



**Arab American University
Faculty of Graduate Studies**

**The Impact of Internal Control Systems on Financial
Performance of Palestinian Banks**

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**This thesis was submitted in partial fulfillment
of the requirements for the Master's degree in
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Thesis Approval

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This thesis was defended successfully on 30th July 2025, and approved by:


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Declaration

I, the author of this thesis, certify that it has been submitted to the Arab American University for a Master's degree, and that it is the result of my research, except as noted where stated, and this thesis or any part of it has not been submitted for a higher degree at any other university or institute.

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Dedication

To my father, the pure soul that left us, but whose memory will never leave us. May Allah have mercy on him.

To my mother, the one who's under her feet Allah has placed Paradise, may Allah prolong her life.

To my brothers and sisters, the shoulder that never wavers no matter how hard life takes us.

To my small, most affectionate, and beautiful family: my husband, sons and daughters.

To my dear homeland Palestine, its people, its land, the souls of the martyrs of Palestine, and our brave prisoners.

To all of them I dedicate this humble effort.

Khitam Mostafa Hussain Hamed

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Praise be to God, abundant and blessed, for granting me success for completing this work.

I ask Almighty God to make it beneficial and to help me in obeying Him.

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Abstract

This study aimed to identify the impact of internal control on financial performance in Palestinian banks. The study population consisted of employees in the internal control, auditing, and accounting units in Palestinian banks. The researcher used a random sample method, with the study sample consisting of (70) employees. The researcher used the quantitative analytical approach and a questionnaire as a study tool. The study concluded that there is a statistically significant positive relationship between control and supervision activities and financial performance in Palestinian banks. On the other hand, the study concluded that there is no statistically significant relationship between the regulatory environment, risk assessment, communications, information, and financial performance in Palestinian banks. Accordingly, the study presented several recommendations, most notably: Focusing on regulatory activities within Palestinian banks by developing appropriate and comprehensive regulatory policies and procedures, and continuously updating them to keep pace with changes in the work environment. In addition, activating the role of oversight and continuous evaluation of internal control systems by establishing effective independent units to ensure performance review and compliance with approved systems, procedures, and policies. It also recommended reviewing the mechanisms for implementing internal control elements: the control environment, risk assessment, communications, and information, and working to implement them more effectively. Focus on continuous training for employees of internal audit and control units, and conducting periodic reviews of internal control systems in banks.

Keywords: Internal Control, Financial Performance, Palestinian Banks, Monitoring, Risk Assessment

Table of Contents

Thesis Approval.....	I
Declaration.....	II
Dedication.....	III
Acknowledgments	IV
Abstract.....	V
Table of Contents	VI
List of Tables	IIX
List of Figures.....	X
List of Abbreviations	XI
Chapter One:.....	1
1.1 Chapter one: Introduction.....	2
1.2 Study Problem	3
1.3 Study Questions.....	5
1.4 Study Objectives.....	5
1.5 Significance of Study	6
1.6 Study Hypotheses	6
ChapterTwo:.....	9
Chapter Two: Theoretical Framework and Previous Studies.....	10
2.1 Section One: Theoretical Framework	10
2.1.1 Internal Control.....	10
2.1.1.1 Introduction	10
2.1.1.2 The Concept of Internal Control.....	10
2.1.1.3 The Basic Components of Internal Control Systems.....	12
2.1.1.4 Elements of an Effective Internal Control System	13
2.1.15 Objectives of Internal Control.....	16

2.1.1.6 Types of Internal Control	17
2.1.2 Section One: Financial Performance	20
2.1.2.1 The Concept of Financial Performance	20
2.1.2.2 The Importance of Financial Performance	22
2.1.2.3 Stages of the Financial Performance Evaluation Process.....	24
2.1.2.4 Financial Performance Evaluation Criteria	24
2.1.2.5 Factors Affecting Financial Performance.....	25
2.1.2.6 Financial Performance Indicators	26
2.1.2.7 The Relationship between Financial Performance and Internal Control.....	27
2.2 Section Two: Previous Studies	30
2.2.1 Foreign Studies	30
2.2.2. Local Studies	60
2.2.3 The Research Gap between the Current Study and Previous Studies	66
Chapter Three:	69
Chapter Three: methods and Procedures	
.....	70
3.1 Introduction	70
3.2 Data Collection and Sampling	70
3.3 Questionnaire Design	71
3.4 Internal Validity and Reliability Statistics.....	72
3.5 Statistical Approach.....	76
Chapter Four:	78
Chapter Four: Data Analysis & Results	79
4.1 Introduction	79
4.2 Demographic Analysis	79
4.3 Descriptive Statistics	80
4.4 Testing the Hypothesis	86

Chapter Five.....	95
Chapter Five: Discussion, Conclusion, and Implications.....	96
5.1 Discussion of Results	96
5.2 Conclusion.....	99
5.3 Research Implications and Recommendations.....	100
5.4 Limitations of the Study	102
References	103
Appendices	112
Appendix (1): Questionnaire	112
المخلص.....	118

List of Tables

Table (3.1): Pearson Correlation Coefficient between the Items and the Total Score of Components of Internal Control.....	74
Table (3.2) Pearson Correlation Coefficient between the Items and the Total Score of Components of Financial Performance	75
Table (3.3) Cronbach's Alpha Values Distributed by Component and Tool	76
Table (4.1): Demographic Characteristics of Respondents (n=70).....	79
Table (4.2): Descriptive Statistics of Internal Control in Palestinian Banks Distributed by Items and Components	81
Table (4.3): Descriptive Statistics of Financial Performance in Palestinian Banks Distributed by Items and Components	84
Table (4.4) Kolmogorov-Smirnov test for Normality	86
Table (4.5): Multiple Regression – Coefficients	87
Table (4.6) The Impact of Environmental Control on the Financial Performance of Palestinian Banks (Simple Linear Regression Analysis).....	88
Table (4.7) the Effect of the Risk Assessment on the Financial Performance in Palestinian Banks (Simple Linear Regression)	90
Table (4.8) the Effect of the Control Activities on the Financial Performance in Palestinian Banks (Simple Linear Regression)	91
Table (4.9) The Impact of Information and Communication on the Financial Performance of Palestinian Banks (Simple Linear Regression)	92
Table (4.10) the Effect of Monitoring on the Financial Performance in Palestinian Banks (simple linear regression)	93

List of Figures

Figure (1.1): Study Model (Study Model).....	8
Figure (2.1): Component of Internal Control System (Adegboyegun et al ,2020).....	16
Figure (2.2): Sections of Internal Control	18
Figure (2.3): Majnah, A. (2006). The role of internal auditing in evaluating financial performance in an economic institution (Unpublished master's thesis). University of Mohamed Khedhir Biskra.	29
Figure (4.2) Magu et al., (2024) The impact of internal control systems on the financial performance of Kenya Farms Ltd (KFA Ltd),	53

List of Abbreviations

	Abbreviation	Clarification
1	COSO	Committee of Sponsoring Organizations
2	IAS	International Accounting Standards
3	ROA	Return on Assets
4	ROE	Return on Equity
5	EPS	Earnings Per Share
6	ICSQ	Internal Control System Quality
7	CEO	Chief Executive Officer
8	CFO	Chief Finance Officer
9	GAAP	Generally Accepted Accounting Principles

Chapter One

Chapter One

1.1 Introduction:

The global financial crises of the first decade of the 21st century demonstrated the critical importance of effective internal control systems, as their weakness or absence can lead to massive financial losses, widespread economic and social repercussions (Higgs, 2012). Prominent examples: the Enron (2001) and WorldCom (2002) scandals, where both companies resorted to illegal accounting practices that included hiding debt, inflating profits, and counting operating expenses as capital expenditures. This ultimately led to the collapse of their stock prices and their bankruptcy filings.

These events highlighted the urgent need for strong internal control systems capable of preventing financial manipulation and illegal practices, ensuring accurate reporting, risk assessment, and compliance with laws.

In response, legislation was enacted to strengthen internal control, most remarkable the Sarbanes-Oxley Act of 2002 in the United States. This law emphasized executive management's responsibility for the accuracy of financial statements, mandated an independent audit committee, provided protection for whistleblowers, and imposed strict penalties on violators.

In this context, the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is important. The committee defined internal control as a process implemented by the board of directors, management, and employees to provide reasonable assurance regarding the achievement of operational objectives, the safeguarding of assets, the reliability of financial reporting, and compliance with laws (COSO, 2013). The committee also identified five key components

of an internal control system: the control environment, risk assessment, control activities, information and communication, and monitoring.

According to International Standard on Auditing (ISA) 315, the primary purpose of internal control is to ensure that an organization is able to achieve its objectives and that the effectiveness of this system positively reflects its financial and administrative performance. Studies have confirmed that an integrated internal control system is a fundamental pillar of business success, given its significant role in preserving assets, increasing operational efficiency, attracting investors, reducing illegal practices, detecting fraud, and improving transparency and accounting practices Al-Otaibi, (2022).

Moreover, an effective internal control system contributes to the provision of accurate and timely financial data, which supports sound strategic and investment decisions (Abdul Rahim, 2021). In light of scarce financial resources and increasing competition, the importance of studying the impact of effective internal control systems on financial performance emerges as a strategic tool for achieving sustainability and enhancing stakeholder confidence.

1.2 Study Problem:

In 2001 and 2002, the world experienced major financial crises, resulting in a global economic recession, accompanied by high inflation and unemployment rates, widespread poverty, worsening social inequality, the bankruptcy of many small and medium-sized enterprises, and the deterioration of the banking sector. These crises were triggered by financial scandals involving major American companies that resorted to illegal accounting practices to hide their debts and inflate profits, leading to a collapse in their stock prices and bankruptcies. The repercussions of this crisis then spread worldwide.

With the expansion of the size of companies and the complexity of their operations, along with technological developments, global economic openness, and the separation of ownership from management, the need for effective internal control systems has increased. This enables companies to keep pace with these changes and reduce their exposure to financial crises. This is particularly true of the banking sector, which is one of the pillars of any country's economy and a pivotal element in its financial stability. The strong and stable performance of the banking sector is closely linked to macroeconomic health (Hill and Abu Khadra, 2006), and banks with effective internal control systems are less vulnerable to fraud and violations (Clinton, 2013). Conversely, weak internal control negatively impacts banks' financial performance.

The banking sector is important because it collects savings and deposits, provides financing for investment and commercial projects, contributes to economic growth, and serves as a key link in international trade transactions. However, its monetary nature makes it more vulnerable to risks, both the possibility of theft and the acquisition of assets by third parties. The global banking sector faces multiple challenges, including rapid technological innovations, intense competition, and changing customer expectations.

In Palestinian case, the banking sector faces unique challenges, including political instability and occupation, along with obstacles and restrictive measures imposed by the political and economic environment. In this context, internal control—including the procedures, methods, and regulatory standards adopted by executive management—represents an essential tool for ensuring the financial stability of institutions, achieving the optimal balance between growth, profitability, and risk management, ensuring the efficiency and effectiveness of operational activities, safeguarding assets, continuously detecting and addressing violations, and preparing accurate and timely financial reports.

This enhances the institution's attractiveness as an investment Ahmed,(2009).

Accordingly, the objective of this study is to determine the impact of internal control systems on financial performance in the Palestinian banking sector, which is the main artery which feeds the national economy and ensuring its monetary and financial stability.

1.3 Study Questions:

Main Question:

Does Internal Control Affect the Financial Performance of Palestinian banks?

The main question revolves around the following sub-questions:

- 1 .Does the Environment Control Affect the Financial Performance of Palestinian banks?
- 2 .Does Risk Assessment Affect the Financial Performance of Palestinian banks?
- 3 .Do Control activities Affect the financial performance of Palestinian banks?
- 4 .Does Monitoring affect the financial performance of Palestinian banks?
5. Do Communications and Information Affect the Financial Performance of Palestinian banks?

1.4 Study Objectives

This study aims to identify primarily the impact of internal control systems on financial performance of the Palestinian banks, and this is done by achieving other objectives, which are:

1. Determining the impact of the control environment on financial performance of Palestinian banks.
2. Determining the impact of control activities on financial performance of Palestinian banks.

3. Determining the impact of risk assessment and response on financial performance of Palestinian banks.
4. Determining the impact of information and communications on financial Performance of Palestinian banks.
5. Determining the impact of monitoring and control on financial performance of Palestinian banks.

1.5 Significance of Study:

The importance of this study stems from the urgent need to adopt and develop internal control systems, including internal auditing. This is because of the vital role these systems play to strengthening the control environment, reducing errors, and detecting corruption, fraud, or any illegal practices in various companies and institutions, especially banks.

Banks are a fundamental pillar of the Palestinian financial system, and any defect in their performance significantly impacts the stability of the economic system as a whole in Palestine. Therefore, strengthening the internal control environment in these institutions is essential to maintaining the integrity and efficiency of financial performance.

This study is one of the few studies that has addressed this topic in the Palestinian context, making it an important addition to the academic research field in this area. It is expected that many entities, especially Palestinian banks and large companies, will benefit from its findings by applying the theoretical and practical findings that highlight the importance of developing and strengthening internal control systems.

1.6 Study Hypotheses:

This study seeks to examine the following hypotheses:

Main Hypothesis:

Ha: There is a statistically significant effect of the internal control system on the financial performance of Palestinian banks.

The main hypothesis is divided into several sub-hypotheses, which are:

Ha1: There is a statistically significant effect of the control environment on the financial performance of Palestinian banks.

Ha2: There is a statistically significant effect of risk Assessment on the financial performance of Palestinian banks.

Ha3: There is a statistically significant effect of regulatory activities on the financial performance of Palestinian banks.

Ha4: There is a statistically significant effect of monitoring the financial performance of Palestinian banks.

Ha5: There is a statistically significant effect of communications and information on the financial performance of Palestinian banks.

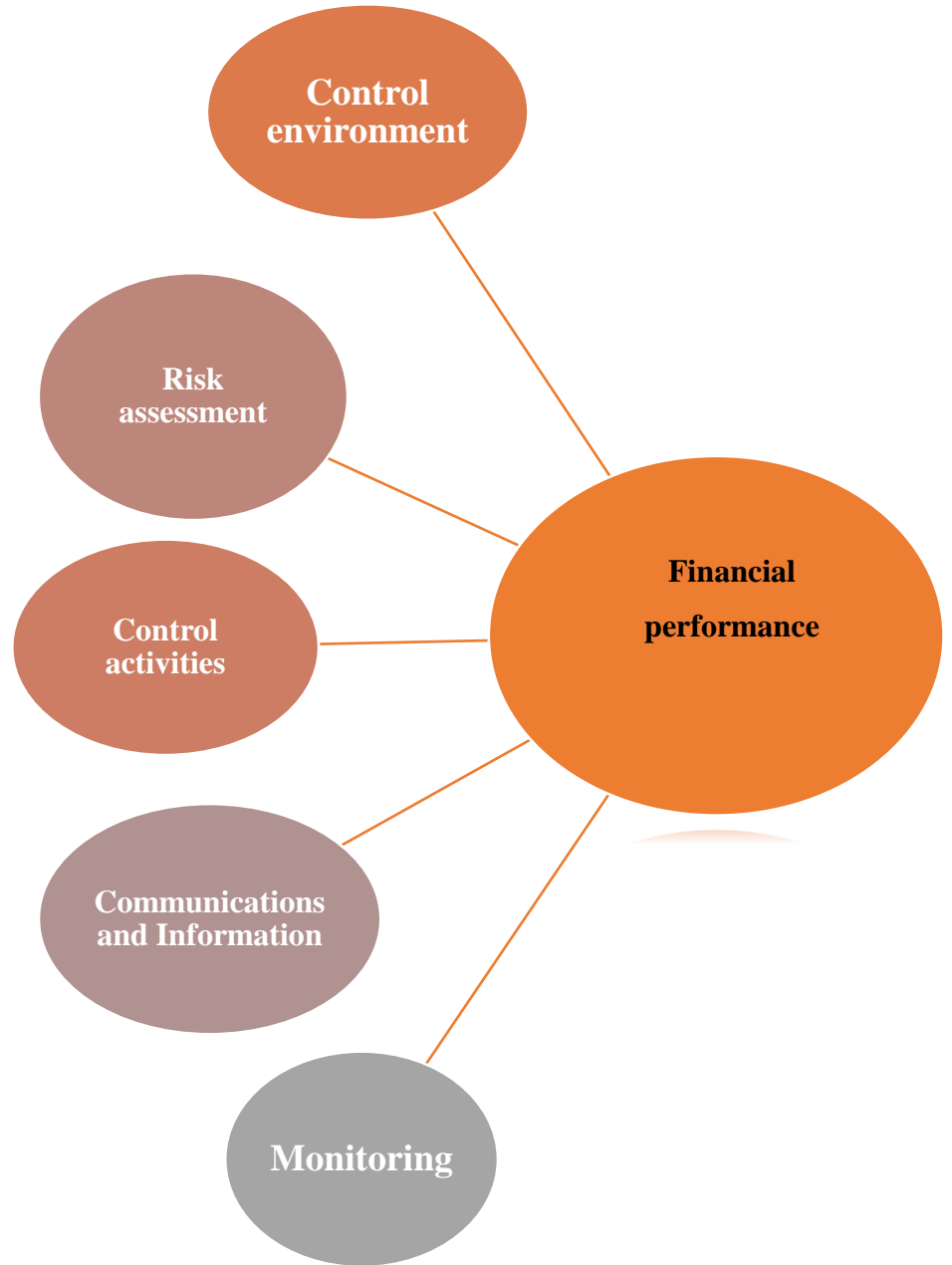


Figure (1.1): Study Model (Study Model)
Prepared by The Researcher

Chapter Two

Chapter Two

Theoretical Framework and Previous Studies

2.1 Section One: Theoretical Framework

2.1.1 Internal Control

2.1.1.1 Introduction

Recently, Financial scandals and global economic crises have increased. considering that the banking sector is the link between the economies of countries in the world, , they are the engine and feeder of the economies of countries

In contrast, this sector is considered high-risk, with the increase in fraud operations and the prevalence of conditions of uncertainty, as a result, this has put pressure on banking sector institutions to look for tools to protect themselves from risks and uncertainty. Internal control systems have played a decisive role in global markets for this contemporary problem, so banks had to adopt practical methods to manage risks to reduce them as much as possible (Ahmad & Kokh ,2020).

