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The Impact of External Audit Risks on Internal Control and Audit Systems: An Empirical Study at the Iraqi National Bank of the Middle East

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ABSTRACT

Objective : *This study seeks to examine how risks from external oversight affect the success of internal control and auditing processes, using a real-world example from the Middle East National Bank in Iraq. The significance of this subject arises from the delicate and complicated relationship between external oversight – shown by organisations like the Central Bank and the Financial Supervision Bureau – and internal control, shown by the bank's audit departments. If there is insufficient cooperation or if there is confusion between these two groups, it can result in a decrease in the effectiveness of the overall monitoring system.* ***Method :*** *The study used a descriptive analytical approach, and information was gathered through a survey given to a chosen group of employees in departments that handle internal control and auditing. Additionally, this was enhanced by informal interviews with several internal audit and financial control staff, which enabled a combined quantitative and qualitative review. The quantitative portion included 85 participants, and the information was examined using SPSS, applying descriptive statistics, linear regression analysis, and a reliability check using Cronbach's alpha coefficient.* ***Results :*** *The findings indicate that while external oversight is important, it can also introduce risks related to management and structure that can hinder the independence and effectiveness of internal auditing. The study further revealed that 63% of the variations in how effective internal audits are can be attributed to the risks posed by external control (R^2 coefficient = 0. 63). Additionally, there is a redundancy in control processes and confusion regarding the assignment of responsibilities. Descriptive statistics showed that the area concerning "external control risks" had the highest average score of 4. 21, suggesting that employees are highly aware of how serious these risks can be.* ***Novelty :*** *The research finished with several suggestions, especially the importance of creating formal guidelines to manage how outside monitoring interacts with the internal audit team, boosting the latter's independence, setting up shared oversight groups, and implementing consistent training sessions for both sides to improve clarity and avoid repetition. Additionally, the research recommended moving away from a punitive approach to oversight towards a preventive one that emphasises improving efficiency rather than penalising mistakes.*

INTRODUCTION

Amid the growing challenges facing the Iraqi banking sector, and against a backdrop of economic instability and diverse sources of risk, the issue of supervision—at all levels—has become more important than ever. Banks are no longer merely traditional financial institutions; they have become complex entities where the interests of the state, society, investors and consumers intersect. This makes internal and external supervision essential elements in ensuring transparency and financial discipline, and consequently institutional stability.

External supervision, with the obligations and procedures it imposes, is no longer merely a process of retrospective assessment of data and reports; rather, it has become a real source of pressure and a genuine threat which, if misused or lacking in competence, can disrupt internal supervisory systems or undermine their effectiveness, This raises the key question that this study seeks to answer: to what extent do external audit risks have a tangible impact on the performance and effectiveness of internal control and audit systems in Iraqi banks?

The Iraqi National Bank of the Middle East, as a licensed financial institution operating within a legal and regulatory environment of a specific nature, provides a rich case study through which to gain a deeper understanding of the nature of the relationship between external and internal control, particularly in light of the legislative and operational pressures faced by financial institutions simultaneously. The literature indicates that there is a complex interaction between these two types of control; At times, this interaction is complementary, driving improvements in the quality of information and strengthening control systems; at other times, it is characterised by conflict, leading to duplication of effort or an erosion of trust between the parties concerned.

On the other hand, whilst internal control is an integral part of the governance structure of any bank, it remains susceptible to the influence of external supervision, both in terms of its structure and the effectiveness of its performance. It is impossible to ignore the findings of some studies that suggest that overlapping roles or a lack of clarity regarding powers may weaken one of the two systems at the expense of the other, which could cause the overall supervisory system to lose its required balance.

Considering the above, this study examines the impact of threats and risks associated with external oversight on internal control mechanisms in banks, by analysing the interactive relationship within a practical, applied context at the Iraqi National Bank of the Middle East. The study aims to provide an analytical perspective through which to enhance oversight effectiveness on the one hand and reduce the cost of external auditing on the other, based on the establishment of a clear and robust cooperative relationship between internal and external auditors, founded on clear professional standards and shared objective principles.

Perhaps this issue, which combines regulatory risks and institutional challenges, opens the way for a re-examination of the very philosophy of auditing, transforming it from a traditional evaluation tool into a strategic partner in building institutional trust.

1. Theoretical Framework:

The significance of the topic

The academic significance of supervision, whether external or internal, stems from the fact that it forms a central focus in modern financial and banking studies, as it sheds light on the nature of the relationship between various supervisory tools and their impact on the stability of the financial system. Numerous studies, such as the study by Al-Madhoun and Dargham, have demonstrated the need for a clear theoretical foundation for this relationship, ensuring integration and coordination between external supervision and internal audit, free from conflict or duplication [1].

Practical importance:

The practical importance of supervision lies in its role as an effective tool for ensuring that banks comply with laws and regulations, particularly in a complex banking environment such as Iraq, where political, operational and regulatory factors influence overall performance. Coordination between external supervision and internal audit helps to improve the efficiency of decision-making, and reduces the confusion arising from overlapping responsibilities, thereby enhancing banks' ability to adapt and sustain their operations.

The Research Question:

Although external regulatory bodies such as the Central Bank of Iraq or the Financial Supervisory Authority seek to enforce discipline and assess performance, their frequent or uncoordinated interventions may undermine the functional role of internal auditors in banks, as internal audit faces difficulties in maintaining its independence and scope of competence when external regulators impose their operational instructions directly without taking into account the bank's internal context.

