



The Role of Internal and External Audit Committees in Reducing Banking Failure

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Received: 11th June 2023

Accepted: 17th July 2023

Published: 4th August 2023

ABSTRACT

Purpose: This study seeks to identify the role of internal and external audit committees and their impact on limiting bank failure.

Research Design: The research included a quantitative analysis of data on commercial banks in the south of the country under study, which numbered (6) commercial banks. The study sample included a group of (77) employees working in these banks. The analysis is based on a solid base that sought to reveal the practices of these banks in the role of internal and external audit committees and their impact on reducing bank failure. The study sought to test the effect and correlation relationship between the independent variable represented by the internal and external audit committees and the variable affiliated with the bank, failure and deportation. Data were processed by statistical methods using (SPSS) program.

Results: The results of the statistical analysis of the data collected through the questionnaire tool prepared for this purpose showed that there is an effect and correlation between the independent variable of the internal and external audit committees and the variable dependent on bank failure and its dimensions (information asymmetry, credit risk, systemic risk, moral dimension).

Keywords: Internal and External Audit Committees, Banking Failure, Commercial Banks

INTRODUCTION

The internal and external audit committees are among the important and basic controls in the field of studying and analyzing information when measuring credit risks, the volume of deposits, and liquidity in these banks, Due to its characteristics and advantages, it is a basis for recording and addressing various administrative and financial activities and operations, and thus the audit can create a state of stability in the state's financial and economic policy and the challenges it faces.

The internal and external audit committees are also considered as one of the controls that assist the surveyed banks in their constant endeavor to provide the quality required to carry out banking services and reduce risks in order to make the right investment and credit decisions, which are a pillar of the national economy and serve the public interest.

The importance of the research comes from considering the internal and external audit committees as one of the most important elements of the control system, which must be an effective and influential tool for senior management within the bank in order to achieve the desired goals. As for the objectives of the research: The research seeks to achieve a number of objectives, the most important of which are: Establishing a mechanism to develop the knowledge and skills of the internal auditors represented by a proposed framework for qualifying them and improving the quality of their professional performance to meet future challenges characterized by efficiency and effectiveness, which contributes to achieving the objectives of the surveyed banks.

The study included four main sections, where the first section included the methodology of the study, and the second section was devoted to presenting the theoretical framework for the concepts of the study variables, which was divided into two requirements The first requirement relates to presenting the theoretical foundations of the internal and external audit committees, while the second requirement is devoted to presenting and discussing the theoretical frameworks related to the failure of banks. The third topic relates to the applied side, while the fourth topic deals with the applied side, conclusions and recommendations.

THE PROBLEM OF THE STUDY

The importance of the study of the internal and external audit committees is highlighted as it is one of the recent studies that address the main pillars on which the financial structure of the surveyed banks is based. Its importance increases because it comes at a period of time in which

banks are still suffering from the effects and repercussions of the global financial crises and the resulting accumulated losses incurred by the failure of many commercial and investment projects, on the following questions:

1. Is there a role for internal and external audit committees in controlling financial policies and practices within banks in limiting bank failure?
2. How can internal and external audit committees contribute to reducing bank failure?
3. Is there a correlation between internal and external audit committees in reducing bank failure?
4. Is there an impact relationship between the internal and external audit committees in reducing banking failure?

THE IMPORTANCE OF THE STUDY

5. The importance of the research lies in shedding light on the issue of the internal and external audit committees in reducing bank failure.
6. Introducing audit committees and highlighting their role in achieving efficiency and effectiveness within banks and limiting their failure.

STUDY OBJECTIVES

1. Determining the concepts and intellectual foundations of each of the internal and external audit committees (the independent variable) and bank failure (the dependent variable).
2. Highlighting the role of the internal and external audit committees as one of the mechanisms to limit the failure of banks.