In addition, the international banking sector is a constantly changing sector according to developments in information and communication technology, which makes internal control an urgent basic need.

In Palestine, the need for effective internal control is increasing due to the Israeli occupation and its consequences that hinder the capabilities of the Palestinian banking sector. In this study, the researcher will address the impact of internal control on financial performance in Palestinian banks.

2.1.1.2 The Concept of Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) considers organized and effective internal control a tool that helps businesses achieve

their goals, it's a strategy that enables them to grow sustainably with confidence and integrity at all levels. COSO (2013) defines internal control as a process implemented by the board of directors, the management body, and a group of individuals designed to provide reasonable assurance regarding the achievement of an organization's operational objectives, the protection of assets from loss, the preparation of reliable reports, and compliance with laws established by management.

The American Institute of Certified Public Accountants (AICPA, 2014) defined internal control as a process implemented through a plan developed by management, employees, and those charged with governance in the organization to provide reasonable assurance that objectives related to the reliability of the company's financial reports are achieved. Similarly, the Institute of Internal Auditors (2022) described internal control as a reference framework that defines the role of the internal audit department. According to Fester (2009), internal control encompasses all processes, tasks, organizational structures, and resources utilized to achieve organizational objectives. In line with this, Mark et al. (2013) considered internal control to be the set of policies, plans, and procedures adopted by management to safeguard the organization's assets. Furthermore, Al-Dhanibat (2021) defined it as an organizational plan and coordination methods followed in a project to protect assets, verify the accuracy and reliability of accounting data, enhance production efficiency, and ensure adherence to administrative policies.

In addition, International Standard on Auditing No. 315 defined it as "a process designed by the entity's management through which reasonable assurance can be obtained of the achievement of objectives, namely the reliability of financial statements, the efficiency and effectiveness of operational processes, and compliance with policies, laws, and regulations (Al-Dhanibat, 2010).

Based on the above, the researcher concluded that internal control is the comprehensive plans, procedures, and strategies adopted by business institutions to preserve their assets and resources and ensure reliable accounting data that can be relied upon in decision-making processes.

2.1.1.3 The Basic Components of Internal Control Systems

Many researchers have agreed that there must be a set of main components that reflect the strength and effectiveness of the internal control system, which would achieve the approved goals of the institution on the one hand and allow the accounting system to find credible information on the other hand. They consider that these components work to increase and stabilize the strength of the internal control system Al-Dardour ,(2023).

These basic components are as follows:

1. Administrative Organizational Structure

An effective administrative organizational structure is considered the cornerstone for achieving effective accounting and administrative control over the facility's operations. It clarifies the powers and responsibilities in a way that ensures that powers do not overlap and do not conflict with the precise delegation of responsibilities.

2. Appropriate and Effective Accounting System.

The accounting system must be easy, clear, and stable, include complete books and documents. Reliable financial reports and statements must be issued, and the accounting system must be consistent with the organizational structure for accountability.

3. Performance Monitoring.

Each institution has specific performance standards, and there must be effective oversight to verify the extent of commitment with the planned performance instructions

and to address deviations, whether it is direct oversight by a manager over his subordinates or indirect, such as oversight of estimated budgets.

4. Selection and Training of Competent Employees.

One of the most important components of an effective internal control system is choosing the best competencies so that responsibilities, authorities, and powers are consistent with qualified cadres.

5. Internal Auditing.

The most important requirements in the internal control system are the presence of an internal audit department to ensure the proper application of this system, detect errors, fraud, theft, deception, and forgery within the institution, deter them, reduce the waste of resources and exploit them in the best possible way.

6. The Presence of Integrated Automated Accounting Programs in the Work.

It is important to have a set of electronic accounting programs for the internal control system because of their effective role in facilitating and accelerating the completion of work with the required accuracy, which has increased its importance as a result of technological progress. Accounting programs help internal control by ensuring accuracy and the rapidity of work, saving time and cost, ease of obtaining and controlling information, and protecting assets.

2.1.1.4 Elements of an Effective Internal Control System

Internal control is a continuous process implemented at different levels and is not linked to a specific time to ensure the achievement of the objectives for what it was created, whether to ensure the efficiency of operations, the reliability and completeness of information, and compliance with laws. The existence of an internal control system is

not sufficient to achieve these objectives, but it must be an effective and efficient internal control system capable of achieving the objectives. According to International Auditing Standard No. 315 (and the COSO Committee), the elements of internal control are divided into five basic elements, including the following elements must be available according to (Salameh, 2019):

- **Control Environment**

The control environment is the basis of internal control, it provides the discipline to achieve the main objectives of internal control systems and it supplies the climate that affects the quality of internal control systems as a whole (Whittington et al. 2006). (Jokiby, 2006) considered that the control environment is the supportive methods, ethical values, integrity, and competence of the employees working in the organization. In order to achieve its goals, management and key employees must adhere to ethical values and integrity (Kaplan, 2013).

- **Risk Assessment**

Risk assessment is a process of identifying, analyzing, and managing risks related to achieving objectives, as well as dealing with them in response to changing economic conditions. According to (Kaplan, 2013), it is considered that risk assessment must be systematic in the procedures and operations of the institution. (Lassayur, 2010) confirmed that the impact of an effective risk assessment process on performance is clear because risk assessment forms the basis for identifying and focusing on those risks ,that will affect the overall success of the company

- **Control Activities**

According to COSO (2013), control procedures include measures to control risks that may hinder the achievement of objectives. It explained that control activities are applied

at all stages of the organization and its business operations. These activities include practices such as approvals, verification, comparisons, authorizations, continuous review of operational performance, protection of the organization's assets, and segregation of duties.

- **Information and Communications Management.**

Information and communications are essential to facilitate the process of achieving the goals sought by the organization, as they support the work of other components of internal control systems. If there is a weakness in information and communications, it may make other components of internal control systems ineffective and this may lead to waste resources and customer dissatisfaction (COSO, 2011).

- **Monitoring.**

It is considered as the process of evaluating the quality of internal control performance on an ongoing basis by conducting continuous evaluation processes. Saylor, (2010) believes that monitoring is the process that evaluates the quality of the internal control system's performance over time.

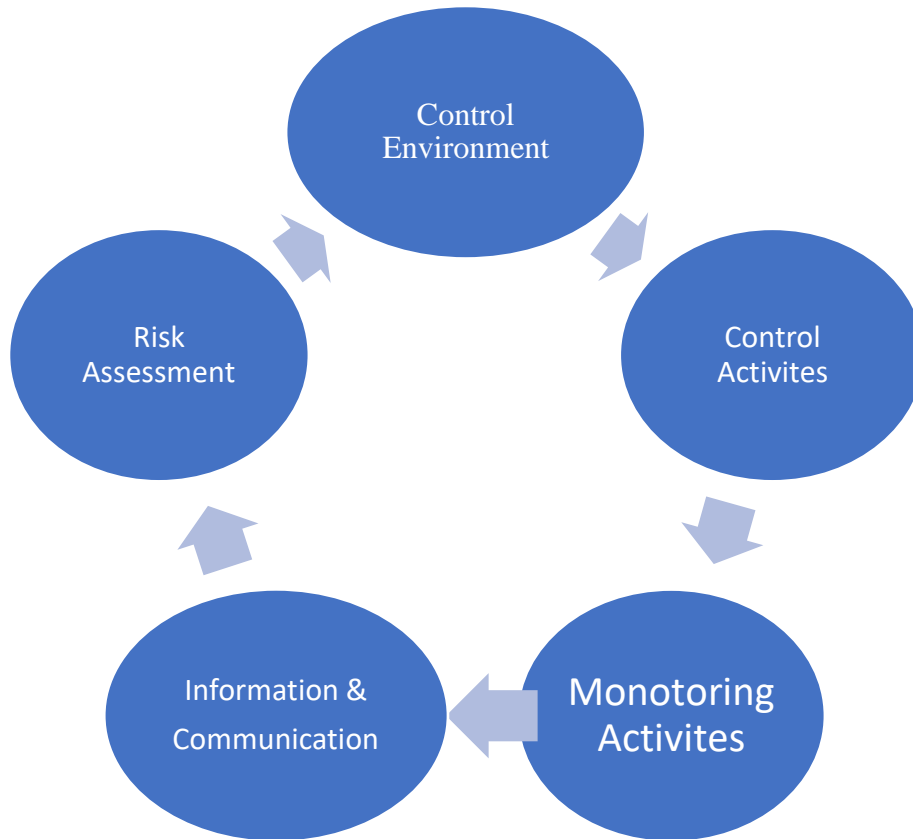


Figure (2.1): Component of Internal Control System (Adegboyegun et al ,2020)

These are the basic elements of an effective internal control system, they must work in an integrated and interactive manner, starting from adequate risk analysis, good communication, and control design and culture.

2.1.1.5 Objectives of Internal Control

The main objectives of internal control systems, in both, the Auditing Practices Board (APB), and COSO Guidelines, are as follows Al-Fatlawi,(2018):

- A. Manage the organization's business in an organized and effective manner, including compliance with internal policies and instructions.
- B. Protect business assets.
- C. Detect fraud and errors and prevent them as much as possible.

D. Ensure the accuracy and completeness of accounting records and the timely preparation of financial information.

Internal control systems have many benefits, as they ensure the efficiency and effectiveness of operations, the accuracy and reliability of financial reports, and compliance with applicable laws and regulations.

2.1.1.6 Types of Internal Control

Internal control is divided into accounting control, administrative control, and internal control Ali & Shahata, (2006), which are as follow:

1-Accounting Control

Accounting control is represented in the procedures related to protecting assets and ensuring the accuracy and integrity of accounting data and its conformity with the assets documented in the records.

2- Administrative Control

It is all the procedures, methods, and ways followed to ensure operational efficiency and compliance with administrative policies, as this type aims to verify the extent of compliance with laws and regulations.

3 -Internal Audit

Internal control aims to protect the assets and possessions of business institutions from theft, embezzlement, or even loss. This type of control depends on dividing work in appropriate manner, defining responsibilities and powers, and separating duplication of duties, considering not entrusting the implementation of a complete process from beginning to end to one employee without referring to his manager or another employee to ensure the integrity of the workflow and avoid errors or fraud. Al-Hasban, (2009).

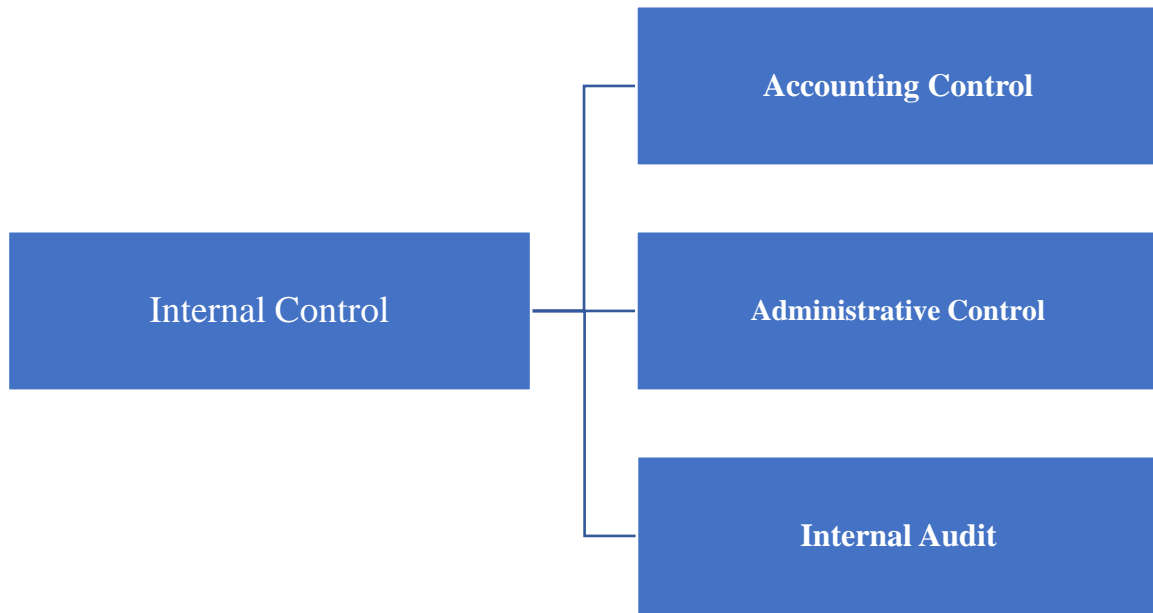


Figure (2.2): Sections of Internal Control
Source: Ali, A., & Shahata, M. (2006).

Internal controls are classified into three main types based on their purpose according to Lee et al., (2020):

- **Preventive controls** are designed to prevent errors or irregularities before they occur Ezevol et al., (2022). Examples include segregation of duties, certain authorization procedures, physical access restrictions, and employee training. Preventive controls aim to establish barriers that prevent potential problems from arising or occurring.
- **Investigative controls** are intended to identify errors or problems after they have occurred, such as regular audits and reviews, data comparisons, performance evaluations, and audits Al-Zaabi,(2021)Investigative controls work to detect deviations and facilitate timely corrective actions.
- **Corrective controls**, which is that once errors or problems are identified, corrective controls are implemented to mitigate their impact and prevent their recurrence. Corrective

actions include modifying processes, policies, or procedures to address root causes and enhance internal controls Abiodun, (2020). Such as process redesign and improved training programs.

2.1.2 Section one: Financial Performance

2.1.2.1 The Concept of Financial Performance

Financial performance is a measure for the extent to which an organization succeeds in achieving its financial goals. By evaluating financial performance using financial indicators that reflect the efficiency and effectiveness of operational processes, financial performance reflects the organization's ability to achieve profitability, financial strength, and stability. Based on the image reflected by financial performance, management relies on this image to make many sound operational and strategic decisions such as allocating resources to investment opportunities. In addition, evaluating financial performance helps the organization's management make comparisons between the organization's performance and competing institutions performance, which helps it identify strengths and weaknesses and implement corrective measures Al-Mohsen (2022) if necessary.

On the other hand, good financial indicators play a role in attracting new investors, as with good oversight, it makes the financial reports of companies accurate and transparent, thus increasing the confidence of stakeholders, including investors and regulators Anggrahini et al.,(2023). Accordingly, financial performance is an important concept, especially for banks, as financial performance expresses the extent of which assets are used to achieve and generate revenues and reflects the soundness of the financial position for a specific period, especially since banks face major challenges, such as ,market globalization and economic openness, which increases the management's need for financial information that determines the extent to which goals are achieved and the direction of performance.

Al-Tawil, (2018) Financial performance is defined as the basic aspect that reflects the value of the company through its financial position and its ability to achieve the specified

goals in a timely manner and compete with partners through the set goals. Anizan & Matar, (2018) They consider financial performance a measure of financial health and reflects the performance of the company's executive management.

Shakhatra and Ibadah,(2020) They considered financial performance to be the process through which a set of quantitative and qualitative indicators are extracted about the economic activity of the institution with the aim of determining the importance and characteristics of the institution's operational and financial activities, through information and numbers obtained from financial statements and other sources, these indicators are used to evaluate performance.

Some researchers believe that financial performance reflects the extent to which banks succeed in achieving their specific goals, i.e. performance is the sum of banks' ability to use their resources to achieve their goals and it is a mirror that reflects the company's position from all aspects Al-Asili & Abu Al-Khair,(2021). Financial performance depends on financial indicators that measure the level of companies' achievement of their goals. These indicators are considered as important tool in future investment decision-making processes. The financial reports prepared by the company are also an important and primary means for evaluating financial performance as they are a primary source of financial indicators.

Based on the analysis of these reports, strengths, weaknesses and investment opportunities are identified, and information is provided to management, investors, creditors and others. Financial ratios are the most widely used, and the most important model for analyzing financial reports to obtain an accurate assessment of the company's efficiency and effectiveness Al-Dalhama, (2021).