The problem is exacerbated by weak institutional coordination and the absence of clear channels of communication between the two bodies, leading to duplication of checks, overlapping recommendations, and in some cases even conflicting ones. Hence,

The main question that arises is:

How do external audit risks affect the internal control and audit systems at the Iraqi National Bank of the Middle East?

The main question gives rise to several sub-questions, as follows:

1. What is the nature of the organisational and coordination relationship between external audit and internal audit at the Iraqi National Bank of the Middle East?
2. What are the implications of external audit interventions for the independence and effectiveness of internal auditors within the bank?
3. To what extent do weak institutional coordination and the absence of communication channels between supervisory bodies and internal auditors contribute to creating duplication or inconsistencies in audit findings?

Research objectives

This study aims to achieve several research objectives, which are as follows:

- To analyse the theoretical framework of external supervision and understand its relationship with the principles of internal audit.
- To identify the key challenges and risks arising from external supervision practices in the banking sector.
- To examine the impact of these risks on the effectiveness of internal control and audit systems at the Iraqi National Bank of the Middle East in particular.

- To provide practical recommendations that enhance the integration between external supervision and internal audit, thereby contributing to the strengthening of banking governance.

Research hypotheses

The research is based on the following hypotheses:

- Hypothesis 1 (H1): There is a statistically significant relationship between increased external audit risk and reduced effectiveness of internal audit systems at the Iraqi National Bank of the Middle East.
- Hypothesis 2 (H2): Systematic coordination between external auditors and internal auditors contributes to improving the efficiency of the bank's overall control system.
- Hypothesis 3 (H3): Poor coordination or a lack of transparency between external and internal audit leads to adverse effects on audit performance.

Research methodology

This research adopts a descriptive-analytical approach, utilising data collection tools such as questionnaires directed at staff working in the internal control and audit departments of the Iraqi National Bank of the Middle East, Reference will also be made to previous audit reports, supervisory correspondence and relevant academic studies to conduct qualitative and quantitative analyses that will help test the study's hypotheses. The data will be processed using advanced statistical software such as SPSS to identify the relationships and effects between independent and dependent variables.

Scope of the research

- Geographical scope: The Iraqi National Bank of the Middle East – Baghdad.
- Time frame: From 2021 to 2025, a period that saw numerous regulatory reforms.
- Subject scope: The research is limited to the relationship between external supervision and internal audit, without addressing legal aspects or general monetary policy.

2. Theoretical Framework and Previous Studies

The Conceptual Framework

The concept of external audit:

External oversight is one of the cornerstones of any institutional oversight system, particularly in financial institutions such as banks. It refers to oversight exercised from outside the organisational or institutional entity, and is often carried out by official and independent regulatory bodies, such as the Financial Supervisory Authority, the Central Bank, or even government audit and inspection bodies. Its primary objective is to verify that the institution under scrutiny complies with applicable laws and regulations, and to ensure there are no financial or administrative irregularities that might affect public funds or the funds of the institution's clients.

The importance of external audit stems from the fact that it is a relatively 'neutral' body not subject to the administrative authority of the institution itself, which enhances the credibility of its reports and provides a high degree of transparency to the public, legislative bodies and regulatory authorities. Although external audit often relies on retrospective reports and analyses, it remains an indispensable tool for curbing administrative and accounting irregularities and for bolstering confidence in the financial system. This applies particularly to the banking environment in Iraq, where banks face severe operational and regulatory pressures, making external audit an effective means of enforcing institutional discipline.

Risks associated with external oversight:

Although external oversight is primarily intended to ensure integrity and discipline, it is not without its risks, particularly when it is not coordinated with internal control systems. Among the most significant of these risks are those relating to duplication and overlap in oversight functions, where a lack of coordination leads to redundant procedures and conflicting recommendations, and sometimes to confusion within the organisation's executive body itself.

One of the most serious consequences of these risks lies in the threat to the internal auditor's independence; if external bodies are granted executive or technical powers that exceed their remit, the internal auditor may feel that their role is secondary or ineffective, causing the internal control system to lose its cohesion and integrity. Furthermore, when external oversight is exercised in a 'repressive' manner or lacks transparency and objectivity, it may create an environment of fear and tension within the organisation, leading to the cover-up of errors rather than their rectification.

Several researchers, such as Abu Sara'a and Al-Mahdoun, have noted that poor coordination between oversight bodies may create a turbulent institutional environment and negatively affect the quality of oversight reports and outputs [2], [3]. Furthermore, the study by Al-Mawla, showed that the absence of clear channels of communication between external and internal audit makes audit a bureaucratic burden rather than a tool for improving performance [4].

The concept of internal audit:

Internal audit is one of the main pillars of institutional oversight. It refers to the organised processes carried out by a body within the organisation, with the aim of evaluating and verifying the effectiveness of the systems, policies and procedures in place. Internal audit also seeks to ensure compliance with organisational instructions and controls, identify weaknesses or flaws in the administrative or accounting structure, and propose appropriate solutions.

The role of internal audit is proactive in nature, as it is not limited to reviewing the past but seeks to improve future performance. It is usually carried out by specialist staff within a unit that is relatively independent from other departments, allowing them a degree of freedom to provide feedback without direct interference from decision-makers. Key tasks of internal audit include reviewing accounts and financial and operational processes, ensuring the effectiveness of the internal control system, and coordinating with external auditors where necessary.

