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Research Paper

The impact of the relationship between supervisors of commercial banks and the work of the external auditor, a study according to the international auditing standard (1004)

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ABSTRACT

Purpose: This study aims to shed light on the relationship between the supervisors of commercial banks and the external auditor according to the international auditing standard 1004, and the complementary role between them. Reasonable whether the information contained in the basic accounting records and other sources of information is reliable and sufficient to prepare the financial statements.

Theoretical framework: The theoretical framework of the study included several topics that were addressed to add introductory frameworks on the role of supervisors of the commercial bank, the elements of independence, objectivity and integrity of the independent external auditor, the responsibility of the bank's management and the relationship between bank supervisors and external auditors.

Practical & Social implication: The supervisors of commercial banks whose main goal is to enhance the confidence of all parties related to the banking system. Therefore, they monitor the viability of the commercial bank at present and in the future in implementing its various activities by relying on the report of the external auditor on the financial position of the bank. Now the latter also takes into account the verification procedures. From the bank's commercial continuity in carrying out its current and future activities.

Implications/Originality/Value: The possibility of activating the relationship between the supervisors of commercial banks in the Iraqi environment and the role played by the independent external auditor, as the supervisor is interested in maintaining a sound system of internal control as a basis for safe and careful management of the bank's business, but the auditor is interested, in most circumstances, in assessing control to determine the degree of its dependence in planning and executing its work .

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1. INTRODUCTION

Supervisors of commercial banks need periodic data on the workflow within the bank to check on the proper use of material resources and take decisions aimed at correcting deviations or errors that occur during the implementation of the bank's activities, as well as making sure that the financial statements of the bank fairly represent the financial position of the bank and the results of its activity. In accordance with generally accepted accounting principles, and this responsibility includes ensuring the presence of an independent external auditor who tests these data and prepares a report on them, with all the necessary information that could materially affect the financial statements and the opinion of the independent external auditor about them. Also, the management supervising the bank is responsible for providing all information Which relate to depositors and borrowers and all information that has a material impact on the financial statements, as the opinion of the external auditor helps to enhance confidence in the banking system. also, the report of the external auditor should be free from bias and favouritism, and the auditor shall not be responsible for the completion of some work or a party to any operation or function within the commercial bank subject to supervision. Thus, the independence of the external auditor represents the cornerstone of the practice of the profession of oversight and auditing. Accordingly, [1] independence requires the external auditor to carry out his work without conflict of interests between the bank's management on the one hand and all the other parties benefiting from the information contained in his report. In the event that the external auditor does not enjoy independence, then the bank supervisors The commercial bank has the legal authority to agree to his dismissal and the right to assign another independent auditor, [2] but in the event that the commercial bank management changes the external auditor without a clear reason for the change, the supervisors have the authority to search for the circumstances that led to the change of the external auditor by the bank management [1].

2. RELATED WORK

2.1 First: The Role of Supervisors of the Commercial Bank

The standard role of the supervisor, which is often stipulated in the law, is to protect the desires of depositors in the bank. As for realism, this role has increasingly united with a broader duty, which is to protect the integrity and stability of the banking system. In some countries, [3] supervisors may also be directed to ensure that banks adhere to monetary policies and transfer rates. However, the focus of this statement is that the basic force on which the authority relies is Most supervisors have the legal right to authorize or grant a license to an economic entity to manage banking activities, and the right to cancel this authorization or license. In order for the economic entity to obtain and maintain the banking license, it must take into account some requirements. These requirements may differ from one country to another in their exact specifications. Among the most important basic requirements for licensing are [4]:

- The bank must have sufficient liquidity to meet the outgoing funds, and there are often additional and more detailed requirements, including numerical ratios for the minimum capital adequacy (solvency) and liquidity.
- The people who monitor and manage the banking business must be honest and reliable, and they must possess skills and experience.

- That the bank has adequate sources of funds to overcome any inappropriate circumstances, and protect depositors from loss.
- The legal and regulatory requirements, including those related to solvency and liquidity, are observed, as well as that the interests of depositors and other creditors, not only the interests of shareholders, are adequately protected.
- That there are appropriate control systems and they operate regularly within the commercial bank.
- That the supervisors of commercial banks distinguish when using the audited financial statements within its activities that the financial position of the bank may have been affected by subsequent events since the date of drafting the financial statements [5].

