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The Effect of Internal Control on Financial Performance: Empirical Evidence of Banking Sector from an Emerging Region

Hawkar Anwer Hamad[1] - Naji Afrasyaw Fatah[2] - Hariem Ahmed Abdullah[3]

hawkar@lfu.edu.krd - naji.afrasyaw@spu.edu.iq - hariem.abdullah@univsul.edu.iq

[1]Department of Accounting and Finance, College of Administration and Economics, Lebanese French University, Erbil, Kurdistan Region, Iraq.

[2]Department of Accounting, Technical College of Administration, University of Sulaimani Polytechnic, Sulaymaniyah Kurdistan Region, Iraq.

[3]Department of Accounting, College of Management and Economics, Sulaimani University, Sulaymaniyah, Kurdistan Region, Iraq.

Abstract

This study is an attempt to empirically investigate the effect of internal control on financial performance. The study selected the banking sector in an emerging economy, specifically the Kurdistan Region of Iraq. Effective internal control systems, encompassing policies, procedures, and risk mitigation, contribute to accurate financial reporting, operational efficiency, and investor confidence, thereby positively influencing a bank's financial performance. The study relies on evidence from the Kurdistan region. The Kurdistan Region's banking sector encountered issues with its utilization and funding methods. Using internal control will ensure that management and workers adhere to their responsibilities and strive to enhance the success of the banking sector in the Kurdistan Region of Iraq, based on the lessons learned. We conducted regression analysis on the seventy responses using SPSS 26. The results showed that there is a positive relation between financial performance and the control environment, control activities, and internal risk assessments.

Keywords: Financial Performance, Control Activity, Risk Assessment, Control Environment, Kurdistan region.

کاریگەریی چاودێریی ناوخۆیی لەسەر ئەدای دارایی: توێژینەوەیەکی ئەزمونی لەسەر ناوچە تازەگەشەسەندوەکان

هاوکار قادر ئەنوەر[1] - ناجی ئەفراسیاو فەتاح[2] - هەرێم ئەحمەد عبداللە[3]

[1]بەشی ژمێریاری ودارایی، زانکۆی لوبنانی-فەرەنسی، هەرێمی کوردستان، هەولێر، عێراق

[2]بەشی ژمێریاری، کۆلێژی تەکنیکی کارگێڕی، زانکۆی پۆلیتەکنیکی سلێمانی، هەرێمی کوردستان، عێراق

[3]بەشی ژمێریاری، کۆلێژی کارگێڕی و ئابوری، زانکۆی سلێمانی، هەرێمی کوردستان، عێراق

پوختە

سیستەمی چاودێری ناوخۆیی چالاک دەتوانێت کاریگەری نەرێنی دروست بکات لەسەر ئەدای دارایی دامەزراوەیەک لەرێگای بەشداری کردنن لە دابینکردنی بەرزکردنەوەی چەندایەتی راپۆرتی دارایی لە ڕوی پشت وردی و دروستییەوە. ئەم توێژینەوە هەوڵێکی مەیدانییە کە لێکۆڵینەوە دەکات لە کاریگەری چاودێریی ناوخۆیی لەسەر ئەدای دارایی کەرتی بانک لە عێراقدا. بۆ بەجێگەیاندنی لێکۆڵینەوە مەیدانیەکە، بانکەکانی هەرێمی کوردستان وەک نمونە وەرگیراون. ئەمەش دوای ئەوە دێت کە لە ماوەی ڕابردوودا کەرتی بانکی لە هەرێمی کوردستان توشی کۆمەڵێک کێشە بویەوە لە چۆنێتیی بەکارهێنان و وەرگرتنی پارە. بە پشتبەستن بەو ئامارانەی لەبەردەستن، بەکارهێنان و کاراکردنی چاودێریی ناوخۆیی، دڵنیایی دەدات کە کارگێڕی بانک و کارمەندان پابەندبن بە کارەکانیانەوە و کار بۆ باشترکردن و سەرخستنی کەرتی بانکی لە کوردستاندا بکەن. ئەو ٧٠ وەڵامەی کە بە بەکارهێنانی بەرنامەی SPSS شیکاریان بۆ کراوە. ئەنجامەکان دەریانخست کە پەیوەندییەکی ئەرێنی لە نێوان ئەدای دارایی و ژینگەی کۆنترۆڵکردن، چالاکییەکانی کۆنترۆڵکردن و هەڵسەنگاندنی مەترسیی ناوخۆییدا هەیە. وردتر بڕوانین لە ئەنجامەکان، دەرەکەوێت کە چالاکییە چاودێرییەکان بە شێوازێکی دیار گاریگەری ئەرێنی دادەنێن لەسەر ئەدای دارایی بانک لە کاتێکدا هەر یەک لە ژینگەی چاودێری و بەڕێوەبردنی مەترسی کاریگەری ئەرێنی هێواشتر دروست دەکەن. وەک دەرئەنجامێک بۆ ئەم توێژینەوەیە، دەکرێت بوترێت کە نەبونی ژینگەیەکی چاودێری بەهێز دەتوانێت چاودێری ناوخۆیی لاوازبکات و دەکرێت ببێتە هۆکاریش بۆ زیادکردنی مەترسی ڕودانی هەڵە، فڕوفێڵ و هەروەها ناکارامەیی.

