



Arab American University

Faculty of Graduate Studies

**The Impact of Internal Auditing on Risk Management Efficiency in
Palestinian Commercial Banks.**

By

Qassam Mahmoud Muhammad Dar Abu Rabee

Supervisor

Dr. Mohammed Abu Sharbah

**This thesis was submitted in partial fulfillment of the requirements
for the Master's degree in Accounting and Auditing**

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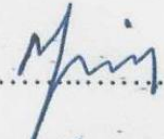
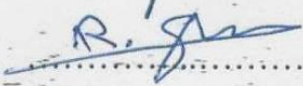
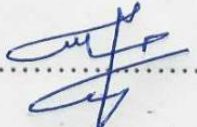
Thesis Approval

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By

Qassam Mahmoud Muhammad Dar Abu Rabee

This thesis was defended successfully on 17.7.2025 and approved by:

Committee members	Signature
1. Dr. Mohammed Abu Sharbah : Supervisor	
2. Dr. Raed Saad: Internal Examiner	
3. Dr. Hosni Shanak: External Examiner	

Declaration

I hereby affirm that the thesis I am submitting for the Master's degree in Accounting and Auditing is based on my own independent research, except where references have been properly made. I also confirm that this work, in whole or in part, has not been previously presented for any academic qualification at another university or institution.

Student Name: Qassam Mahmoud Muhammad Dar Abu Rabee

Signature: Qassam Mahmoud Muhammad Dar Abu Rabee

Date: 15.12.2025

Student ID: 202112851

Dedication

In loving memory of my uncle, the courageous martyr Yassin Abu Rabie. May his soul rest in peace.

To the one who raised me with care, steered me toward righteousness, and never ceased to pray for me, my beloved mother. I ask God to grant her a long and healthy life.

With deep appreciation to all who supported and inspired me along the way. I am especially grateful to my dear father, whose guidance and encouragement have shaped my journey. May God bless him with continued health and long life.

To my brothers, who have stood by me through every stage of life.

To my loving wife, whose support and understanding have lightened my burdens and helped me stay focused on my studies.

To my children, the source of my joy and motivation.

To every individual who contributed to my educational path, offering help and encouragement.

To the brave martyrs, the wounded, the prisoners, and all those who have made sacrifices for the cause of Palestine. You are never forgotten.

Acknowledgment

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To my dear wife. Thank you for your unwavering support, encouragement, and patience during this demanding time. You have been a source of strength and comfort throughout.

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Abstract

This study examines the role of internal auditing in improving the effectiveness of risk management within commercial banks in Palestine. It focuses on identifying the primary financial tools and mechanisms that highlight the impact of internal audit on risk-related processes. To assess the research hypotheses, a descriptive-analytical approach was utilized, and a structured questionnaire was designed to measure various aspects of the internal audit's contribution to risk management. The survey targeted employees in the internal audit and risk management departments of commercial banks operating in Palestine, yielding a full set of 218 valid responses. The results demonstrated a statistically significant and positive correlation between internal auditing activities and the efficiency of risk management systems. Additionally, the Z-Score analysis was applied to further examine the role of internal auditing in risk governance, confirming that internal audit functions play a vital role in strengthening risk management practices in commercial banks in Palestine.

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Chapter One: Introduction

1.1 Study Introduction

1.2 Study Problem

1.3 Study Questions

1.4 Study Objectives

1.5 Study Significance

1.6 Study Hypotheses

1.1 Study Introduction

Since the mid-20th century, globalization has made the world feel like one small community. This happened because of the rise in the global economy, the expansion of industries, and the increase in international trade across all continents. At the same time, rapid technological advancements helped boost national economic development. As a result, countries became more connected, which positively affected the global economy and encouraged the sharing of experiences. This also led to stronger competition between nations.

As globalization and foreign trade become a requirement, all countries now have local and international banks that facilitate trade between individuals, institutions, and countries. This sector is the primary driver of any nation's economic growth, and in some countries, it has come to control state policy. (Badara, M. A. S. 2013)

The banking sector is one of the key and most complicated parts of a country's economy that plays a big role in its growth. It supports economic development by providing important tools and services needed for growth, making it a vital part of both the financial and economic systems. Additionally, banks act as a bridge between people or businesses that have extra money and those who need funds. (Impl Smith M, 2006).

As banks carry out a wide range of activities and aim to make as much profit as possible, they also face many different types of risks that can make it harder to reach their goals. One major type of risk is credit risk, which happens when customers are unable to pay back what they owe to the bank. This usually occurs in situations where customers are uncertain about their ability to repay. Because of this, it is important for banks to manage these risks effectively and efficiently to help reduce their impact. (Smith, Wood, 2011).

To reduce the likelihood of errors and fraudulent activities, and to enhance the ability to anticipate potential risks and meet organizational objectives, it is essential for banks to reinforce the internal audit function. This function plays a critical role in strengthening internal control systems within financial institutions. Through internal audit procedures, banks can detect weaknesses, areas of uncertainty, and performance deficiencies. Moreover, internal audit ensures that the required policies and procedures are clearly defined and properly implemented by both employees and

management. Ultimately, this contributes to safeguarding the institution from risks and minimizes the chances of encountering major operational failures. (Onumah, J. 2016)

The internal audit profession has seen major changes since the end of the last century and the beginning of this one, especially in the United States, where a new idea of internal auditing was introduced. This new approach expanded the role of internal auditors to include evaluating how well risks are being managed. In banking, the goal is to manage risks—not avoid them completely. As a result, internal audit helps by identifying, measuring, and reporting risks to those who use financial statements. This shows how well the bank can handle and control risks. It also helps predict possible future risks, both in numbers and in other ways, which supports smarter investment decisions and other choices made when dealing with the bank. (Chambers, Richard, 2015)

Managing banking risks is considered one of the most important issues for bankers, especially after many financial and banking crises happened around the world. Its importance has also increased because of the fast changes in the banking environment caused by scientific and technological progress and the growing complexity of banking operations globally. To deal with these changes, challenges, and risks, the financial sector sees the internal auditor as the best person to help. This is because internal auditors have the knowledge and skills needed to support effective risk management. (Abbott, Peters, 2016)

The primary aim of risk management is to ensure that banking operations do not result in excessive or unexpected losses. It also includes the continuous monitoring of risks to promptly identify any issues or instances where risk levels exceed the thresholds defined by top management. A proper understanding of the nature of banking risks, along with accurate classification and the implementation of a robust control framework, is crucial for mitigating their potential impact. These efforts contribute to enhancing the bank's overall performance, supporting the achievement of its strategic goals, and maintaining sustainable operations. (Amoush, A. 2017)

1.2 Study Problem

As global financial crises have become more frequent and the risks confronting banks have intensified, there has been an increasing emphasis on regulatory oversight. International standards now mandate that banks and financial institutions adhere to rigorous compliance frameworks. In response, the role of internal auditing has gained greater prominence, and the financial sector has developed a heightened appreciation for the value that internal auditors bring. Today, risk management and regulatory compliance represent critical priorities for the banking industry. Accordingly, Following the 1994 Paris Economic Agreement between the Palestinian side and the Israeli occupation, the Palestinian economy became a dependent and unstable economy due to Israel's control over Palestinian financial resources and its ability to use them as a tool of political pressure , Among the most prominent risks are: restrictions on the movement of goods and people, difficulty in investing in light of economic instability, and restrictions on productive development and access to natural resources in certain areas. this study seeks to explore how internal audit contributes to reinforcing and enhancing the effectiveness of risk management practices within banks operating in Palestine.

1.3 Study Questions

➤ Main Questions:

- ✚ What is the current situation of internal auditing in commercial banks in Palestine?
- ✚ How efficiency is risk management in commercial banks in Palestine?
- ✚ Does internal auditing have a meaningful statistical effect on how well risk management works in commercial banks in Palestine?

➤ Sub-Questions:

- ✚ Does the competence of auditors significantly affect the efficiency of risk management in commercial banks in Palestine?
- ✚ Does the authority of auditors have a significant impact on the efficiency of risk management in commercial banks in Palestine?
- ✚ Do the tasks carried out by auditors significantly influence the efficiency of risk management in commercial banks in Palestine?

- ✚ Does following professional standards have a significant statistical effect on the efficiency of risk management in commercial banks in Palestine?

1.4 Study Objectives

In light of the study's theme, the objectives can be outlined as follows:

➤ **Main Objectives:**

- ✚ To explore the present state of internal audit practices within commercial banks in Palestine.
- ✚ To assess the actual level of efficiency in risk management applied by commercial banks in Palestine.
- ✚ To investigate the extent to which internal auditing contributes to enhancing the efficiency of risk management in commercial banks in Palestine.

➤ **Sub-Objectives:**

- ✚ To analyze the impact of the internal auditor's professional expertise on the efficiency of risk management.
- ✚ To examine the influence of the auditor's level of authority on improving risk management outcomes in commercial banks in Palestine.
- ✚ To evaluate how the tasks and responsibilities assigned to internal auditors affect the success of risk management functions.
- ✚ To determine the role of compliance with professional auditing standards in improving the overall efficiency of risk management processes in commercial banks in Palestine.

1.5 Study Significance

- This study is important because it highlights how internal audit helps improve risk management in banks in Palestine, especially given the risks these banks face.

- It supports the implementation of governance rules in Palestinian banks, especially after the growth of internal auditing as a key tool for governance and risk management following the 2008 global financial crisis.
- The study helps bank executives and boards improve their internal control systems by using the bank's resources efficiently, while reducing and preventing risks.
- It assists bank management in Palestine to identify and monitor factors that affect profitability and understand the role of internal audit in this area.
- The research provides useful information for scholars and researchers who want to build on its findings in future studies.
- It also helps the financial sector make better investment and related decisions about Palestinian banks by explaining how internal audit improves risk management and how well banks can manage and predict risks.