THE HYPOTHETICAL SCHEME OF THE STUDY

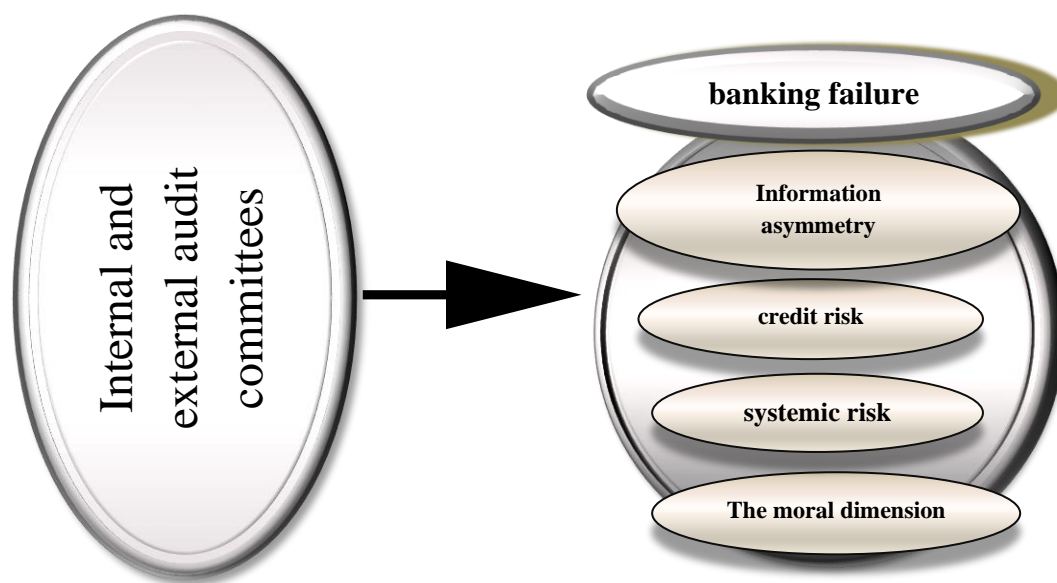


Figure 1: The hypothetical scheme of the study

RESEARCH HYPOTHESES

The research is based on two main hypotheses:

1. There is a positive correlation with statistical significance between the roles of internal and external audit committees and banking failure in commercial banks in Basra.
2. There is a statistically significant positive effect between the roles of internal and external audit committees and banking failure in commercial banks in Basra.

METHODS OF DATA COLLECTION, MEASUREMENT AND ANALYSIS

1. Perform honesty tests using factor analysis and stability testing through Cronbach's alpha
2. Normal distribution using statistical methods by the program (SPSS .v25).
3. Descriptive statistics using (the arithmetic mean, the standard deviation, and the coefficient of variation).

THE SECOND AXIS / THE THEORETICAL SIDE

The First Requirement: Internal And External Audit Committees

The Audit Committee as a “committee consisting of three to five non-managers entrusted with the executive responsibilities of the financial department, and one of its most important tasks is to audit the financial statements. As well as to ensure the effectiveness of the internal and accounting control system of the banks included in the study, the results of the external and internal audit, the scope of the audit, as well as the internal control and all financial information prepared for publication. (Nzechukwu, 2017), Internal audit is a financial department concerned with evaluating practices with regard to the internal financial position of organizations and evaluating their financial performance. (Alaa Shamsallah Noorullah, 2020) The internal audit represents an internal function in the bank that works to ensure the validity of the operations and economic events carried out by the company during the accounting period (Stephenson, 2017) It is a financial department concerned with evaluating practices with regard to the internal financial position of institutions and evaluating their financial performance, (Goodwin, 2006) Audit denotes a process, objectivity, and methodology for obtaining and evaluating evidence regarding facts and financial and economic events in order to ascertain the degree of agreement between those

specified criteria and facts, and to communicate the results to interested users of information. (Mahzan, 2015).