2.1.2.2 The Importance of Financial Performance

Most researchers agree that financial performance depends on the financial analysis process, which is, in its entirety, a set of methods used to determine the strength or weakness of the institution through financial ratios. These ratios also compare expected, actual, current, and previous financial performance and identify the differences between them. Good financial performance helps maximize the value of the institution Al-Husseini and Al-Douri,(2006).

The existence of performance standards in any institution is extremely important to ensure effective oversight to verify the extent of commitment to the strategies adopted by management and the extent to which planned goals are achieved or deviations are addressed, if any.

Thus, the importance of financial performance stems from the importance of the role it plays in monitoring the company's performance, monitoring its financial status, examining behavior, evaluating the company's performance level on an ongoing basis, and directing performance toward the desired direction by identifying obstacles, knowing their causes, and taking the necessary corrective measures and adjustments.

In the banking sector in particular, financial performance helps build an effective system for measuring performance in banks, so that this system reflects the state of actual financial performance in the bank, and thus forms an objective basic information base that supports financial and administrative decision-making processes. In addition, measuring performance will be the basis for studying the reasons for the decline in the quality of the company's services, and identifying the reasons for extravagance and waste that lead to increased service costs and a decrease in the level of beneficiary satisfaction Al-Asili & Abu Al-Khair, (2021). However, the scarcity of financial resources needed by

institutions compared to financial needs, and the necessity of obtaining resources and achieving maximum benefit from them and their sustainability and the continued development and growth of the facility and achieving optimal exploitation of available resources are considered extremely important, due to their impact on all aspects of commercial establishments. Therefore, evaluating financial performance is one of the basic elements of administrative operations, as it provides management with all the information and data used to measure the extent to which the facility achieves its goals and determines the progress, success, and performance trends of the facility Bishnak,, (2011).

According to Al-Khatib (2010), the importance of financial performance can be summarized in general as follows:

1. Evaluating the company's liquidity to improve its ability to meet its obligations.
2. Evaluating the company's profitability to maximize the value of the company.
3. Evaluating the development of the company's activity to know and evaluate its policy in distributing its profits.
4. Evaluating the development of the company's size to improve the company's overall capacity.
5. Evaluating the company's indebtedness by knowing the extent of the company's dependence on external financing in its investments

The banking sector is one of the main pillars of any country's economy, not only because it is the sector that works to collect and pump financial resources to meet financial needs, but it is also the most important link with the outside world. It is a vital nerve in the economy, which means that any disruption in this sector has dire consequences for the economy, Smith., & Brown (2019).

2.1.2.3 Stages of the Financial Performance Evaluation Process

According to Ibadah and shakhatra,(2020), the process of evaluating financial performance is carried out in several stages, which are:

First: Planning, which includes preparing budgets, estimated lists, and standard costs and identifying the centers responsible for the evaluation process.

Second: Compare actual performance with planned performance to determine the extent to which the set goals have been achieved, analyze deviations, identify their causes, and hold those responsible accountable.

Finally: Dealing with deviations and addressing them to avoid them in the coming stages.

2.1.2.4 Financial Performance Evaluation Criteria

The financial performance evaluation is based on analyzing some financial indicators to follow up and understand the changes in these indicators and make the necessary comparisons. The evaluation process takes place in several stages, and specific criteria must be used to monitor financial indicator changes. The most important of these criteria are Sardouk, (2021):

1. **Historical Standards:** These standards rely on comparing the bank's financial performance in the past and the present based on financial indicators from the financial statements.
2. **Sector Standards:** These standards compare a bank's financial performance with the performance of a group of banks operating in the banking sector.
3. **Absolute Standards:** These standards are based on the traditions or legislation prevailing in this context, which may be international or conventional standards.

4. **Target Standards:** The bank seeks to achieve specific goals, and strategies, policies, plans, and budgets are adopted. Failure to achieve these goals reflects a deviation from the required financial performance.

2.1.2.5 Factors Affecting Financial Performance.

In the world of open economies, it is very natural for the financial performance of economic institutions to be affected by many factors, whether they are internal factors that the institution can control or external factors that cannot be controlled and therefore must be adapted to Al-Khatib, (2010), which are as follows:

1. Internal Factors.

These are the factors that affect the company's financial performance and can be controlled to help maximize revenues and reduce expenses They are:

1.The Organizational Structure, Robbins & Coulter, (2018)The organizational structure clarifies the role of each employee within the company according to their qualifications, thus ensuring a decision-making process that facilitates more effective and efficient management.

2.The Organizational Climate, according to Robbins and Coulter (2018), transparency and a clear organizational structure support employee initiative and decision-making, which positively impacts overall performance.

3.The Size of the Company, (Al-Aqili, 2014) the larger the size of the company, the more complex the company's management process becomes, and the volume of operational processes increases, which means the need for a broader internal control system to work efficiently.

2. External Factors.

External factors are the factors that affect financial performance and cannot be controlled, but a company can set expectations for the results of these factors and it can build plans to confront these factors and reduce their negative effects, which are Abdul Jalil, (2008):

- Technological changes that may affect the quality of services, such as the invention of new machines that help reduce production costs.
- Laws and instructions that apply to institutions are imposed by the state and the laws of the market, and they cannot be controlled, such as the system of controlling relations with the outside world.
- The state's financial and economic policies and events such as economic crises

2.1.2.6 Financial Performance Indicators

Basel I and Basel II set global standards and controls for banking supervision. Measuring banks' financial performance requires specific criteria, not a single indicator, but rather several complementary indicators. The most important of these indicators, which I will adopt in this study, are:

- **Profitability Indicators**

These indicators measure a bank's efficiency in generating profits from its assets. The higher the ratio, the greater the bank's ability to generate profits. Among the most important profitability indicators are ROA and ROE.

- **Liquidity Indicators**

These indicators demonstrate a bank's ability to meet its immediate financial obligations using liquid assets.

They measure a bank's flexibility in the face of crises (liquidity ratio). Some of these indicators measure the bank's reliance on deposits to finance loans. If the ratio is high, this indicates a high degree of risk and is evidence of weak investment (loan-to-deposit ratio).

- **Operational Efficiency Indicators**

These indicators measure the ratio of expenses to revenues and the bank's management's efficiency in controlling its operating costs. The lower the ratio, the greater the efficiency and profitability.

- **Risk and Asset Quality Indicators**

These measures the ratio of non-performing loans (NPLs) to total loans. The higher this value, the lower the quality of the credit portfolio and the higher the risk. This is known as the Non-Performing Loan Ratio (NPL Ratio).

2.1.2.7 The Relationship between Financial Performance and Internal Control.

The internal control system is the first line of defense for the institution, whether it is profitable, non-profit or governmental, and can be considered an immune system for the institution as it ensures the protection of the institution's assets, the accuracy of accounting information and the improvement of operational efficiency. It is the main system that supports the institution in achieving its goals through continuous follow-up of compliance with approved strategies to reach the goal and enhance financial performance. While Njeri,(2015)confirmed that the internal control structure aims to achieve three main and important goals, which are the effectiveness and efficiency of operations, the reliability of financial reports, and compliance with applicable laws. This enables the preparation of reliable financial reports and thus increases the public's confidence in the institution to

invest in the company. This helps generate revenues and thus increase the company's share price and improve its ability to operate efficiently and effectively and face challenges and obstacles and take advantage of opportunities.

We can say that performance evaluation is an integral part of the internal control system, as financial performance evaluation aims to measure, analyze, and identify strengths and weaknesses and correct deviations. This is what internal auditors do, which can be considered the guiding framework that enables them to conduct permanent or regular assessments of other elements of internal control. The purpose of an internal audit is to ensure that all company operations are under control and that the company's operations are managed efficiently, transparently, and effectively Daif & Jalal,(2022).

Adaji,(2015) confirmed that control is established and implemented by the organization's management to ensure the expansion and survival of the organization by preventing waste and misuse ,and ensuring financial health and its positive reflection on financial performance. Kimutai Ng'etich, (2017) One of how a company can achieve positive economic performance is to reduce and prevent waste in its operations. One of the most important factors for a company's success is its ability to achieve its mission and goals efficiently and effectively, which is reflected in the company's financial performance.

According to Ayu, (2023),(effective internal control is the foundation of a company's sustainability and growth, helping it achieve its strategic objectives. Internal control systems can be considered a long-term investment in any organization's success, as they contribute to enhancing trust, improving financial performance, and reducing risks. Therefore, great attention must be paid to building and developing internal control

systems. The following figure illustrates the relationship between internal control systems and financial performance.

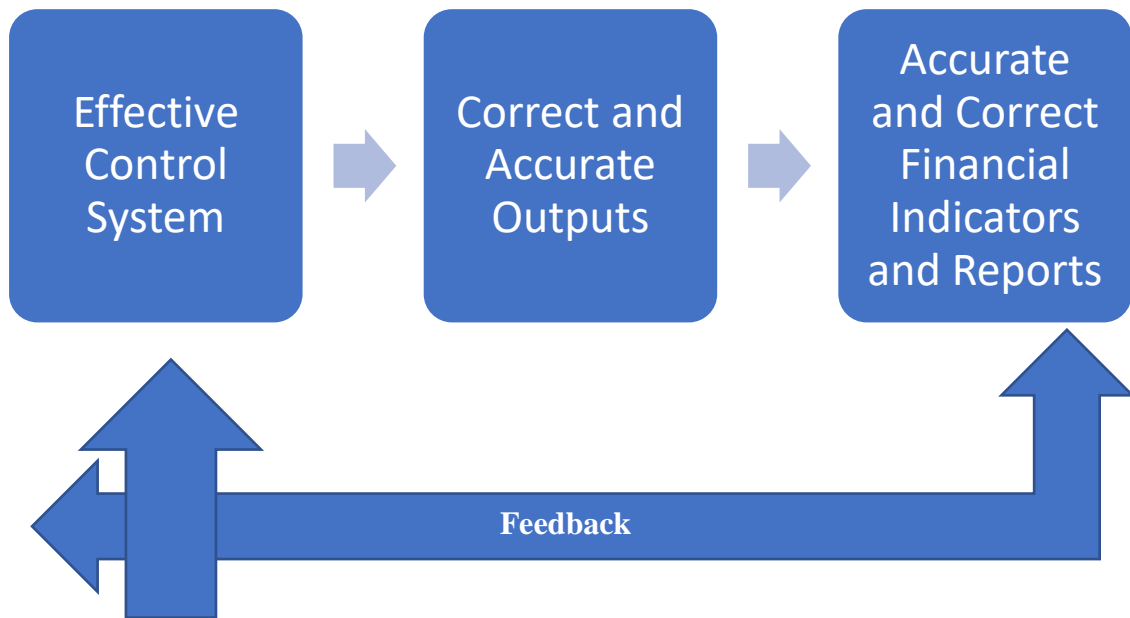


Figure (2.3): Majnah, A. (2006). The role of internal auditing in evaluating financial performance in an economic institution (Unpublished master's thesis). University of Mohamed Khedhir Biskra.

2.2 Section Two: Previous Studies

2.2.1 Foreign Studies

Internal control systems have been widely used as management tools in financial management (Shah, 2003). Accordingly, several studies have been conducted in this context to examine the dimensions of the impact of internal control on financial performance in both for-profit and non-profit organizations, as well as in small and large enterprises. At the SME level, Abdulsalam et al. (2023) conducted a study titled "The Impact of Internal Control on the Financial Performance of Small and Medium Enterprises in Ekiti State, Nigeria." This study aimed to assess the impact of internal control on the financial performance of SMEs in Nigeria by examining and analyzing the impact of (a) risk assessment, (b) information and communication, and (c) monitoring on the return on assets of SMEs in Ekiti State.

The study adopted a quantitative analytical approach, and primary data were collected through a questionnaire distributed to a random sample of 100 business owners and experienced accountants, with a response rate of 75%. SPSS used the least squares method to analyze the data. It concluded that there is a positive and significant relationship between monitoring, risk assessment, information, and communication (as components of internal control) and financial performance, identifying them as key factors in financial performance in small and medium-sized enterprises (SMEs) in Ekiti State, Nigeria.

In other words, risk assessment leads to improved return on assets, and the same applies to the effectiveness of monitoring, communication, and information, which in turn improve return on assets. The study recommended that stakeholders seeking to enhance

return on assets and overall profitability should work to improve the effectiveness of internal control systems.

The findings of this study are consistent with those of a study conducted in the construction sector, a large and diverse sector. Elizabeth et al. (2023) conducted a study titled "The Impact of Internal Control Systems on the Financial Performance of Construction Companies in Nigeria." This study aimed to determine the impact of internal control systems on the financial performance of Nigerian construction companies.

It relied on a descriptive survey research methodology by collecting and analyzing quantitative data from primary sources, such as questionnaires. The study population consisted of 1,472 individuals, comprising both professional and non-professional workers in the construction sector, to estimate the sample size, a stratified sample was selected. The population was divided into categories based on percentages. A simple random sample, ranging in size from 30 to 50, was selected from each category. The study found the following results:

- The control environment, has a positive, though not statistically significant, relationship with financial performance.
- Risk assessment has a positive, though not statistically significant, relationship.
- Control activities have a positive, though not statistically significant, relationship.
- Information and communication have a positive, though not statistically significant, relationship.
- Monitoring has a positive, though not statistically significant, relationship.

In short, all components of internal control affect financial performance. The study recommended improving companies' internal control systems. Company management

must recognize that a formal internal control system alone will not be sufficient to achieve an effective internal control system in companies; it must operate efficiently.

The company must improve its fraud risk assessment, as continuous risk assessment is an important foundation for financial performance. Regarding control activities, proper segregation of duties reduces errors and fraud, strengthens controls, and helps in taking corrective action against deviations.

Companies should measure the effectiveness of their internal control system by achieving objectives. The study's findings are consistent with the findings of Jayasiri (2021) titled "The Impact of Internal Control on Financial Performance: Evidence from Sri Lanka," which indicated that all components of internal control and their good alignment lead to improved financial performance.

The objectives of this study were, first, to determine the impact of internal control on financial performance by providing empirical evidence on the relationship between internal control and financial performance for selected manufacturing companies. Second, to determine the significance of the impact of each component of internal control on financial performance.

The study adopted a quantitative analytical approach. Secondary data were drawn from the published annual reports of 34 manufacturing companies listed on the Colombo Stock Exchange (CSE) in 2019. Primary data were obtained through an online questionnaire.

The study population consisted of all companies listed on the CSE. The CSE had 290 companies listed in 20 business sectors as of September 30, 2019. All 34 companies in the manufacturing sector were selected as the sample for this study. A questionnaire was distributed to accountants, internal audit managers, and internal control managers at these companies to obtain primary data. Financial performance data were obtained from the

annual financial reports of the selected manufacturing companies on the CSE website. In this study, return on equity was used as the dependent variable to measure the financial performance of manufacturing companies listed on the Sri Lanka Stock Exchange. The study used a multiple regression model to develop one to determine the individual and aggregate impact of internal control components on financial performance.

The study found that financial performance is not significantly affected by the control environment, risk assessment, control activities, information and communication, and control monitoring individually. However, the internal control system as a whole, composed of these components, has a greater impact on financial performance. All internal control components and their good alignment lead to improved financial performance. This study was limited to the manufacturing sector only. It is the first empirical study using 34 public companies in the manufacturing sector in Sri Lanka using the COSO framework. This study recommended future studies to examine the relationship between internal control systems and financial performance in other sectors and the need for managers to understand the drivers of internal control effectiveness and the key relationships that drive financial performance.

In the same context, Tesfaye's (2019) study emphasized the positive role of internal control and its impact on financial performance. The study was titled "The Impact of Internal Control on Financial Performance: A Case Study of Privately-Owned Manufacturing Companies in Addis Ababa."

Internal controls were measured using the COSO model of internal controls, with its components. This study aimed to determine the relationship between the role of internal control and the financial performance of privately-owned manufacturing companies in the central region of Sri Lanka.

In addition to measuring the level of internal control systems in place in privately owned manufacturing companies, the study followed the Integrated Internal Control Framework of the Committee on International Organizations of Auditors. It also examined the impact of the effectiveness of the internal control system on the financial performance of privately-owned manufacturing companies. Finally, it analyzed the relationship between internal control variables and the financial performance of privately-owned manufacturing companies.

The study adopted a quantitative research approach. The study population consisted of all privately-owned joint-stock manufacturing firms in Addis Ababa, Ethiopia. According to data from the Ministry of Trade and Industry of the Federal Democratic Republic of Ethiopia, a sample of 14 privately owned joint-stock manufacturing firms was selected for this study in 2019 in two stages. The first stage was to select the privately-owned manufacturing firms, and the second stage was to determine the number of participants within the firms. Four privately owned manufacturing firms were selected from among the 14 firms established in Addis Ababa, Ethiopia. The primary reasons for selecting these four firms were the number of shareholders, the date of establishment, the sector in which the firms operate, and the registered capital with the Ministry of Trade and Industry.

It is recommended that a sample of 10% to 30% of the study population be sufficiently representative of the study population (Yates, 2004). In this study, the researcher targeted employees from the finance and internal audit departments of each of the selected firms. Only employees from the finance and internal audit departments were selected because they possess more information about internal control in the company than others.