1.6 Study Hypotheses

Based on the importance, objectives, and problem of the study, the following hypotheses were developed:

- **Main Hypothesis:**
 - ✚ H1: There is no significant effect at the 0.05 significance level of internal auditing on the effectiveness of risk management in commercial banks in Palestine.
- **Sub-Hypotheses:**
 - ✚ H1a: There is no significant effect at the 0.05 significance level of the auditor's competence on the efficiency of risk management in commercial banks in Palestine.
 - ✚ H1b: There is no significant effect at the 0.05 significance level of the auditor's authority on the efficiency of risk management in commercial banks in Palestine.
 - ✚ H1c: There is no significant effect at the 0.05 significance level of the auditor's tasks on the efficiency of risk management in commercial banks in Palestine.

- ✚ H1d: There is no significant effect at the 0.05 significance level of compliance with professional standards on the efficiency of risk management in commercial banks in Palestine.

Chapter Two : Theoretical Framework and Previous Studies

2.1 Theoretical Framework

2.2 Previous Studies

2.1 Conceptual Framework

2.1.1 Internal Auditing

2.1.1.1 Introduction:

Over time, the financial and banking services offered by banks have grown and improved, both for individual customers and for the national economy. Banks have expanded their activities beyond their own countries, creating more connections and offering more services. The widespread use of electronic systems instead of manual record-keeping has also increased. However, this growth brought new risks to banks, such as weaknesses in electronic systems, the rise of fraud, banking theft, and fake export and import transactions. These risks can cause large financial losses that may even threaten the survival of some banks. (Cohen & Gaynor, 2010)

The concept of internal auditing in banks has evolved alongside changes in the banking sector, particularly with the rise of electronic systems and the expansion of banking services. Internal audit now plays a crucial advisory and guiding role in managing and mitigating risks to acceptable levels. This is achieved by implementing a risk-based audit approach, which prioritizes audit plans and activities by concentrating on the highest-risk areas. Such an approach allows for more efficient allocation of internal audit resources. It also links internal control systems with associated risks and assesses their effectiveness. Consequently, banks can determine the necessary controls to minimize the negative impact of risks as much as possible. This is done by identifying gaps between the ideal control environment and the current one, followed by taking appropriate corrective actions. Many professional organizations have endorsed this risk-focused audit approach by releasing new auditing standards and publications, including:

- ✓ (The Institute of Internal Auditor) IIA
- ✓ (The Committee of Sponsoring Organizations) COSO

This study aims to highlight how much internal audit helps reduce operational risks faced by banks, keeping these risks within acceptable limits. This, in turn, strengthens the protection of banks in Palestine, supporting their stability and creating conditions for continued growth. Committees formed by the bank's Board of Directors develop policies and procedures for the audit and risk departments. These committees report directly to the Board of Directors. (Penman, 2017)

The objective of developing and implementing a policy for the internal audit department in Palestinian commercial banks is to create a well-defined framework. This framework ensures that internal audit activities are conducted independently and impartially. Its aim is to provide the audit committee and the Board of Directors with sufficient assurance that the internal control and monitoring systems are both adequate and effective. These systems encompass financial transactions, non-financial operations, customer services, and IT processes, all of which contribute to supporting the bank's business and strategic objectives (Frigo & Anderson, 2011).

The internal audit policy was developed following the guidelines set by official regulatory bodies. These include the corporate governance instructions from the Central Bank of Jordan for banks licensed in Jordan, as well as governance and information technology management guidelines. It also follows the instructions of the Palestine Monetary Authority for banks licensed in Palestine, along with the best international practices and standards. The internal audit charter, approved by the Board of Directors, is considered a key part of this policy.

For the field application, the internal audit procedure is a document specific to each bank operating in Palestine. It covers all the bank's operations, including those officially linked to locations outside Palestine, as well as activities outsourced to external parties.

The responsibility for preparing the internal audit policy lies with the Executive Director of the Internal Audit Department. Once the policy document is prepared, it is submitted to the Audit Committee for approval, and subsequently forwarded to the Board of Directors for final endorsement. This policy is reviewed at minimum every three years or sooner if necessary (Al-Maghribi, 2022).

2.1.1.2 Internal Auditing Definition:

Before defining the internal audit, it is important to first understand the general concept of auditing. Auditing is the process of gathering and examining information to see how well it matches pre-set standards. This work is done by an independent person called the auditor. (Sibarani et al., 2021)

According to the American Accounting Association (AAA), auditing is an organized process of collecting and presenting objective evidence about economic facts to confirm how well those facts follow objective international standards, and then sharing the results with the relevant users of the information. From this definition, we can note that:

- It is a broad definition that covers all types of auditing, including internal, external, and governmental audits.
- Auditing is guided by generally accepted standards and is performed by following planned and organized steps chosen by the auditor.
- The auditor must collect evidence to support their opinion.

In short, auditing means having a third party (someone not involved in preparing, using, or needing the information) review the information to confirm its accuracy and compliance with international audit standards. (Palepu, Healy, & Bernard, 2016)

For the definition of Internal Auditing, multiple definitions exist owing largely to diverse professional bodies being somehow related and among such definitions are found. In 1947, the Institute of American Auditors issued a key statement that defined internal auditing as an independent and objective function aimed at providing both assurance and advisory services. Its primary goal is to deliver tangible value and support the improvement of organizational performance. Through a structured evaluation of risk management and governance practices, internal auditing applies a systematic and disciplined approach to assist organizations in achieving their objectives more efficiently.

The French Institute of Auditors defines this pretty crucial activity as some independent evaluative stuff happening internally aiming to gauge operational control efficacy in various fields. Measuring internal control methods' effectiveness meticulously is basically exercising administrative control very rigorously inside an organization or institution normally. (Ross et al, 2017)

In 1999, the UA Board of Directors approved the current definition of internal auditing, describing it as an independent and objective assurance and consulting activity designed to add value and enhance an organization's operations. Ross and colleagues (1999) emphasized that this definition underscores the role of internal audit in supporting organizations to achieve their objectives effectively through a systematic and disciplined approach to daily operations. (Gitman & Zutter, 2019)

Internal auditing serves as an independent and objective function that offers assurance and advisory services aimed at adding value and improving organizational performance. It contributes

to the achievement of organizational goals by employing a structured and systematic approach to evaluate and enhance the effectiveness of risk management, internal controls, and governance processes. (Smith, 2006)

Internal auditing may also be defined as an independent review function within an organization that examines and evaluates its activities to support internal control and ensure the reliability of the information, procedures, and policies implemented by management. Internal auditors provide assessments based on international auditing standards and report directly to senior management, maintaining a strong connection to the organization's leadership. (Gibson, 2017)

2.1.1.3 The Importance of Internal Auditing:

The importance of internal audit lies in its role in helping different groups use the audited financial statements for decision-making and planning future policies. These groups include:

- The primary beneficiary of the internal audit process is the organization's management, as internal auditing plays a crucial role in identifying weaknesses within the internal control system and provides valuable insights that support informed decision-making (Al-Katzi, 2015).
- Additionally, the internal audit function serves the Board of Directors by reporting directly to it, thereby assisting the Board in monitoring the institution's executive management to ensure adherence to established policies and procedures (Brealey, Myers, & Allen, 2017).
- Investors: Internal audit helps investors decide whether to invest in the institution by highlighting potential risks that could affect their money. (Gibson, C. H., 2017)
- Banks and Other Creditors: The internal auditor's reports serve as an important resource for creditors by providing insight into the institution's financial health and liquidity, helping them make informed decisions about future dealings. (Gaynor, 2011)
- Governmental institutions: for the purpose of planning, monitoring, imposing taxes, setting prices, and providing aid in some cases. (Fraser & Ormiston, 2016)
- Suppliers and creditors: They rely on it to know the financial position and the ability to fulfil the institution's commitment to granting commercial credit and expanding it.

2.1.1.4 Objectives of Internal Audit in Banks:

According to Saunders and Cornett (2014), the internal audit department plays a key role within the bank's regulatory framework by thoroughly auditing operations and activities. The following are the main objectives:

- Ensure strict adherence to the bank's internal procedures, guidelines, and circulars issued periodically by senior management to promote smooth and efficient operations.
- Promote awareness and compliance with relevant laws, regulations, and internal protocols by encouraging careful reading and understanding of applicable legal frameworks.
- Develop a comprehensive audit plan that covers the bank's various activities, including those overseen by supervisory departments and outsourced to external parties, based on the level of risk associated with each activity. This plan must be approved by the Audit Committee.
- Conduct an annual review to verify compliance with the Corporate Governance Manual, related policies, and charters. Prepare a detailed report to be presented to the Audit Committee, with a copy sent to the Corporate Governance Committee.
- Review the bank's compliance with governance-related instructions and information management standards, including international internal auditing standards and associated technology guidelines.

2.1.1.5 Internal Audit Uses:

- Financial auditing: This involves reviewing financial and accounting processes, records, and procedures used to manage finances. The methods applied include:
 - Examining calculations and outcomes to identify any discrepancies.
 - Verifying the authenticity of documents prepared by the institution, such as invoices and trial balances.
 - Confirming the actual presence of assets by checking the procedures for receiving them, conducting physical counts of assets and fixed inventory, and ensuring that accounting information recorded in the books and the calculation methods are accurate. (Smith & Wood, 2011)

- Administrative audit: This type of audit focuses on reviewing control procedures related to activities other than financial or accounting matters. While financial auditing involves a detailed examination of financial operations and accounting methods using specialized techniques such as carefully analyzing calculations and quickly identifying deviations, administrative auditing looks at other organizational aspects. It also ensures the effectiveness of employee training programs by evaluating their progress, measuring how well they achieve their goals, and recommending improvements to enhance overall performance within the institution. (Jiang & Wood, 2020)
- Compliance audits: Formal analyses and evaluations ascertain company compliance with regulatory laws thoroughly within scope of relevant legislation governing operations. Independent internal audit professionals pretty much always perform compliance audits which frequently exhibit characteristics mandated by regulatory or legal requirements.
- Conduct a comprehensive assessment of the organization's position in accordance with target scope guidance and specifications or compliance legislation.
- It is conducted by an independent external or internal auditor.
- Explaining the final result, such as an audit opinion, report, or evaluation.
- Conduct a thorough assessment of organization position according largely to target scope guidance specifications and compliance legislation requirements very rigorously now. An independent internal or external auditor typically conducts it thoroughly. Explaining final results like audit opinions or evaluations thoroughly thereafter in a detailed report sometimes with rather extensive documentation. (DeFond & Zhang, 2014)
- Information technology audits: IT audits ensure that IT controls protect a company's resources and assets, ensure data integrity, and ensure that the company's overall objectives are met. Companies should anticipate being grilled about internal controls during a compliance audit fairly thoroughly by auditors probably next year. Employees may be required to furnish documentation or evidence sporadically to verify they are on track with compliance regulations usually. Auditors must stick rigorously to their own bespoke standards and exercise professional skepticism and sound judgment arriving at reasonable assurance that organization carries out tasks described in target framework or rule.
- Continuously assess the procedures and systems designed to safeguard the company's commercial information.