In the Iraqi context, internal audit is viewed as a vital means of regulating banking operations and ensuring compliance, However, this function sometimes suffers from administrative pressures, a lack of resources, or even neglect by senior management, which reduces its effectiveness and leaves it vulnerable to marginalisation when external regulatory bodies intervene directly.

The relationship between external supervision and internal audit:

The relationship between external supervision and internal audit should be one of complementarity and coordination, not one of competition or conflict. Although their roles and sources differ, both pursue the same objective: ensuring the financial and administrative integrity of the organisation. External audit provides a comprehensive strategic overview based on legislation, whilst internal audit provides a detailed view from within the organisation itself.

When there is harmony between the two parties, the efficiency of control processes improves and they become more effective and save time and resources; however, a lack of coordination leads to duplication of checks, conflicting recommendations, and a sense of institutional insecurity, particularly if the authority of external control is exaggerated at the expense of internal audit.

Studies such as that by Al-Madhoun and Dargham, have confirmed that an effective relationship between internal and external auditors helps to reduce audit costs, prevents duplication, and enhances each party's understanding of the other's responsibilities. This type of cooperation does not occur automatically; rather, it requires the establishment of a clear organisational culture, open channels of communication, and a precise understanding of the nature of each role [1].

Related previous Arab studies:

Raghadah Al-Madhoun's study [1] indicated that the integration of internal and external audit in Palestinian banks contributed directly to strengthening the internal control system and reducing the cost of external audit. The study was based on field questionnaires and a systematic analysis which showed that a lack of trust or coordination leads to a weakening of the effectiveness of the control system.

In Iraq, a study by Jumana Al-Tamimi examined the impact of external audit on the performance quality of Iraqi banks, confirming that when audit is conducted in isolation from the internal system, the institution loses part of its independence and its capacity for self-improvement [5].

As for the study by Maysoon Al-Shabatt, on external oversight and expenditure rationalisation in government institutions, it showed that the overlap of supervisory bodies can lead to delays in decision-making and a loss of trust between staff and the supervisory body, a phenomenon that can be generalised to the banking environment as well [6].

The research gap addressed by this study:

Despite the abundance of literature addressing external oversight or internal audit separately, studies focusing on the dialectical relationship between the two, particularly in the Iraqi context, remain limited. Furthermore, few studies have analysed the impact of external oversight risks—rather than the oversight itself, the effectiveness of the internal audit system, particularly in banking institutions operating within a volatile regulatory environment.

Accordingly, this study seeks to bridge this gap through an applied study at the Iraqi National Bank of the Middle East, drawing on practical experience and field data, with the aim of providing an in-depth analysis based on real-world experience that contributes to the development of regulatory policies and internal practices in Iraqi banks.

Previous Studies:

Arabic Studies:

A study by Raghadah Al-Madhoun and Maher Dargham entitled 'Factors influencing the relationship between internal and external auditing in banks and their impact on strengthening the internal control system and reducing the cost of external auditing'

This study aimed to explore the relationship between internal and external auditing in the Palestinian banking sector, focusing on the extent to which this relationship affects the effectiveness of the internal control system and reduces the costs associated with external auditing. The researchers adopted a descriptive-analytical approach, which was applied in the field to a sample of internal and external auditors in banks operating in the Gaza Strip. The study focused on analysing the degree of cooperation and integration between the two parties, the extent to which clear communication channels exist, as well as the role of the audit committee in facilitating this integration and its impact on institutional performance.

The study's findings indicated that the cooperative relationship between internal and external auditors contributes significantly to enhancing the efficiency of the internal control system, leads to a reduction in duplication of effort, and significantly lowers the cost of external audit. It also showed that the existence of effective communication channels and mutual professional trust has a positive impact on the design and testing of control procedures. The study confirmed that an effective audit committee is a key factor in achieving this harmony between the two types of control.

A study by Jumana Hamid Al-Tamimi: 'The Impact of External Auditing on the Performance Quality of Iraqi Banks'

This study examined the relationship between external audit and performance quality in Iraqi banks, focusing on the role of the external auditor in detecting irregularities and improving the efficiency of administrative and financial operations. The researcher noted that the developments witnessed in the Iraqi banking sector after 2003, along with economic and regulatory challenges, have heightened the importance of the external auditor's role in ensuring transparency and protecting the funds of customers and investors. The study relied on a qualitative analysis of data from regulatory reports and interviews with staff from several Iraqi banks.

The study's findings showed that external auditing, if conducted with complete transparency and independence, helps to identify weaknesses in internal systems and encourages improvements in the quality of accounting and management information, However, the study warned that a lack of coordination between the external auditor and internal control systems may lead to conflict and duplication, thereby weakening the impact of the external audit itself. It also highlighted that a complementary relationship between the two parties, if established, leads to improved banking performance and increased confidence in the banking system.

Maysoun Lutfi Al-Shababat's study: 'The Impact of External Oversight on Expenditure Rationalisation in Government Institutions'

This study sought to measure the impact of external oversight on the efficiency of expenditure rationalisation in government institutions in Al-Karak Governorate, from the perspective of their employees. The researcher used a field questionnaire as the primary tool for data collection, which was distributed to a sample of government employees, The results were analysed using SPSS software. The study focused on understanding whether external oversight plays an effective supervisory role that contributes to reducing financial waste and improving institutional efficiency.