2.2 Second: the Authorities that Undertake Auditing and Supervision of Commercial Banks

- **Internal Auditing Devices:** The activities of banks bear many risks that must be controlled, by identifying the operations most vulnerable to risks. Therefore, commercial banks need a supervisory level, as Instructions No. (4) of 2010 issued by the Central Bank of Iraq specified that internal auditing agencies should send A copy of his report to the entity that was audited, and summary copies to the general administration, the audit committee [6].
- **Audit Committee:** Audit committees in the United States after violent financial crises, which resulted in both the New York Stock Exchange and the American Capital Market Authority recommending the need to establish a committee in the economic entities registered in it, [7] consisting of a number of non-executive members, whose task is to appoint the external auditor and determine his fees, as an attempt to increase his independence when expressing Opinion on the financial statements issued by the economic entities, [8] and in 1972 AD the US Capital Market Authority "SEC" issued recommendations, the most important of which is obligating Economic entities to establish an audit committee, and in 1978 the New York Stock Exchange obligated all companies registered with it to be necessary Formation of review committees [9].
- **Compliance Controller:** Central Bank of Iraq instructions No. (4) for the year 2010 included that the quarterly reports of the Compliance Controller are submitted to each of the senior management of the Commercial Bank and to the General Directorate of Banking and Credit Control in the Central Bank of Iraq about the detected deviations, including suggestions and procedures necessary for correction in order to avoid recurrence In the future and keep a copy of it in its files, subject to review by the Central Bank upon request [10].
- **Audit and Inspection by the Central Bank:** Central banks occupy a privileged and important position in the monetary and banking system of countries of different political systems and economic orientations [11], there was a need to find control systems to strengthen the preventive control of banks, including CAMELS, which relies on five elements or indicators added to its Sixth element (sensitivity to market risks) These six elements can be clarified in the following Table 1 [12].

Table 1. CAMELS Classification Elements

Sequences	Symbol	Element
1	C	Capital Adequacy
2	A	Asset Quality
3	M	Management
4	E	Earnings
5	L	Liquidity
6	S	Sensitivity to Market

2.3 Third: The Role of the External Auditor of Commercial Banks

The main objective of the bank's auditing process by the external auditor is to enable the auditor to express an opinion as to whether the published financial statements of the bank truly and fairly represent the financial position of the bank and the results of its activities for the period for which these statements were prepared, and the auditor's report is usually directed to the shareholders, But it is used

by several other parties, such as depositors, [13] other creditors, and supervisors, and the auditor's opinion helps to establish the trustiness of the financial statements. However, users of the report should not explain the auditor's opinion as an affirmation of the future growth of the bank, or as an opinion about the effectiveness and efficiency with which the management managed the bank's affairs, given that these matters are not among the objectives of the audit. In order to form an opinion about the financial statements, the auditor aim to obtain acceptable assurance as to whether the information contained in the basic accounting records and other sources of information is dependable and sufficient to prepare the financial statements on their basis [14]. Although the management of the commercial bank is responsible for establishing and operating the internal audit function of the bank in an efficient manner and in a manner proportional with the size and nature of banking activity However, the supervisors of the commercial bank and the external auditor have complementary interests that can be clarified as follows.

The supervisor is interested in maintaining a appropriate system of internal control as a basis for safe and careful management of the bank's business. The auditor is concerned, in most circumstances, with appraisal internal control to determine the degree of its reliable in designing and implementation his work.

The supervisor is concerned with the presence of an appropriate accounting system as a necessary condition for obtaining dependable information for measuring and controlling risks. The auditor is concerned with obtaining confirmation that the accounting enrolments from which the financial statements were prepared have been maintained in appropriate ways, The supervisors concerned with the constancy of the bank in order to protect the desires of all relevant parties in a way that guarantees the continuity of the bank's activity in the long run. While the external auditor is mainly concerned with providing a report on the financial situation of the bank and the outcome of its activities, and therefore, it also takes into account the continuity of the bank's survival usually for a period of not more than one year from the balance sheet date [15].