A questionnaire was used as the primary data collection tool. It was developed in two parts. The first part addressed the general perspective of respondents, while the second part aimed to obtain information on the role of the internal control system in private joint-stock companies through the integrated internal control components developed by the Corporate Oversight Council (COSO).

On one hand, it concluded that internal control systems have a positive relationship with the financial performance of private manufacturing companies, on the other hand, the study revealed that some components of internal control systems had a small contribution to the financial performance of the manufacturing company.

Private manufacturing companies that implemented strong internal control systems achieved better financial performance compared to private manufacturing companies that had weak internal control systems. It was found that private manufacturing companies that maintained the control environment and control activity in particular achieved high financial performance.

The first objective of the study, the control environment, control activity, risk assessment, information and communication, and control activity positively affected the performance of private joint stock manufacturing companies, knowing that some of them were not significantly affected by the financial performance of the company.

This means that the internal control system positively affected the performance of private joint stock manufacturing companies in Addis Ababa. The evidence for this is that improving internal control systems leads to higher financial performance in private joint stock manufacturing companies.

In the same sector, the importance of internal control was emphasized by a study Mwende, and Nigo, (2021) entitled *The Impact of Internal Control Systems on the*

Financial Performance of Banks Listed on the Kenya Stock Exchange, which aimed to study the impact of internal control systems on the financial performance of commercial banks listed on the Kenya Stock Exchange.

The sub-objectives were as follows: 1. Determine the effectiveness of control over the financial performance of banks listed on the Kenya Stock Exchange. 2. Assessing the impact of the control environment on the financial performance of banks listed on the Kenya Stock Exchange. 3. Analyzing the impact of control activities on the financial performance of banks listed on the Kenya Stock Exchange. 4. Evaluating the impact of risk assessment on the financial performance of banks listed on the Kenya Stock Exchange. 5. Determining the impact of information and communication on the financial performance of banks listed on the Kenya Stock Exchange. This study is a descriptive case study of 11 major banks on the Kenya Stock Exchange.

Which conducted transactions between the years (2013 - 2017). This study focused on the internal audit management of these banks. According to the analysis of variance conducted using (ROA and ROE) (as dependent variables), the study concluded that internal controls have a positive relationship with financial performance. The results of the study also indicate that any change in any of the internal controls leads to a positive increase in both (ROA and ROE) of the companies.

In addition, the measures included can improve the detection of any fraudulent activities. Internal Controls: Risk assessment and the controlled environment are essential in identifying any corrupt activities occurring within banks. It concluded with recommendations that include the need to develop the skills and expertise of internal auditors and consider technological developments and professional laws that fall within the context of internal auditing, which ensures a competent work team and better

governance of the company, in addition to the need for monitoring within the department to ensure that all operations are carried out within the specified procedures.

Finally, the latest technologies must be available by conducting an audit of information and communication technology tools. Auditors must understand the programs used to enable them to carry out the audit of the tasks assigned to them.

At the level of savings and credit organizations, John, (2024) *Internal Control Strategies on Financial Performance of Ruchiri Savings and Credit Cooperative Organization in Kiruhura District, Uganda*. The purpose of this study was to assess the impact of internal control strategy on financial performance of Ruchiri Savings and Credit Cooperative Organization in Kiruhura District, Western Uganda. Specifically, this study examined the impact of internal control strategies on the financial performance of Ruchiri Savings and Credit Cooperative Organization (Case study). Focusing on physical controls, permits and approvals, documentation and records, internal audit, technology control, and training.

This study adopted a quantitative and descriptive research methodology, where the description was in the survey of respondents' opinions on internal control strategies and mechanisms and the financial performance of Ruchiri Savings and Credit Cooperative Organization. These responses were then described statistically in terms of numbers. A quantitative approach was then adopted and the data were analyzed and presented figuratively. This study is a case study of Ruchiri Savings and Credit Cooperative Organization in Kiruhura District, Western Uganda.

The study population consisted of 160 individuals and the sample was selected using a simple random sampling method and was 127 individuals using the (yamane) formula.

This primary data was collected through open and closed questions and analyzed using statistical packages (SPSS).

It concluded that there is a strong relationship between internal control strategies and the financial performance of Roshier Savings and Credit Cooperative Societies (SACCOs). In addition, effective internal control measures in the audit process contribute significantly to improving the financial performance of savings and credit societies.

This study recommended the need to ensure the existence of effective internal control systems for the performance of Roshier Savings and Credit Cooperative Society to protect its assets and maintain accurate financial records and data, which helps in achieving its objectives. If effective internal control systems are adopted as required, internal control mechanisms will help prevent and reduce fraud, errors, and inefficiency.

The study also recommended the importance of physical controls and taking physical security measures to protect cash and assets, in addition to having permits and approvals within clear procedures, developing documentation and record keeping in the association, and documenting all policies related to key operations including financial transactions, purchasing, and human resources. Management must continuously train employees working in the association to understand procedures and policies, ensure ethics and compliance, and ensure that they understand their roles in maintaining effective internal controls.

About internal audit, it is necessary to establish an internal audit function or rely on external auditors to conduct regular reviews of internal controls to ensure their effectiveness and address weaknesses, while ensuring the independence of the internal audit function and that its employees have the necessary skills . Strong IT controls must

be implemented to ensure protection from cybersecurity threats, including firewalls, anti-virus software, updates, and secure data backup procedures.

At the level of the government sector Al-Dardour's study, (2023), entitled *The Efficiency of Internal Control on Improving Financial Performance*, addressed one of the most important objectives of the study, determining the impact of the efficiency of internal control on improving financial performance.

This study relied on a qualitative descriptive analytical methodology, where the researcher initially defined some basic concepts such as internal control and financial performance. After that, she analyzed the underlying causes of the problem of weak internal control systems and their inability to keep pace with developments, as she considered the lack of resources, resistance to change, and insufficient employee training as reasons for the weakness of internal control systems.

The researcher presented a set of solutions and recommendations aimed at overcoming this problem, such as developing internal control activities, allocating sufficient resources, and educating employees. The researcher stressed on the importance of continuous evaluation of the internal control system and developing it periodically to ensure its effectiveness.

Finally, the researcher considered that risks are the most important challenges facing government sectors and must be avoided in the future, these risks arise as a result of rapid economic and technological changes, stressing that internal control system depends on a continuous and organized assessment of the risks that government sectors may be exposed to. Accordingly, attention must be paid to activating the role of internal control in government sectors and managing risks according to the COSO framework, due to its positive impact on improving the effectiveness of operations and achieving internal

control objectives, and the need to develop internal audit reports so that these reports include the operations of the risk management unit and the extent of its commitment within government units to implementing the recommendations issued by it.

the previous studies infer that effective internal control was considered as a tool for institutional success.

In the study of Netravali ,(2024) Titled Internal Control: A Tool for Corporate Success , it analyzed the role of the internal control system in the efficiency of the organization. And the extent of the impact and commitment of the control environment through three approaches: a) corporate governance, b) reporting system, c) fraud risks and any illegal act.

This aimed to know how internal controls facilitate good corporate governance, the extent of their reliability in preparing financial reports, and the role that internal control plays in preventing or detecting fraud. To achieve these objectives, the study relied on the inductive approach, and primary and secondary data were collected, analyzed, and interpreted, with the researcher focusing on qualitative methods to obtain insights from professionals about internal controls.

After reviewing previous literature in the context of the study, she conducted interviews using a structured set of questions to collect detailed and relevant opinions.

The study sample consisted of 147 respondents from multiple departments, most notably finance, and procurement, as they are the most departments exposed to fraud and corruption. They were selected through purposive sampling to ensure that the sample members had experience with internal controls. The data was collected via a web platform and some questions were closed and some were open. This approach gives a deeper understanding of the role of internal controls in enhancing organizational effectiveness

and compliance. The responses were organized and analyzed using frequency tables and graphs.

After reviewing the literature and primary research, the study reached the following conclusions:

The literature review confirmed that internal controls are necessary to deal with business complexities and regulatory requirements. The COSO framework and laws such as Oxley's law enhance transparency and risk management, but they involve some additional costs. It emphasized the need to improve internal controls and Effective monitoring continuously.

Regarding to the primary research which conducted on companies in Georgia, it was found that there has been an increase in awareness and implementation of internal controls due to recent reforms. However, some challenges remain such as outdated reporting practices, slow adaptation to regulatory changes and improvements are needed in policy compliance, communication, and fraud detection.

In general, the study emphasized on the importance of internal controls in enhancing organizational effectiveness and transparency, while it is highlighting the significance of balancing their costs and benefits. Furthermore, it stressed the continuous need to improve business practices in Georgia to achieve better corporate governance and financial reporting.

The study recommended that companies in Georgia align objectives with incentive strategies and strengthen fraud prevention procedures through segregation of duties, job rotation, prioritization of timely reporting, and adherence to regulatory compliance. Additionally, the establishment of clear yet flexible procedures was considered essential.

This study is consistent with Fardia and Kamoun (2024), who examined the conceptual framework of internal control by exploring its origins, definitions, importance, and core components. They argued that the development of internal control comes from the separation of ownership and management, underscoring its role in safeguarding organizational assets and ensuring the operational efficiency of processes.

Internal control expands to include organizational objectives such as asset protection, operational efficiency, and regulatory compliance, due to the increasing complexity of business activities and the badly need for accurate data, which is an important pillar in decision-making processes. The extent of the ability and importance of internal control lies in its ability to mitigate fraud and protect assets from misuse, which helps in making correct decisions, supporting financial integrity, and achieving organizational goals. The elements of internal control, as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), consist of the control environment, risk assessment, control procedures, information and communications, and monitoring activities.

Firstly, this study aimed to identify the historical development of internal control and its main principle, secondly, it aimed to evaluate the importance of internal control and its various categories, finally, it intended to study the objectives and components of effective internal control systems. The descriptive historical approach was adopted to track the developments of internal control, the factors that influenced internal control which make changes and development, and the impact of the role of internal control on the performance and effectiveness of companies to get a deeper understanding of the concept of internal control and its role.

The study concluded that the progress on internal control were affected by various factors such as the separation of ownership from management, the need to protect assets, diversification, and growth of types of organizations, technological progress, the continuous complexity of activities and the urgent need for accurate data by management in addition to business failure cases.

The result emphasizes the importance of internal control in modern management. Another one is to highlight the role of internal control in ensuring efficiency and safety of organizational and operational processes.

Internal control has become indispensable in a dynamic business environment to achieve goals, manage risks effectively, protect assets, and achieve financial integrity and organizational goals. The components of internal control are accounting controls, where accounting controls ensure financial integrity, management controls ensure operational efficiency and internal audit provides ongoing monitoring to prevent fraud. Together, these controls form a critical framework for achieving organizational objectives and safeguarding assets.

The objectives of internal control, as defined by the Committee of Sponsoring Organizations, include operational efficiency, asset safeguarding, reliable reporting, and regulatory compliance. Internal control serves as a comprehensive framework for organizations to ensure effectiveness, transparency, policy adherence, overall performance, and achievement of organizational objectives.

Recent studies have addressed the role of internal control systems in financial sustainability. The study by Hamed (2023) entitled *The Role of Internal Control Systems in Ensuring the Sustainability of Financial Performance*, addressed the role of internal control systems in ensuring the sustainability of financial performance and the impact of

adherence to internal control systems on the sustainability of the financial performance of banks listed on the Amman Stock Exchange.

The researcher used the descriptive analytical quantitative approach by collecting primary data (questionnaire) in addition to obtaining published data from the Amman Stock Exchange and the annual financial reports of banks. Using a survey questionnaire that included sixteen banks listed on the Amman Stock Exchange, to examine the extent of adherence to internal control systems and their impact on some financial performance indicators, such as profitability, profits, and return on the sustainability initiative because international and Islamic banks have different controls, four Jordanian banks were excluded and the final sample became 12 commercial banks and included 118 respondents to the questionnaire from various departments and positions in Jordanian commercial banks, such as compliance, internal audit, information technology, customer service, and exchange employees.

The questionnaire was designed to suit the targeted respondents and the targeted samples were selected to ensure that employees understand all components of the internal control system. About 37% of the sample obtained a master's degree and a doctorate, about 38% of the sample had high experience exceeding 13 years. The study concluded that Jordanian banks adhere to the requirements of internal control systems and that adherence to internal control systems has a positive impact on their financial sustainability.

Control components are the main driver for studying the performance of banks. Despite the interest of Jordanian banks in establishing high-quality internal control systems, they pay attention to each component of the system, management lacks interest in monitoring and developing employees' capabilities. Knowing that there is a clear organizational

structure that defines and explains tasks, management does not pay enough attention to developing its internal systems that specifically concern employees. Moreover, there are harmful effects of implementing high-quality internal control systems on the bank's financial performance; The study results confirm that commitment to implementing and monitoring internal control systems leads to an increase in the rate of return on capital in banks. It also shows that banks' commitment to internal control systems enhances the financial return from sustainability initiatives in the banking sector, especially information and communications, which have the strongest impact on the returns of sustainability initiatives, such as collecting and exchanging operational, monetary, and compliance data necessary to manage and monitor institutional investments by providing more accurate information.

The researcher believes that this study provides important insights for regulatory bodies, policymakers and strategic guidelines to enhance internal control systems in banks, which helps achieve significant improvement in financial performance, the results of the study will be a solid foundation for future research.

The study recommended the necessity of internal control systems in banks to adhere to international regulations for the banking sector that aim to ensure the safety and stability of the banking system. For example, the Basel III framework has set minimum standards for capital, liquidity, leverage, and risk management for banks. Accordingly, banks must design and implement effective internal control systems that meet the expectations and requirements of regulators. Future studies must delve into the cost-effectiveness of implementing internal control measures. This study is an important addition to policymakers and regulators looking for ways to enhance the effectiveness of internal control systems in banks and achieve economic growth in the region. As sustainability

has become a vital issue in the banking sector, understanding how compliance with internal control systems is linked to financial sustainability is essential to ensure long-term continuity.

Considering that one of the most important objectives of internal control is to provide financial data free of errors or fraud, as it is considered the center of operational and strategic decision-making processes, which ensures satisfactory results, whether on financial performance or overall performance of the institution.

Many studies have addressed the impact of internal control in preventing or mitigating fraud in financial statements, especially due to its significant impact on financial performance in the end.

Olia et al, (2024), addressed in his study entitled *The Importance of Internal Control in Accounting Information Systems*. This research aims to study the importance of internal control in the accounting information system. Accounting information represents a framework for accounting operations procedures within the organization and ends with the creation of financial reports, which must be free of fraud and intentional or unintentional errors. Internal control systems with their components (control activities, control environment, risk assessment, information and communications, and control) are a strategy adopted by management to achieve this goal of financial and accounting information without errors and fraud.

The study relied on the descriptive approach to achieve this goal. The researchers relied on the office and review method to analyze secondary sources that addressed the topic under study. Data were collected from a group of sources such as scientific articles, research reports, and books. The data were analyzed using (content analysis), the results were described in detail.

The results confirmed the importance of the accounting information system as the framework for organizations that record all financial events. This system helps complete the accounting process correctly, from recording transactions to preparing financial reports. Internal control is an important tool to ensure the accuracy and reliability of financial reports. By using effective internal controls, organizations can prevent errors and fraud. In short, the accounting information system and internal control are vital and powerful tools to ensure the accuracy and reliability of financial data, protect the organization's assets, and comply with laws.

On the other hand, Nana's study, (2023) found that effective internal control has a positive impact on the effectiveness of the organization, especially in the banking sector. His study entitled (Evaluating the Impact of Internal Control Systems on Organizational Effectiveness) reached an assessment of the impact of internal control systems on the banking sector. The study relied on the descriptive analytical approach and data was collected from 15 commercial banks and 20 rural banks, meaning that the sample size was 35 banks.

The results of the study indicate that the effectiveness of the organization was significantly affected by three dimensions of internal control systems: control activities, control environments, and risk assessment. The impact of monitoring, control, information, and communications on the effectiveness of the organization was not statistically significant. The study provided empirical evidence that internal control systems affect the effectiveness of the organization, considering that the results cannot be generalized to other sectors because they were conducted on the banking sector only. However, it called on institutions to design and implement internal control systems to enhance operational efficiency and achieve competitive advantage.

Some studies concluded that there is no strong relationship between effective internal control and financial performance, such as: In a study on the impact of internal control on profitability, Juan Brouwer's study, (2018), entitled Do internal control activities negatively affect the profitability and solvency of small and medium-sized enterprises in South Africa aimed to study the relationship between internal control systems and the financial performance of small and medium-sized enterprises in South Africa. And to determine the extent to which internal control systems affect the financial sustainability of small and medium-sized enterprises in Africa. By identifying internal control practices that contribute to improving financial performance and business success.

In order to achieve the objectives of the study, the research relied on the quantitative approach, by collecting data through a questionnaire directed to managers and owners of small and medium-sized enterprises. The study sample amounted to 119 managers of companies operating in the small and medium-sized consumer goods sector in the Cape Town area of South Africa.