کلیلەوشە: ئەدای دارایی، چالاکیی چاودێری، هەڵسەنگاندنی مەترسی، ژینگەی چاودێری و هەرێمی کوردستان.

1. Introduction

Controlling unique risks in the banking industry is crucial for ensuring optimal performance and profitability, underscoring the importance of internal control for financial institutions. Banks play a crucial role in Iraq's financial sector, which in turn affects the country's economic growth and security (Abdullah et al., 2021). Banking institutions face unique business risks that require careful internal management to ensure improved performance. Banks play a critical role in Iraq's financial sector, as well as, by extension, the country's economic development and security level (Hanoon, Rapani, & Khalid, 2020b). Research undertaken over the last 20 years by Ghafar et al. (2022) indicates that banks are more profitable with larger size and higher leverage.

The aim of this study is to examine the effect of internal control mechanisms on the financial performance of the banking sector in Iraq. The key objectives include analyzing the impact of control environment, risk management, and control activities on financial performance and determining the extent to which internal control systems contribute to financial stability and operational efficiency. Adequate internal controls, which ensure accurate financial records that conform to all applicable rules and regulations, aid management's ability to provide resources to customers efficiently (COSO, 2013). Banks with inadequate or nonexistent internal controls are more vulnerable to financial loss (Asiligwa & Rennox, 2017). The United States Treadway Commission Report (1987) confirms this, finding that firms' misleading financial reporting often stems from insufficient internal controls. In reaction to the well-known accounting catastrophes at Enron and WorldCom in the 21st century, the Sarbanes-Oxley (SOX) Act of 2002 mandated that all publicly listed firms publish their internal controls over financial statements. Under SOX Section 404, which allows for the publication of an internal control report (Chang et al., 2019), the management of publicly traded companies overseas setting up, implementing, and maintaining the right internal controls. They must also vouch for the effectiveness of these controls.

According to the Central Bank of Iraq, Iraq's financial industry is thriving, and it is generally stable and well-regulated (2017). The Central Bank of Iraq (CBI) is part of this system and is responsible for regulating the banking industry. The list of banks, as of July 19, 2022, comprised 46 institutions classified as Islamic private banks, local commercial banks, foreign commercial banks, government Islamic banks, and local Islamic banks. The internal control of the banking industry is governed by the Banking Supervision Policy of Basel Committee (1998). According to the Basel Committee, a system of efficient internal controls is a cornerstone of bank management and the basis for the safe and sound functioning of banking organizations (1998).

This study contributes to the literature by providing empirical evidence on the role of internal control in enhancing financial performance, particularly in an emerging economy like Iraq. The findings offer valuable insights for bank managers, policymakers, and regulators in strengthening internal control mechanisms to improve financial stability. Additionally, this research fills an existing gap by focusing on the Kurdistan Region's banking sector, which has been underexplored in previous studies.

2. Literature review

2.1 Internal Control

By 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) introduced the Internal Control-Integrated Framework, which became one of the most widely adopted models for internal control implementation worldwide (Rae et al., 2017). The framework emphasizes that internal controls should be tailored to the specific context, industry, and organizational structure to ensure effectiveness. However, challenges arise when regulations and standards incorporate vague or inconsistently defined internal control measures, leading to gaps in compliance and implementation. Internal control is broadly defined as a structured process overseen by the board of directors, management, and employees, ensuring accountability, risk mitigation, and operational efficiency.