2.4 The Third Topic: The Practical Side

Examine the Research Data, Verify the Validity and Stability of the Measures, and Describe the Variables: This topic reflects an analysis of the general presumptive research model by determining the relationship between the variable of the relationship of supervisors of commercial banks and the role played by the external auditor in commercial banks. Before entering the test of the hypotheses of the model, the contents of the chapter will start by presenting the validity and reliability of the measures and the descriptive statistics of the research variables:

2.4.1 Firstly. Check the Search Data

Table 2. Coding the Research Variables

Variable	Number Questions in the Questionnaire List
Supervisors of commercial banks	10
external auditor of commercial banks	10
the total	20

Table 3. Characteristics of the Research Sample in Terms of Academic Achievement

Sequences	Certificate	The Number is	Ratio the
1	Ph.D	46	53.5%
2	Master's	31	36%
3	Bachelor's	7	8.2%
4	Diploma	2	2.3%
Total		86	100%

2.4.2 Secondly. Validity and Reliability of the Scales

Measurement Rightness Examination: The Measurement rightness examination refers to the ability of the measurement tool (the questionnaire) to accurately measure and the high accuracy of the model to be

measured, and the extent to which the measurement tool represents the properties linked with the event to be confirm. The validity of the measurement can be attained through two aspects: as follows:

A-Apparent Honesty: Apparent honesty refers to the ability of the items of the measurement tool to measure the model for which it was designed. The questionnaire was presented to 10 specialists in the field of accounting to verify the clarity of each phrase of the questionnaire, and some vocabulary and wordings were modified by the arbitrators to make them more understandable.

B-Stability of Measurements: The Cronbach coefficient was calculated to ensure the stability of the scale tool, and to verify the validity of the resolution through its internal consistency, but there is almost agreement that the Cronbach coefficient must be greater or equal to (0.60).

Table 4. Indicates that this Condition is Met for all Items of the Scale

The Scale	Cronbach's Alpha Coefficient
Supervisors of commercial banks	.752
External auditor of commercial banks	.734
All variants	.845

C-Analysing and Interpreting Research Results Statistically: This paragraph dealt with the display of relative importance, the arithmetic mean, the standard deviation, and the level of response to the items of the questionnaire according to the five-point Likert scale (strongly agree - strongly disagree).

Table 5. Degrees and Levels of Evaluation of the Arithmetic Mean

Grading Assessment	Answer Level
1-1.80	very low
1.81- 2.6	low
2.61- 3.4	Moderate
3.41- 4.2	high
4.21- 5	Extremely high

2.5 Supervisors of Commercial Banks

As Paragraph (1) of Table 6 which refers to (commercial bank supervisors are interested in providing an appropriate internal control system that helps the external auditor reduce the size of the samples he audits) Its arithmetic mean was (4.27) and its standard deviation was (0.58), which reflects the agreement of the answers with a "very high" level of response. Paragraph (3), which refers to (the supervisors of commercial banks carry out the process of monitoring the performance of commercial banks by using certain tools and procedures in order to achieve preventive control), got the lowest arithmetic mean, as it amounted to (3.95) and its standard deviation (0.61), which reflects the agreement of the answers at the level of the answer. high". At the level of the variable working rate of supervisors of commercial banks, the general arithmetic mean was (4.06), with a standard deviation estimated at (0.64), and at the level of "high" response.

Table 6. Arithmetic Means, standard Deviations, response Level, and Materiality Supervisors of Commercial Banks (N=86)

Sequences	Phrase	Arithmetic Mean	Standard Deviation	Response Level	Relative Importance
1	The interest of the supervisors of commercial banks to maintain a sound system of internal control helps the external auditor in reducing the volume of samples	4.27	0.58	very high	1