The sample was selected according to specific criteria such as the company's size and its establishment period of not less than one year. They must have decision-making authority in the small and medium-sized enterprises in which they operate, and their small and medium-sized enterprises must operate in the fast-moving consumer goods industry.

The study concluded that internal control systems in SMEs in South Africa are not as adequate and effective as they should be, as the relationship between internal control systems and financial performance (profitability and solvency) is not strong. Many companies have not comprehensively assessed their internal control systems before implementing them or monitored them periodically to ensure their effectiveness. There is an urgent need to improve internal control systems in SMEs in South Africa to enhance

their financial performance and long-term sustainability. This is done by improving risk management and control methods to ensure their success. The study recommended that company directors assess their current internal control systems to ensure that they are appropriate, effective, and capable of contributing to the achievement of the company's objectives. In any business organization, the responsibility for implementing adequate and effective internal control activities lies with management.

Therefore, the study recommended that management members of SMEs in South Africa reassess the internal control activities they implement and determine whether they are necessary, adequate, and functioning as intended and whether they help provide reasonable assurance regarding the stated business objectives. - The government should develop practical and understandable guidelines to assist SMEs and provide free training programs to develop employees' skills in SMEs given the role these companies play in the economy as a whole and work to encourage social contributions such as donating part of profits.

These results differ from the results of tam & tuan study, (2021) that examined the impact of internal control on the financial performance of small and medium-sized enterprises (SMEs) in emerging economies. The study aimed, first, to determine the relationship between internal control and SME performance; second, to determine the level of impact of internal control on SME performance finally, to provide recommendations for improving the effectiveness and efficiency of internal control implementation in SMEs. The researcher used a random sample of 94 participants to collect data and applied regression analysis to assess this impact on SMEs in Hanoi, Vietnam. The study examined all internal control elements according to the COSO model.

SME performance was primarily measured by return on assets. The results indicated that the control environment, a dimension of internal control, has a positive impact on SME performance. On the other hand, the results showed that internal control dimensions (including control activities, information and communication systems, risk assessment, and monitoring activities) have minimal impacts on SME performance. The findings of this paper provide practical insights into the role of internal control for researchers and business managers.

In addition, a study was conducted in Iraq using a different methodology, which is a literature review in the same context of the study to examine the relationship between internal control and financial performance. The study by Hanoun, et al, (2020) titled. *The Relationship between Internal Control Components and Financial Performance of Iraqi Banks (Literature Review)*. This study mainly addressed how internal control affects the financial performance of the six banking sectors in Iraq. The researcher relied on the qualitative inductive approach in the study, as he surveyed and studied all papers published in prominent and well-known journals that addressed the topic of internal control systems and their impact on financial performance. The researchers then made comparisons and summaries covering the past seven years. Accordingly, the researchers analyzed 35 studies to verify the relationship between internal control and financial performance. The study used internal control as an independent variable and its impact and relationship with financial performance as a dependent variable. The researchers considered that there is a glaring gap in the study of the literature, especially in the Iraqi banking sector. A summary of the comparisons between previous studies in this context was conducted and the it had different results.

The researchers found that 35 studies addressed the relationship between dependent and independent variables, 33 studies found a positive and statistically significant relationship between internal control systems and financial performance. However, two studies reached negative results, they did not find any relationship between the variables.

The researchers concluded that most of the studies that addressed the variables indicated that internal control has a significant and influential relationship with financial performance. The researchers have a vision to prove and confirm the level of the relationship between internal control and financial performance using a modified variable, which is the audit committee, and its impact on the banking sector in Iraq.

The study of Eji and Victor, (2022) emphasized the importance of the role of internal control, especially internal auditing, as the study was entitled The impact of internal audit efficiency on financial performance This study aims to study and analyze the impact of internal audit efficiency on financial performance. The researchers relied on the descriptive cross-sectional approach in designing this study. To collect data, a questionnaire was used and the study sample was selected from the human resources, finance, auditing, and purchasing departments in different companies.

This data was subsequently evaluated and analyzed using SPSS 28.0 and simple regression analysis. The results of the study showed that there is a strong positive relationship between internal auditing and financial performance, which means that internal auditing has a significant impact on the financial performance of the selected companies. Effective internal audit functions are expected to enhance the company's performance and should be encouraged.

As a result, the study recommended the need to appoint professionals to perform internal audit functions. Employees in auditing tasks must have a strong understanding of

the entity's business, appropriate industry knowledge, extensive experience, and a sound understanding of financial reporting requirements. Some of them relied on internal control as a means of solving some of the challenges which face institutions such as liquidity problems and financial losses.

Otherwise, some studies discussed the impact of some elements of internal control and their impact on financial performance, such as: by Magu et al., (2024)

entitled the impact of internal control systems on the financial performance of Kenya Farms Ltd (KFA Ltd), this study is a case study where Kenya Farms Ltd (KFA Ltd), which has been in existence since (1923), was suffering from liquidity problems, irregular financial reports, ineffective accountability of the company's financial resources, fraud and misuse of company resources and many irrational decisions that do not lead to the expected results. In addition, business transactions are not conducted under Generally Accepted Accounting Principles (GAAPs). This leaves the company's assets unprotected and the information is incomplete.

This has led to KFA Ltd's financial statements showing huge financial losses. This has negatively affected the company's financial position and growth, a great concern raised among stakeholders and the public in general. The company has become unable to meet its financial obligations, which has led to increased debt. This study came as an attempt to solve this problem.

Accordingly, this study aims to determine the impact of internal control systems on the financial performance of Kenya Farms Limited. This is done by achieving the sub-objectives, the first one studied the impact of the control environment on the financial performance of Kenya Farms Limited, the second, it evaluated the impact of control activities on the financial performance of Kenya Farms Limited.

This illustrative research was followed to study the relationship between the variables:

the impact of internal control systems on financial performance. Since the study population (78 managers), the researcher chose the census method to include all members and avoid sample bias in data collection. A pilot test was conducted that included 78 participants to test the reliability, validity and clarity of the questionnaire. After analyzing the data to understand the relationship and the impact of internal control systems on financial performance using descriptive statistics, correlation and regression analysis.

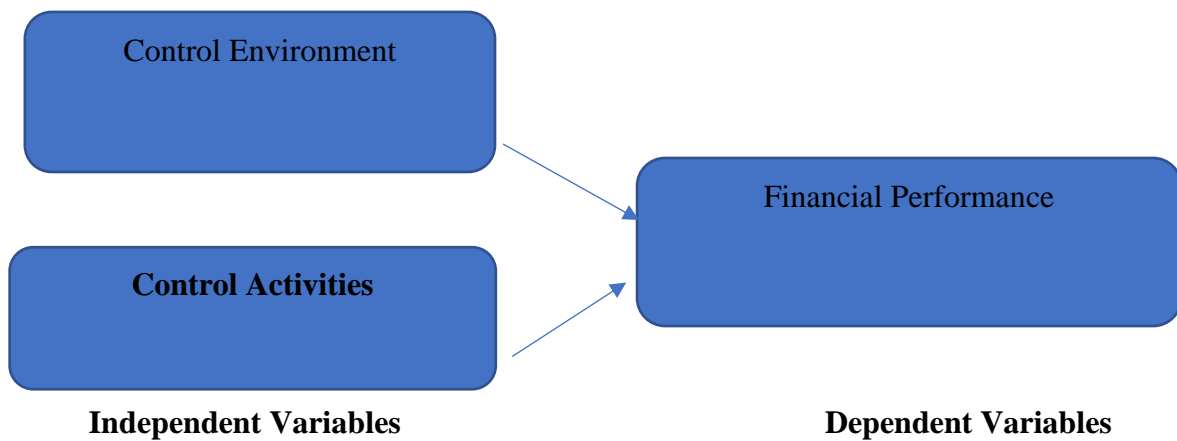


Figure (4.2) Magu et al., (2024) The impact of internal control systems on the financial performance of Kenya Farms Ltd (KFA Ltd),

In this study, the illustrative approach was followed to study the relationship between the variables: the impact of internal control systems on financial performance. Since the study population (78 managers), the researcher chose the census method to include all members and avoid sample bias in data collection. A pilot test was conducted that included 7 participants to test the reliability, validity and clarity of the questionnaire.

After analyzing the data to understand the relationship and impact of internal control on financial performance using descriptive statistics, correlation and regression analysis. The study concluded that the management of KFA Limited is not committed to the internal control systems in the company, whether in terms of control and follow-up

activities. The study revealed that all activities of (KFA) Kenya Farmers Association Limited are initiated by executive managers. About the impact of the control environment, it was found that the internal audit department is not objective, independent, and ineffective does not perform its role as it should, and does not perform audit activities regularly and effectively. The study concluded that KFA Limited has very weak and ineffective internal control systems, and showed a lack of clear separation of functions, supervision, training, monitoring, and management commitment.

On the other hand, at the level of non-industrial companies in the study of Murithi and Muigai, (2024) entitled Internal Control Systems and Financial Performance of Companies Listed on the Nairobi Securities Exchange This study addressed the issue of determining the extent to which internal control systems affect the financial performance of companies listed on the Nairobi Securities Exchange (NSE) in Kenya. The objectives of the study were to assess the impact of internal control systems on the financial performance of companies listed on the Nairobi Securities Exchange in Kenya.

In addition to assessing the impact of the control environment on the financial performance of companies listed on the Nairobi Securities Exchange. And to analyze the impact of information and communication systems on the financial performance of companies listed on the Nairobi Securities Exchange. To achieve these objectives, the study relied on the descriptive research methodology and collected primary data by collecting data using structured questionnaires. The study population consisted of 63 companies listed on the Nairobi Securities Exchange as of June 30, 2023. The study sample was selected from 39 companies from the target population using stratified random sampling technique. The data were analyzed using descriptive statistical techniques.

The study concluded that internal control systems have a positive and significant impact on the financial performance of companies listed on the Nairobi Securities Exchange. It recommends that managements of listed companies work together to identify the best and most appropriate combination of different efficient internal control mechanisms that suit the needs of the companies, which will help to enhance them. Managers should adopt risk management strategies, a sound control environment and an information communication system to enhance the effectiveness of internal control systems, which will enhance financial performance.

The study's results were consistent with the findings of Mbura et al. (2023) entitled *Internal Control System and Performance of Financial Institutions in Uganda*, as this study aimed to determine the relationship between the internal control system and the performance of financial institutions in Uganda. To achieve this goal, the researchers in this study relied on a mixed research methodology (quantitative and qualitative) to help obtain more detailed information on the research topic and a deeper understanding.

In addition, adopting the mixed approach increases the knowledge of the respondents and enhances confidence in the results of the study. An online questionnaire was used to collect data and open and closed questions were used, thus obtaining quantitative and qualitative data on individuals' experiences with the study topic. Interviews were conducted with experts in this field, which provided the opportunity to obtain detailed qualitative data on the study topic. Subsequently, the quantitative data was analyzed using SPSS and the qualitative data was analyzed using content analysis.

The sample consisted of 118 financial institutions in Uganda. The study found, consistent with the existing literature, that there is a significant relationship between internal control systems and the performance of financial institutions in Uganda. For

financial institutions in Uganda to function effectively, there must be strong internal control systems.

The study recommended that financial institutions in Uganda should seek to establish functional internal control systems if they want to achieve better institutional performance. They need to conduct a comprehensive review for all existing internal control policies and procedures in place within financial institutions in Uganda and they should work to address any gaps or weaknesses in line with best regulatory requirements.

This may include areas such as risk assessment, licensing processes, segregation of duties, accounting, financial reporting and internal audit.

Therefore, a positive organizational culture that promotes transparency and accountability is critical to achieving superior financial performance. Effective internal audit contributes to enhancing financial performance by ensuring compliance with regulations and enhancing operational efficiency, as well as its ability to identify and mitigate financial risks, which enhances financial stability.

In other studies, a different methodology was adopted, which is the methodology of collecting and analyzing the roles and their impact on financial performance, which was conducted by Hamka,(2023) entitled *The Impact of Internal Audit Effectiveness, Risk Management Practices, and Organizational Culture on Financial Performance*, the main objective of the study is to explore how these factors interact to influence the financial performance of organizations. The researcher used a qualitative methodology to collect data from academic sources, case studies, and industry reports to understand the topic under study comprehensively.

The qualitative methodology involves collecting and analyzing scientific sources that discuss the roles of internal audit effectiveness, risk management practices, and

organizational culture in systematically improving financial performance. The study classified the literature into main topics such as components of effective internal audit, risk management strategies and frameworks, and characteristics of organizational culture that support financial success. Thematic analysis is used to identify patterns and how these factors contribute to improving financial performance.

A positive organizational culture that promotes transparency, accountability, and continuous improvement is also of utmost importance in supporting these processes and achieving superior financial performance.

The study results showed that effective internal auditing contributes significantly to enhancing financial performance by ensuring compliance with regulations and improving operational efficiency. In addition, comprehensive and strong risk management practices help identify potential financial risks and threats, which leads to better mitigation and reduction, which enhances financial stability and overall performance.

As well, organizational culture supports accountability and transparency, which leads to excellent financial performance. They stressed that effective internal auditing, strong risk management practices, and a positive organizational culture work together to reinforce the financial performance of organizations. These are critical factors that affect financial performance and they make organizations strong, and its capability for achieving success to face challenges.

The study recommended the need for continuous investment in this area to improve financial performance in the future, improving internal auditing practices, developing risk management strategies and mechanisms, and enhancing a culture of excellence, accountability, and transparency.

On the other hand, a study was conducted on non-financial companies to determine the impact of the quality of the internal control structure on financial performance, and financial performance was measured by earnings per share only. This is a study by Lotfy et al. (2021) entitled *The Impact of the Quality of the Internal Control Structure on the Financial Performance of the Company: An Applied Study on Companies Listed on the Egyptian Stock Exchange*.

This study aims to study the impact of the quality of the internal control structure on the financial performance of companies listed on the Egyptian Stock Exchange. The study studied the impact of each of the five COSO components on the company's financial performance separately. The study followed the descriptive qualitative approach, as data was collected through content analysis of secondary data, which are companies' financial statements, published financial reports, companies' websites, etc.

The study sample was all companies listed on the Egyptian Stock Exchange, except for financial companies, during the period from 2012 to 2017. The quality of the internal control structure (ICSQ) was measured using a multidimensional index inspired by the COSO framework, which measures the presence and function of the five COSO components and the seventeen principles related to them and determines the extent to which internal control systems are free of weaknesses. Hierarchical analysis was conducted to analyze the data using SPSS, and performance was measured by earnings per share (EPS).

The study reached results indicating that the level of internal control structure quality in Egyptian companies is generally low, with companies obtaining an average of 39% of the full score, and it showed that ICSQ has a positive and significant impact on the financial performance of the company.

In other words, improving ICSQ leads to improve the financial performance of companies listed on the Egyptian Stock Exchange, and companies with an effective internal control system can achieve better financial performance. In addition, a detailed analysis was conducted to determine which of the five COSO components can affect the financial performance of the company.

The results were control activities were the only component that had a significant and positive impact on the financial performance of the company, while the other four COSO components had a negligible impact on the dependent variable. The size and age of the company were used as control variables in this study and had a significant positive impact on the financial performance of companies listed on the Egyptian Stock Exchange.

The study recommended that Egyptian regulatory bodies should be obligated to disclose the company's Internal Control System Quality (ICSQ) system and punish any breach of these disclosure requirements, and to further enhance control activities due to their significant impact on the company's financial performance, by improving accounting , budget , property and operational control. It was deemed necessary to conduct future research studies where the impact of ICSQ standards and their components on the financial performance of banks can be studied further. Or adopt different financial performance measures such as (ROA) and (ROE) or adopt different periods, which may be the study period, to include the impact of the Corona pandemic on financial performance and price collapse risks using companies listed on the stock market (A) from 2007 to 2017.

The result shows that financial quality reduces the risks of a stock price crisis. Moreover, the relationship can be strengthened by improving internal control, according to the variance; financial quality has a stronger impact on new companies, while internal

control has a stronger impact on mature companies. For companies with greater conflicts between management and shareholders, internal controls can effectively reduce the risk of stock price collapse.

2.2.2 Local Studies

At the level of Palestinian companies, in a study prepared by Mushtahi (,2015) entitled Evaluating the extent of consistency of internal control systems in Palestinian public shareholding companies with the COSO framework and its impact on the performance and the value of the company. This study aimed to evaluate the extent of consistency of internal control systems in Palestinian public shareholding companies with the COSO framework (the sponsoring organization of the committee), and its impact on the performance and value of the company.

To achieve these objectives, a questionnaire was designed to collect primary data on the extent of application of internal control components in the study sample, which amounted to 40 public shareholding companies listed on the Palestine Stock Exchange during the year (2013), and the (t) test was used for the first sample. The collected data was analyzed using multiple regression to test the hypotheses.

The study concluded that the internal control systems applied in public shareholding companies in Palestine are highly committed to the Integrated Internal Control Framework (COSO), in addition to the existence of a statistically significant effect of applying the components of internal control according to the COSO framework on the financial performance indicators of companies listed on the Palestine Stock Exchange, which include (ROA), (ROE).