- Confirm that IT controls are consistently maintained and regularly implemented.
- Assess the risks that may compromise the organization's information assets and formulate effective strategies to mitigate and prevent such risks.
- Additionally, ensure that information management practices are fully aligned with applicable IT laws, regulations, and industry standards.
- Detect weaknesses and shortcomings in the management of IT systems. (Abbott & Peters, 2012)

2.1.1.6 Internal Audit Methodology and Professional Practice Standards:

2.1.1.6.1 Standards for Practicing Internal Auditing:

The Institute of Internal Auditors (IIA) in the United States established a set of internal auditing standards in 1978. These standards outlined the scope of responsibilities for internal auditors. They are organized into five main sections, each addressing different aspects of the internal auditing function within any organization.

- Independence of the Internal Auditor:

The internal auditor must maintain independence from the activities being audited. This means that the organizational position of the internal audit department should be strong enough to enable it to fulfill its duties effectively. Additionally, the auditor must remain objective throughout the audit process.

- Professional Care:

The internal audit tasks should be performed with the appropriate level of professional care. This entails adhering to certain standards and practices to ensure the quality and reliability of the audit work. For the Internal Audit Department:

- ✚ The head of the internal audit department is responsible for making sure that internal auditors possess the required technical qualifications and educational background.
- ✚ The department itself must be equipped with the necessary knowledge, skills, and abilities to effectively carry out the internal audit tasks.
- ✚ The internal audit director must guarantee that all audit activities are properly supervised to maintain quality and accuracy.

While for the Internal Auditor:

- ✚ The internal auditor is expected to follow established professional ethical standards in their work.
- ✚ The auditor must also have the necessary expertise, skills, and competencies to successfully perform internal audit duties.

➤ Scope of Work:

The internal audit's scope of work must cover the examination and assessment of how adequate and effective the internal control system is within the organization, as well as the quality of performance related to various duties. To accomplish this, the auditor should:

- ✚ Verify the accuracy and trustworthiness of financial and operational information, as well as the methods applied during the audit process.
- ✚ Examine the systems in place that ensure adherence to policies, plans, procedures, laws, and internal regulations which may significantly affect reporting activities, and determine whether the organization complies with them.
- ✚ Review the mechanisms for safeguarding assets and, whenever possible, confirm the actual presence of those assets.
- ✚ Assess how efficiently assets are being utilized from an economic standpoint.
- ✚ Audit the organization's operations and programs to check if their outcomes align with the set objectives and if the programs are carried out as intended. (Boyle Hermanson, 2015)

➤ Performing Audit Work:

The audit process must encompass planning, reviewing, assessing information, reporting findings, and following up on recommendations. During the planning phase, it is essential to define the audit objectives and scope, and gather enough information to understand the activities being audited. This involves identifying the necessary resources to carry out the audit, communicating with all parties involved in the internal audit process, and conducting a survey to pinpoint activities, risks, and control procedures, which helps focus on areas requiring more attention during the audit. Additionally, an audit program is developed, specifying how, when, and to whom the audit results

will be communicated. Finally, the audit plan must receive approval from the internal audit department supervisor or authorized official.

➤ Managing the Internal Audit Department:

According to internal audit standards, the head of the internal audit department must manage the department properly and effectively. This individual is responsible for ensuring that:

- ✚ The audit activities align with the overall goals and responsibilities approved by senior management and endorsed by the Board of Directors.
- ✚ The resources available to the internal audit team are utilized in an efficient and productive manner.
- ✚ All audit tasks comply with the professional standards governing internal auditing.

To achieve these objectives, the department head should carry out several key actions:

- ✚ Maintain a clearly defined statement outlining the department's goals, authorities, and responsibilities.
- ✚ Develop and implement strategic plans to fulfill the department's assigned duties.
- ✚ Provide written policies and procedures to guide the internal audit team in their daily work.
- ✚ Establish a program for the recruitment, training, and development of personnel within the internal audit department.
- ✚ Coordinate and integrate the efforts of both the internal and external audit teams to maximize efficiency.
- ✚ Design and apply a program aimed at maintaining and assessing the quality of the department's output on a continuous basis.

These practices form a comprehensive framework that internal auditors are expected to follow in their professional duties. (Boyle Hermanson, 2015)

2.1.1.7 Internal Audit Methodology:

To conduct an internal audit effectively, a series of structured steps must be followed:

➤ Preliminary Planning Phase of the Internal Audit Process:

This stage represents the starting point of the internal audit, during which the auditor becomes acquainted with the institution. The goal is to gather essential information to develop a permanent audit file specific to the organization. This phase typically includes three key steps.

In the initial analysis of the institution, the auditor performs an initial review of the organization's operations, collecting necessary data such as the institution's name, address, date of establishment, legal structure, administrative setup, and internal control systems. This also includes reviewing internal policies, procedures, and accounting methods in place. Through this process, the auditor identifies both the strengths and weaknesses within the organization's system, allowing for the design of specific and effective procedures to be used in the detailed audit plan. (Anderson & Christ, 2012)

➤ Preparing the Audit Program:

This program is prepared by specifying the goals that it wants to achieve. The program also shows the scope of work required with the auditor as well as the measures that he will take while performing the task assigned to him. (Anderson Christ, 2012)

The audit program refers to a structured list outlining the specific auditing procedures that must be implemented to verify the components of the financial statements. These procedures are designed to help achieve the audit's predetermined objectives and serve as the detailed actions that guide the entire audit process. (Adekola & Adewale, 2018)

➤ Conducting the Audit Process:

At this stage, the auditor begins executing the audit tasks outlined in the audit program. These procedures are applied based on the particular nature of the organization's operations and the challenges that may arise. Despite variations, there are fundamental components tied to the audit's execution, such as:

- ✚ Verification: This means ensuring the validity and accuracy of operations and the ability to rely on them in making decisions. Verification must be done and a distinction should be made between facts and opinions, as verification depends mainly on operations and calculations, which is the common element between internal and external auditing.
- ✚ Analysis: It consists of a critical examination of administrative policies, internal control procedures, accounts, accounting procedures, and various records and documents within the scope of the examination.
- ✚ Commitment: This refers to the degree of alignment between the institution's administrative policies and the actual execution of tasks, reflecting overall discipline and adherence to rules.
- ✚ Evaluation: This involves the auditor's independent assessment of how effectively and efficiently the organization's policies are being implemented. The purpose is to analyze procedures, enhance performance, and offer constructive recommendations for improvement.
- ✚ Report: The auditor explains the method in which the results reached and the proposed recommendations were handled. It is preferable to present this report to the official in the institution, in order to avoid distorting the facts or misjudging some matters. (Kirogo, 2014).

2.1.1.8 Components of Ethics Codification:

The internal auditing profession relies heavily on a strong ethical foundation rooted in the trust placed in its objective role in governance, risk management, and control. The Institute of Internal Auditors (IIA) has developed a Code of Ethics that includes more than just a definition of internal auditing, it also outlines key principles essential to professional conduct.

This Code has two main parts: The Principles, which define the core values guiding the profession, and the Rules of Conduct, which translate these values into specific behaviors expected from internal auditors. These rules provide guidance on how to apply the principles in practice and aim to ensure ethical behavior among practitioners.

The term “internal auditors” includes IIA members, individuals who hold or are pursuing IIA certifications, and anyone performing internal audit duties within the scope of the profession. The Code applies equally to both individuals and organizations offering internal audit services.

➤ **Applicability and Enforcement:**

Compliance with the Code of Ethics is mandatory for all who are involved in internal auditing. Violations are handled based on the IIA’s regulations, specifically the procedures for addressing ethical breaches and certification violations. Even if certain misconduct is not directly outlined in the Rules of Conduct, individuals may still face disciplinary actions if their behavior is deemed unethical or damaging to the profession's reputation.

Additional implementation guidance and translated versions of the Code of Ethics are available in over 40 languages to support global adherence. (Smith, 2006)

➤ **Principles of Ethics Codification:**

Internal auditors are expected to uphold the following key ethical principles in the performance of their duties:

- ✚ Integrity: Internal auditors must act with honesty and integrity at all times. This principle forms the foundation of trust in their professional judgment and supports confidence in the internal audit function. (Smith, 2006)
- ✚ Objectivity: Internal auditors are required to remain impartial and unbiased in their work. They must consider all relevant information fairly when making decisions and ensure they are not influenced by personal interests or the interests of others during the process of collecting, analyzing, or reporting on audit-related matters. (Smith, 2006)
- ✚ Confidentiality: Internal auditors are responsible for safeguarding sensitive information acquired during the audit process. They must not disclose any confidential data without proper authorization, except when such disclosure is legally or professionally mandated. (Adekola & Adewale, 2018)

➤ **Rules of Conduct:**

- ✚ Integrity: Internal auditors are expected to:
 - Perform their responsibilities with honesty, diligence, and a strong sense of accountability.