Financial institutions frequently install internal control systems to help them track and identify potential threats. Financial institutions implement these systems to strengthen their risk handling procedures. Each financial institution requires a unique system of internal controls to ensure effective risk management. The purpose of any bank's internal control system is to ensure that the institution runs smoothly and efficiently following its stated purpose, that its management data and financial reporting are accurate, and that it is progressing in accordance with all applicable laws and regulations. A financial institution might be at risk if it does not have enough internal controls in place. There is a growing connection between internal auditing and risk management. The modern view of internal controls is that they exist to aid in risk management and prop up effective governance mechanisms inside an organization. Furthermore, it is crucial to incorporate risk assessment and prevention.

Rae et al. (2017) describe the COSO Internal Control-Integrated Framework as a fundamental model for internal auditing. The framework outlines five key components necessary for an effective internal control system: control activities, risk assessment, monitoring activities, information and communication, and the control environment. For an enterprise to succeed, these elements must function cohesively across all operational levels.

According to Ayagre et al., an effective internal control system requires continuous integration between business processes and internal control components. Organizations must ensure that risk assessment, monitoring, and control mechanisms are actively embedded within operational processes. Additionally, clear and effective communication channels are essential for ensuring that internal control objectives are consistently understood and implemented across the organization.

Control Environment

According to the COSO framework, a company's control environment plays a fundamental role in shaping its organizational culture and influencing employees' awareness of control-related issues. It establishes order and discipline, serving as the foundation for all other internal control components. Key factors influencing the control environment include management’s leadership style, decision-making approach, delegation of authority, workforce structure, and adherence to ethical business standards. Effective internal control begins with management setting the right tone at the top, ensuring compliance with control procedures and regulatory standards (Kinyua et al., 2015).

Empirical studies support the significance of the control environment in financial performance. Khamis (2013) found a positive correlation between a strong internal control environment and financial success, while Mawanda (2008) demonstrated its impact on financial performance in Uganda's higher education sector. These findings highlight the necessity of a well-structured control environment to enhance organizational efficiency and financial stability.

Risk Management

Studies have been investigating the impact of risk management on financial performance. With the goals of evaluating the risk management determinants and studying the indicators of financial performance of the banking sector, Harelimana (2017) focused on the "role of risk management on financial performance in banking institutions" in his paper. The author discovered that risk management has a significant impact on organizational performance in financial institution creation. The research discovered that strong risk management improves financial organisations' performance. The research also discovered that risk management influences both the quality of financial reporting and investors' decision-making.

Adeusi et al. (2014) conducted research entitled "The Contribution of Risk Management to the Growth of Financial Report in Microfinance." The study's primary objective was to examine the methods used by banks to manage credit risk, identify the root causes of borrowers' operations, and suggest corrective actions to lower the level of credit risk. The capacity of the computerised accounting system to generate and deliver accurate, up-to-date, and representative financial reports to end users, along with the large number of clients who are also borrowers, made this possible. The Rwandan government is helping the microfinance industry transition to a standard computerized accounting system. This will act as a platform for connecting all the nation's rural microfinance institutions to one another, enabling quicker and more effective banking. The author concluded that risk management is critical to the identification, analysis, assessment, treatment, supervision, and communication of organizational risks. Therefore, risk management serves six key purposes for a firm.

Control Activity

Control activities encompass a spectrum of processes, guidelines, and mechanisms implemented to ensure the effective operation of management, as described by Millichamp (1999). These activities are pervasive across all organisational levels and departments, constituting a diverse array of tasks aimed at promoting efficiency and integrity. Among the key facets of control activities are approval processes, verification procedures, reconciliation protocols, asset protection measures, duty segregation practices, and operational performance evaluations, as noted by Aikins (2011). These components collectively form the framework through which management exercises oversight and governance over organizational activities, safeguarding against risks and promoting adherence to established policies and procedures. Central to the effectiveness of control activities is the availability of comprehensive documentation outlining policies and procedural guidelines. Such documentation serves as a foundation for sound and successful control operations, providing a roadmap for the execution of these activities in accordance with organizational objectives and regulatory requirements. Through the implementation of robust control activities and the maintenance of appropriate documentation, organisations can improve operational efficiency, mitigate risks, and foster a culture of accountability and compliance.