	that are subject to control and audit by him.				
2	It is in the interest of the supervisors of commercial banks to maintain close contact with the bodies of auditors' offices to obtain auditors who have the expertise to ensure the quality of auditing in commercial banks.	4.16	0.63	high	4
3	Supervisors of commercial banks carry out the process of monitoring the performance of commercial banks by using certain tools and procedures in order to achieve preventive control.	3.95	0.61	high	9
4	The interest of the supervisors of the commercial banks to ensure the extent of the continuity of the banking activity motivates the external auditor to use indicators to predict the continuity of the commercial bank and inform the supervisors.	4.04	0.71	high	6
5	The interest of supervisors in asking commercial banks for a capital adequacy ratio in accordance with the requirements of the Basel III Committee contributes to the stability of the banking system.	4.17	0.65	high	3
6	The interest of supervisors in the rules of banking governance in order to ensure the relationship between the management of banks on the one hand, and stakeholders and shareholders.	4.23	0.56	very high	2
7	Supervisors of commercial banks seek to obtain reasonable assurance from the external auditor as to whether the information contained in the basic accounting enrolments and other sources of information are reasonable and adequate to prepare the financial statements.	4.03	0.69	high	7
8	One of the tasks of the supervisors of commercial banks in some countries is	3.97	0.65	high	8

	to ensure that commercial banks comply with monetary policies and exchange rates.				
9	The supervisors of commercial banks are mainly concerned with the stability of the commercial bank so that the interests of all relevant parties are protected by relying on the external auditor's report on the financial position of the bank and the result of its activities in the short term.	4.09	0.66	high	5
10	Supervisors have the authority to investigate the circumstances that led to the change of the external auditor by the bank's management.	3.72	0.74	high	10
Total		4.06	0.64		

2.6 The Work of the External Auditor in Commercial Banks

Paragraph (1) of Table 7, which refers to (the independence of the external auditor from the commercial bank whose accounts are monitored, is a positive factor regarding the performance of its duties in an independent and impartial manner with regard to informing the bank's management of profit manipulation and income smoothing) That paragraph has got highest arithmetic averages of (4.32) and a standard deviation of (0.67) very ". While Paragraph (5), which refers to (when the external auditor has contradictory differences of opinion with the management about a material matter in the financial statements, and as a result he intends to issue a conservative professional opinion) obtained the lowest arithmetic averages with an arithmetic mean of (3.90) and a standard deviation of 3.90. (0.90) This indicates the agreement of the research sample answers within the "high" response level. As for the general average level of the external auditor's work variable in commercial banks, the general arithmetic mean was (4.08), with a standard deviation of (0.73), and at a "high" level of response. Schedule (6) Arithmetic means, standard deviations, level of response, and the materiality of the work of the external auditor of commercial banks (N=86).

Table 7. Respondents' Perceptions of the External Auditor's Role in Supporting Commercial Bank Supervision

Sequences	Phrase	Arithmetic Mean	Standard Deviation	Response Level	Relative Importance
1	When the external auditor is completely independent from the commercial bank that he audits and is not subject to his powers, this is a positive factor for informing the supervisors of commercial banks of any profit management or preparation for income.	4.32	0.67	Answer level	1

2	Detecting deviations, identifying defects and weaknesses in the bank's activities by the external auditor, and conducting a comprehensive analysis of these deviations to find out their causes and submitting them in a report to the supervisors of commercial banks contributes to developing the necessary solutions for them, correcting them, and working to avoid these and other errors in the future.	4.23	0.69	very high	2
3	In the event that the auditor's opinion differs with the opinion of the bank's management on important facts related to the financial statements, the external auditor has contradictory differences of opinion with the management on a material matter in the financial statements, and as a result, he intends to issue a qualified opinion.	4.12	0.64	very high	5
4	When the external auditor discovers indications of fraud at the higher levels of the commercial bank's management, he informs the supervisors of the commercial bank.	4.08	0.67	high	6
5	When the external auditor has contradictory differences of opinion with management about a material matter in the financial statements, and as a result he intends to issue a conservative professional opinion.	3.90	0.90	high	10
6	When the external auditor has information that could materially affect the financial statements, he informs the supervisors of the bank.	4.13	0.75	high	4
7	The shedding of light by the external auditor on the financial position of the commercial bank as well as the ability of the bank to grant credit facilities and submit reports to the supervisors contributes to the	4.17	0.55	high	3

	stability of the banking system.				
8	The appointment of the external auditor by the management of the commercial bank enables it to put some pressure on him, because it is the one who proposed his appointment and thus affects his independence.	3.96	0.93	high	8
9	The advisory services that some external auditors have been providing to the management of commercial banks have an impact on the reliability of the supervisory report that it provides.	3.93	0.71	high	9
10	The external auditor is exposed to the risk of reducing his fees if the issue of determining the fees is left in the hands of the management of the commercial bank if he does not submit to the management's demands. The work of the external auditor on commercial banks in general.	4.04	0.82	high	7
Total		4.08	0.73		