- Adhere to legal requirements and professional obligations, especially when disclosure of information is necessary.
 - Refrain from participating in illegal acts or any behavior that could damage the reputation of their organization or the internal audit profession.
 - Uphold and promote the ethical and legitimate objectives of the organization. (Adekola & Adewale, 2018)
- ✚ Objectivity: Internal auditors are expected to:
- 2.1. Avoid involvement in any relationships or business activities that may impair their impartiality or be perceived as a conflict of interest with the organization's goals.
 - 2.2. Decline any gifts, favors, or inducements that might compromise, or appear to compromise, their professional judgment.
 - 2.3. Fully disclose all information that could influence the fair reporting of audit findings, especially if the omission of such information may distort results. (Adekola & Adewale, 2018)
- ✚ Confidentiality: Internal auditors are expected to:
- 3.1. Handle all information obtained during audits with care and responsibility, ensuring it is protected from unauthorized use.
 - 3.2. Never use confidential information for personal benefit, in any unlawful way, or in a manner that would undermine the ethical aims of the organization. (Adekola & Adewale, 2018)
- ✚ Competency: Internal auditors are expected to:
- 4.1. Accept only those audit assignments for which they are professionally qualified through education, experience, and skills.
 - 4.2. Conduct their work in full compliance with the International Standards for the Professional Practice of Internal Auditing.
 - 4.3. Continually strive to improve their knowledge, performance, and the quality of their audit services. (Adekola & Adewale, 2018)

2.1.2 Risk Management

2.1.2.1 Introduction:

The banking industry has undergone significant development over the years, evolving into one of the most crucial sectors in the global financial landscape. This progress has increased the complexity of banking operations, which now play a central role in the economies of many countries. Banks primarily rely on deposits as their main source of funds, and loans represent the primary channel through which these funds are utilized. Therefore, the process of granting credit constitutes a core banking function. Despite advancements in banking operations, financial and economic crises in various parts of the world have frequently highlighted the critical role banking sector issues play in economic instability. In particular, credit risk remains a major source of concern, often stemming from mismanaged lending practices. (Almer Kaplan, 2007)

In this context, risk identification, assessment, and management have become essential components for institutional success. A dedicated risk management function has emerged as a necessity to ensure organizational sustainability and to mitigate exposure to internal and external threats. Within this framework, the internal audit function plays a pivotal role by providing reliable information and reports that support informed decision-making. Over time, the role of internal auditing has shifted from a traditional focus on detecting errors and fraud to a modern, proactive approach that emphasizes the anticipation and management of risks. Internal auditors now contribute to improving risk management processes and evaluating the effectiveness of internal controls. Their work ensures that management has a proper understanding of the bank's risk profile, positioning internal audit as a consultative and strategic function that helps minimize potential threats. (Arena & Azzone, 2007)

In the banking context, risk refers to the possibility that actual outcomes will deviate from planned objectives. Effective risk management is therefore essential to maintaining the integrity of both individual banks and the broader banking system. The mere existence of rumors or negative perceptions can lead to the collapse of even the most stable financial institutions. As a result, managing banking risks, particularly credit risk, has received growing international attention. One key development in this area has been the establishment of the Basel Committee on Banking

Supervision, which has issued a series of guidelines and recommendations aimed at strengthening global banking stability and reducing the frequency and severity of financial crises.

Given these developments, the internal audit function has become increasingly important in managing credit risk. It now includes elements of operational auditing and provides advisory services to enhance financial and administrative performance. This is achieved by strengthening risk management frameworks, improving internal control systems, and evaluating how internal audit practices affect risk reduction. Internal auditors are responsible for assessing whether risk mitigation procedures are adequate and effective, thereby contributing to the overall soundness of the bank's operations. (Christopher, 2010)

Furthermore, internal auditing has emerged as one of the bank's leadership functions, providing senior management and boards of directors with objective and continuous evaluations of internal policies and practices. Through this role, internal audit contributes to identifying, analyzing, and managing the inherent risks in banking activities. By doing so, it helps banks maintain their competitive edge in the market, secure long-term sustainability, and maximize profitability while minimizing potential losses. (Allegrini & D'Onza, 2013)



Figure 2.1: Risk Management Paradigm

2.1.2.2 Risk Management Concept:

Management recognizes that it is preparing a planning plan and another to reach the desired goal or topic, which is nothing but a guide to the least expensive methods and methods. It declares the risk as a future event, choosing not to specify the management of either party. Risk is also defined as an accident that occurs, but it is certainly limited, provided that it does not occur by the

management of a person who would remove it if that happened, especially the management of the insured. (Lin& Hwang 2010).

The concept of risk management means the set of procedures followed with the aim of controlling losses and maintaining an appropriate rate of return against risks. Any investments are built on future expectations of positive results that are in favor of achieving gains, but those results are affected by many factors that can cause them to turn into negative results. One of the most important factors that may cause the desired results to not be achieved is the lack of complete information. The investment decision, like any decision in general, is a choice between two or more things due to the lack of complete clarity. Each of the options involves a different degree of risk, and the investor chooses not only the most profitable option, but also the acceptable level of risk surrounding it. (Liebenberg & Hoyt 2013)

Risk management is a planning tool aimed at providing occupational security, safety and health in a way that allows Confronting danger and minimizing its negative consequences. From the previous definitions, we can say that: Risk management expresses a set of policies and methods Followed by management to avoid any deviations that the institution may fall into in the future, which could be reflected Negatively on its performance and may lead to the lack of continuity of the institution. (Abdullah, Belalem,2015)

2.1.2.3 Types of Risk Management and Financial Reporting:

1. Market Risk
2. Credit Risk
3. Liquidity Risk
4. Operational Risk
5. Legal and Regulatory Risk

➤ Market Risk:

Market Risk refers to the potential for financial loss resulting from fluctuations in market prices. This type of risk encompasses several components, including changes in interest rates, foreign exchange rates, equity prices, and commodity prices. As financial intermediaries often hold positions in various financial instruments, adverse movements in market conditions can significantly impact both the income and capital of depository institutions. Consequently, effective

management of market risk is critical to maintaining financial stability and institutional soundness. (Mihret & Khan, 2013)

➤ Credit Risk:

Credit risk refers to the potential for financial loss arising when one party to a financial contract fails to meet its contractual obligations, thereby causing the counterparty to incur a loss. This type of risk is particularly significant in lending activities, where borrowers may default on loan repayments. (Thareja & Kimi, 2014)

➤ Liquidity Risk:

Liquidity risk is the risk that an institution will be unable to secure sufficient funding to meet its short-term financial obligations or to support an increase in assets, either under normal market conditions or during periods of financial stress. Inadequate liquidity may compromise the institution's solvency and overall financial health. (Thareja & Kimi, 2014)

➤ Operational Risk:

Operational risk arises from deficiencies or failures in internal processes, human resources, or information systems, as well as from external events. These risks can lead to significant financial losses or reputational damage if not properly managed and mitigated. (Thareja & Kimi, 2014)

➤ Legal and Regulatory Risk:

Legal and regulatory risk refers to the possibility of financial loss, penalties, or reputational damage resulting from non-compliance with applicable laws, regulations, or contractual obligations. These risks pose a serious threat to the continuity and operational integrity of institutions. Legal risks may stem from various sources, including breaches of regulatory requirements, contractual disputes, violations of intellectual property rights, employment-related issues, data privacy and protection breaches, and improper handling of organizational assets. Effective management of these risks is essential to ensure institutional sustainability and to avoid legal consequences. (Thareja & Kimi, 2014)

2.1.2.4 Importance of Risk Management:

Risk management plays a critical role in identifying, evaluating, and mitigating potential risks that may impact an organization's ability to achieve its objectives. The following points highlight the main reasons why risk management is essential:

- **Asset Protection:** Risk management safeguards an organization's assets, including financial resources, infrastructure, and reputation. By proactively identifying and addressing potential risks, organizations can prevent loss or damage to these valuable assets.
- **Business Continuity:** Effective risk management ensures that an organization can maintain operations even in the face of unexpected events or crises. Through early identification and strategic planning for potential risks, organizations can develop contingency measures that minimize disruption and promote continuous operation.
- **Cost Savings:** Early risk identification and mitigation often result in significant financial savings by avoiding losses, damages, or legal liabilities. Investing in preventative risk management strategies is generally more cost-effective than addressing the aftermath of unmanaged risks.
- **Informed Decision-Making:** Risk management provides comprehensive insight into potential threats and their possible impacts, enabling organizations to make well-informed decisions. It assists in the effective allocation of resources and prioritization of risk mitigation efforts, balancing potential benefits against associated risks in critical business decisions.
- **Stakeholder Confidence:** Organizations with robust risk management practices inspire greater confidence among stakeholders, including shareholders, customers, employees, and regulators. Proactive risk management demonstrates responsibility, reliability, and a commitment to long-term sustainability.
- **Regulatory Compliance:** Many industries face regulatory requirements related to risk management. Implementing sound risk management practices helps organizations comply with these laws and standards, thereby avoiding penalties and legal complications.
- **Growth Opportunities:** Beyond mitigating threats, risk management also helps identify and capitalize on new opportunities for growth. By actively managing risks, organizations can

explore emerging markets, adopt innovative technologies, or pursue strategic initiatives that provide a competitive edge.