2.2 Financial Performance

Performance serves as the culmination of all tactical and strategic endeavours undertaken by an organisation (Akalpler & Abdullah, 2020). In the realm of accounting objectives, the primary concern is the accurate assessment of success. Consequently, performance measurement assumes critical importance, serving as a foundational element for the formulation of plans and the evaluation of their attainment.

Financial performance is a critical measure of a firm's overall success, particularly in the banking sector, where it reflects operational efficiency and profitability. One of the most widely used approaches to evaluating financial performance is through financial statement analysis, specifically the income statement, balance sheet, and cash flow statement. Key financial ratios, such as Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin, provide objective insights into a bank's financial health and efficiency (Rasul, 2018; Sdiq & Abdullah, 2023). Analyzing these metrics enables stakeholders to assess profitability, risk exposure, and the effectiveness of internal control mechanisms in ensuring financial stability and regulatory compliance (Ellinger et al., 2022; Galant & Cadez, 2017).

While the concept of financial performance is multidimensional, incorporating both qualitative and quantitative factors, evaluating it solely through financial metrics has been critiqued for its limitations. Scholars emphasize that financial performance in the banking sector is best assessed through key indicators such as profitability, operational efficiency, and risk management effectiveness. Internal control mechanisms, including control environment, risk management, and control activities, play a crucial role in ensuring accurate financial reporting, regulatory compliance, and operational stability. Extensive research underscores the theoretical connection between internal control systems and financial performance, highlighting their role in mitigating risks and enhancing decision-making processes. However, empirical findings suggest that while internal control positively influences financial outcomes, its direct impact on financial success may vary depending on the effectiveness of its implementation and external economic conditions (Fatah & Hamad, 2022).

This complexity underscores the nuanced nature of performance assessment within the context of internal control through risk evaluation, necessitating a comprehensive understanding of both qualitative and quantitative dimensions. While financial performance remains pivotal, a comprehensive approach that integrates operational factors is imperative for attaining sustainable success and competitive advantage within the dynamic business landscape.

2.3 Internal Control and Performance

The theoretical nexus between internal control and performance emphasizes the integral role of effective internal control mechanisms in improving organizational outcomes. This section aims to expound upon the theoretical underpinnings supporting the relationship between internal control and performance, drawing upon seminal works in the field. However, investors see the crisis as dampening economic activity and reducing profits (Abdullah & Fatah, 2020). According to Kasmawati, Herin and Budiman (2024) financial performance is influenced by internal audits that work under the standards of the Institute of Internal Auditors.

Effective internal control is proposed to improve performance through a variety of mechanisms. Firstly, internal control functions as a proactive tool for risk identification and mitigation, as elucidated by Christ et al. (2021). By systematically identifying and addressing potential risks, internal control mechanisms serve to preemptively minimize the likelihood of adverse events that could detrimentally impact organisational performance. This risk mitigation function not only safeguards against potential losses but also fosters an environment conducive to sustainable growth and resilience.

Secondly, internal control plays a pivotal role in optimizing organisational processes and procedures, as highlighted by Getie Mihret and Wondim Yismaw (2007). By establishing and maintaining efficient and effective processes, organisations can streamline operations, reduce inefficiencies, and enhance overall performance. This optimisation of processes enables organisations to achieve their objectives in a more timely and cost-effective manner, thereby bolstering their competitive advantage and market positioning.

Furthermore, internal control contributes to the accuracy and reliability of financial information, as underscored by Jarah et al. (2022). Through the establishment and maintenance of robust internal controls over financial reporting, organisations can ensure the integrity of their financial data. This, in turn, enhances the credibility and trustworthiness of financial information, thereby bolstering investor confidence and facilitating informed decision-making.

To sum up, the theoretical framework posits that effective internal control mechanisms serve as a linchpin for organisational success by mitigating risks, optimising processes, and ensuring the integrity of financial information. By leveraging these mechanisms, organisations can enhance their performance and sustain long-term viability in an increasingly complex and dynamic business environment. Thus, we set the following hypotheses:

H1: Control environment has a significant positive effect on financial performance.

