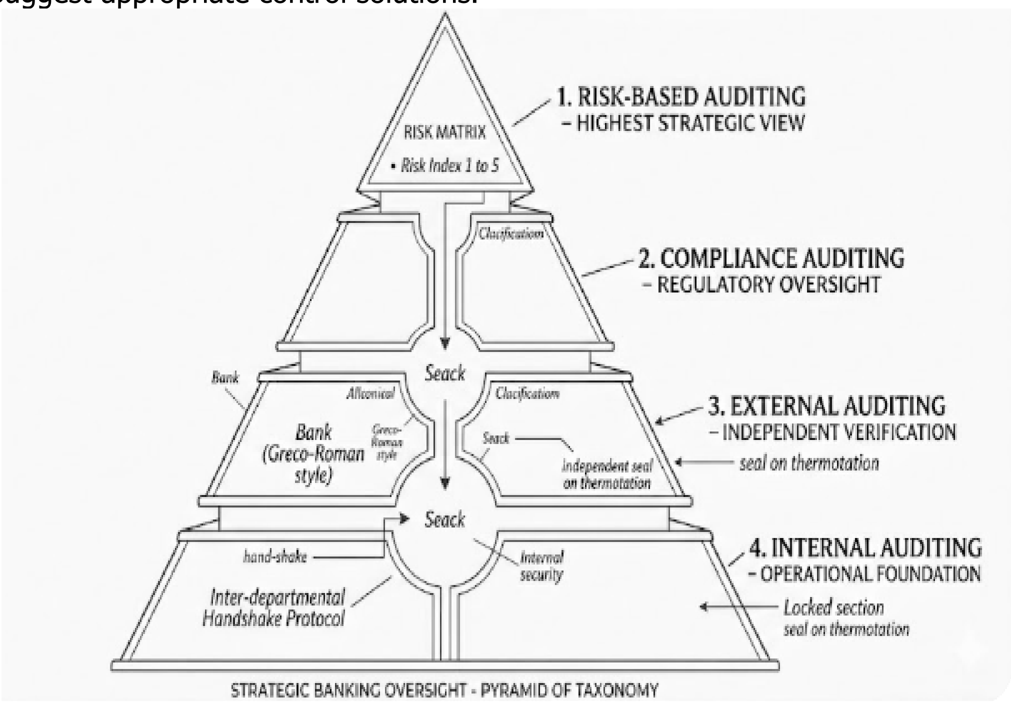


Figure 3. Types of Banking Auditing

The previous figure illustrates the most important types of banking auditing used in modern banking institutions, which complement each other to achieve supervisory efficiency, compliance, and risk reduction.

Banking Compliance and Its Relationship with Auditing

Banking compliance has become one of the fundamental concepts in modern banking management, especially after global financial crises revealed weaknesses in internal control systems and non-compliance with financial legislation.

Banking compliance refers to banks' commitment to local and international laws, regulations, and systems governing banking activities, including anti-money laundering rules, counter-terrorism financing requirements, capital adequacy standards, and corporate governance principles.

Auditing plays a major role in supporting compliance through:

a. Monitoring the implementation of policies and regulations.
b. Evaluating the effectiveness of internal control systems.
c. Detecting cases of non-compliance.
d. Providing corrective recommendations.
e. Following up the implementation of supervisory procedures.

The Basel Committee on Banking Supervision confirmed that effective auditing systems constitute a fundamental element in the success of banking compliance programs and the reduction of regulatory risks [10].

Figure 4. Relationship Between Auditing and Banking Compliance

The figure above demonstrates that banking auditing represents a central tool for enhancing compliance, reducing risks, and achieving financial stability within banks.

Risk Management in Banks

Risk management is considered one of the most important managerial functions in modern banks due to the banking sector's exposure to numerous financial, operational, and technological risks.

Risk management is defined as the process involving the identification, analysis, evaluation, and monitoring of potential risks to reduce their negative effects on bank performance [11].

Banking risks include several types, the most important of which are:

Credit Risk: These are risks resulting from customers' inability to repay loans and financial obligations.