In conclusion, risk management is vital for protecting assets, ensuring operational continuity, reducing costs, enhancing decision-making, fostering stakeholder trust, maintaining regulatory compliance, and uncovering growth prospects. It represents a proactive and dynamic approach that enables organizations to navigate uncertainties, adapt to changing environments, and increase the likelihood of successfully achieving their goals. (Mpakaniye & Jean Paul, 2017; Bhattacharyya & Asish, 2015)

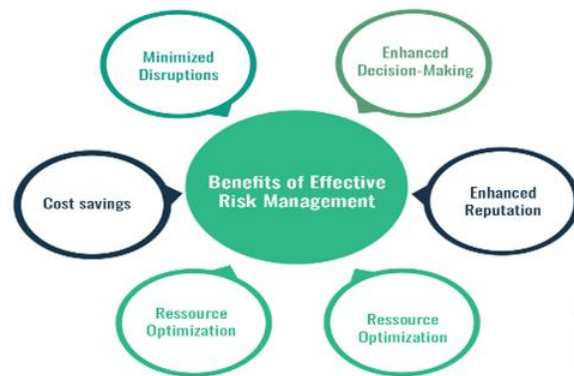


Figure 2.2: Benefits of Effective Risk Management

2.1.2.5 Benefits of Risk Management:

Risk management offers multiple benefits, including the effective identification and handling of risks, which leads to minimizing losses and maximizing gains. It also supports better decision-making by providing current, reliable data, highlights organizational vulnerabilities to enhance security, and fosters a culture of risk awareness among employees and leadership. Importantly, risk management involves continuous monitoring of anticipated risks and the implementation of measures to mitigate them, making it a fundamental element of robust business planning. Organizations must also create a supportive environment that enables employees to carry out this process effectively. (Christensen, 2011)

Key benefits include:

- **Identifying and Managing Risks:** The risk management process enables organizations to recognize risks across various areas and take appropriate actions to eliminate or reduce them, thereby lowering the likelihood of losses. (Erlina & Young, 2018)
- **Reducing Losses and Increasing Gains:** By differentiating among the types of risks and crafting tailored responses, organizations can reduce financial surprises and losses, improve operational efficiency, and increase profitability. (Erlina, 2011)
- **Better Decision-Making:** Risk management supplies leaders with timely, high-quality, and easily understandable market data, enabling more objective and informed decisions.
- **Focusing on Critical Results:** Effective risk tracking helps teams concentrate on key outcomes by identifying areas where project goals may be at risk and facilitating corrective actions to keep projects on track. (Erlina, 2011)
- **Highlighting Weaknesses:** The process uncovers weaknesses in security, business processes, operational procedures, or strategic planning, allowing organizations to identify vulnerabilities proactively and strengthen their adaptability.
- **Improving Security Measures:** Understanding risks in detail allows management to design and enforce effective security policies and procedures that address the most significant threats, thus preventing and responding to security incidents efficiently. (Erlina, 2011)
- **Promoting a Culture of Risk Awareness:** Risk management raises awareness among employees, decision-makers, and partners about potential risks, fostering a shared responsibility for risk management and enabling wiser organizational decisions. (Erlina, 2011)

2.1.2.6 Objectives of Risk Management:

The objectives of risk management are multifaceted, aimed at enhancing organizational performance and safeguarding its interests. These objectives include increasing operational efficiency by assessing and mitigating risks, protecting the company's brand through compliance with laws and regulations, uncovering and avoiding indirect risks, improving customer satisfaction, boosting profitability, and optimizing resource allocation based on thorough needs assessments. (Mihret & Khan, 2013)

Organizations pursue the following specific objectives through the risk management process:

- **Increase Operational Efficiency:** One key objective is to evaluate and manage operational risks that could disrupt daily activities and hinder the organization's ability to function efficiently. Effective planning and mitigation of these risks prevent interruptions, delays, or unexpected downtimes that could reduce productivity, profits, or damage the company's reputation. (Thareja & Kimi, 2014)
- **Avoid Indirect Risks:** Many risks may be hidden threats that impact operations, assets, and customer relationships. A robust risk management strategy, including internal audits, incident reviews, and adherence to industry best practices, helps uncover these threats early and take corrective actions before any harm occurs. (Thareja & Kimi, 2014)
- **Brand Protection:** A company's brand reflects its reputation, which is crucial for competitive differentiation and business growth. Risk management practices must ensure compliance with applicable laws and regulations, adapting strategies as regulations evolve to safeguard the brand from potential damage. (Bhattacharyya & Asish, 2015)
- **Increase Customer Satisfaction:** By anticipating and addressing potential problems proactively, risk management fosters more consistent and efficient operations. This reliability enhances customer experience, leading to increased satisfaction, loyalty, and positive word-of-mouth that strengthens the company's market reputation. (Bhattacharyya & Asish, 2015; Mpakaniye & Jean Paul, 2017)
- **Boost Final Profits:** Risk management is not solely about threat mitigation; it also helps identify new opportunities that can increase profitability. By analyzing market trends and consumer behaviors, organizations can discover promising ventures such as new marketing strategies, target demographics, or product launches. (Christensen, 2011; Erlina & Young, 2018)
- **Optimize Resource Distribution:** Risk management allows organizations to assess overall resource needs comprehensively and allocate resources efficiently. By leveraging detailed information about risks and their potential impacts, companies can prioritize resource deployment to where it is most needed, enhancing operational effectiveness and minimizing losses. (Erlina & Young, 2018)
- Furthermore, effective risk management entails studying the causes of risks to prevent recurrence and ensuring adequate funds are available to cover potential losses. This process contributes to institutional management by confronting project risks through optimal

utilization of resources, ultimately supporting the achievement of organizational goals. (Erlina, 2011)

2.1.2.7 Identify Risks:

The initial step in effective risk management is identifying potential risks that may impact the organization's objectives. To ensure the success of this stage, several key standards and practices must be followed:

- **Involve Knowledgeable Individuals:** Risk identification requires participants who possess a deep understanding of the organization, including its strategic and operational goals. Engaging individuals with comprehensive knowledge ensures that relevant and critical risks are recognized.
- **Ongoing Process:** Risk management is a continuous activity. Risks may emerge at any point, especially as the company evolves or as new projects develop. Therefore, risk identification is not a one-time task but an ongoing effort that adapts to changes in the internal and external environment.
- **Participatory Approach:** The risk management plan should be developed collaboratively, involving employees across various departments and, when necessary, key external stakeholders. This inclusive approach enriches the identification process by capturing diverse perspectives.

Following these principles, important risks are identified, categorized, analyzed, and managed through appropriate strategies aimed at avoiding or mitigating their impact. The identification methods include:

- **Objective-Based Identification:** Any event that threatens the partial or complete achievement of project objectives is considered a risk. Therefore, clearly defining the objectives of the risk management strategy is essential to recognize these threats effectively.
- **Classification-Based Identification:** This involves detailing all potential sources of risk, analyzing and organizing them into a comprehensive list. Risks are then prioritized based on their likelihood of occurrence and potential impact on the project.

- Review of Common Risks: Lessons learned and risk strategies from previous similar companies or projects are reviewed to identify risks that are commonly encountered and may be relevant.
- Risk Assessment: Each identified risk is evaluated to determine its probability of occurrence and the severity of its potential impact. This assessment guides the prioritization and management of risks. (Eshikhathi & Lutta, 2012)

2.1.2.8 Risk Analysis:

Risk analysis involves two fundamental steps:

1. Evaluating Each Risk: Assess the potential harm or impact that each identified risk may pose to the organization.
2. Prioritizing Risks: Organize the risks based on their level of threat, prioritizing those that require immediate attention or action.

The international standard ISO 31000 provides comprehensive principles and guidelines to help organizations systematically analyze and assess risks. This standard is versatile and can be applied across various sectors, private or governmental, and to different types of projects such as planning, management, and communications.

Applying the ISO 31000 principles within a specific project enhances operational effectiveness and increases the confidence of both the institution and its stakeholders in how risks are managed. Additionally, implementing this standard helps improve organizational performance in areas such as health and safety by establishing a robust framework that supports informed decision-making and fosters proactive risk management at all organizational levels. (Fraser & Simkins, 2010)

2.1.2.9 Risk Assessment:

Risks are assessed according to the following four factors:

- Probability
- Time Frame
- Impact
- Status of Risk Response Activities

Each identified risk is evaluated and assigned a score ranging from 0 to 100, reflecting the severity of the threat it poses to the project. A higher score indicates a greater potential risk. Most often, new risks are assessed within one week of their identification, replacing risks already documented. It is re-evaluated monthly at the latest to monitor any changes in probability, impact, time frame, status of response activities and to ensure that the risk score is updated according to these variables. (Arena & Azzone, 2007)

The probability of a risk occurring is typically categorized into one of five levels: very weak, weak, moderate, large, and very large. These levels help quantify the likelihood of a risk event and are essential for prioritizing risk responses. To evaluate risks effectively, organizations often use a risk assessment model that links the probability of a risk occurring to its potential severity, allowing for a comprehensive understanding of each risk's impact.

Determining the likelihood of a risk can vary in difficulty. If there is prior data or historical information related to the risk, estimating its likelihood becomes more straightforward and accurate. However, in the absence of such data, the probability is harder to gauge, which may result in a lower confidence level in the estimate.

Additionally, the SWOT matrix (Strengths, Weaknesses, Opportunities, Threats) is a valuable tool used in risk analysis. It plays a key role when developing executive strategies for managing and mitigating risks. This matrix helps identify internal and external factors that may contribute to the emergence or escalation of risks and supports the formation of proactive and adaptive risk response plans.

Risks get arranged according to priority taking into account probability impact time frame and status of various risk response activities. Likelihood of some risk happening is often deemed probability quite frequently in various contexts nowadays apparently. Three degrees of probability exist namely high where risk occurrence probability exceeds seventy percent medium where it falls between thirty and seventy percent and low where it's under thirty percent. Losses incurred by companies stem from risks manifesting themselves with considerable negative impact on their overall standing suddenly. Definitions of impact vary hugely depending on type of impact being considered in various research studies and academic fields suddenly. Impact on budget gets quantified in dollars whereas effect on timeline gets gauged slowly over several months mostly.

Risk impact severity gets modulated by scenarios such as extremely high risk situations where activity halts under perilous current conditions.

Key risks, excessively high, requiring the activity to be adjusted to incorporate corrective strategies and protocols, along with evaluation measures.

Moderate risk is generally considered acceptable, yet it requires monitoring and control measures to ensure that it remains at the lowest feasible level. Although it does not pose an immediate threat, failing to manage it could lead to escalation or increased impact over time.