The study's findings indicated that the level of external audit implementation in government institutions was high from the respondents' perspective, and that there is a statistically significant relationship between such audit and the achievement of rationalisation in public spending. The results also indicated that external oversight helps prevent manipulation and waste and has a direct impact on the quality of spending-related decisions. The researcher concluded that it is necessary to strengthen the independence of oversight bodies and enhance their efficiency in order to achieve more sustainable results in the management of public resources.

Foreign studies:

Al-Dulaimi, Aboud Omair's Battle "How Strategic Thinking Helps Boost Creativity in Business Organisations: A Study Based on Iraqi Private Banks" .

Study Summary: The study aimed to demonstrate the impact of strategic thinking in its various dimensions – which included: strategic intent, holistic thinking, leading with assumptions, and time-based thinking – on the activation of creative capabilities within business organisations, with a focus on the Iraqi banking sector, The researcher employed a descriptive-analytical approach, and the study was conducted in the field on a sample of private Iraqi banks, with the aim of investigating the extent of senior management's awareness of the importance of strategic thinking and its impact on fostering organisational creativity[10].

Study findings: The results revealed a significant and positive relationship between the dimensions of strategic thinking and creative capabilities within the banks studied. The study showed that 'hypothesis-driven leadership' had the most significant impact on stimulating innovation, followed by 'the ability to think ahead', which points to the importance of enabling management to develop flexible, forward-looking visions. The study also recommended the need to integrate strategic thinking into institutional policies and to provide training programmes aimed at developing managers' cognitive abilities in the areas of innovation and long-term planning[12].

Fares, Ali Ahmed "Evaluating how well banks can manage and how this affects their lending practices: a study of a selection of banks on the Iraq Stock Exchange" .

Study Summary: This study examined the relationship between managerial competence and lending behaviour in Iraqi commercial banks. The researcher sought to measure the impact of managerial competence—as an independent variable—on lending behaviour—as the dependent variable—using data extracted from the annual reports of a sample of banks listed on the Iraq Stock Exchange. The study relied on quantitative analytical tools to analyse managerial performance and link it to lending and financing outcomes[13].

Study findings: The study concluded that there is a clear and statistically significant relationship between higher banking management efficiency and an increase in prudent and safe lending behaviour. The results also indicated that banks with more efficient management were better able to strike a balance between profitability and credit risk. The study recommended the need to develop managerial capabilities and adopt effective management performance measurement systems based on quantitative indicators linked to lending behaviour and financing growth.

Dahham, Dahham Latif "How cash flow impacts financial success: a study conducted on a group of commercial banks available on the Iraq Stock Exchange during the" .

Study Summary: The study focused on analysing the impact of cash flows on the financial performance of a group of Iraqi commercial banks over the period from 2012 to 2021, The researcher employed a quantitative applied methodology, analysing the published financial statements of these banks and using cash flow analysis indicators (such as net cash flow from operating and investing activities) and linking them to financial performance indicators such as return on assets and return on equity[11]

Study findings: The results of the analysis revealed a close correlation between the efficiency of cash flow management and improved financial performance of banks. It was found that banks exhibiting a stable and positive cash flow pattern were better able to achieve stable financial returns, alongside their ability to manage short-term liabilities more effectively. The researcher also recommended the need to develop liquidity management systems and adopt financing policies based on operating cash flows rather than over-reliance on external sources.

Commentary on previous studies:

A review of previous studies, both Arabic and foreign, shows a growing focus on understanding the relationship between control and audit in banking contexts, which formed an important foundation upon which the current study built in defining the conceptual framework and analysing the dimensions of the research problem.

With regard to Arabic studies, the study by Raghad Al-Madhoun and Maher Dargham provided a strong theoretical and practical foundation for understanding the integration between internal and external audit, and the present study drew on these findings to support its hypothesis regarding the importance of institutional cooperation between the two parties, particularly with regard to the role of audit committees and communication channels; however, the present study went beyond this study in its focus on the risks arising from poor coordination, rather than merely on ways to enhance integration [1], [2], [7], [8], [3].

As for the study by Jumana Al-Tamimi, it was directly relevant to the Iraqi environment and helped highlight the importance of the independence and transparency of external audit, but it did not address the potential risks of overlap between regulatory systems, The present study has capitalised on this gap, broadening the scope of the analysis to include the adverse effects of uncoordinated external interventions in a real-world Iraqi banking environment [5], [14],[15].

As for the study by Maysoun Al-Shabattat, although it focused on the public sector, it clearly demonstrated how external oversight can contribute to increased efficiency and rationalisation of spending [6].

3. An analytical discussion considering the study's objectives

The structural impact of external audit risks on internal control systems:

When we speak of external oversight in the context of the Iraqi banking sector, we are not merely referring to audit and inspection mechanisms originating from outside the institution; rather, we are dealing with a comprehensive institutional model of influence that extends deep into the organisational and administrative structure of banks, This study has demonstrated, through its field findings and quantitative analysis, that external supervision does not merely function as a supreme supervisory body, but sometimes exercises undeclared executive functions, leading to a transformation of the internal control system and even its restructuring in unexpected ways .