H2: Risk management has a significant positive effect on financial performance.

H3: Control activities have a significant positive effect on financial performance.

2.4 Conceptual framework

The model explains that internal control serves as the overarching factor influencing financial performance. The independent variables in this study include the control of environment, risk management, and control activities, which collectively shape an organization's internal control system.

Financial performance, the dependent variable, is measured using profitability ratios based on secondary data. This framework allows us to analyze the direction and magnitude of the effect of internal control on financial performance, ensuring a structured approach to evaluating its impact.

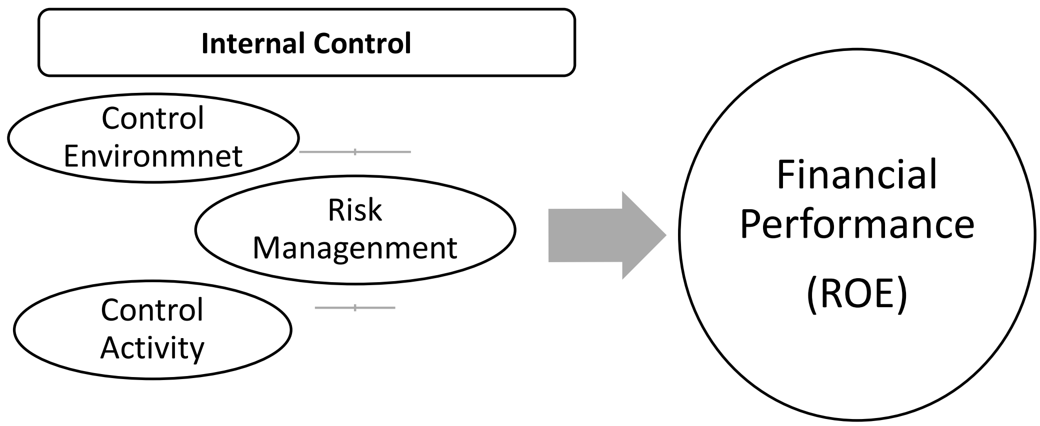

Figure 1 Conceptual framework

Additionally, the model highlights the role of internal control in shaping financial performance while considering the influence of external factors, such as a bank's clients and competitors. The conceptual framework used in this research adopts a banking sector perspective, demonstrating how a well-established internal control system contributes to financial stability and operational efficiency.

3. Methodology

3.1 Research Design

The researchers used a descriptive cross-sectional study design. According to Cooper and Schindler (2014), this kind of research design is used when the researcher is interested in elucidating the study issue outlined with challenges to be overcome by the respondents. To ensure that the researchers spoke with at least one person from each bank's upper management, middle management, and internal control units, a random sample frame was constructed using a stratified random sampling method. Descriptive statistical methods were employed to analyze the responses from a questionnaire tailored to this group of people (Narmen et al., 2016). The design was adequate since the researcher was able to determine the impact of ICs on the financial performance of banks. The sample for this research consisted of 70 responses from 46 Commercial Banks that were CBI-approved as of December 31st, 2022.

3.2 Data Collection

This study used quatitative data collected from a mix of primary and secondary data types. The primary data is collected via a constructed close-ended questionnaire. Senior and middle management, as well as the internal audit department, were the targeted participants to collect data since they were responsible for making decisions and implementing internal controls at their sample bank. The questionanaire is designed using Likert Scale 5-level. However, secondary data were taken from the CBI annual reports related to financial statements on ROE during ten years from 2010 to 2020. The average of these financial statements reflects the banking industry's normalized growth rate throughout time.

The final sample size was 70 observations from the sample of selected commercial banks operating in the Kurdistan region of Iraq. The reliability and validity of the collected data were verified. Before the final analysis, accuracy, consistency, and completeness were meticulously checked to increase validity and reliability. Both validity and reliability, as defined by Williman (2006), refer to the extent to which the results of the study can be replicated. Cronbach's Alpha Coefficients were calculated from the data collected in the pilot research to check the reliability of the variables used to measure aspects of financial performance and internal control.