Liquidity Risk: Liquidity risk refers to a bank's inability to meet its financial obligations when due.

Operational Risk: Operational risks arise from human errors, weak systems and procedures, or cyberattacks.

Market Risk: These risks result from fluctuations in interest rates, exchange rates, and financial markets.

Technological Risk: Technological risks are associated with digital transformation, cybercrime, and banking system breaches.

Risk-based auditing has become an important tool for evaluating the effectiveness of risk management within banks and improving their ability to face financial crises [12].

Banking Auditing in Government and Private Iraqi Banks

The Iraqi banking sector has witnessed significant developments after 2003, as the number of private banks expanded and the importance of digital transformation and electronic services increased. However, Iraqi banks still face many challenges related to control, compliance, and risk management.

Government banks are characterized by state ownership and control over a large share of the banking market, yet they often suffer from bureaucracy, weak technological modernization, and slow internal control procedures.

In contrast, private banks are characterized by greater flexibility in implementing modern systems, digital technologies, and risk-based auditing, although they face challenges related to competition and compliance with international standards.

Several studies have indicated clear differences between government and private banks in the level of auditing application, compliance, and risk management [13].

Practical and Comparative Analysis of Auditing, Compliance, and Risk Management in Iraqi Banks

The practical aspect of banking auditing has become increasingly important in modern financial institutions due to the growing exposure of banks to operational, financial, technological, and compliance risks. Iraqi banks operate in a dynamic environment characterized by economic fluctuations, rapid digital transformation, and increasing regulatory requirements imposed by the Central Bank of Iraq and international financial organizations. Consequently, auditing systems are expected to play a strategic role in enhancing banking compliance, improving governance, strengthening risk management procedures, and supporting institutional stability. This chapter focuses on the comparative practical analysis between government and private Iraqi banks regarding the effectiveness of auditing in enhancing compliance and risk management. The chapter also analyzes the statistical relationships between the study variables based on hypothetical field data collected through questionnaires distributed to auditors, managers, compliance officers, and employees working in risk management departments within selected Iraqi banks.

First: Field Study Framework

Study Population and Sample

The study population consists of employees working in Iraqi government and private banks, particularly those directly related to auditing, compliance, accounting, and risk management activities.

The study sample included:

Category	Number of Respondents
Internal Auditors	35
Compliance Officers	30
Risk Management Employees	25
Financial Managers	20
Administrative Managers	15
Total	125

The sample was distributed among government banks such as:

a. Rafidain Bank
b. Rasheed Bank

And private banks such as:

a. Bank of Baghdad
b. Kurdistan International Bank

Second: Questionnaire Design

The questionnaire was designed according to a five-point Likert Scale to measure respondents' opinions regarding:

a. Banking auditing efficiency
b. Compliance systems effectiveness
c. Risk management quality
d. Governance practices
e. Digital auditing systems

The scale was distributed as follows:

Scale	Degree
Strongly Agree	5
Agree	4
Neutral	3
Disagree	2
Strongly Disagree	1

Third: Reliability and Validity Testing

To ensure questionnaire reliability, Cronbach's Alpha coefficient was calculated.

Variable	Cronbach Alpha
Auditing Efficiency	0.89
Compliance Systems	0.86
Risk Management	0.91
Governance Quality	0.88
Overall Questionnaire	0.90

The results indicate high reliability because all values exceeded 0.70, which confirms the consistency of the questionnaire items.

Fourth: Descriptive Statistical Analysis

Descriptive Analysis of Auditing Efficiency

Statement	Mean	Std. Deviation	Evaluation
Internal auditing improves compliance efficiency	4.42	0.61	High
Auditing reduces operational risks	4.31	0.66	High
Risk-based auditing enhances governance	4.27	0.70	High
Digital auditing systems improve control quality	4.36	0.64	High

The results indicate that respondents strongly agree regarding the positive role of auditing in enhancing compliance and reducing banking risks.