THE SECOND REQUIREMENT/BANKING FAILURE

Financial failure was defined as the inability of the bank to pay its financial obligations due (Outecheva,2007) when the bank reaches this situation, it is then unable to meet the financial needs, or that it is facing difficulty in paying its financial obligations to creditors, as it is known. Beaver defines it as the failure of economic units to reach reliable forecasts as a result of using both advanced models that adopt financial ratios and cash flow indicators, especially those related to debt (Hani, 2020; Sori&Karbhari, 2004). The failure of any bank causes it to bear a relatively large economic cost, and this is evidenced by the decrease in its market value, as it is threatened with financial failure in a fundamental and influential way, and this is what drives users with their various to prevent the occurrence of failures by suing the auditors with legal cases in the event that they fail to provide early predictions of bank failure within their periodic report (Azeez, 2014).

DIMENSIONS OF BANK FAILURE

1. Information Asymmetry

The concept of asymmetry of accounting information: Accounting in the stage of theoretical framing and conceptual construction sought to achieve the primary goal, which is to provide information that has a positive impact on stakeholders. It has set this goal within the conceptual framework of financial accounting as one of the priorities in designing accounting systems for economic units (Mohsin et al., 2022; Bhattacharya, 2009). Bhattacharya has defined it as the amount of difference in the amount of information available to different parties in relation to transactions, which does not make them equal in completing transactions (Ofonyelu, 2013). The problem of financial information asymmetry occurs when one party to the transaction has better information than the other parties in the same transaction, that is, when the seller has more information about a specific product than the buyer has information about it, or the borrower knows more information than the lender about a particular credit process (Nyoni, 2018).

2. Credit Risk

Credit risk: It is the possibility of the bank's borrowing customers failing to fulfill their obligations to the bank, when these obligations are due or after that, or failure to pay according to the agreed terms, i.e. these risks are related to the counterparty in the contract in terms of its ability to pay its obligations to the bank on the specified date. Credit risks arise in Islamic financing through the following aspects: Receivables for Murabaha contracts. Receivables and parties dealing with it non-Istisnaa contracts, (Alawneh & Hani 2021; Clark, 2014) referred to it as "the risk of non-payment of promised cash flows from loans and securities wholly owned by financial institutions (Saunders & Cornett, 2007) Credit risk can be described as the risk of default of the borrower / counterparty, i.e. non-payment of the amount owed to the bank, Credit risk includes all other parties and the reasons that may fail to fulfill their payment obligations (Konovalova, et al, 2016). al, credit risk refers to unexpected events that lead to losses of assets or discount profits compared to expected profits or generate additional expenses to complete a transaction Certain (Finance, 2019).

3. Systemic Risk

The systemic risk is represented by the volatility of the return as a result of common factors (economic, political, legal, etc). that affect the national economy as a whole. This means that all securities traded in the capital market are affected by this risk therefore, it is called market risk, and the investor cannot avoid these risks by diversifying his investment portfolio as well. It is the case in the unsystematic risk that the investor can avoid when diversifying his investment portfolio sectorally or at a qualitative level and the effect of this risk includes most sectors of the market (Jakobsen, 2013), What he identified are risks that result from common general factors associated with economic and political conditions and developments in the entire economic system (Dijkman, 2010).

4. The Moral Dimension

The ethical dimension There is a rising wave of awareness and awareness about the importance of work ethics, which can be described as the principles of behavior or behavior within the organization in general and decision-making in particular, where work ethics occupy a distinct place in the strategic impact on subordinates and stakeholders inside and outside organizations, as these ethics represent a requirement Necessary for Strategic Management (Nwachukwu, 2020), It is a form of human awareness based on controlling and regulating human behavior in all areas of

life. Because it gives a clear definition of its reflection on the daily dealings between individuals or with organizations, and the creation of common standards through which the sense of the nature of ethical transactions that occur in society (Faihan, 2016) It is a set of standards and principles that govern the behavior of individuals and groups and help them determine right and wrong and then determine how to accomplish the basic things (Meshane, 2004).