Low risk is typically deemed acceptable without the need for further action. It does not require active intervention unless there is an indication of a potential increase in probability or impact. However, even in the case of low risks, periodic review is recommended to ensure they remain stable and do not evolve into more significant threats under changing conditions.

Key risks are glaringly high necessitating adjustment of activity incorporating corrective protocols and measures for thorough evaluation afterwards. Moderate risk entails considerable hazard yet stays somewhat manageable if ratcheted down pretty quickly toward some minimally feasible threshold. Low risk status remains acceptable sans further intervention unless risk escalation becomes potentially imminent under certain unforeseen circumstances. Greater risk impact necessitates heightened importance being assigned rather quickly somehow with extreme care and with considerable deliberation obviously. Evaluating risk impact heavily relies on grasping how far-reaching its effects are and pinpointing numerous service recipients harmed badly by this risk and negative impacts that remain largely irresolvable. service recipient in recognizing risks aids in more effectively evaluating the risk.

The time period indicates when the risk takes place, and the definitions are as follows:

- The immediate term (the risk could arise in under 0 months)
- Intermediate term (the risk could happen within 0-6 months)
- Extended period (the risk could manifest after more than 6 months)

The timings of the time frame differ based on the executed project plan.

The status of risk response actions reflects the advancement and effectiveness of those activities until a specific point in time. The descriptions for the four categories of cases are as follows:

- No strategy (there is no risk management strategy)
- Dormant plan (a risk response plan exists, but no actions have been implemented)
- Implemented plan (a risk response strategy has been initiated, but its effectiveness is still uncertain)
- A mobilized and efficient strategy (a risk response strategy that was put into action and resulted in the removal of risks or lessening their impacts)

According to the level of risk assessment and the four definitions stated previously, the prioritization of risks is organized in this manner:

- High priority: more than 35.
- Medium importance: ages 18 to 35.
- Low importance: below 18.

2.1.2.10 Methods for Managing and Addressing Risks:

According to Kirogo and Wagoki (2014), risk response comprises two central activities, the development of strategies to address identified risks and the implementation and oversight of the corresponding action plans. Once risks have been identified and evaluated, the organization can adopt one or more of the following four major strategies to manage them:

- Risk Control:

This involves defining the methods employed by project management to reduce the likelihood of risks and mitigate their impact. It includes the allocation of a specific portion of the budget for risk-related actions, and can be approached through several key methods (Kirogo & Wagoki, 2014):

- ✚ Risk Transfer: This entails transferring the responsibility or impact of risk to another party. Common examples include outsourcing tasks to third parties or purchasing insurance policies to mitigate potential financial losses.
- ✚ Risk Acceptance: In certain scenarios, taking preventive measures may be either impractical or too costly. In such cases, the risk is acknowledged and monitored, without immediate intervention. This approach is often used when future conditions may allow for more efficient risk treatment strategies.

- ✚ Risk Mitigation (Treatment): The majority of risk scenarios fall under this category, where proactive, preventive actions are taken to reduce the probability and/or impact of risks before they materialize.
- ✚ Risk Elimination (Avoidance): In cases where the risk can be completely neutralized, the organization may opt for fundamental changes such as altering the method of operation or employing alternative technologies, thereby removing the source of the risk altogether.

➤ Continuous Monitoring and Follow-Up:

Ongoing monitoring is essential to detect the emergence of new risks or the failure of current control mechanisms. The risk register (or risk disclosure list) plays a pivotal role in the risk management strategy. It is reviewed regularly to track the evolution of risks and assess the effectiveness of mitigation efforts. The review process evaluates (Kirogo & Wagoki, 2014):

- ✚ Frequency and recurrence of specific risks.
- ✚ Updates or changes to the risk inventory.
- ✚ Effectiveness and success of the implemented risk controls.
- ✚ Employee engagement in identifying and assessing risks.
- ✚ Adaptability of the register in recognizing new risks or retiring obsolete ones.
- ✚ Clarity and accuracy in evaluating the risk levels (high, medium, low).

➤ Effectiveness Measurement of Mitigation Measures:

The organization uses a risk assessment model to assess how well the measures taken have minimized or prevented the risks. This helps in identifying gaps and adjusting strategies accordingly (Kirogo & Wagoki, 2014).

➤ Evaluation and Refinement of the Risk Management Framework:

The overall methodology of risk management is periodically assessed. Based on performance metrics and outcomes, modifications are introduced to ensure continuous improvement and alignment with organizational goals (Kirogo & Wagoki, 2014).

➤ Risk Register Management:

The risk manager holds responsibility for maintaining and updating the risk register, which includes a catalog of identified risks and corresponding mitigation strategies. Risks are reviewed and integrated into routine business planning, rather than being treated as standalone or infrequent concerns. Key practices include (Kirogo & Wagoki, 2014):

- ✚ Reviewing all major strategic and operational risks in coordination with project plans.
- ✚ Regularly informing the company manager about all identified risks and current response efforts.
- ✚ Reporting accepted risks and unresolved high/medium priority risks to advisory committees or oversight bodies.

2.1.2.11 Classification of Risk Management:



Figure 2.3: Classification of Risk Management

Projects are inherently exposed to a variety of risks that can be broadly categorized into internal and external risks. Each type carries its own challenges and implications for project success (Al-Katzi, 2015).

- Internal Risks: These are risks arising from within the organization and are generally under the control or influence of company employees:
- ✚ Risks Resulting from the Work Team: These risks occur when the project team is not ready on time, lacks the necessary competence, or fails to meet deadlines or quality requirements. Such delays can significantly affect the project timeline and outcomes. (Al-Katzi, 2015)

- ✚ Risks from Poor Project Management: Ineffective decision-making, including delayed or incorrect decisions, can disrupt the flow of work and cause operational inefficiencies that harm the overall success of the project. (Al-Katzi, 2015)
- External Risks: These are risks beyond the direct control of the organization's personnel, often arising from outside forces:
 - ✚ Technical Equipment Failures: Risks stemming from malfunctioning or delayed delivery of essential devices and machinery can disrupt the workflow and result in project delays. (Gibson, 2017)
 - ✚ Technology Risks: Adopting new or complex technologies without sufficient understanding can lead to extended learning curves, which in turn may delay project progress. (Gibson, 2017)
 - ✚ Natural or Environmental Hazards: Environmental disruptions such as storms, floods, earthquakes, or unpredictable weather conditions can heavily impact the project site. These natural events, classified by origin (geological, hydrometeorological, or biological), vary in intensity, duration, frequency, and geographical reach, often causing physical and economic damages. (Gitman & Zutter, 2019)

2.1.2.11.1 Social Risks:

These risks relate to local customs, traditions, and social norms such as holidays and religious practices. Neglecting to consider these cultural aspects can lead to work stoppages and prolong project timelines. (Sibarani et al., 2021)

2.1.2.11.2 Financial Market Risks:

Price fluctuations in global markets, especially concerning raw materials and key project components, can introduce budgeting uncertainties and raise costs unexpectedly. (Sibarani et al., 2021)

2.1.2.11.3 Credit Risk:

This occurs when a project relies heavily on bank loans without solid repayment plans. The inability to service debt obligations can lead to severe financial strain and reputational damage. (Sibarani et al., 2021)

2.2 Previous Studies

2.2.1 Introduction

Internal audit plays a vital role by providing the necessary information to audit committees. An effective and well-resourced internal audit function is essential for supporting audit committees in carrying out their oversight responsibilities effectively (Slack et al., 2010). Consequently, internal audit helps to bridge the knowledge gap audit committees may have concerning governance, internal control, and risk management issues.

The audit committee increasingly requires internal audit staff to intensify efforts in identifying emerging risks within the organization, providing assurance on the adequacy of risk management processes, and evaluating governance practices. According to the Institute of Internal Auditors Research Foundation, companies operate in highly complex and competitive environments where numerous risks, alongside internal and external factors, often impede the achievement of organizational objectives. Therefore, effective risk management is essential to support these objectives and prevent declines in their attainment. Consequently, the demand for robust risk management and internal audit functions is growing within organizations to ensure the achievement of goals with minimal losses.

Several studies have explored the common objectives shared by internal auditing and risk management. These objectives include supporting strategic goals, ensuring the reliability and governance of financial and operational information, enhancing operational efficiency, safeguarding resources, and ensuring compliance with laws, controls, policies, procedures, and contractual obligations. Internal audit gathers this information from various sources, enabling it to develop a comprehensive understanding of the effectiveness of risk management processes. (Institute of Internal Auditors [IIA], 2010)

Internal audit personnel must thoroughly understand the processes that generate risks, verify whether risk responses have been implemented, and assess the success of these responses in achieving the desired objectives. This allows internal audit to provide informed recommendations regarding the effectiveness of risk management. Additionally, in assurance engagements, the internal audit function is responsible for evaluating the risk of fraud and the adequacy of fraud risk management. (Gramling, 2013)

Internal auditors must adhere to the guidelines outlined in the International Standards for the Professional Practice of Internal Auditing to effectively support an organization's risk management processes. Specifically, Standard 2120 establishes the minimum requirements for the Internal Audit Function's (IAF) work related to risk management and offers guidance on how internal auditors can assist organizations in enhancing their risk management by evaluating the effectiveness of these processes. (Sarens & Abdo Mohammadi, 2014)

Following this standard, internal auditors are required to assess the effectiveness of procedures that manage risks, including:

- Ensuring the organization's mission is supported and aligned with its strategic goals.
- Confirming that major risks have been identified and properly assessed.
- Selecting appropriate risk responses that align with the organization's risk appetite.
- Capturing and communicating relevant risk information promptly throughout the organization.
- Assessing the exposure to risks that may impact the achievement of organizational objectives through internal controls and monitoring mechanisms.

2.2.2 Previous Studies

This study draws on several previous investigations, with the most notable being the work of Onomah (2016), which focuses on the significance of internal auditing in mitigating risk management among listed companies in Ghana, particularly within economic units and banks. The study aims to encourage these entities to support internal audit functions through an integrated approach that considers both the internal business environment and effective risk management.