3.3 Model

The impact of internal control measures (the independent variables) on financial performance (the dependent variable) was evaluated using the ordinary least square regression analysis technique. For this investigation, the linear regression model shown in equation (1) below was applied to determine the magnitude and direction of the impact.

$$FP = \beta_0 + \beta_1 CE + \beta_2 RM + \beta_3 CA + \varepsilon \quad \text{..................................} \quad (1)$$

Where;

FP is return on equity to measure financial performance.

$\beta 0$ is the model intercept (constant).

$\beta 1$– $\beta 4$ represents of sensitivity of the explanatory variables.

CE is control environment.

RM is risk management.

CA is control activities.

ε is error term for the model.

Table 1 shows the operationalization of the variables used in this study. ROE is the average of net income over total equity for the 10 past years, following Rasul (2018). The used measures of internal control are control environment, risk management and control activities (Ahmed & Muhammed, 2018).

Table 1: variable operationalization

Dependent Variable	**Independent Variables**		
Financial Performance	Internal Control		
Return on Equity	Control Environment	Risk Assessment	Control Activities
Earnings before Interest and tax divided by total equity	Management philosophy & operational style, Integrity & ethical values, commitment to competence, participation of board of directors or audit committee, organizational structure, assignment of authority & responsibilities, human resource policies and practices	Changes in operating environment, risk mitigation, risk identification, defined and clear objectives, corporate restructuring, Level of risk acceptable and maintained	Approvals, authorizations, verification, performance review, physical control, segregation of duties

4. DATA ANALYSIS

4.1 Descriptive Statistics

To assess the efficacy of the model variables and the degree of their variation, descriptive statistics in the form of mean and standard deviation were produced. Table 2 below presents these findings.

Table 2: Descriptive Statistics of the variables

Variables	N	Mean	Std. Deviation
Control Environment	70	3.825	.494
Risk Management	70	3.837	.387
Control activity	70	3.87	.479
Financial Performance	70	3.89	.448

The CA internal control variable had the highest mean of the three internal control variables, which suggests that it is more successful in enhancing control efforts. Following these are CE and RM, with means of 3.825 and 3.837, respectively, and FP, with a mean of 3.893. Instead, it may be claimed that the respondents strongly believe that internal audit control aspects significantly improve internal control efficacy. The variable CE, which has a high standard deviation of 0.494, is linked to strong variation effects. This suggests that it is more likely to alter when techniques that target it are used. As a result, it has a greater ability to alter financial performance than CA and RM. The least responsive impact on FP was caused by RA, which had the lowest standard deviation of 0.387. The standard deviation for CA was 0.479.

4.2 Correlation Coefficient

Table 3 demonstrates that every association is positive and significant at the 1% level. It may be said that factors of internal control are positively associated with one another. This indicates that they support the efforts of each component to enhance the performance of a single variable or the entire system. The correlation between CE and RM is 0.463, whereas the correlation between CE and CA is 0.584, and that between RM and CA is 0.568. With coefficients of 0.478, 0.471, and 0.621 for CE, RM, and CA, respectively, these variables are positively linked with financial performance, indicating that their improvement will have a beneficial influence on financial success.

Table 3: Correlation Matrix

	FP	CE	RM	CA
FP	1			
CE	.478**	1		
RM	.471**	.463**	1	
CA	.621**	.584**	.568**	1

** Correlation is significant at the 0.01 level (2-tailed)

4.3 Variance Analysis

The purpose of the analysis of variance was to discover whether the variance and mean of the variables are constant. A constant variance and mean indicate that the model variables will provide accurate estimates, particularly in regression analysis, since they meet the criterion that the variance and mean be constant (regression analysis assumption). The ANOVA findings are shown in Table 4.

Table 4: ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.827	3	1.942	15.939	.000[b]
	Residual	8.043	66	.122		
	Total	13.871	69			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Control activity, Risk Management, Control Environment						

The analysis of variance and covariance (ANOVA) is predicated on the null hypothesis that the mean and variance of the variables are not equivalent and, as a result, contradict the model's assumptions. The results of the preceding analysis indicate that the null hypothesis should be rejected at a significant level of 5% since the p-value is lower than 0.05. As a result, we may reach the conclusion that the variance and mean have not changed, and as a result, the estimates provided by the model variables will be accurate.