One of the most significant findings observed through the study's tools is that when external supervision is exercised without coordination with internal departments, it creates an organisational environment characterised by duplication of supervisory procedures and overlapping responsibilities, thereby reducing the effectiveness of internal audit as the primary arm of self-regulation within the institution. The statistical results indicate that most of the sample (81%) believe that the presence of more than one oversight body without unified objectives or communication channels results in functional and administrative overload, ultimately leading to a decline in institutional performance efficiency.

This observation has been repeated in several studies, including the study by Al-Shabatt, which examined how the intervention of multiple supervisory bodies in Jordanian government institutions led to confusion in the implementation of programmes and budgets [6]. This conclusion directly aligns with the reality observed within the Iraqi National Bank of the Middle East, where several respondents expressed the feeling that external oversight instructions often disregard what is actually practised within the institution, and make organisational assumptions that are unrealistic or disproportionate to available resources.

Another equally important aspect is that the lack of coordination not only undermines the outputs of the supervisory system but also affects the overall organisational climate. Some open-ended comments in the questionnaire revealed that staff face a form of psychological and administrative pressure when they are required to comply simultaneously with the internal auditor's instructions, whilst at the same time following the directives of an external auditor who may not be sufficiently familiar with the nature of the work or the bank's specific circumstances. This type of pressure creates what might be described as 'negative regulatory duplication', which shifts the institution from a culture of prevention and improvement to one of fear and defensive accountability.

In this context, we cannot overlook the importance of the internal auditor's independence, which is one of the cornerstones of any effective control system. The study revealed that 76% of the sample believe that external oversight of internal audit procedures undermines independence, as work priorities are reordered based on external directives rather than on an objective internal assessment. This change ultimately affects the credibility of the internal audit unit, making it, in the eyes of some management teams, merely an executor rather than a maker of assessments .

Interestingly, this finding closely matches the conclusions of the study by Al-Madhoun and Dargham in the Palestinian context, where the researchers noted that a strong but unregulated relationship between internal and external audit had led to a decline in the authority of the internal auditor within the bank, and to management's almost total reliance on external audit reports in decision-making [1]. Although this finding stems from a different banking environment, it reflects a common pattern in Arab societies where the issue of regulating the institutional relationship between multiple oversight bodies has yet to be addressed .

From a structural perspective, it is clear from the data that the existence of more than one supervisory authority does not necessarily add a new layer of protection; rather, it may open the door to conflicting recommendations or render audit reports devoid of practical content. For example, one respondent to the questionnaire stated that "There are frequent instances where we are asked to implement external audit instructions that contradict our own internal findings… and ultimately, we implement the stronger directive, namely the external one." This testimony illustrates how external oversight, when it goes beyond the scope of evaluation, becomes an executive authority that influences the very function of internal oversight itself.

The procedural and psychological implications of external oversight risks on the effectiveness of internal audit:

Whilst the first section addressed the structural and organisational aspects of external audit risks, this section examines the tangible effects on the day-to-day performance and practical operations of internal audit units, The study clearly showed that internal audit staff feel a high level of unjustified pressure when they are assessed by external bodies that do not communicate with them directly or take their views into account when preparing their final reports .

According to the data extracted from the questionnaire, 68% of participants expressed the belief that the instructions of external regulatory bodies are sometimes inconsistent with the bank's strategic directions and do not take into account the specific nature of fieldwork. This discrepancy disrupts internal audit procedures, as the auditor finds themselves compelled to reverse steps previously taken as a result of new orders that are not discussed but imposed .

In light of the above, it is clear that one of the greatest challenges facing internal audit systems today is the 'loss of initiative', as the auditor's role shifts from that of an initiator to an executor, and from an analyst to a translator of external reports. This situation robs the internal control system of its primary effectiveness and renders it incapable of responding flexibly to organisational changes. This challenge has been identified in other studies, such as the study by Al-Tamimi, which concluded that audit systems lose their ability to be proactive when dealing with fixed, non-negotiable external instructions [5].

Furthermore, the psychological impact of this type of audit is evident in the decline in trust between audit staff and executive management; a number of participants noted that managers sometimes ask their staff to wait until the results of the external audit are released before acting on the findings of internal reports. This type of managerial delay renders the internal system meaningless and creates a form of unnecessary institutional inertia.

If we add to this the procedural impact of duplication of work, we are faced with an institutional reality rife with organisational waste. The results showed that over 60% of staff believe that at least 20% of audit reports are duplicated or rewritten following an external audit visit, which in practice means that a fifth of internal audit efforts are wasted, or reproduced in line with subsequent directives .

Hence, it becomes necessary to consider practical mechanisms that ensure integration rather than duplication. A number of researchers, such as Al-Hayali et al. have pointed out that the introduction of shared software programmes between the two parties, and the linking of internal and external audit systems via a unified database, could reduce these problems by up to 40%, according to their comparative analysis of the Iraqi environment [9] .

A final point worth noting is that external audit may negatively affect staff morale if their specialisms are not respected or their reports are disregarded. as the survey revealed that 54% of staff feel that the failure to acknowledge their efforts in external audit reports leaves them feeling frustrated, and that there is a tendency for 'external voices' to take precedence over internal professional observations .

These two sections demonstrate that the impact of external audit risks extends beyond being merely a procedural or organisational challenge; but extends to a direct impact on the very philosophy of supervisory work itself. When external supervision becomes a dominant authority that does not engage in dialogue but merely issues directives, the natural consequence is the erosion of the internal system, both in terms of its administrative effectiveness and its credibility in the eyes of its staff .

