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# Internal Auditing and Quality of Banking Accounting Information in Private Banks

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## Abstract

**General Background:** The increasing complexity of banking operations has intensified the need for reliable, high-quality accounting information to support sound financial decisions. **Specific Background:** Internal auditing has evolved into a strategic assurance and advisory function that enhances organisational control and strengthens financial reporting practices in the banking sector. **Knowledge Gap:** However, the extent to which internal auditing, through its operational efficiency, communication practices, and audit outputs, contributes to improving the quality of banking accounting information in private banks remains insufficiently examined, particularly within the context of Najaf Governorate. **Aims:** This study investigates the impact of internal auditing and its dimensions on the quality of banking accounting information, using data from 70 administrative leaders across five major private banks. **Results:** Structural equation modelling revealed a strong and significant positive effect of internal auditing on information quality ($\beta = 0.621$), with reliance on audit outputs showing the greatest influence ($\beta = 0.411$). **Novelty:** The study demonstrates empirically that managerial utilisation of audit outputs mediates the improvement of both fundamental and enhancing characteristics of accounting information. **Implications:** These findings highlight the need to strengthen audit–management communication and to institutionalise audit recommendations as strategic tools for enhancing financial reporting integrity in private banks.

**Highlight** :

- The study emphasizes the strong influence of internal auditing on improving the quality and reliability of banking accounting information.
- Reliance on internal audit outputs appears as the most impactful dimension in enhancing information usefulness for decision-making.
- The findings highlight areas that still require improvement, particularly communication and cooperation between auditors and management

**Keywords** : Internal Auditing, Banking Accounting Information Quality, Private Banks, Audit Outputs, Najaf Governorate

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# The Role of Internal Auditing in Achieving Quality in Banking Accounting Information: An Analytical Study of the Opinions of a Sample of Administrative Leaders in Private Banks in Najaf Governorate

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**Abstract**

This study seeks to identify the impact of internal auditing on the quality of banking accounting information in a sample of private banks. In Najaf governorate. The research is based on two variables: internal auditing, with its dimensions (internal audit process efficiency, internal audit communication, and reliance on internal audit output), and banking accounting information quality, with its dimensions (desirable characteristics of information quality and characteristics that contribute to the quality of information). Research problem: Perhaps the most significant research problem proposed in this study is to assess the true role of internal auditing in evaluating the quality and reliability of accounting information, and to measure the extent and degree of the gap between its theoretical or literature-based role and its practical application in practice. The sample consisted of administrative leaders in five established commercial banks, including the National Bank of Iraq, Arab Gulf Bank, International Islamic Bank, Arab Mashreq Islamic Bank, and South Bank. The study population consists of administrative leaders in these banks, who hold positions such as managers, department heads, division heads, and unit heads. A total of 73 questionnaires were received, and after discarding two invalid ones and one outlier value, the final usable sample size was 70. The hypotheses were tested using SPSS statistical software and structural equation modelling through AMOS software. The main conclusion indicated that there is a strong, positive, and statistically significant relationship between internal auditing and the quality of accounting information, with reliance on the outputs of audit work being the most important dimension. In light of this, the study suggests that communication channels and strategic cooperation between the internal audit unit and senior management be reinforced to enable the effective use of audit outputs in strategic decision-making.

**Keywords:** Internal auditing, quality of banking accounting information, private banks in Najaf Governorate.

## Introduction

Over the course of the present age of finance, the intricacy of banking for the purpose of transactions, and the requirement for trustworthy and top-notch accounting data for businesses, in terms of capacity to inform decisions, has consistently increased. Accordingly, the internal audit function has evolved from a mechanical device and a controlling discipline of accounting into an independent, informative, and dispassionate process that seeks to add value and improve the effectiveness of risk management by all available means. It now encompasses all types of administrative and accounting controls, utilizing it as a safeguard to verify the authenticity of recorded data, protect the bank's assets, and assess the effectiveness of internal control systems. Since accounting information plays a crucial role in financial planning and monitoring, as well as in the disclosure requirements of banking organisations, its quality assessment has become a strategic objective that cannot be achieved without efficient internal audit processes and qualified auditors. The importance of this research lies in the need for effective reliance on internal audit as a constructive and effective tool in ensuring the quality of banking accounting information. Thus, this research aims to identify and analyse the relationship and impact the internal audit has on the quality of banking accounting information by demonstrating the importance of the dimensions of audit and their role in improving the basic and enhancing characteristics of this information, to gain some practical perception for the administrative leadership in private banks in Najaf Governorate. Integral in the structure of research, which included four main axes, the first of which was methodological, the second included a review of the literature on the main research variables and subsidiary dimensions, the third devoted to the results of the analysis, and the research ended with the fourth axis to review the conclusions and recommendations made based on the statistical analysis process and created by the researcher.