4.4 Model Summary

The model summary in table 5 shows that the R-square value is 0.420, which means that Risk management, Control activities, and Control environment explain 42% of changes in financial performance.

Table 5: Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error
1	.648[a]	.420	.394	.3491
a. Predictors: (Constant), Control activity, Risk Management, Control Environment				

4.5 Regression Analysis

A regression analysis was carried out to ascertain the nature of the connection between internal control and financial performance, as well as the extent to which this connection exists. The findings are summarized in table 6, which can be seen below.

Table 6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.096	.449		2.443	.017
	Control Environment	.132	.107	.145	1.231	.223
	Risk Management	.170	.134	.147	1.264	.211
	Control activity	.424	.119	.453	3.576	.001

a. Dependent Variable: Financial Performance

According to the findings, there is a correlation of 0.132 between the control environment and financial performance, which suggests that any activities taken to enhance the control environment by 1% would result in a change in the financial performance of 13.2%. This is in line with the findings that were found by Rae et al. (2017), which demonstrated that enhancements to the control environment are favorably connected with changes in financial performance. The fact that these things have occurred lends credence to the idea that the kind of activities that are carried out are beneficial in enhancing financial performance.

The findings also indicate that there is a causal link between effective risk management and satisfactory levels of financial performance. This is shown by a positive coefficient of 0.170, which corresponds to an increase in the financial performance of 17% because of an improvement in the firm's capacity to manage risk. The findings that were produced by Aikins (2011), which indicated the presence of a unilateral link between IA and FP, provide credence to this assertion and provide support for it. There is a possibility that risks are correctly detected, and that information is communicated to management on the assessment and management of such risks. Because of this, the company is now in a stronger position to both manage and respond to any hazards.

It should also be mentioned that the link between CA and FP is unidirectional and has a value of 0.424. This indicates that an increase of 1% in the quality of control activities will result in a shift of 42.4% in the value of financial performance. This point is driven home even further by the concepts presented by Millichamp (1999), who argues that an increase in control activities, or an improvement on those already in place, would lead to an improvement in financial performance. This is because problems such as obstacles are resolved, while opportunities get a lot of attention and preparation.

5. CONCLUSION AND RECOMMENDATION

The effect of internal control on the financial performance of the banking industry in Kurdistan was investigated. As a result of the research that was conducted, it is possible to draw the conclusion that controlling environment and risk management have a marginally positive impact on the financial performance of banks, whereas control activities have a significantly positive impact on the financial performance of banks. It is reasonable to assume that the control environment that is conducive to the practice of internal control is highly important to the success of the company, and that the absence of a control environment that is conducive to the practice of internal control reduces the effectiveness of internal control. While making changes in the financial performance of banks, one must take into consideration the internal audit component of internal control, which is also a key force to reckon with and must participate in internal auditing that is both effective and ongoing. In addition to this, it will be necessary for the actions of internal control to be extensively deployed in scale and scope. It is also possible to draw the conclusion that the financial crisis in Iraq is significantly weakening attempts to obtain levels of financial performance that are considered desirable. Even while the internal controls are doing their job, the crisis is making it very difficult to reach a satisfactory level of performance.

Lack of internal auditing by the government of the KRG is contributing to the creation of an environment in which businesses in the KRG are more likely to engage in certain activities that run counter to the standards established by the government. These kinds of activities include unethical behaviors like misbehavior, in which a great deal of corrupt behavior can be seen in practically every industry, but particularly the banking industry. When taken as a whole, internal control may be seen as a useful instrument for achieving high levels of performance and works to make certain that the organization is successful in achieving its goals. Internal control, as opposed to other systems, aims to guarantee that there is rigorous conformance to defined norms, measurements, and objectives while also attempting to correct any deviations that may occur. It is possible to get the conclusion that it is a significant asset in the administration of contemporary businesses.

The findings highlight the need for banks to prioritize the enhancement of control activities, given their significant impact on financial performance. Furthermore, improving the control environment and risk management practices is essential for fostering a robust internal control system. Policymakers and regulatory authorities should strengthen governance mechanisms and ensure consistent internal audits to address systemic challenges and enhance the overall financial stability of the banking sector.

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