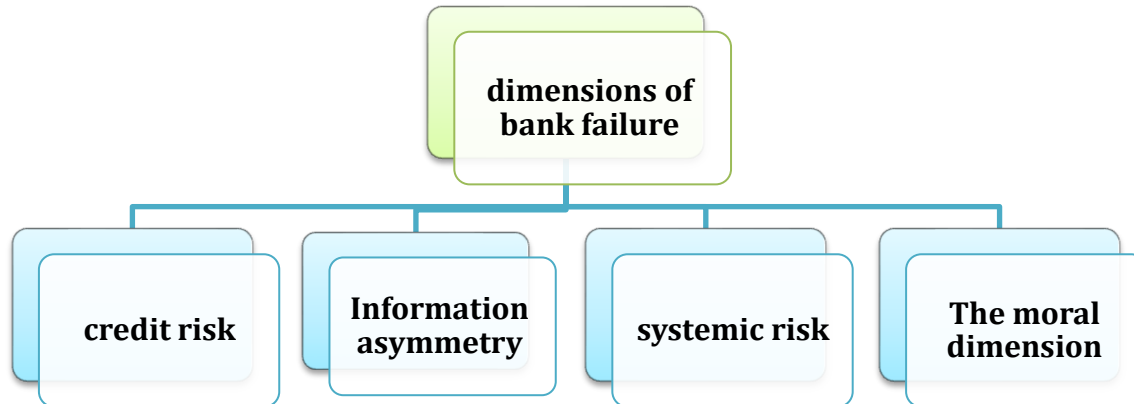


Figure 2: Shows the dimensions of banking failure

THE THIRD AXIS / APPLIED SIDE

Normal Distribution Of The Data

In order to find out the distribution of the data, the researcher tested the distribution of the data whether it was distributed normally or not by conducting the Kolmogorov-Smirnov a test to test the following hypotheses.

Ho: the data is normally distributed

H1: The data is not normally distributed

Table 2: Shows the results of a normal distribution test

interlocutor	Kolmogorov-Smirnov ^a	
	Statistic	Sig.
(Independent variable) internal and external audit	0.067	0.235
(asymmetry information) The first dependent variable	0.421	0.114
(risk systemic) The second dependent variable	0.311	0.321
(credit risk) The third dependent variable	0.454	0.200
(the moral dimension) The fourth dependent variable	1.63	0.41

Source: prepared by the researcher based on the output of spss.v22

Through the test results, we notice that all the values of the axes at the sig level of significance are greater than the significant level, and this means that we accept the null hypothesis, which states that the data is normally distributed, and through that we can perform parametric tests on the data.

THE VALIDITY AND RELIABILITY OF THE TOOL

For the purpose of knowing whether there is stability in the results of the questionnaire, we study the stability of the questionnaire by calculating the Cronbach's alpha coefficient, the result of which is interpreted in the event that the questionnaire is redistributed to the sample members several times during a certain period of time. Stability was observed in the data and under the same conditions when calculating the Cronbach alpha coefficient for the study variables in the questionnaire, it was found that its value for all axes is 0.80 This indicates that the tool used for the study is of great stability, which makes us fully confident in the validity of the questionnaire and its validity to transmit and interpret the results of the study and test its hypotheses, as the value of the coefficient is between (0-1), and the closer it is to one, the more evidence that there is high stability and vice versa, and the agreed minimum is 0.6 .

First: analysis of the impact of the effectiveness of the performance of internal auditing agencies:

Table No (3) Frequency distribution, arithmetic mean, and standard deviation of the auditing organization's sample's opinions on the impact of internal and external

	paragraphs	1	2	3	mean	sd	cv
1	The Audit Committee is a representative of the legislative authority in monitoring the executive branch (the government).	4	31	32	4.41	0.606	14%
		6	46.3	47.8			
2	The audit committee consists of non-executive board members (the bank).	6	30	31	4.37	0.647	15%
		9	44.8	46.3			
3	Audit committees must ensure complete independence of internal audit.	6	28	33	4.4	0.65	15%
		9	41.8	49.3			
4	Dividing the emphasis on the defect by the audit committees to establish the unit ,and fully disclose what is going on in it and inform the bank's board of directors of any material developments that affect the integrity of the financial statements.	7	29	31	4.35	0.667	15%
		10.4	43.3	46.3			
5	Audit committees must reject gifts or grants and anything that may affect their independence and integrity.	5	29	33	4.41	0.631	14%
		7.5	43.3	49.3			
6	To determine the scope of performance of the work of the audit committees and to communicate the results, there should be no interference in their work.	5	28	34	4,432	0.633	14%
		7.5	41.8	50.7			
7	The laws and regulations of the audit committees focus on the rights of ,stakeholders and on accountability	5	29	33	4,417	0.631	14%
		7.5	43.3	49.3			