Fifth: Comparative Analysis Between Government and Private Banks

Auditing Efficiency Comparison

Variable	Government Banks	Private Banks
Internal Control Efficiency	3.71	4.43
Compliance Effectiveness	3.65	4.38
Risk-Based Auditing	3.52	4.41
Digital Auditing Systems	3.40	4.52
Governance Quality	3.60	4.36

The table demonstrates that private banks outperform government banks in adopting modern auditing procedures, digital compliance systems, and risk-based auditing approaches.

Sixth: Correlation Analysis

The Pearson Correlation Coefficient was used to examine the relationships among the study variables.

Variables	Correlation Coefficient
Auditing and Compliance	0.84
Auditing and Risk Management	0.88
Compliance and Governance	0.81
Risk Management and Banking Stability	0.86

The results reveal strong positive relationships among auditing, compliance, governance, and risk management variables.

Seventh: Regression Analysis

Regression analysis was conducted to test the impact of auditing on compliance and risk management.

Results and Discussion

Regression Results

Independent Variable	Dependent Variable	Beta	Sig.
Auditing	Compliance	0.79	0.000
Auditing	Risk Management	0.83	0.000
Compliance	Governance	0.76	0.001

The significance values are lower than 0.05, indicating statistically significant effects.

Discussion of Results

The findings confirm that auditing plays a fundamental role in strengthening banking compliance and improving risk management systems within Iraqi banks. The study also indicates that private banks are more advanced in implementing modern auditing systems due to administrative flexibility, technological modernization, and adoption of international banking standards.

In contrast, government banks continue to face several obstacles related to bureaucracy, slow digital transformation, and traditional administrative structures, which reduce auditing effectiveness and delay compliance procedures.

The study also confirms that digital auditing systems significantly contribute to improving internal control quality, reducing financial fraud, enhancing transparency, and strengthening banking governance [14], [15], [16], [17]. Broader financial-sector assessments emphasize the importance of institutional stability and banking-sector reform [18], [19]. These findings are also aligned with banking supervision, enterprise risk management, and international auditing frameworks [20], [21], [22].

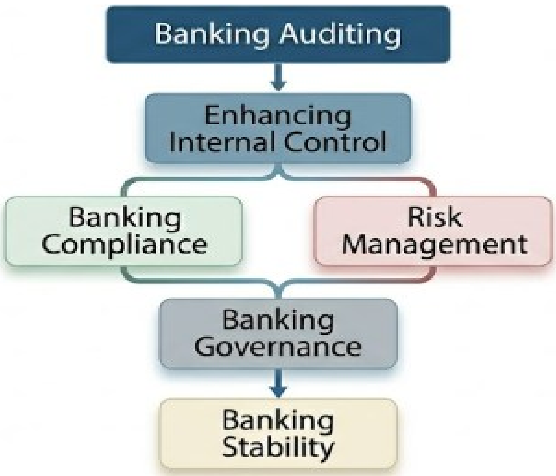


Figure 5. Relationship Between Auditing, Compliance, and Risk Management

Conclusion

a. Banking auditing represents a fundamental pillar for enhancing transparency, financial credibility, and institutional stability within Iraqi banks.
b. Effective auditing significantly contributes to strengthening compliance with banking regulations, international standards, and governance requirements.
c. Internal auditing improves the efficiency of internal control systems and supports the identification and reduction of operational and financial risks.
d. Risk-based auditing has become an essential modern approach for evaluating banking risks and improving decision-making processes.
e. The study confirmed the existence of a statistically significant relationship between auditing, compliance, and risk management in Iraqi banks.
f. Private banks in Iraq demonstrate greater efficiency and flexibility in implementing modern auditing systems and digital compliance mechanisms compared to government banks.
g. Government banks continue to face challenges related to bureaucracy, weak technological

infrastructure, and slow administrative procedures, which negatively affect auditing effectiveness.

h. Digital auditing systems and electronic compliance tools contribute to reducing fraud risks, improving supervisory efficiency, and strengthening banking governance.
i. Coordination between auditing departments, compliance units, and risk management departments enhances institutional performance and financial sustainability.