What the Iraqi banking system needs, in light of the challenges identified by this study, is not the abolition of external supervision, but rather its regulation and a clear definition of its roles, ensuring that it is supportive rather than competitive, complementary rather than overreaching, and advisory rather than executive .

4. The Practical Aspect (Field Analysis)

Research method (questionnaire/interview):

This study relied on a questionnaire as the primary means of collecting data from the study population, given its effectiveness in monitoring and characterising variables associated with the behaviour and attitudes of employees within financial institutions, particularly with regard to external oversight and internal audit. The questionnaire was designed with scientific rigour to cover three main themes: the first addresses external control and its potential risks to institutional performance; the second examines the effectiveness of internal control and audit systems; whilst the third focuses on the relationship between the two systems and the impact of their interaction or integration on the Iraqi National Bank of the Middle East.

The questionnaire was constructed using a five-point Likert scale ranging from 'strongly agree' to 'strongly disagree', as this type of scale allows for a high degree of flexibility in expressing opinions and increases the reliability of the statistical results. The questionnaire comprised 45 items, distributed almost equally across the three themes, and was linguistically and professionally reviewed by professors specialising in accounting and public administration to ensure its soundness and research validity.

To increase the reliability of the results, a pilot test was conducted on a sample of 15 employees working in the internal audit departments of one of the bank's branches, and the wording of some items was amended based on their feedback to ensure clarity and accuracy. This helped to reduce the proportion of ambiguous responses and increase the accuracy of interpretation when analysing the data later.

The questionnaire design was based on the results of previous studies, particularly the study by Al-Madhoun and Dargham, which used a similar format to analyse the relationship between internal and external audit, thereby enabling a comparison between the Palestinian and Iraqi experiences within the context of shared regulatory challenges. [1].

The questionnaire also included a set of demographic questions relating to age, educational qualifications, years of service, and job position within the bank, as these data represent independent analytical variables that help explain variations in perspectives among respondents, particularly when comparing the assessments of managerial staff with those of the internal auditors themselves.

The questionnaires were distributed manually by the bank's Research and Development Department, whilst ensuring the confidentiality of the responses and that they were not linked to any personally identifiable information. This procedure helped to enhance the credibility of the responses and achieve a high response rate of 91% of the total questionnaires distributed.

The study population and sample:

The study population comprises all employees of the Iraqi National Bank of the Middle East, specifically those involved in internal and external audit and supervision, as well as administrative and financial managers who deal directly with regulatory reports or are affected by them. The total number of employees at the bank was 418, spread across 18 branches within Iraq.

A stratified random sample was adopted, representing all administrative and technical categories relevant to the research topic. The final sample, whose data was analysed, comprised 120 employees, with some incomplete or invalid questionnaires excluded from the analysis. The sample was distributed as follows: 40% from central departments, 35% from branches in Baghdad, and 25% from other branches.

The diversity of the sample in terms of gender, educational qualifications and years of experience gave the study's results a broader scope, showing that 62% of respondents held a bachelor's degree, whilst 28% had postgraduate qualifications, and the remainder held technical certificates or diplomas. As for years of experience, 44% of participants had more than ten years in the banking sector, which increased the weight of their responses in the analytical evaluation.

Data analysis software such as SPSS or Excel:

The questionnaire data were entered using SPSS version 25, one of the most widely used statistical packages in social and administrative research. The statistical analysis began with internal consistency tests using Cronbach's alpha, with an overall reliability coefficient of 0.87, an excellent indicator of the instrument's stability.

Descriptive statistics were then used to summarise the sample characteristics and to measure the frequency of responses. Arithmetic means and standard deviations were also calculated for each section of the questionnaire. The results showed that the highest means was in the external control risk dimension, at 4.21, indicating that employees felt it had a significant impact on the performance of their units.

Multiple linear regression analysis was also used to test the relationship between the independent variable (external control risks) and the dependent variable (internal audit effectiveness). The coefficient of determination R^2 was 0.63, indicating that 63% of the variation in audit effectiveness can be explained by external control risks.

Data validity was verified using Kolmogorov–Smirnov tests, and ANOVA was used to assess the significance of differences. We confirmed the absence of multicollinearity through VIF values, all of which were below 2.

Table 1 : Cronbach's alpha coefficients for the questionnaire dimensions.

Main section	Cronbach's alpha coefficient
External oversight	0.85
Internal audit	0.88
Interconnection between the two systems (internal and external)	0.86
Overall rating	0.87

Source: Author based on Survey data: Interview

The table below shows the Cronbach's alpha values used to measure the internal consistency of the questionnaire items for each dimension of the study, as well as the overall average for all dimensions:

The results show that all values are above 0.80, indicating a high level of reliability and suggesting that the research instrument (the questionnaire) is consistent and reflects good consistency in the respondents' answers.

Table 2. Descriptive statistics for the questionnaire sections:

The Core	Standard deviation	Arithmetic mean
External Oversight	0.51	4.21
Internal Audit	0.63	3.94
The Relationship Between the Two Systems (External and Internal)	0.58	4.05

Source: Author based on Survey data: Interview.

The following table shows the arithmetic means and standard deviations for the three questionnaire dimensions, which help to describe the respondents' attitudes towards each dimension of the study:

Source: Researcher; Survey data: Interview

The relatively high arithmetic means suggest that the respondents have a strong awareness of the impact and importance of external control; they also reflect a moderate degree of variation in opinions, given the standard deviation.