	which represents the dominant feature of the government's strategy, the right to vote and the election of members of the Board of Directors.						
8	Audit committees should make their decisions keeping the public interest in .mind	8	29	30	4,328	0.682	16%
		11.9	43.3	49.3			
9	The reports of the audit committees have an effective impact on improving the efficiency of the performance of the entities (banks) subject to audit.	6	32	29	4.34	0.64	15%
		9	47.8	43.3			
10	The lack of interest in the reports issued by the audit committees weakens the performance of these committees and, in turn, leads to the failure of the banker.	4	33	30	4.38	0.6	14%
		6	49.3	44.8			

Source: prepared by the researcher based on the output of spss.v22

It is noted in Table (3), which shows the opinions of the sample, confirming that all the paragraphs of the internal and external audits tend towards the approval, and that most of these paragraphs are the paragraph (to determine the scope of performance of the work of the audit committees and to communicate the results, there should be no interference in their work) where the rate was (4.43) There are also close variables in agreement, as the response rate is (4.41), as is the case in the first, fifth, and seventh paragraphs, As for the rest of the arithmetic mean, the table shows that its value exceeded (4.32), which is greater than the standard performance average (3), and this This means that all these paragraphs were clear to the study sample. As for the standard deviation measure, its value was small in all the tables and did not exceed (0.68), and this indicates that the deviation of the values at their arithmetic mean was small, As well as the measure of the coefficient of difference was a small percentage as well, and also the table shows a decrease in the percentage of dispersion by calculating the coefficient of difference as it did not exceed in all variables (16%), (non-interference in the role of committees helps in reducing bank failure gives the role of

committees the results and recommendations that help in achieving success in the banking business)

Second: Analysis of the impact of the dependent variable on banking failure (information asymmetry:

Table No(4) Frequency distribution, arithmetic mean, and standard deviation of the organization sample's opinions about the information asymmetry variable

T	paragraphs	1	2	3	mean	sd	cv
11	It does not disclose changes in circumstances that affect the bank or events that affect the financial position of the bank.	7	29	31	4.35	0.66	15%
		10.4	43.3	46.3			
12	Changes in circumstances affecting the bank or the nature of events affecting the financial position of the bank are not disclosed from one period of time to another.	5	29	33	4.4 4	0.63	14%
		7.5	43.3	49.3			
13	Gains, losses and decline resulting from the re-evaluation of financial instruments held are announced periodically.	5	28	34	4.4 1	0.63	14%
		7.5	41.8	50.7			
14	It does not provide sufficient information for all administrative levels to enable them to complete the monitoring process and determine capital requirements.	5	29	33	4.41	0.63	14%
		7.5	43.3	49.3			

Source: prepared by the researcher based on the output ofspss.v22

It is noted i It is noted in Table (4), which shows the opinions of the sample, confirming that all the variables of internal and external auditing tend

paragraph (It does not disclose changes in circumstances affecting the bank or in the nature of events affecting the financial position of the bank from one period of time to another). to another . Where the rate was (4.44), and there are similar variables in agreement, as the response rate was (4.41), as is the case in paragraphs No. (13) and (14), and as for the rest of the arithmetic mean, the table shows that its value exceeded (4.32), which is Greater than the average standard performance (3), and this means that all these paragraphs were clear to the study sample. As for the standard deviation scale, its value was small in all the tables and did not exceed (0.68), and this indicates that the deviation of the values at their arithmetic mean was small, As well as the measure of the coefficient of difference was a small percentage as well, and also the table shows a decrease in the percentage of dispersion by calculating the coefficient of difference, as it did not exceed in all variables (16%), this indicates the agreement of the workers in commercial banks that the asymmetry of information is one of the reasons for bank failure.