On the other hand, the study did not find any statistically significant effect of applying the components of internal control in companies listed on the Palestine Stock Exchange according to the COSO framework (on the company's value measured by the Qs' Tobin index and the ratio of market value to book value per share).

At the Level of the Palestinian Banking Sector

In the Palestinian banking sector, a study conducted by Bayod, (2015) entitled *The Impact of Internal Control and Risk Management on Banks in Palestine*, aimed to analyze the impact of internal control and risk management on banks in Palestine, and it aimed to assess whether fraud and errors have decreased, after controlling risks, separating duties, and aligning practices with international standards in banks.

According to The study which aimed to identify the modified procedures for internal control, and after reviewing previous literature in this context, he prepared a structured survey questionnaire that focused on the main issues of the impact of current internal control and risk management strategies in Palestine in resolving all issues, it was distributed electronically to employees and administrators for 10 of Palestinian banks, and the Likert scale was used to report and measure the impact of all elements of internal control.

The study concluded that comprehensive internal control and risk management have a positive impact on profits and quantitative and qualitative performance of banks and that internal control works to reduce risks and evaluate them on an ongoing basis.

The banking sector in Palestine has improved in the current era after implementing reforms and new laws which related to internal control and risk management strategies. Through the analysis of the literature, the researcher concluded that Palestinian banks still

face problems related to the independence of internal control and foreign exchange fluctuations due to the absence of the national currency, knowing that Palestinian banks are committed to implementing the instructions of the Palestinian Monetary Authority, considering this commitment a reason for the decrease in financial risks in some banks, as the systems help banks to determine the limits of risks and evaluate them periodically. The study recommended the need for bank management to pay attention to training employees as a basic factor for work effectiveness.

Which confirms the importance of internal control in its various types and its role of internal audit and its contribution to digital risk management, which is positively reflected in financial performance, the study by Kayed and Abdel Nasser, (2023) entitled The Impact of Internal Audit Activity on the Effectiveness of Digital Risk Management in Banks Registered on the Palestine Stock Exchange.

It aimed to know the extent of the impact of internal audit activity in banks registered on the Palestine stock exchange on digital risk management. This is the only study that addressed the impact of internal audit activity with its advisory and auditing services on the effectiveness of digital risk management in banks registered on the Palestine Stock Exchange.

The study relied on the descriptive analytical approach, and a random sample of employees in the internal audit departments in Palestinian banks registered on the Palestine Stock Exchange was selected with different job titles and who hold specialized academic degrees in the field of finance, management and have experience in the field of auditing. The sample number was 65 employees and the study community was considered (Bank of Palestine, Safa Bank, Palestine Investment Bank, Al-Quds Bank, National Bank, Arab Islamic Bank, and Palestine Islamic Bank). The questionnaire was adopted to collect

data in English and Arabic, and the questions specific to the study and the evaluation of its hypotheses were in the questionnaire. The five-point Likert scale method was used to rank the relative importance of each answer.

The study concluded after statistical analysis that: First, the effectiveness of digital risk management in banks registered in the Palestine Stock Exchange was significantly affected by internal audit activity. Second, the consulting audit services made digital risk management in banks registered in the Palestine Stock Exchange more effective. Finally, the internal audit activity had a positive impact on the internal control system in banks registered in the Palestine Stock Exchange. Banks listed in the Palestine Stock Exchange enjoy a high level of digital risk management effectiveness.

It was considered that internal audit activity processes have an impact on the effectiveness of digital risk management. Internal audits should evaluate the efficiency of digital risk management processes and alert senior management in case of high risks.

Regarding Islamic banks, Jaber's (2019) dealt, entitled *The Role of Internal Audit in Increasing the Profitability of Islamic Banks in Palestine* emphasized the importance of the role of internal audit on the bank's profitability, as the general objective of this study was to identify and explore the relationship between the internal audit function in Palestinian Islamic banks and increasing their profitability. The sub-objectives of the study are:

a- Identify the role of internal audit types (financial, administrative, compliance with laws) to increase the profitability of Islamic banks in Palestine. b- Contributing to raising awareness in the community and business environment about the real role of internal auditing and removing the negative image of internal auditing.

The researcher used the descriptive analytical approach to describe the phenomenon in this study accurately and comprehensively. The study population was considered to be the employees of the internal audit departments and financial departments of Islamic banks in Palestine and the supervisors of Islamic banks in the Palestine Monetary Authority. A sample consisting of audit, financial and Monetary Authority supervising employees at Islamic banks in Palestine was selected. Their number was 35 individuals. The number of returned questionnaires was 30 questionnaires. The questionnaire was used to collect information.

The questionnaire consists of 17 paragraphs directed to employees of Islamic banks and the Palestine Monetary Authority to measure the role of auditing in increasing profitability. The study gives important results, the first one was financial auditing plays a major role in increasing the profitability of Islamic banks in Palestine. the second , administrative auditing plays an important role in enhancing the profitability of Islamic banks.

Regarding compliance with regulations and instructions, the study confirmed that Islamic banks in Palestine enjoy a high level of compliance with the regulations and instructions issued by the Palestinian Monetary Authority. As for the study's recommendations, they were the need to enhance the culture of internal auditing in the entire bank (management and branches), the need to adhere to the instructions and regulations issued by the internal audit in the bank, and the need to focus on training and developing the human cadre in internal auditing in Palestinian banks and considering the experiences of advanced countries in the field of auditing Islamic banks.

The same study was conducted on commercial banks only, where Ahmed Abu Deeb conducted a study entitled The Role of Internal Control in Improving Financial

Performance in Commercial Banks in the Southern Palestinian Governorates,(2022) which aimed to identify the role of internal control in improving financial performance in commercial banks in the Southern Palestinian governorates, the study community was commercial banks in the southern Palestinian governorates, the researcher adopted the random sample method, and the study sample amounted to (40 employees), and the researcher used the descriptive analytical quantitative method ,the researcher used the questionnaire as a study tool

The study concluded that the level of internal control, and the financial performance for both was high in commercial banks in the southern Palestinian governorates, it means that there is a positive relationship between internal control and financial performance.

It also recommended to follow control approaches that contribute to evaluating financial performance objectively, and involving the control team in discussions about appropriate control to develop services, and it emphasize on the necessity of having specialized committees whose mission is to design the control structure clearly.

On the other hand, the study by Kazim et al. (2018), entitled The Role of Internal Audit and Internal Control Systems in the Quality of Financial Performance in the Banking Sector. Which it targeted the role of internal audit and internal control systems in the quality of financial performance in the banking sector, this paper aimed to study and analyze the impact of internal audit and internal control systems on fraud prevention in the banking sector in Indonesia - Jakarta.

This experimental study relied on primary data by distributing an electronic questionnaire by selecting a sample of employees working at the three largest banks in Indonesia who have at least two years of experience, and the data were analyzed using multiple linear regression.

The study concluded that internal audit has a significant positive impact on preventing accounting fraud and that internal controls have a significant positive impact on preventing accounting fraud, which means that the more effective the internal audit and internal control of the institution are, the better prevention of accounting fraud they get.

One of the limitations of the study is that it was conducted only on employees who work at these three largest banks in Indonesia located in Jakarta. The study recommended that there is a need to consider the independent variable used, which is internal auditing and internal control only.

Therefore, the researchers suggested to add more independent variables to future studies, such as organizational culture and compensation, or using larger study samples.

2.2.3 The Research Gap between the Current Study and Previous Studies

Previous studies addressed the role and impact of internal control systems on financial performance, but they differed from each other in the methodology followed in the study, the elements used for internal control systems, or the sector in which the study was conducted. Some of them were in the banking and the construction sector, companies, and manufacturing companies.

- This study distinguished itself from some other studies in that it addressed the five elements of internal control systems and not limited them to a few. For example, Abdel Salam et al.'s (2023) study limited its analysis to risk assessment, communications, information, and monitoring. The researcher relied on the same methodology, a questionnaire, to collect data, but on small and medium-sized enterprises.
- This study examines the Palestinian banking sector, examining the elements of internal control as a whole and their impact on financial performance in

Palestinian banks. Most previous studies address all components of the internal control system within an integrated framework, rather than each component separately. This study specifically addresses the Palestinian banking sector, which is characterized by complex economic and environmental conditions that distinguish it from other sectors and environments. Accordingly, this study bridges this gap by analyzing the impact of the effectiveness of all components of the internal control system (control environment, risk assessment, regulatory activities, information and communication systems, and follow-up) on financial performance in Palestinian banks, contributing to both scientific and practical advancements.

- At the Palestinian level, Mushtahi's (2015) study examined the consistency of Palestinian companies listed on the Palestine Stock Exchange with the COSO framework. The same quantitative analytical approach was used. Data was collected through a questionnaire. Using the same approach, Bayoud (2015) studied the impact of internal control on financial performance in Palestinian banks. The study concluded that effective internal control systems have a positive impact on profitability. These studies are considered outdated compared to this study, which was conducted in 2024-2025.
- Jaber's (2019) study examined the impact of internal control on the profitability of Islamic banks only, while excluding commercial banks. On the other hand, Deeb's (2022) study addressed the same topic, but it was conducted only on commercial banks in the southern Gaza Strip governorates, using the same descriptive and quantitative analytical approach. The study concluded that there is a positive relationship between internal control and financial performance. This study, however, examined both Islamic and commercial banks operating in the Palestinian banking sector.
- This study was characterized by objectivity, adhering to the highest levels of accuracy and objectivity in data collection and analysis, avoiding personal biases.
- It added knowledge, particularly at the national level, as it was applied to Palestinian banks based on evidence and practical experiences from other

countries, focusing on the Palestinian banking sector, one of the most important economic sectors.

There are numerous studies that have addressed the relationship between internal control and financial performance, but there are clear differences in their methodologies and research environments. Some studies (such as Hanoun et al., 2020) relied solely on a review of theoretical literature, while others (such as Hamka, 2023; Metreveli, 2024) used qualitative approaches, through interviews or literature reviews, without relying on direct quantitative data. Furthermore, some research (Hamed, 2023) focused on a specific aspect, such as financial sustainability in Jordanian banks, or on a historical and conceptual analysis of the development of internal control (Farid & Kamoun, 2024), without a comprehensive examination of the components of the internal control system as an integrated system.

Chapter Three

Chapter Three

Methods and procedures

3.1 Introduction

This chapter deals with a full description of the method and procedures carried out by the researcher for data collection and sampling, questionnaire design, reliability and validity testing, statistical approach, and research model to implement this study.

3.2 Data Collection and Sampling

In this study, data was collected through primary and secondary data sources in order to access information about the study problem. Primary data was collected through a quantitative data tool; a questionnaire was used for the quantitative part. While secondary data was collected through books, articles and scientific journals published on the subject of the thesis, which can be found through the list of references.

The sample of the study was chosen by defining the study population, and since the researcher interested in studying the impact of effective internal control systems on financial performance in banks: an empirical study of banks listed on the Palestine stock exchange, the study sample was limited to employees in the compliance, internal audit, accountants or risk management divisions in Palestinian listed/registered banks, according to the reports of the Palestinian Monetary Authority for the year 2024/2025, the number of employees in these divisions reached up to (75). The researcher intended to make a survey due to the small size of the population; thus, the number of questionnaires that should be distributed is (75) questionnaire.

3.3 Questionnaire Design

The questionnaire is an important tool for collecting the quantitative data used in this research, it was built mainly to meet the needs and answer questions of the research, then the final version was distributed among employees currently working in the compliance, internal audit, or risk management divisions in Palestinian listed/registered banks, it took 4 weeks from the beginning of distributing the questionnaire, collecting it and returning it to the researcher, the total number of distributed questionnaires was (75), the researcher retrieved (70) questionnaires (93%) of population and valid for analysis.

The questionnaire consists of three sections, 6 questions were used in **the first section**, related to the demographic information of the respondents (gender, age, job title, experience, academic qualification, specialization).

The Second Section titled by (Internal control section) divided to five subsections contains (27) statements measure the level of internal control factors.

Section Three statements measure the level of financial performance divided to five subsections contains (13) statements measure the level of financial performance factors.

Respondents were asked to indicate their level of agreement using a five-point Likert scale (from 5 which means strongly agree to 1 which indicates strongly disagree).

(Cicenaite, 2012) said that “Likert scale allows the respondent to choose the degree of agree or disagree with each item in questionnaire when it comes to the stimulus purpose, the different Components were measured on 5- point Likert scale to check the participant’s degree of convenient with the statement or not, as below:

1- Strongly disagree (SD)

2- Disagree (D)

3- Neutral (Ne)

4- Agree (A)

5- Strongly Agree (SA)

The researcher used the following scale to assess the levels of (Internal control, and financial performance) among employees in the compliance, internal audit, or risk management divisions in Palestinian listed/registered banks, this scale depends on interval length=range/number of intervals, $(5-1)/3=1.33$. The following scale represents the result: 1-less than 2.33 is low; 2.33- less than 3.66 is medium and 3.66-5 high.

3.4 Internal Validity and Reliability Statistics

Validity defined as “the accuracy of an assessment” in another words it means does the used instruments measure what supposed to measure? to have the confidence about the validity of the questionnaire before distribute it to the last respondent. To check internal validity and reliability of the instrument, exploratory data analysis is needed, the set of steps that quantitative researcher follows in exploring a new area of social or psychological life, which they do by collecting ended questions from which to generate new concepts and generalizations about that area. The most efficacious exploratory data analysis leaves these investigators as much scope as possible for the discovery of new concepts and generalizations (Pallant, 2005). a pilot testing was used, a sample of (30) questionnaires were distributed among employees working in the compliance, internal audit, **Accountants** or risk management divisions in Palestinian listed/registered banks from the population, we return back them to the population after making the tests of internal validity and reliability statistics, the purpose of this testing is to make sure that the respondents have no problem in understanding the questions. Moreover, **it has been sent to be evaluated by number of external evaluator’s, the evaluator** reviews the

questionnaire for readability, clarity, and comprehensiveness, and provides a level of consensus on which items should be included in the final questionnaire.

a Pearson correlation coefficient between the statements and the total score for every dimension was calculated, it was compared with the standard approved for accepting the item according to what was stated in Garcia, (2011) if greater than (.40), the items are statistically acceptable, in order to confirm the consistency of the items. Table (3.1) shows the result.

Table 3.1: Pearson Correlation Coefficient between the Items and the Total Score of Components of Internal Control

Environment control		Control activities	
item	correlation	Item	correlation
1	0.72**	1	0.94**
2	0.67**	2	0.97**
3	0.88**	3	0.92**
4	0.91**	Overall Score=0.76**	
5	0.86**	Information and Communications	
6	0.79**	1	0.81**
7	0.83**	2	0.90**
8	0.76**	3	0.88**
Overall Score=0.87**		4	0.94**
Risk Assessment		5	0.91**
1	0.83**	6	0.94**
2	0.89**	Overall Score=0.88**	
3	0.91**	Monitoring	
4	0.85**	1	0.93**
5	0.70**	2	0.96**
6	0.73**	3	0.89**
Overall Score=0.90**		4	0.88**
		Overall Score=0.89**	

** Statistically significant ($p < 0.01$), * Statistically significant ($p < 0.05$),

Table (3.1) showed that the values of Pearson correlation coefficients of Internal Control ranged between (0.67-0.97), these values were acceptable and statistically significant as mentioned in (Garcia, 2011).

Table (3.2) Pearson Correlation Coefficient between the Items and the Total Score of Components of Financial Performance

Financial sustainability		Liquidity	
item	correlation	Item	Correlation
1	0.89**	1	0.97**
2	0.91**	2	0.96**
3	0.87**	Overall Score=0.88 **	
Overall Score=0.84 **			
Profitability		Operational efficiency	
1	0.94**	1	0.97**
2	0.98**	2	0.96**
3	0.98**	Overall Score=0.86 **	
4	0.88**	Risk	
Overall Score=0.93 **		1	0.93**
		2	0.95**
		Overall Score=0.85**	

** Statistically significant ($p < 0.01$), * Statistically significant ($p < 0.05$),

Table (3.2) showed that the values of Pearson correlation coefficients of Financial Performance ranged between (0.87-0.98), these values were acceptable and statistically significant as mentioned in (Garcia, 2011).

While reliability means the consistency of assessment and free of error, (Fraenkel & Wallen, 2003), which means that all items in the instrument measure the same construct, and to measure the reliability or consistency of the instrument a statistical tool was used called Cronbach Alpha, this tool developed by Lee Cronbach in 1951 to achieve the purpose mentioned before, and it is expressed with numerical value located between 0

and 1, if the score of alpha is more than 0.7 this clarify that the questionnaire is reliable and vice versa if the result was less than 0.7 this mean the questionnaire not reliable and need to be modified.

Table (3.3) Cronbach's Alpha Values Distributed by Component and Tool

Component	Number of items	Cronbach's Alpha
Environment control	8	0.96
Risk Assessment	6	0.90
Control activities	3	0.94
Information and Communications	6	0.91
Monitoring	4	0.88
Internal Control	27	0.91
Financial Sustainability	3	0.92
Profitability	4	0.93
Liquidity	2	0.95
Operational efficiency	2	0.94
Risk	2	0.91
Financial Performance	13	0.97

The researcher found from table (3.3) that Cronbach's Alpha for all components are more than 0.70, specifically, the range of reliability is located between (0.88 and 0.96.) The reliability for the whole tool equals 0.98, indicating high reliability of internal consistency.