2.6.1 Firstly, Research Hypothesis Testing

The correlation matrix is used to show the relationship between the variables. The first method was represented by the correlation matrix (Pearson), which is shown in Table 8, as the value of the correlation between the relationship of supervisors of commercial banks and the work of the external auditor in commercial banks was (0.546**.) at a significant level (0.01).

Table 8. Matrix of Correlation Coefficients between the Relationship of Supervisors of Commercial Banks and the Work of the External Auditor

Correlations			
Grading Assessment	**Answer Level**	**Supervisors**	**Checker**
Supervisors of commercial banks	Pearson Correlation	0.546**	1
	Sig. (2-tailed)	.000	
	N	86	86
The work of the external auditor of commercial banks	Pearson Correlation	1	0.546**
	Sig. (2-tailed)		.000
	N	86	86
**. Correlation is significant at the 0.01 level (2-tailed).			

Second: The results of testing the influence relationship between the work of the supervisors of commercial banks and the work of the external auditor, a study according to the international auditing standard (1004):

Table 9. Model Summary of the Regression Analysis

Model Summary

Model	Change Statistic				s
	R Square Change	F Change	df1	df2	Sig. F Change
1	0.30	35.679	1	84	.000
	a. Predictors: (Constant), VAR00001				

It is clear from Table 9 that the work of commercial bank supervisors affects the work of the external auditor of commercial banks by (0.30), as the value of the coefficient of determination indicated a coefficient of (0.30), and thus accepting the hypothesis of an influence relationship between the work of commercial bank supervisors and the work of the external auditor according to the International Auditing Standard (1004) [16].

3. CONCLUSION

The work of commercial bank supervisors affects the work of the external auditor of commercial banks When the external auditor measures the capital adequacy ratio in accordance with the requirements of Basel 3, this ensures the stability of the banking sector in general The concern of the supervisors of commercial banks to maintain a sound system of internal control helps the external auditor in reducing the volume of samples that are subject to control and audit by him, Supervisors of commercial banks seek to obtain reasonable assurances from the external auditor as to whether the Financial and non-financial amounts contained in the basic accounting records and other sources of information is reliable and sufficient for preparing the Financial reports and management report.

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Author Contributions Statement

Name of Author	C	M	So	Va	Fo	I	R	D	O	E	Vi	Su	P	Fu
Majid Gazi Hasan	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓
Ali Awadh Atshan	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓		✓
Waad Hadi Abd	✓	✓		✓	✓	✓	✓		✓	✓	✓		✓	✓

C : **C**onceptualization
M : **M**ethodology
So : **So**ftware
Va : **Va**lidation
Fo : **Fo**rmal analysis
I : **I**nvestigation
R : **R**esources
D : **D**ata Curation
O : Writing - **O**riginal Draft
E : Writing - Review & **E**diting
Vi : **Vi**sualization
Su : **Su**pervision
P : **P**roject administration
Fu : **Fu**nding acquisition

Conflict of Interest Statement

The authors declare that there are no conflicts of interest regarding the publication of this paper.

Informed Consent

All participants were informed about the purpose of the study, and their voluntary consent was obtained prior to data collection.

Ethical Approval

Not Applicable.

Data Availability

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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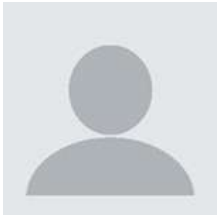
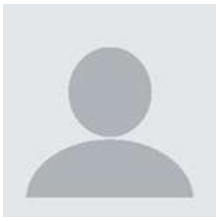
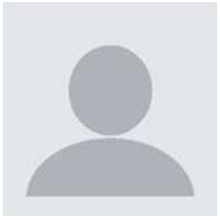
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