Onomah (2016) also seeks to provide professional and unbiased assessments regarding whether internal auditors exercise due professional care and possess a comprehensive understanding of the risks faced by banks. To evaluate the overall impact of risks, the study employs an analytical approach analyzing bank data over the period from 1993 to 2012. This analysis utilizes multiple financial measures such as the Z-score, beta coefficient, and coefficient of variation to develop a suitable audit methodology. Additionally, the study examines systematic risk metrics and key financial indicators including funding, liquidity, capital adequacy, interest rates, and market indices.

The most significant findings from this research include:

- The internal audit approach is influenced by company performance and its interaction with the financial market. This influence stems from both internal factors (such as the internal environment) and external factors (such as the financial market). For example, the capital adequacy ratio indicated the bank's lowest performance in 2000, 2001, and 2005, whereas in 1993, it reached 279%, demonstrating the bank's capacity to withstand major risks and potential losses.
- Various risks, their sources and types, significantly affect the bank's market value. These risks include systemic risks, uncontrollable external risks, and internal risks related directly to the company. Therefore, it is crucial to identify the causes of these risks and develop strategies to manage them effectively through internal auditing, which lies at the heart of the audit function.

Based on the research outcomes, Onomah (2016) recommends prioritizing risk control via an integrated approach that considers both internal and external factors influencing the bank's risk environment.

Abdullah and Balalim (2015) conducted a study aimed at determining how internal auditing contributes to enhancing risk management in Algerian banks. To achieve this objective, the researchers distributed a questionnaire to employees and managers working in the internal audit and risk management departments of banks located in the rural areas of Ouargla and Laghouat. A total of 120 questionnaires were distributed. The study's main findings revealed a positive relationship between internal audit policies and the improvement of risk management efficiency in these banks. Furthermore, the results indicated a strong adherence to international standards governing the internal audit profession among the internal audit departments of Algerian banks.

Similarly, Amoush (2017) focused on identifying obstacles hindering the improvement of internal audit effectiveness in risk management within Jordanian electricity companies. Key challenges highlighted include the lack of professional auditing certifications among staff and insufficient financial incentives to attract and retain qualified personnel. The study recommends that Jordanian electricity companies publish independent risk management reports to enhance transparency and oversight. Additionally, it advises companies to establish clear qualification criteria for audit committee members and to support internal audit departments by hiring professionals with relevant certifications. Amoush also stresses the importance of continuous professional development, recommending that internal audit staff participate in specialized courses to address gaps in expertise necessary for effective internal auditing.

Helen (2017) aimed to determine the extent to which internal auditing has contributed to risk management in banks operating within the state of Skikda, aligned with international auditing standards. The study was divided into two parts: the first part covered the theoretical framework, while the second part was a field study involving a sample of 30 internal auditors. A questionnaire containing 34 items was administered, and the data was analyzed using the SPSS program. The results demonstrated that internal auditing significantly contributes to managing banking risks and revealed a strong positive relationship between internal auditing and the improvement of risk management efficiency in banks.

Frigo and Anderson (2011) focused on identifying the most effective internal control methods for assessing organizational risks, based on the COSO internal control framework. Their study addressed challenges limiting the internal audit's reliance on other assurance providers due to concerns about independence and objectivity. They clarified the objectives and motivations behind internal control and its alignment with the internal auditor's responsibilities and authority. The core investigation centered on how internal control can regulate the organization's Lines of Defense (LOD) to enhance Enterprise Risk Management (ERM), reduce compliance costs, and strengthen auditor independence. By analyzing COSO recommendations and comparing them with challenges highlighted in PwC reports, the authors concluded that internal auditing plays a crucial role in improving ERM and integrating LOD, primarily by reinforcing the internal auditor's role and independence.

Mpakaniye (2017) examined the impact of internal audit on decentralized entities in the Nyabihu region. The study aimed to identify the key factors influencing internal audit effectiveness, evaluate the financial performance indicators of the region, and establish a strong relationship between internal audit performance and financial outcomes. Hypotheses tested included risk management control, compliance levels, assurance services, error and fraud detection, operational effectiveness, financial efficiency, accountability, and key performance indicators for the Nyabihu District.

Primary and secondary data were utilized throughout the research process. Primary data were collected from 20 employees in Nyabihu District, drawn from a sample of 60 individuals who were surveyed and interviewed. Secondary data were gathered from academic articles, reports, and books relevant to the study and accessible online. The findings revealed that while 20% of respondents disagreed with the identification of errors and frauds, all respondents supported the implementation of risk management, control systems, and the establishment of compliance levels as key determinants of internal audit effectiveness. Additionally, the results indicated that financial efficiency was considered the primary performance parameter in Nyabihu District, with 80% of respondents agreeing with this assessment (Mpakaniye, 2017).

Tamimi (2021) aimed to examine the impact of internal audit functions on improving the quality of external auditing in the state of Adrar. Using a descriptive analytical approach, the study employed a questionnaire distributed both physically and electronically to accounting experts and

bookkeepers in audit offices. The data were analyzed using SPSS version 23 to test the hypotheses. The study concluded that there is a positive and statistically significant effect of benefiting from internal audit work on enhancing the quality of external auditing, with an impact coefficient of 0.413, indicating auditors perceive internal audit as a key factor in improving external audit quality.

Furthermore, Naji and Amira (2022) investigated the relationship between banking governance and financial performance in Iraqi commercial banks, aiming to improve performance levels. The study focused on governance factors such as establishing an effective governance framework, protecting shareholders' and investors' rights, ensuring stakeholder roles, disclosure, transparency, and board responsibilities. A questionnaire was administered to bank employees, targeting banks that met the following criteria: listing on the Iraqi Stock Exchange, disclosure of financial statements for the year 2020, and transparency regarding branch numbers and other data. Out of 37 banks assessed, only two, Al-Rafidain and Al-Rasheed, qualified, both being the largest banks in Kirkuk Governorate. SPSS version 24 was used for analysis, with a sample size of 400 and 385 valid responses, yielding a 95% response rate. The analysis showed a significant correlation between banking governance factors and financial performance across various dimensions, considering demographic factors such as gender, age, education, experience, and job title.

Mehret, Dessaline Jeet, and Khan (2013) conducted a study on internal auditing practices in Indian companies, highlighting that internal auditing is traditionally regarded as a function of financial audit. The study noted a rapid increase in laws and regulations governing internal auditing within Indian organizations. Although internal audit practices in India are not yet comparable to those in the USA and other developed economies, they have evolved significantly from their traditional roles.

One key finding is that internal audit has shifted its focus from primarily internal financial controls to broader areas such as compliance auditing, operational audits, and administrative audits. This evolution aligns internal audit more closely with risk adaptation processes. The study emphasizes the growing role of the board of directors in risk management, indicating that internal audit increasingly supports governance functions. Consequently, the management accounting profession is expected to take a leading role in the internal audit team. This shift presents challenges that the profession must prepare to address in the future (Mehret, Dessaline Jeet, & Khan, 2013).

Bhattacharyya (2015) studied the evolving role of internal auditing in India, emphasizing that the Companies Act 2013 made the appointment of internal auditors' mandatory for listed companies and certain other categories of companies. The research highlights how strengthening the relationship between internal auditors and the Audit Committee of the Board of Directors allows internal auditors to assert a more significant and effective role within organizations.

The study points out that contemporary internal audit functions diligently serve both management and the Board under diverse circumstances. A key finding is that the Companies Act 2013 requires the Audit Committee to decide on a comprehensive internal audit methodology, underscoring the necessity for frequent and close engagement between the internal auditor and the Audit Committee chairperson. Such interaction helps internal auditors better understand the Committee's expectations and serve it more effectively.

Furthermore, when the Audit Committee appreciates the value of internal audit, it becomes easier for internal auditors to advocate for additional human resources needed to deliver higher-level services. The study concludes that independent internal audit support is critical for the Audit Committee to fulfill its duties effectively. Bhattacharyya characterizes the internal auditing profession in India as being at a pivotal point, ready to elevate its status within corporate governance systems (Bhattacharyya, 2015).

Ratchmawati and Molana (2022) conducted a quantitative study to explore the relationship between internal audit functions and risk management within the airline industry. Their research focused on key risk indicators, including operational risk ratios, solvency, and liquidity measures. Employing advanced inferential statistical techniques, the study rigorously analyzed how internal auditing activities are intricately linked to the management of these risks in airlines. The findings underscore the critical role of internal audit in effectively monitoring and managing operational, solvency, and liquidity risks in this sector, highlighting the importance of robust internal controls to enhance airline risk management frameworks (Ratchmawati & Molana, 2022).

Sterman (2006) investigated the impact of financial ratios on the likelihood of financial distress among manufacturing companies listed on the Indonesia Stock Exchange. The study examined a sample of thirty companies, encompassing ninety observations from 2015 to 2017, to identify relationships between financial default, operational risk, and internal audit functions. The findings indicated that activity ratios significantly influence the probability of experiencing financial

difficulties. Moreover, reckless behaviors under stress were found to sharply increase the risk of severe financial hardship, underscoring the importance of sound financial management and oversight (Sterman, 2006).

Similarly, Dr. Jean Paul Mpakaniye (2017) conducted an in-depth study titled "The Impact of Internal Audit on the Performance of Decentralized Entities in Rwanda: A Case Study of Nyabihu District, 2014–2016." The research aimed to identify factors influencing the internal audit process and to assess the correlation between internal audit functions and the district's overall performance. Using both primary data, collected via questionnaires and interviews from 20 employees out of a population of 60, and secondary data from academic literature and reports, the study revealed that internal audit had a strong positive effect on performance, with a Pearson correlation coefficient of 0.732 and a significance level of approximately 0.01. The research highlighted that risk management control systems and compliance levels were positively perceived determinants of internal audit effectiveness, although 20% of respondents disagreed on the audit's role in detecting errors and frauds.