3.5 Statistical Approach

(SPSS, 28) was used to analyze the collected data. Frequencies, percentages, means and standard deviations analysis were used by SPSS, 28 software to analyze collected data.

Moreover, simple linear regression was used to test the effect of the internal control

system on the financial performance on Palestinian banks, and Pearson correlation was used to find the construct validity.

Chapter Four

Chapter Four

Data Analysis & Results

4.1 Introduction

This chapter, presents analysis using (SPSS, 28), to answer the questions and reject or fail to reject the hypothesis. This chapter will separate into 3 parts, the first one: demographic analysis, the second part is the descriptive analysis, the third part hypothesis tests.

4.2 Demographic Analysis

Table (4.1): Demographic Characteristics of Respondents (n=70)

Variable	Level	Count	Percentage %
Gender	Male	45	64%
	Female	25	36%
Age	Less than 30 years	18	26%
	Between 30 and less than 40 years	21	30%
	Between 40 and less than 50 years	18	26%
	50 years or more	13	18%
Job title	Chief auditor	12	17%
	Assistant auditor	49	70%
	Head of internal control division	9	13%
Number of years of experience	Less than 5 years	15	21%
	Between 5-10 years	22	32%
	Between 11-15 years	18	26%
	15 years or more	15	21%
	Bachelor	36	51%

Academic qualification	Master	29	41%
	Ph.D.	5	8%
Specializations	Accounting	57	81%
	Finance and Banking	13	19%

Source: SPSS outcome.

The majority of the sample participants were male, constituting 64% of the sample size, while female participants constituted 36%. The highest percentage of participants was in the age group of 30 to less than 40 years, representing 30% of the sample size. In contrast, the youngest age group was those aged 50 years and above, representing 18% of the participants. Additionally, the majority of the sample participants worked as auditor assistants (70%), followed by chief auditors (17%), while the lowest percentage was for the head of the internal control department (13%). The highest percentage was in terms of years of experience, with years of experience ranging from 5 to 10 years (32%), while the lowest percentage was for participants with 15 years or more and less than 5 years of experience (21%). The educational level of the sample was distributed as follows: (51%) Bachelor's, (41%) Master's, and (8%) Doctorate. As for specializations, the majority of the respondents were in accounting, representing 81% of the sample size, while the lowest percentage, 13%, specialized in finance and banking.

4.3 Descriptive Statistics

The descriptive analysis part describes the gathered numerical data to make it easier when explains; also, descriptive analysis results show the mean and standard deviation for each component to determine the highest and lowest mean for each component. The purpose of this analysis to identify the central tendency of the responses through mean

results and the spread of a set of observations through the standard deviation results which mean when the standard deviation is low it expressed most of the respondents has the same opinion (concentrated) toward the same statement, on the other hand, if the score of the standard deviation is high it means that the respondents has a different opinion toward the same statement (Cicenaite, et al. 2012). The 5-point Likert scale was used, where 5 means strongly agree and 1 mean strongly disagree.

First Question: What is the Level of Internal Control in Palestinian Banks?

The following scale represents the result: 1-less than 2.33 is low; 2.33- less than 3.66 is medium and 3.66-5 is high

To answer this question, means and standard deviations are calculated to know the level of internal control among employees working in the compliance, internal audit, or risk management divisions in Palestinian Bank distributed by items and components and the total average.

Table (4.2): Descriptive Statistics of Internal Control in Palestinian Banks Distributed by Items and Components

Item	Mean	Std. Deviation	Level
The bank's management is committed to creating an ethical environment characterized by integrity while preventing unethical or illegal behaviors.	4.11	0.78	High
The bank's management provides a structured organizational framework and a clear, written job description for each department and employee.	3.96	0.73	High
The bank's management relies on delegating authority in accordance with job responsibilities.	3.89	0.82	High
The bank implements clear and comprehensive policies for hiring new employees, training, promotions, and leaves.	3.94	0.82	High

The bank's management policies contribute to enhancing the efficiency of tasks performed by the internal control unit.	3.91	0.71	High
Audit reports submitted to management include recommendations for performance improvement.	4.02	0.75	High
Policies and procedures are implemented to ensure that management directives are properly executed.	3.92	0.81	High
The bank's management grants extensive authority and full independence to the internal auditor.	3.98	0.72	High
Environment control	3.97	0.62	High
The Internal Audit Committee establishes mechanisms and methods to assess all potential risks that the bank may face, considering the cost-benefit principle.	4.02	0.72	High
The Internal Audit Committee identifies and classifies risks based on their controllability and impact on the bank's performance.	3.98	0.77	High
The Internal Audit Committee continuously evaluates risks related to the market, liquidity, operations, and technological advancements.	4.00	0.73	High
The bank's management takes appropriate measures to mitigate these potential risks.	3.94	0.66	High
The internal audit function examines potential risks that may arise from any updates or changes implemented by management.	4.02	0.60	High
Various bank departments respond to internal audit observations	3.94	0.72	High
Risk Assessment	3.96	0.58	High
There is an effective internal audit system on the bank's financial and accounting performance.	4.09	0.71	High

The management takes necessary measures related to internal audit instructions, particularly those concerning potential risks.	4.00	0.71	High
The audit activities aim to ensure employees' compliance with the bank's regulations.	4.06	0.63	High
Control activities	4.05	0.65	High
The bank has a well-structured and precise information system that enhances audit procedures.	4.04	0.55	High
The bank maintains clear and open communication channels with an appropriate flow of accounting information.	4.04	0.62	High
A security system is implemented to prevent breaches of computerized systems.	4.00	0.65	High
The presence of audit controls and an emergency plan reduces the likelihood of system or device failures.	3.96	0.62	High
Strategies are in place to develop and update information systems.	4.04	0.59	High
Continuous and direct communication between internal audit and the board of directors strengthens the bank's ability to manage risks.	4.02	0.57	High
Information and Communications	4.02	0.54	High
The bank has regulatory standards for continuous monitoring and performance evaluation.	4.02	0.67	High
The bank's management continuously monitors and evaluates various components of the internal control system.	4.00	0.65	High
Any weaknesses in the internal control system are addressed appropriately.	4.02	0.64	High
Employees in the internal audit unit possess independence, academic qualifications, sufficient experience, and full authority.	3.89	0.73	High

Monitoring	3.98	0.61	High
Total average	3.99	0.52	High

According to table (4.2) it is clear that the total average of all 5 components among the employees working in the compliance, internal audit, or risk management divisions in Palestinian banks listed on the Palestine Stock Exchange represents the level of high with (3.99), all components represent the level of high and located between (3.96) related to risk assessment component and (4.05) related to control activities.

Second question: What is the Level of Financial Performance in Palestinian Banks?

To answer this question, means and standard deviations are calculated to know the level of financial performance among the employees working in the compliance, internal audit, or risk management divisions in Palestinian banks distributed by items and components.

Table (4.3): Descriptive Statistics of Financial Performance in Palestinian Banks Distributed by Items and Components

Item	Mean	Std. Deviation	Level
The bank has an accounting audit department to assess annual profit levels.	4.06	0.62	High
The bank establishes multiple financial indicators to measure financial performance.	4.04	0.52	High
The bank achieves strong financial performance compared to its competitors.	3.91	0.74	High
Financial Sustainability	3.99	0.56	High
The bank has consistently improved its return on assets (ROA).	4.04	0.59	High
The bank has shown continuous improvement in its return on equity (ROE).	4.03	0.57	High

The bank has maintained steady growth in earnings per share (EPS).	4.02	0.57	High
Effective internal control systems have helped reduce unnecessary expenses.	4.01	0.54	High
Profitability	4.02	0.54	High
The bank's management has improved cash flow management.	4.00	0.62	High
Internal control mechanisms have helped mitigate liquidity risk.	3.98	0.57	High
Liquidity	3.99	0.58	High
The bank's management has worked to minimize financial waste and operational costs.	3.89	0.73	High
The bank has improved the speed and efficiency of financial transaction processing.	3.92	0.65	High
Operational efficiency	3.91	0.67	High
Effective internal control measures have reduced financial risks and fraud within the bank.	4.00	0.59	High
The bank's management has enhanced loan quality and reduced non-performing loans.	3.98	0.67	High
Risk	3.99	0.59	High
Total average	3.99	0.51	High

According to table (4.3) it is clear that the total average of all 5 components among the employees working in the compliance, internal audit, or risk management divisions in Palestinian banks represents the level of high with (3.99), all components represent the level of high and located between (3.91) related to operational efficiency component and (4.02) related to Profitability.

4.4 Testing the Hypothesis

The researcher tested the assumption through (Normality) to make sure which testing hypothesis needed (parametric or nonparametric).

To check the normality test Kolmogorov-Smirnov test is used, the following table shows the result:

Table (4.4) Kolmogorov-Smirnov test for Normality

Test	Test value	Significance	Result
Kolmogorov-Smirnov	0.715	0.686	Accept

Our assumption is the data distributed normally, referring to the significance value= $0.686 > 0.05$, we accept the assumption, which means that we will use the parametric tests (Ghasemi & Zahediasl, 2012). In order to answer the questions, the following hypothesis are derived:

The Main Hypothesis

(H_a), There is a Statistically Significant Effect of the Internal Control System on the Financial Performance in Palestinian Banks.

Multiple regression analysis is used to examine the effect of internal control system on the financial performance of Palestinian banks, the researcher through the multiple regression test will find how much (control environment, risk evaluation, control activities, communications and information, monitoring the financial performance), explain the variation of the financial performance (dependent variable). The below table represents the result:

Table (4.5): Multiple Regression – Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	F-Value	Correlation Coefficient (R)	Adjusted R-Squared (R ²)
		B	Std. Error	Beta					
1	(Constant)	1.17	0.35		3.38	0.00**	18.433	0.814	0.626
	Control environment	0.12	0.11	0.15	1.07	0.29			
	Risk Evaluation	-0.25	0.14	-0.29	-1.78	0.08			
	Control activities	0.31	0.10	0.40	3.13	0.00**			
	Communications and Information	0.12	0.18	0.12	0.65	0.52			
	Monitoring the financial performance	0.40	0.16	0.49	2.49	0.02*			

*Significant at the level 0.05

**Significant at the level 0.01

Table (4.5) presents the results of a multiple regression analysis to examine the impact of internal control components on the dependent variable. The model shows a **moderately strong correlation coefficient (R = 0.814)** and an **adjusted R-squared value of 0.626**, indicating that approximately **62.6% of the variance** in the dependent variable is explained by the combined predictors in the model. The overall **F-value (18.433)** indicates that the regression model is statistically significant and provides a good fit for the data.

Among the predictors, **“Control activities”** had a statistically significant and positive effect ($\beta = 0.40$, $t = 3.13$, $p < 0.01$), suggesting that when control activities improve, the dependent variable (e.g., financial performance) increases significantly. Likewise, **“Monitoring the financial performance”** also had a significant positive impact ($\beta = 0.49$, $t = 2.49$, $p < 0.05$), highlighting its critical role in the model.

On the other hand, “**Control environment**” and “**Communications and Information**” did not show statistically significant effects ($p = 0.29$ and $p = 0.52$, respectively), implying that their contribution to explaining the variance was limited in this context. Interestingly, “**Risk Evaluation**” had a negative coefficient ($\beta = -0.29$) with a marginal p -value of 0.08, which suggests a possible inverse relationship, though it did not reach statistical significance at the 0.05 level.

The main hypothesis is divided into several sub-hypotheses, which are:

(Ha1), There is a statistically significant effect of the environment control on the financial performance in Palestinian banks

Regression analysis used to examine the effect of the environment control on the financial performance in Palestinian banks, a linear regression used, to discuss how much the variation of independent variable (the environment control) can clarify the dependent variable (the financial performance). Table (4.6) shows the result:

Table (4.6) The Impact of Environmental Control on the Financial Performance of Palestinian Banks (Simple Linear Regression Analysis)

Model	Unstandardize d Coefficients		Standardize βd	T	Sig.	R	R ²	Adjuste d R ²
	β	Std. Error						
(Constant)	2.22	0.39		5.75	0.00	0.54	0.295	0.281
The environment control	0.45	0.10	0.54	4.61	0.00			
F=21.293, sig=0.00								

a Dependent Variable: financial performance

b Predictors: (Constant), the environment control.

From table (4.6), the predictor (the environment control) explains (28.1%) of the dependent variable: (financial performance), the model fits very well, since the statistical significance is scored below 0.05. More precisely, the model is scoring 0.000. depending on $t=4.61$, with $sig=0.00$, we accept the alternative hypothesis, which means, there is a statistically significant effect of the environment control on the financial performance in Palestinian banks , table (4.6) shows the contribution of independent variable (the environment control) to predict financial performance; beta value should be also taken into consideration. It can be noticed that beta coefficient (β) of “the environment control” equals (0.45). This means, the environment control makes positive contribution when explaining financial performance in Palestinian banks and statistically significant. Accordingly, the simple linear regression equation can be written as follows:
 $Y=2.22+0.45 X_1$ Where:

Y: represents the predicted financial performance, **X1:** represents the environment control.

(Ha2), There is a statistically significant effect of the risk assessment on the financial performance in Palestinian Banks .

Regression analysis used to examine the effect of the risk assessment on the financial performance

In Palestinian banks , a linear regression used, to discuss how much the variation of independent variable (the risk assessment) can clarify the dependent variable (the financial performance). Table (4.7) shows the result:

Table (4.7) the Effect of the Risk Assessment on the Financial Performance in Palestinian Banks (Simple Linear Regression)

Model	Unstandardized		Standardized	t	Sig.	R	R ²	Adjusted R ²	
	Coefficients								Coefficients
	β	Std. Error							
(Constant)	2.14	0.42		5.11		0.53	0.281	0.267	
The risk assessment	0.46	0.10	0.53	4.46					
F=19.921, sig=0.00									

a Dependent Variable: financial performance

b Predictors: (Constant), the risk assessment.

From table (4.6), the predictor (the risk assessment) explains (26.7%) of the dependent variable: (financial performance), the model fits very well, since the statistical significance is scored below 0.05. More precisely, the model is scoring 0.000. depending on $t=4.46$, with $sig=0.00$, we accept the alternative hypothesis, which means, there is a statistically significant effect of the risk assessment on the financial performance in , table (4.7) shows the contribution of independent variable (the risk assessment) to predict financial performance; beta value should be also taken into consideration. It can be noticed that beta coefficient (β) of “the risk assessment” equals (0.46). This means, the risk assessment makes positive contribution when explaining financial performance in Palestinian Banks and statistically significant. Accordingly, the simple linear regression equation can be written as follows: $Y=2.14+0.46 X_1$ Where:

Y: represents the predicted financial performance, **X₁:** represents the risk assessment.

(Ha3), There is a statistically significant effect of the control activities on the financial performance in Palestinian banks .

Regression analysis used to examine the effect of the control activities on the financial performance in Palestinian Banks , a linear regression used, to discuss how much the variation of independent variable (the control activities) can clarify the dependent variable (the financial performance). Table (4.8) shows the result:

Table (4.8) the Effect of the Control Activities on the Financial Performance in Palestinian Banks (Simple Linear Regression)

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	R	R ²	Adjusted R ²
	β	Std. Error						
(Constant)	1.80	0.33		5.53	0.00	0.69	0.476	0.466
The control activities	0.54	0.08	0.69	6.81	0.00			
F=46.401, sig=0.00								

a Dependent Variable: financial performance

b Predictors: (Constant), the control activities.

From table (4.7), the predictor (the control activities) explains (46.6%) of the dependent variable: (financial performance), the model fits very well, since the statistical significance is scored below 0.05. More precisely, the model is scoring 0.000. depending on $t=6.81$, with $sig=0.00$, we accept the alternative hypothesis, which means, there is a statistically significant effect of the control activities on the financial performance in banks listed on the Palestine Stock Exchange, table (4.8) shows the contribution of independent variable (the control activities) to predict financial performance; beta value should be also taken into consideration. It can be noticed that beta coefficient (β) of “the control activities” equals (0.54). This means, the control activities make positive contribution when explaining financial performance in banks listed in the Palestine Stock

Exchange and statistically significant. Accordingly, the simple linear regression equation can be written as follows: $Y=1.80+0.54 X_1$ Where:

Y: represents the predicted financial performance, **X1:** represents the control activities.

(Ha4), There is a statistically significant effect of the information and communications on the financial performance in Palestinian banks .

Regression analysis used to examine the effect of the information and communications on the financial performance in Palestinian Banks , a linear regression used, to discuss how much the variation of independent variable (the information and communications) can clarify the dependent variable (the financial performance). Table (4.9) shows the result:

Table (4.9) The Impact of Information and Communication on the Financial Performance of Palestinian Banks (Simple Linear Regression)

Model	Unstandardized		Standardized Coefficients Beta	t	Sig.	R	R ²	Adjusted R ²
	Coefficients							
	β	Std. Error						
(Constant)	1.36	0.38		3.56	0.00	0.70	0.487	0.477
The information and communications	0.66	0.09	0.70	6.96	0.00			
F=48.407, sig=0.00								

a Dependent Variable: financial performance

b Predictors: (Constant), the information and communications.