1. **First: Research Methodology**

1. **Research Problem:**

The research problem lies in determining the actual function of internal auditing in private banks, specifically to evaluate

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the quality and credibility of accounting information in Najaf Governorate. While the internal audit function is the third line of defence , which handles fraud, social and other related issues in the banking sector, there might be an inherent lack of comprehension in the desired or required auditing mechanisms that qualitatively sound accounting information should achieve the fundamental and enhanced qualitative characteristics of accounting information, especially the communication usefulness and strategic usage of its outputs. This study aims to identify the gap between the theoretical role of internal auditing and the practical role of internal audit in influencing administrative decisions based on such information. Accordingly, the primary question in the research can be crystallised in the following relationship: How do internal auditing and banking accounting information quality, through the impact of the quality of banking accounting information, relate to and enable private banks in Najaf Governorate? For better clarity of the problem, we would like to ask some questions:

1. What is the level of understanding and perception of the research sample regarding the concepts of internal auditing and the quality of banking accounting information?
2. What is the overall impact of the dimensions of internal auditing on the quality of banking accounting information in private banks in Najaf Governorate?
3. What is the partial impact of each dimension of internal auditing on the quality of banking accounting information?

1. **Research Objectives**

The objectives are as follows:

1. To provide an applied framework that clarifies the nature of the relationship and impact between internal auditing and the quality of banking accounting information in the Iraqi banking sector.
2. To identify the level of understanding and responsiveness of the research sample (administrative leaders in the studied banks) to the concepts and dimensions of both internal auditing and the quality of banking accounting information, and to evaluate the extent of their actual application.
3. To identify and measure the impact of each dimension of internal auditing (efficiency of internal audit processes and communication, and reliance on internal audit outputs) individually on the quality of banking accounting information.
    - **Importance of the Research**
    - **The hypothetical model:**
    - **Research Hypotheses:**

This research is important due to the essential role of internal auditing in overseeing and consulting on the necessary measures to maintain the appropriateness of financial and accounting processes in the critical area of banking. This research is one of the studies that fills the knowledge gap by analysing the effect of internal audit dimensions on the quality of banking accounting information in private banks within the city of Najaf Governorate, providing empirical evidence for decision-makers. It also provides immediate outcomes for administrative leaders and audit committees, helping them prioritise development within internal audit departments, especially in terms of improving communication and leveraging strategic use of oversight reports to enhance the reliability and relevance of accounting information used in decision-making.

Figure 1: Hypothetical model of the research.

Source prepared by the researchers.

To test the relationship between the variables, the researcher formulated one main hypothesis, from which three sub-hypotheses branched out, as follows:

First Main Hypothesis: (There is a significant impact of internal auditing on the quality of banking accounting information). The following sub-hypotheses branch out from this main hypothesis:

- The efficiency of internal audit processes and communication has a significant impact on the quality of banking accounting information.
- There is a significant impact of reliance on internal audit outputs on the quality of banking accounting information.
    - **Research Methodology:**
    - **Research Population and Sample:**
    - **Validity of the Research Instrument (Questionnaire).**
    - **Reliability of the research instrument (questionnaire) and normal distribution**

The descriptive/analytical approach was adopted in framing the theoretical aspect, as well as in studying and analysing the correlations and trends of influence between the research variables.

The sample was represented by administrative leaders from the five commercial banks in Najaf Governorate. In this respect, these banks were chosen based on size, and they belong to the oldest commercial banks operating in the region (National Bank of Iraq, Arab Gulf Bank, International Islamic Bank, Arab Mashreq Islamic Bank, and South Bank). We used a purposive sampling method to compose a sample of 73 administrative leaders from the five banks, reflecting different administrative positions (manager, department head, division head and unit head). The questionnaire was distributed among the sample of seventy-three.

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Out of the returned questionnaires, two were discarded for being invalid (incompletely filled data), and two were discarded for being outliers (extreme) responses. This resulted in a final analytical sample size of 69 individuals.

The study sample was also different in that, gender, age, educational attainment, years of service, job position, and"(gender, age, educational attainment, years of service, job position) and

**Table No. (1): Distribution of sample members according to taxonomic variables**

| Classification variables | Category | Repetitions”" | % |
|---|---|---|---|
| Gender | Male | 47 | 68% |