Table 3. Results of the linear regression analysis.

Dependent variable	Independent variable	R^2 coefficient	Probability value Sig. 0.000
Effectiveness of internal audit	Risks associated with external oversight	0.63	

Source: Author based on Survey data: Interview.

The table below presents the results of the linear regression analysis conducted to test the first hypothesis concerning the effect of external oversight on the effectiveness of internal audit within the bank:

Source: Researcher; Survey data: Interview

The results indicate that 63% of the variation in internal audit effectiveness can be explained by external control risks; furthermore, the p-value (Sig. = 0.000) is less than 0.01, indicating strong statistical evidence in support of the hypothesis.

Table 4: Multicollinearity Test (VIF)

The Variance Inflation Factor (VIF) test was conducted to ensure that there was no strong correlation between the independent variables that might affect the regression results. The following data shows the values for each variable:

Variable	VIF value
External supervision	1.52
Internal supervision	1.34
Supervisory integration	1.47

Source: Author based on Survey data: Interview.

Source: Researcher; Survey data: Interview

All values are less than 2 and fall within the acceptable range (with a maximum of 5), indicating that there is no multicollinearity issue affecting the results of the analytical model.

Hypothesis testing:

The first hypothesis—that there is a statistically significant relationship between external audit risks and weaknesses in internal audit—was tested using regression analysis, with a significance level (Sig.) of less than 0.01, indicating that the statistical hypothesis was accepted with a high degree of confidence.

As for the second hypothesis, which posits that integration between external and internal control enhances the efficiency of the control system, this was tested using Pearson's correlation coefficient, which stood at 0.71 a strong positive correlation—thereby reinforcing the importance of institutional coordination between the two parties.

Regarding the third hypothesis, which posits that a lack of coordination leads to negative outcomes, the results of the t-test revealed statistically significant differences between respondents in different departments, with branch staff reporting that a lack of communication between supervisory bodies doubles the workload and leads to administrative confusion.

Presentation and analysis of the results:

The findings revealed that 81% of respondents believe that uncoordinated external oversight of work processes leads to the disruption of administrative procedures and the duplication of reports, whilst 76% considered that such interference undermines the independence of internal audit units, reducing them to mere implementers of external bodies' recommendations.

Furthermore, 68% of the sample indicated that instructions imposed by external bodies are sometimes divorced from the reality of the workplace, creating a conflict of priorities and leading to an overlap of responsibilities between administrative and audit departments.

It is also noteworthy that 59% of respondents expressed the belief that the existence of a joint supervisory committee comprising internal and external auditors could significantly reduce these issues and create a more collaborative environment within the bank.

The analysis concluded that the Iraqi banking sector needs to develop the organisational structure of supervisory relationships through clear legislation that defines the roles of each party and strengthens the role of internal audit as a partner rather than merely an executor.

5. Findings and Recommendations

Key findings:

The results of the statistical analysis revealed that external oversight is an effective and influential factor in the performance of internal audit and control systems within the Iraqi National Bank of the Middle East. The data showed that the majority of employees believe that external regulatory bodies exercise influence that goes beyond mere recommendations to include interference in internal procedures, which sometimes leads to administrative disruption, duplication of orders, and complications in the execution of daily operational tasks. Employees' average rating of the impact of external oversight on their units was 4.21 out of 5, a high score reflecting a strong perception of the associated risks.

The results also indicated that there is a statistically significant relationship between increased external oversight and a decline in the effectiveness of the internal audit system, with a coefficient of determination (R^2) of 0.63, indicating that two-thirds of the variation in effectiveness can be explained solely by the variable of external oversight risks. Furthermore, a correlation analysis using Pearson's correlation coefficient demonstrated a strong positive correlation between the degree of coordination between the two oversight bodies and the improvement in the effectiveness of administrative procedures.

Another significant finding is that the majority of staff – 81% – confirmed that poor coordination between internal and external audit negatively affects work efficiency and places internal audit teams on the defensive rather than allowing them to be proactive and effective. This situation has weakened the level of engagement with internal audit reports within the organisation, as confirmed by 76% of survey respondents

The responses also revealed that 59% of employees believe that establishing a joint oversight committee within the bank, comprising representatives from internal audit units and external oversight bodies, would restore balance to the oversight process, make it more integrated and fair, and reduce duplication and imbalances in the distribution of responsibilities.

Interpretation of the results considering the theoretical framework:

When analysing the results considering the theoretical framework reviewed in Chapter 1, we find that the study confirms the view put forward in recent literature that external oversight, despite its importance, may become an organisational burden if it is not coordinated with internal oversight units. Contemporary governance models have shown that supervisory integration between different bodies is key to improving performance and reducing administrative waste, particularly in complex organisations such as banks

Furthermore, the modern concept of internal audit relies heavily on the auditor's independence and impartiality; if this independence is lost because of excessive interference by external parties, the audit loses its effectiveness and becomes merely an execution of orders rather than a diagnostic and preventive system. This corresponds with what Al-Mawla (2024) noted regarding 'unhealthy overlap of powers, which leads to the breakdown of the self-regulatory structure within the organisation.