Third: Analysis of the Impact of the Banking Failure Variable (Credit Risk)

Table No(5) Frequency distribution, arithmetic mean, and standard deviation of the organization sample’s opinions about the credit risk variable

T	paragraphs	1	2	3	mean	sd	cv
15	He is not keen on a commitment to manage credit activities within the credit risk management strategy and policies approved by the Bank's Board of Directors.	6	30	31	4.3 6	0.647	15%
		9	44.8	46.3			
16	He does not make unremitting efforts through the senior management and employees of the bank to deal with debts and non-performing debts and remove	6	28	33	4.4	0.67	1 4%
		9	41.8	49.3			

	their negative impact on the business results and the capital base of the bank.						
17	It does not depend on the standards and principles of good lending, which guarantees mitigation of credit risks.	7	29	31			
		10.4	43.3	46.3	4.36	0.64	16%
18	He is not concerned with adequate ,financial analysis of credit borrower follow-up, and working with borrowers to address deterioration.	6	29	32			
		9	43.3	47.8	4.38	0.61	14%

Source: prepared by the researcher based on the output of the spss.v22 program

It is noted in Table (5), which shows the opinions of the sample, confirming that all the variables of internal and external auditing tend towards the appropriate one, and that most of these paragraphs are the paragraph (no unremitting efforts are made by the senior management and employees of the bank to deal with debts and non-performing debts and to remove their negative impact on business results and the base the capital of the bank), where the rate was (4.43), and there are similar variables in agreement, as the average of the answers was (4.36), as is the case in paragraphs No. (15) and (17), and as for the rest of the arithmetic mean, the table shows that its value exceeded (4.32), which is greater than the standard performance average (3), and this means that all these paragraphs were clear to the study sample, As for the standard deviation measure, its value was small in all the tables and did not exceed (0.68), and this indicates that the deviation of the values at their arithmetic mean was small, As well as the measure of the coefficient of difference was a small percentage as well, and the table also shows a decrease in the percentage of dispersion by calculating the coefficient of difference as it did not exceed in all variables (16%), this indicates the agreement of the workers in commercial banks that credit risk is one of the reasons for bank failure.

Fourth: Analysis of the Impact of the Banking Failure Variable (Systemic Risk)

.Table No(6) Frequency distribution, arithmetic mean, and standard deviation of the organization sample's opinions about the systemic risk variable

T	paragraphs	1	2	3	mean	sd	cv
19	It does not set policies and strategies for risk management commensurate with the potential risks that may be exposed to.	5	28	34	4.32	0.63	15%
		7.5	41.8	50.7			
20	He does not take the initiative to study and analyze the guarantees provided and their legality and adequacy before accepting the credit application.	5	29	33	4.41	0.632	14%
		7.5	43.3	49.3			
21	It does not distribute the granted loans according to geographical regions or economic sectors with regard to the process of granting credit.	8	29	30	4.32	0.688	16%
		11.9	43.3	44.8			
22	It does not set rules for granting loans and rules for obtaining information and documents that must be available for granting loans.	6	32	29	4.54	0.656	14%
		9	47.8	43.3			

Source: prepared by the researcher based on the output of the spss.v22 program

It is noted in table (6), which shows the opinions of the sample, confirming that all the variables of internal and external auditing tend towards the appropriate one, and that most of these paragraphs are the paragraph (it does not establish rules for granting loans and rules for obtaining information and documents that must be available for granting loans) where the test rate was (4.54) There are also close variables in agreement, as the response rate is (4.32), as is the case in

paragraphs (19) and (21), while the rest of the arithmetic mean, the table shows, is that its value exceeded (4.32), which is greater than the standard performance average (3), and this means that all these paragraphs were clear to the study sample. As for the standard deviation measure, its value was small in all the tables and did not exceed (0.68), and this indicates that the deviation of the values at their arithmetic mean was small, As well as the measure of the coefficient of variation was a small percentage as well, and the table also shows a decrease in the percentage of dispersion through calculating the coefficient of difference, as it did not exceed in all variables (16%), this indicates the agreement of the workers in commercial banks that systemic risks are one of the reasons for bank failure.