From table (4.9), the predictor (the information and communications) explains (47.7%) of the dependent variable: (financial performance), the model fits very well, since the statistical significance is scored below 0.05. More precisely, the model is scoring 0.000. depending on $t=6.96$, with $sig=0.00$, we accept the alternative hypothesis, which means,

there is a statistically significant effect of the information and communications on the financial performance in Palestinian banks table (4.9) shows the contribution of independent variable (the information and communications) to predict financial performance; beta value should be also taken into consideration. It can be noticed that beta coefficient (β) of “the information and communications” equals (0.66). This means, the information and communications make positive contribution when explaining financial performance in Palestinian Banks and statistically significant. Accordingly, the simple linear regression equation can be written as follows: $Y=1.36+0.66 X_1$ Where:

Y: represents the predicted financial performance, **X1:** represents the information and communications.

(Ha5), There is a statistically significant effect of monitoring on the financial performance in Palestinian banks.

Regression analysis used to examine the effect of monitoring on the financial performance in Palestinian Banks, a linear regression used, to discuss how much the variation of independent variable (monitoring) can clarify the dependent variable (the financial performance). Table (4.10) shows the result:

Table (4.10) the Effect of Monitoring on the Financial Performance in Palestinian Banks (simple linear regression)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R ²	Adjusted R ²
	β	Std. Error	Beta					
(Constant)	1.47	0.30		4.88	0.00	0.77	0.585	0.577
monitoring	0.63	0.08	0.77	8.48	0.00			
F=71.866, sig=0.00								

a Dependent Variable: financial performance

b Predictors: (Constant), the monitoring.

From table (4.9), the predictor (monitoring) explains (57.7%) of the dependent variable: (financial performance), the model fits very well, since the statistical significance is scored below 0.05. More precisely, the model is scoring 0.000. depending on $t=8.48$, with $sig=0.00$, we accept the alternative hypothesis, which means, there is a statistically significant effect of monitoring on the financial performance in Palestinian Banks , table (4.10) shows the contribution of independent variable (monitoring) to predict financial performance; beta value should be also taken into consideration. It can be noticed that beta coefficient (β) of “monitoring” equals (0.63). This means, monitoring makes positive contribution when explaining financial performance in Palestinian banks and statistically significant. Accordingly, the simple linear regression equation can be written as follows:
 $Y=1.47+0.63 X1$ Where:

Y: represents the predicted financial performance, **X1:** represents monitoring.

Chapter Five

Chapter Five

Discussion, Conclusion, and Implications

5.1: Discussion of Results

The results of this study revealed a statistically significant positive relationship between control and monitoring activities and financial performance in banks listed on the Palestine Stock Exchange. Conversely, no statistically significant effects were found for the control environment, risk assessment, or communication and information on financial performance in these banks.

These results are partially consistent with previous studies that emphasize the importance of monitoring, risk assessment, information and communication as elements of internal control, as key drivers of financial performance (Abdel Salam et al., 2023). This study also found that financial performance is influenced by three elements of internal control: control activities (which is consistent with the results of the current study), control environment, and risk assessment were excluded from their impact on financial performance in this study.

While, the results of this study conflict with studies that reported a comprehensive impact of internal control elements on financial performance, such as Elizabeth et al. (2023). Moreover, this finding contradicts the findings of Mushtahi's (2015) study, which concluded that the implementation of internal control elements has a statistically significant impact on financial performance indicators.

The discrepancy in the results may be attributed to the unique context of Palestine and the operating environment of Palestinian banks, including challenges such as limited technical resources, political instability, conflict, and economic dependence on the occupation. Furthermore, the weak practical application of some internal control

mechanisms may reduce their direct impact on financial performance. Elements such as communication and information, risk assessment, and the control environment may not affect financial performance, despite of their theoretical importance in the COSO framework. The limited experience of internal control, internal audit, and accounting staff in Palestinian banks may also contribute to these results.

These findings highlight the need to re-examine the balance and complementarity of roles among internal control elements and the effectiveness of each element's implementation. Some elements have a greater impact on financial performance, while others appear ineffective. This underscores the need for further research to explore the nature of these relationships in greater depth and comprehensiveness, or the need to incorporate potential intervening variables.

Summary of Results:

- There is no statistically significant effect between the control environment and financial performance. This finding contradicts with the results of Elizabeth et al. (2023), who concluded that each control element positively impacts financial performance. It also contradicts the results of Hanoun et al. (2020), who found a positive relationship between internal control systems and financial performance. Despite their theoretical importance within the COSO framework, control environment factors did not directly influence the financial performance of banks listed on the Palestine Exchange.
- There is a statistically significant positive relationship between control activities and financial performance. This result is consistent with the findings of Frank Nanna (2023), who reported a positive relationship between control activities and overall

organizational effectiveness. However, this result differs from Hanoun et al. (2020), who emphasized on positive impact of both the control environment and risk assessment.

- There is no statistically significant effect of risk assessment on financial performance. This contradicts with Bayouh (2015) , who found that risk management, risk assessment, and comprehensive internal control exert a positive influence on financial performance. It also differs from Hekma (2023), who concluded that effective auditing, strong risk management practices, and organizational culture have positive impact in financial performance, making organizations resilient and capable of achieving success and sustainability.
- The results indicate a statistically significant positive relationship between monitoring and financial performance. This is consistent with Abdel Salam et al. (2023), who found that monitoring enhances financial performance while they exclude the influence of the regulatory environment. This suggests that adopting effective control policies and procedures contributes to operational efficiency, reduces errors and deviations, and strengthens financial indicators.
- The results show no statistically significant effect of information and communication on financial performance. This contradicts Hamed (2023), who concluded that communication and information have the strongest impact on financial performance and sustainability.

5.2 Conclusion:

This study aimed to determine the impact of effective internal control systems on financial performance of Palestinian banks. This was achieved by analyzing the relationship between the components of internal control systems according to the COSO framework for the financial performance of banks listed on the Palestine Exchange in 2025.

A quantitative analytical approach was used, and primary data was collected through a questionnaire distributed to employees in the internal control, internal audit, and accounting units in Palestinian banks. The study results indicated a statistically significant positive relationship between control and follow-up activities and financial performance in Palestinian banks, confirming the important role of these components to enhance financial and operational efficiency and reducing risks within Palestinian banks.

On the other hand, the results indicated that the control environment, risk assessment, communication, and information did not have a statistically significant impact on financial performance in Palestinian banks. This may be due to the weak implementation of these components or the lack of them in Palestinian banks.

Accordingly, this study recommends the need to enhance oversight activities and strengthen mechanisms for continuous monitoring and evaluation, in addition to reviewing and refining methods for activating the rest of other internal control components, whether through training the employees or developing their skills in the internal control, internal audit, accounting, related departments units, and continuously updating policies. In general, this may improve financial performance and raise work efficiency in banks.

5.3 Research Implications and Recommendations:

The theoretical contribution of this study is to enrich the accounting literature in the internal control field and its impact on financial performance. This is achieved by presenting theoretical and applied framework that clarifies the nature of relationship between each element of the internal control system, according to the COSO model, and the financial performance of Palestinian banks.

The study re-evaluated the effectiveness of the internal control system components, revealing that some of them —specifically, control and monitoring activities—have a significant impact on financial performance, while others have no significant impact.

These results deny the theoretical hypotheses that all components of internal control as a whole have the same positive impact on financial performance, opening the way for future studies to test this model for other sectors or using mediating variables.

Practically, the study has provided a modern perspective based on data field from the Palestinian banking sector for the years 2024-2025. It fills the knowledge gap on the internal control role for improving financial performance. The results enable senior management in Palestinian banks to focus their efforts on the most influential components. Moreover, it will develop other internal control components to ensure the integrity and effectiveness of the control system, reduce operational and financial risks, and enhance financial results.

Based on the Study Results, the Researcher of this Paper Recommends the Following:

- Strengthening oversight activities by developing comprehensive and updated policies and procedures that keep pace with developments and changes in the

financial operating environment, ensuring oversight of all operations at all levels and reducing risks.

- Activating continuous monitoring by establishing independent units to continuously review and evaluate internal control systems, in addition to preparing periodic reports and submitting them to senior management to take appropriate corrective action when needed.
- Ensuring that the internal auditor is constantly informed of the external auditor's reports and actively plays their role in supporting and improving financial performance, ensuring the integration of roles between internal and external audit.
- Reviewing and developing internal control elements, particularly (the control environment, risk assessment, communications, and information), to ensure the integrity and effectiveness of the internal control system.
- Working to develop human resource capabilities through specialized training programs for employees of the audit and control units.
- The necessity of involving internal auditors in administrative and financial decision-making processes, particularly to ensure that these decisions are consistent with internal control objectives.
- Conducting comprehensive periodic reviews of internal control systems to ensure their effectiveness and responsiveness to the evolving business environment.
- Encouraging future studies in different economic sectors, or on broader samples, that include mediating variables to gain a deeper understanding of the relationship between internal control and financial performance.

5.4 Limitations of the Study

The study examined the impact of internal control systems on the financial performance of Palestinian banks but there were some limitations, for example, the study took place over a short period of time 2024-2025 (time limit), and it only included Palestinian banks (location limit). Another limitation was the difficult access for the study population in order to collect data, including internal control, internal audit, and accounting staff. Additionally, some bank employees refused to complete the questionnaire or delayed its completion.

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Appendices

Appendix (1): Questionnaire

Dear Sirs

Greetings and after

Study Tool (Questionnaire)

I present to you a questionnaire, which is a study tool within the framework of completing my master's thesis at the Arab American University, majoring in accounting and auditing, entitled (The Impact of Internal Control Systems on Financial Performance of Palestinian Banks)

I hope you will kindly answer the questionnaire and put a checkmark (√) before the answer you see fit, knowing that all the questions asked are for scientific research purposes and that your answers will be surrounded by complete confidentiality and scientific care.

Supervised by: Dr. Rajeh Alawneh

Prepared by the researcher: Khitam Hamed

Part One: Personal Information of Survey Respondents

1. Gender: 1: Male 2: Female
2. Age: 1. Less than 30. 2. 30 years to less than 40 years
3. 40 years to -Less than 50 4. 60 years and older
3. Job Title: 1. Lead Auditor 2. Assistant Auditor
3. Head of Internal Control. 4. Any other title
4. Experience: less than 5 years 2. 5 – 10 years 3. From 10-15 years 4. 15 and more
5. Educational Qualification: 1. Diploma 2. Bachelor's Degree
3. Postgraduate Studies 4. PhD
6. Specialization: 1. Accounting 2. Finance and Banking 3. Other.

Part Two: Study Topics Questions.

First Axis: Questions about the Independent Variable (Internal Control and its Elements):

The effect of the independent variable internal control and its elements on the dependent variable financial performance

➤ The Control Environment:

1. Does the bank's management rely on creating an ethical environment characterized by integrity and preventing unethical or illegal behavior? (Abu Dheeb, 2022)
2. Does the bank's management provide a clear, written job structure and job descriptions for each department and employee?
3. Does the bank's management delegate authority commensurate with job responsibilities? (Al-Rahmaneh, 2023)

4. Does the bank have clear and comprehensive policies for recruitment, training, promotion, and leave?
5. Do the bank's management policies contribute to the effectiveness of the tasks performed by the internal control unit?
6. Do the audit reports submitted to management include recommendations for addressing performance? (Kahala, 2012)
7. Are policies and procedures implemented to help ensure the implementation of management instructions? (Al-Saeedi, 2014)
8. Does the bank's management grant broad powers and complete independence to the internal auditor? (Farawneh, 2019)

□ **Risk Assessment**

9. Does the Internal Control Committee define mechanisms and methods for assessing all risks to which the bank may be exposed, taking into account the cost-benefit principle? (Al-Qadi, 2019)
10. The Internal Control Committee identifies and classifies risks in terms of their controllability and impact on the bank's performance.
11. The Internal Control Committee continuously assesses risks (market, liquidity, operational, and technological developments)? (Al-Otaibi, 2022)
12. Does the bank's management take appropriate measures to address these potential risks?
13. Does the internal control committee consider potential risks that may arise as a result of any update or change made by management? (Sabah, 2021)
14. Do the bank's various departments respond to internal control observations?

□ **Control Activities:**

15. Is there effective internal control over the bank's financial and accounting performance?
16. Does management take the necessary actions related to internal control instructions, particularly those related to potential risks?
17. Control activities aim to ensure that the bank's employees comply with regulations.
(Al-Saadi, 2014)

□ **Communications and Information:**

18. Does the bank have a robust and accurate information system that helps improve control procedures? (Abdul-Azim, 2017)
19. Does the bank have clear and open communication channels with an appropriate flow of accounting information? (Abu Afifa, 2012)
20. Does the bank adopt a security system to prevent hacking into computer systems?
21. Are there organizational controls and a contingency plan to reduce the possibility of hardware or computer systems failure?
22. Are there strategies for developing and updating information systems?
23. Does continuous and direct communication between internal control and the board of directors enhance the bank's ability to manage risks?

□ **Monitoring:**

24. Does the bank have control standards to monitor and evaluate performance?
25. Does the bank's management continuously monitor and evaluate the various components of the internal control system? (Farawneh, 2019)

26. If any weaknesses in the internal control system are found, will they be addressed appropriately?
27. Do the internal control unit staff have sufficient independence, academic qualifications, experience, and full authority?

Second Section: Questions about the dependent variable (financial performance):

28. Does the bank have an audit department to measure annual profit levels? (Tamrabet and Mashri, 2021)
29. Does the bank use several financial indicators to measure financial performance? (Iqbal, 2019)
30. Does the bank achieve a good financial return compared to competing banks?

Basel I and Basel II Set Global Standards for Banking Supervision. They Adopted Several Indicators to Measure Financial Performance, the Most Important of Which Were Profitability, Liquidity, Risk, and Operational Efficiency.

• Profitability:

31. The bank has achieved continuous improvement in its return on assets?
32. The bank has achieved a continuous improvement in the return on equity rate?
33. The bank has achieved continuous improvement in return on share?
34. Effective internal control systems helped reduce unnecessary expenses

• Liquidity:

35. The bank's management has improved its cash flow management?
36. Internal control mechanisms helped reduce the risk of liquidity shortages?

• **Efficiency:**

37. The bank's management has worked to reduce financial waste and operating costs.

38. The bank has improved the speed and efficiency of processing financial transactions.

• **Risk:**

39. Does effective internal control contribute to reducing financial risks and fraud within the bank?

40. The bank's management has achieved an improvement in loan quality and a decrease in non-performing loans.

Questionnaire Reviewers and Auditors:

1. Dr. Rajeh Mahmoud Alawneh .

2. Dr. Mohammad Abu Sharbeh .

3. Dr. Mohammed Wasif Ahmad Saleh.

الملخص

هدفت هذه الدراسة إلى التعرف على أثر الرقابة الداخلية على الأداء المالي في البنوك الفلسطينية. وتكون مجتمع الدراسة من العاملين في وحدات الرقابة الداخلية والتدقيق والمحاسبة في البنوك الفلسطينية. واستخدم الباحث أسلوب العينة العشوائية، حيث بلغت عينة الدراسة (70) موظفًا. استخدم الباحث المنهج التحليلي الكمي والاستبانة كأداة للدراسة. وخلصت الدراسة إلى وجود علاقة إيجابية ذات دلالة إحصائية بين أنشطة الرقابة والإشراف والأداء المالي في البنوك الفلسطينية. من ناحية أخرى، خلصت الدراسة إلى عدم وجود علاقة ذات دلالة إحصائية بين البيئة التنظيمية وتقييم المخاطر والاتصالات والمعلومات والأداء المالي في البنوك الفلسطينية. وبناءً على ذلك، قدمت الدراسة عدة توصيات أبرزها: التركيز على الأنشطة التنظيمية داخل البنوك الفلسطينية من خلال تطوير سياسات وإجراءات تنظيمية مناسبة وشاملة، وتحديثها باستمرار لمواكبة التغيرات في بيئة العمل. بالإضافة إلى تفعيل دور الرقابة والتقييم المستمر لأنظمة الرقابة الداخلية من خلال إنشاء وحدات مستقلة فعالة لضمان مراجعة الأداء والالتزام بالأنظمة والإجراءات والسياسات المعتمدة. كما أوصت بمراجعة آليات تطبيق عناصر الرقابة الداخلية: بيئة الرقابة، وتقييم المخاطر، والاتصالات، والمعلومات، والعمل على تطبيقها بفعالية أكبر. والتركيز على التدريب المستمر لموظفي وحدات التدقيق والرقابة الداخلية، وإجراء مراجعات دورية لأنظمة الرقابة الداخلية في البنوك.

الكلمات المفتاحية: الرقابة الداخلية، الأداء المالي، البنوك الفلسطينية، المراقبة، تقييم المخاطر.