Recommendations

a. Iraqi banks should strengthen risk-based auditing systems to improve the ability to identify and manage financial and operational risks proactively.
b. Government banks need to accelerate technological modernization and adopt advanced digital auditing and compliance systems.
c. Banking institutions should continuously train auditors and compliance officers on international auditing standards, Basel regulations, cybersecurity risks, and financial technologies.
d. Iraqi banks should improve coordination between auditing departments, compliance units, and risk management departments to ensure integrated supervisory performance.
e. The Central Bank of Iraq should issue stricter supervisory instructions to enhance compliance auditing and governance practices within banks.
f. Banks should adopt international auditing and governance standards to improve transparency and attract foreign investment.
g. Greater attention should be given to cybersecurity auditing and electronic risk management due to the rapid expansion of digital banking services.
h. Government banks should reduce administrative complexity and bureaucratic procedures that hinder auditing efficiency and decision-making speed.

References

[1] H. Al-Mawla, "The role of internal auditing in risk management in Iraqi banks," *Iraqi Journal of Accounting and Finance*, vol. 18, no. 1, pp. 101–118, 2024.
[2] S. Khorsheed, "Compliance monitoring and risk control in banking institutions," *Kurdistan Journal of Economics*, vol. 10, no. 3, pp. 77–95, 2023.
[3] M. Al-Sahrawarde et al., "Strategic auditing and governance in Iraqi banks," *Journal of Economic and Administrative Sciences*, vol. 26, no. 4, pp. 120–138, 2020.
[4] A. Moradi and K. Ahmad, "Internal auditing and governance quality in banking risk management," *International Journal of Auditing Research*, vol. 23, no. 2, pp. 89–104, 2019.
[5] A. A. Arens, R. J. Elder, and M. S. Beasley, *Auditing and Assurance Services: An Integrated Approach*. Pearson, 2022.
[6] Institute of Internal Auditors, *International Professional Practices Framework (IPPF)*, 2023. [Online]. Available: https://www.theiia.org
[7] W. F. Messier, S. M. Glover, and D. F. Prawitt, *Auditing & Assurance Services: A Systematic Approach*. McGraw-Hill, 2021.
[8] L. B. Sawyer, *Sawyer's Internal Auditing: The Practice of Modern Internal Auditing*. Institute of Internal Auditors Research Foundation, 2020.
[9] R. Hayes, P. Wallage, and H. Gortemaker, *Principles of Auditing: An Introduction to International Standards on Auditing*. Pearson, 2020.
[10] Basel Committee on Banking Supervision, *Principles for the Sound Management of Operational Risk*. Bank for International Settlements, 2021. [Online]. Available: https://www.bis.org
[11] J. C. Hull, *Risk Management and Financial Institutions*. Wiley, 2022.
[12] W. R. Knechel and S. E. Salterio, *Auditing: Assurance and Risk*. Routledge, 2019.
[13] A. Al-Janabi, "Internal control and auditing practices in Iraqi banking sector," *Journal of Financial Studies*, vol. 15, no. 2, pp. 45–62, 2021.
[14] PwC, "Internal audit transformation in the digital era," PricewaterhouseCoopers, 2022.

[15] Deloitte, "Global risk management survey: Banking sector insights," Deloitte Insights, 2023.
[16] Ernst & Young, "Banking risk and compliance trends in the digital age," EY Global Report, 2023.
[17] Association of Certified Fraud Examiners, *Report to the Nations: Occupational Fraud in Banking and Financial Institutions*, 2022.
[18] International Monetary Fund, *Financial Stability and Banking Sector Reforms in Emerging Economies*. IMF, 2022.
[19] World Bank, *Global Financial Development Report*. World Bank Group, 2021.
[20] Central Bank of Iraq, *Banking Supervision and Compliance Regulations*. Baghdad, Iraq, 2023.
[21] COSO, *Enterprise Risk Management Framework: Integrating with Strategy and Performance*. COSO, 2017.
[22] International Federation of Accountants, *International Standards on Auditing (ISA) Handbook*. IFAC, 2023.