(Fifth: Analysis of the Impact of Banking Failure Variable)Ethical Dimension

Table No(7) Frequency distribution, arithmetic mean, and standard deviation of the organization sample's opinions about the ethical dimension variable

T	paragraphs	1	2	3	4	5	mean	sd	cv
23	Does not abide by the ethical rules and principles that regulate the behavior of banks.			4	31	32	4.45	0.61	14%
				6	46.3	47.8			
24	He does not take ethical behavior regulations as the first criterion in his dealings with clients and other banks.			6	30	31	4.47	0.64	14%
				9	44.8	46.3			
25	The bank does not cooperate with all joints in order to improve the bank's image.			4	33	30	4.37	0.61	14%
				6	49.3	44.8			
26	It does not hold training and ,training courses aimed at guiding developing and consolidating work ethics.			7	30	30	4.37	0.66	15%
				10.4	44.8	44.8			

Source: prepared by the researcher based on the output of the spss.v22 program

It is noted in Table (7), which shows the opinions of the sample, confirming that all variables of internal and external auditing tend towards the corresponding, and that most of these paragraphs are the paragraph (to determine the scope of performance of the work of the audit committees and to communicate the results, there should be no interference in their work..) where the rate was It is (4.47) and there are also close variables in agreement, as the response rate is (4.37), as is the case in the first, fifth, and seventh paragraphs. As for the rest of the arithmetic mean, the table shows that its value exceeded (4.32), which is greater than the standard performance average (3) This means that all of these paragraphs were clear to the study sample. As for the standard deviation measure, its value was small in all the tables and did not exceed (0.68), and this indicates that the deviation of the values at their arithmetic mean was small, As well as the measure of the coefficient of difference was a small percentage as well, and also the table shows a decrease in the percentage of dispersion by calculating the coefficient of difference as it did not exceed in all variables (16%), this indicates the agreement of the workers in commercial banks that the moral dimension is one of the reasons for bank failure.

THE FOURTH AXIS / CONCLUSIONS AND RECOMMENDATIONS CONCLUSIONS

1. Adopting the formation of internal and external audit committees in the commercial banks under study and activating the practices of those committees to monitor the performance of banks and support them in applying principles properly and strengthening their implementation mechanisms to reach the establishment of rational judgment in successful .decisions
2. Developing appropriate solutions to address the problems that arose as a result of financing delays, facing emergency conditions and responding to them, and reducing the possibility of bank failure, as well as complying with and fulfilling the requirements required by customers or depositors.
3. The study concluded that the banks examined in the study, in general, have few failure possibilities, and at the forefront are the possibilities of bank failure, the possibility of ,exposure to risks due to information asymmetry due to the lack of disclosed information then there is the possibility of banks exposure to systemic risks affecting the banking sector in general, in addition to that Then there is a small possibility that banks will be exposed to credit risk due to the presence of a percentage of doubtful debts, and then there is a small .possibility that banks will be exposed to risks, due to moral commitment

4. The results showed that the study sample banks have sufficient ability to mitigate or transfer risks, followed by their ability to avoid risks, and then the surveyed banks have the ability to allocate resources, while it was found that banks show their ability to manage cash assets through price competition.

RECOMMENDATIONS

1. Commercial banks must continue to apply the financial failure model, because it enhances the confidence of existing and new investors in accounting information that reflects business results and financial status.
2. Establishing a professional institute to organize and develop the performance of the members of the internal and external audit committees, and to organize the issue of continuing professional education for its members, and work to establish the necessary scientific and practical elements for the system of audit committees and to organize all programs.
3. The need to conduct more research and scientific studies by researchers related to the subject of internal and external audit committees and the basic causes of bank failure.

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