In light of this analysis, it follows that the relationship between external oversight and internal audit should be one of complementarity rather than competition. The study confirmed that the existence of such a complementary relationship enhances the efficiency of responding to operational challenges and reduces risk points arising from unclear roles. This interpretation aligns with the vision of the International Auditing Standards Committee, which advocates for the establishment of clear protocols to regulate the relationship between the two parties

The findings of this research not only support the views of institutional theory but also reinforce the concepts of the behavioural school of management, which emphasises that the effectiveness of any control system is linked to how individuals interact with it, and the extent to which they feel trusted and supported rather than threatened and subject to excessive scrutiny. Through our analysis of the data, we observed that bank employees often felt that external supervision went beyond the role of evaluation to exerting influence, which led to a decline in motivation and an increase in instances of cover-ups or circumvention rather than correction.

Practical recommendations and proposals for the future:

In light of the above findings, a set of recommendations can be formulated aimed at strengthening the integration between external supervision and internal audit and achieving the necessary balance to ensure the effectiveness of the supervisory system within Iraqi banks.

Firstly, the study recommends the need to establish a clear institutional protocol governing the relationship between internal auditors and external supervisory bodies. This protocol should specify coordination mechanisms, review periods and levels of intervention, in order to ensure that the functional boundaries between the two parties are respected, without causing overlap or duplication of efforts.

Secondly, the study recommends strengthening the independence of internal audit units within the bank by linking them directly to senior management or the board of directors rather than to executive departments, whilst granting them broader powers to make recommendations and conduct evaluations. This measure would restore the professional standing of the audit function and prevent its marginalisation in favour of external supervision alone.

Thirdly, a joint oversight coordination committee should be established, comprising representatives from internal audit units, financial management and official regulatory bodies, to review the oversight policies and recommendations issued by each party and work to develop oversight mechanisms in an integrated manner that does not place undue pressure on executive bodies.

Fourthly, the study recommends reconsidering the role of the external audit itself, so that it shifts from an evaluative function to a strategic support function, contributing to building the capabilities of internal audit units rather than imposing ready-made solutions that may not be suited to the actual operational context within the bank.

Fifthly, the study calls for the intensification of joint training programmes between internal and external auditors, thereby enhancing mutual understanding and professional trust between the two parties, and establishing a participatory oversight culture that relies more on prevention than on punishment.

As for future proposals, the study recommends that further research be conducted on the relationship between supervision and auditing in other banking environments, both within and outside Iraq, in order to make quantitative and qualitative comparisons that would enable the development of an Iraqi supervisory model that draws on international experience whilst respecting the legal and regulatory specificities of the local environment.

CONCLUSION

Fundamental Finding : This study began with a central question regarding the extent to which external audit risks affect the effectiveness of internal audit and control systems at the Iraqi National Bank of the Middle East. Drawing on the theoretical framework and previous studies, and through a field study involving a large sample of the bank's employees, clear and comprehensive findings were reached, indicating that uncoordinated external regulatory intervention poses a real threat to the effectiveness of internal control systems. Statistical analysis also revealed that the relationship between the two parties must be based on complementarity rather than overlapping, and that financial institutions need to re-engineer their supervisory structures to ensure a fair and effective distribution of roles. External oversight has a significant impact on the effectiveness of the internal audit system, and this impact may become negative in the absence of coordination or mutual understanding. A high proportion of respondents expressed the view that external oversight is exercised in a top-down manner that undermines the independence of internal departments. There is an urgent need to establish an internal oversight protocol to regulate the relationship between the parties concerned. A lack of integration between systems leads to institutional weakness and opens the door to repeated errors and duplication of effort without effective results. The research findings support recent literature and pave the way for the development of more sustainable and equitable oversight practices. **Implication:** The aim of this study was not to question the usefulness of external supervision, but rather to highlight the unintended consequences of poor coordination and the absence of an institutional framework governing the relationship between the two parties. Highlighting the academic and practical contributions of the study: The academic contribution of this research lies in the fact that it is one of the few studies to have examined the relationship between external supervision and internal audit in the context of the Iraqi banking sector, employing a rigorous field-based approach underpinned by statistical and analytical tools, It is also one of the studies that has integrated theory and practice, highlighting an important institutional dimension that has not received sufficient attention in the Arabic literature. As for its practical contribution, this lies in presenting a set of recommendations that can be effectively implemented within Iraqi banks, and in the potential for this research to serve as a prototype for the development of regulatory policies in similar institutions. Furthermore, the findings may open the door to institutional and professional dialogue between regulatory bodies and banks. **Limitation:** The study is limited to a single case, namely the Iraqi National Bank of the Middle East, which may restrict the generalizability of the findings to other banks or financial systems. The data were collected from employees' perceptions, which may introduce subjective bias and may not fully capture actual institutional practices. The cross-sectional nature of the field study limits the ability to observe changes over time or establish causal relationships between external oversight and internal control effectiveness. The study focuses primarily on the Iraqi banking context, which is influenced by specific regulatory, economic, and institutional conditions that may differ from other regions. **Future Research:** Future studies could expand the sample to include multiple banks across different countries to enhance the generalizability of the findings. Longitudinal research is recommended to examine how the relationship between external oversight and internal audit evolves over time. Further research could incorporate mixed methods, combining quantitative data with qualitative interviews from regulators and auditors to gain deeper insights. Comparative studies between different regulatory frameworks could help identify best practices for achieving effective coordination between external and internal oversight. Future research may also explore the role of technology and digital auditing systems in improving coordination and reducing overlap between supervisory bodies.

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