Performance indicators for Nyabihu District primarily focused on financial efficiency, effective operations (around 80% agreement), and accountability (approximately 70%). The study recommended streamlining recruitment processes to ensure competent auditors are employed regardless of political influence, and urged the establishment of a Chartered Institute of Auditing in Rwanda to foster auditor development and enhance audit quality nationwide.

Overall, the findings emphasize the indispensable role of internal audit in improving the financial performance and accountability of decentralized entities, reinforcing its critical function in governance and risk management structures (Mpakaniye, 2017).

Previous studies have consistently highlighted the crucial role of internal audit in mitigating institutional risks and enhancing decision-making through efficient risk management practices. The effectiveness of internal audit functions significantly contributes to improving decision quality within organizations. In particular, the efficacy of risk management is heavily dependent on the performance of internal audit activities. When institutions effectively incorporate internal audit results into their processes, decision-making is more accurate and timely. Internal audit thus plays a pivotal role in rapidly identifying and curtailing risks across various companies.

Consequently, numerous studies emphasize the strong interconnection between internal audit and risk management within organizations. Empirical findings consistently demonstrate a significant positive correlation between the implementation of risk management practices and the effectiveness of internal audit functions. This nexus underscores the essential role internal audit plays in supporting robust risk management frameworks and promoting organizational stability.

Chapter Three: Study Methodology

3.1 Introduction

3.2 Study Methodology

3.3 Study Population

3.4 Study Sample

3.5 Study Tool Measurement

3.6 Pilot Study

3.7 Psychometric Properties of the Questionnaire

3.8 Questionnaire Correction

3.9 Statistical Processing

3.1 Introduction

This chapter presents a comprehensive and detailed description of the methodology and procedures employed by the researcher to conduct this study. It covers the study design, the target population, the sampling method, data collection instruments, their validity and reliability, the research procedures, and the statistical techniques used for data analysis.

3.2 Study Methodology

Given the nature of the study and its objectives, the descriptive analytical approach was adopted. This approach is widely utilized in research involving human and social phenomena because it focuses on examining the phenomenon as it exists in reality. It is particularly appropriate for this study, as it allows for a detailed description and analysis of internal audit and risk management practices as they currently operate within the selected institutions.

3.3 Study Population

The population targeted in this study comprised all accountants and auditors working within the internal audit and risk management departments of commercial banks across Palestine. The total population size was 218 individuals.

3.4 Study Sample

The study sample consisted of 218 participants selected from the population of accountants and internal auditors in Palestinian commercial banks. This sample was chosen to represent the population adequately and to allow for meaningful statistical analysis.

3.4.1 Demographic Characteristics of Study Sample

The following table shows the demographic characteristics of the study sample members:

Table 3.1: Characteristics of Study Sample

		Frequency	Percentage
Academic Qualification	BA	196	89.9
	MA	22	10.1
	Total	218	100.0
Job Position	Internal Auditor in the Internal Audit Department	149	68.3
	Head of Internal Audit Department	5	2.3
	Assistant Director of the Internal Audit Department	3	1.4
	risk management manger	22	10.1
	risk management employees	39	17.9
	Total	218	100.0
Experience in the Internal Audit Profession	Less than 5 years	139	63.8
	From 5 to less than 10 years	40	18.3
	From 10 years to less than 15 years	22	10.1
	15 years and older	17	7.8
	Total	218	100.0
Professional Certificates	CPA	2	0.9
	PCPA	24	11.0
	ACCA	12	5.5
	CIA	180	82.6
	Total	218	100.0
The Number of Training Courses You Have Attended in Your Field of Work in Internal Auditing	From 1 to 3 courses	116	53.2
	From 3 to 5	60	27.5
	More than 5 courses	42	19.3
	Total	218	100.0

Table 3.1 provides a detailed summary of the demographic and professional characteristics of the 218 participants who constitute the study sample. The data illustrate a well-defined and professionally relevant group, appropriate for research focused on internal auditing practices:

➤ Academic Qualification:

The majority of the respondents, constituting 89.9%, hold a Bachelor's degree (BA), indicating that most practitioners in the internal auditing field within the study context have an undergraduate education. Meanwhile, 10.1% of the participants have attained a Master's degree (MA), reflecting a smaller proportion of more advanced academic qualifications within this professional group. This distribution suggests that the internal audit workforce is predominantly composed of individuals with foundational academic preparation, which aligns with typical educational requirements in the field.

➤ Job Position:

Most participants (68.3%) serve as auditors within internal audit departments, indicating that the study captured insights primarily from operational-level professionals. A smaller portion holds supervisory or managerial roles: Heads (2.3%) and Assistant Directors (1.4%). The inclusion of observers (10.1%) and others (17.9%) broadens the representativeness.

➤ Experience in Internal Auditing:

A notable majority of the respondents, representing 63.8%, have less than five years of experience in internal auditing. This indicates that the sample primarily consists of early-career professionals or relatively young practitioners within the field. Conversely, only a small fraction, 7.8%, reported having 15 years or more of experience, highlighting a limited presence of highly seasoned auditors in the sample. This distribution suggests a workforce that is still developing in terms of extensive practical experience.

➤ Professional Certifications:

A dominant majority (82.6%) of the respondents hold the Certified Internal Auditor (CIA) credential, indicating a strong orientation toward internationally recognized auditing standards. The presence of other certifications such as PCPA (11.0%), ACCA (5.5%), and CPA (0.9%)

enriches the professional diversity of the sample, though the overwhelming presence of CIA holders suggests a certain uniformity in methodological approach and professional ethics.

➤ Training Courses Attended:

In terms of professional development, over half of the respondents (53.2%) reported attending 1 to 3 training courses, while only 19.3% attended more than 5. This may point to limited continuous professional development, which could impact the adaptability and updated knowledge of the workforce, especially in light of evolving audit technologies and standards.

3.5 Study Tool Measurement

The current study utilized a five-point Likert scale to measure responses. Participants rated each questionnaire item according to the following scale: very high (5), high (4), moderate (3), few (2), and very few (1).

3.6 Pilot Study

A pilot survey was conducted with a sample of 15 accountants and auditors working in commercial banks in Palestine. The questionnaire was reviewed by specialists prior to distribution. The pilot aimed to assess the questionnaire's feasibility, completion time, and to verify the accuracy, clarity, and consistency of its items, ensuring precise measurement and reliable results.

3.7 Psychometric Properties of the Questionnaire

3.7.1 Content Validity (Reviewers)

To ensure content validity, the questionnaire was presented to a number of arbitrators affiliated with Palestinian universities who possess expertise in financial and accounting sciences. Their review aimed to confirm the apparent validity of the instrument.

3.7.2 Construct Validity of the Internal Audit Field

Construct validity was assessed by calculating Pearson's correlation coefficients. This analysis included correlations between each item and its corresponding field, correlations between each

item and the total questionnaire score, as well as correlations between each field and the total questionnaire score. The results are presented in the following table (3.2):

Table 3.2: Correlation Coefficients for the Items of the Internal Audit Scale with its Domains, Total Score of the Scale, and Each Domain with the Total Score of the Scale

No.	R with the domain	R with total degree	No.	R with the domain	R with total degree
1	.843**	.752**	10	.721**	.692**
2	.885**	.795**	11	.722**	.681**
3	.843**	.726**	12	.782**	.752**
4	.857**	.798**	13	.748**	.653**
5	.879**	.732**	14	.776**	.651**
6	.815**	.746**	15	.739**	.698**
7	.831**	.784**	16	.745**	.698**
8	.810**	.752**	17	.729**	.664**
9	.818**	.741**	18	.778**	.725**
Internal Auditor Competence		0.815**	Auditor's Authority		0.838**
19	.759**	.696**	28	.761**	.716**
20	.747**	.681**	29	.793**	.737**
21	.759**	.729**	30	.772**	.716**
22	.767**	.702**	31	.736**	.665**
23	.750**	.704**	32	.782**	.724**
24	.751**	.689**	33	.791**	.719**
25	.785**	.724**	34	.815**	.792**

No.	R with the domain	R with total degree	No.	R with the domain	R with total degree
26	.815**	.769**	35	.748**	.689**
27	.738**	.691**	36	.784**	.705**
Auditor's Tasks		0.847**	Compliance with Professional Standards		0.835**

The data presented in Table 3.2 indicate that all items within each domain exhibit statistically significant correlations with both the total score of their respective domains and the overall scale score. This confirms the existence of meaningful relationships between individual items and their associated domains, as well as between the items and the total scale. Additionally, the results show that each domain's score is significantly correlated with the total scale score, demonstrating a strong association between each field and the overall construct being measured. Accordingly, the internal audit scale demonstrates an acceptable level of construct validity, providing assurance to the researcher that the tool effectively measures the intended concept.

3.7.3. Reliability of Internal Audit Scale

To assess the reliability of the questionnaire, the internal consistency method was employed by calculating the Cronbach's alpha coefficient for each field of the questionnaire, as well as for the overall instrument. Table 3.3 presents the values of Cronbach's alpha for each domain. These values indicate the degree to which the items within each domain consistently measure the intended construct. A Cronbach's alpha value of 0.70 or higher is generally considered acceptable for social science research, thereby confirming that the questionnaire possesses a high level of reliability and internal consistency.

Variables	Number of items	Cronbach's α
Internal Auditor Competence	9	.834
Auditor's Authority	9	.849
Auditor's Tasks	9	.874

Compliance with Professional Standards	9	.858
Total degree (All Indicators)	36	.882

The data presented in Table (3.3) indicate that the values of Cronbach’s alpha reliability coefficients for all internal auditing domains, as well as for the overall scale, were high. Specifically, the Cronbach’s alpha coefficients for the internal auditing domains ranged between 0.834 and 0.874, reflecting a strong internal consistency within each domain. Furthermore, the reliability coefficient for the total internal auditing scale reached 0.882, which exceeds the commonly accepted threshold of 0.70 for social science research. These results confirm that the questionnaire demonstrates a high level of reliability and is suitable for use in the current study.

3.7.4 Construct Validity of the Risk Management Efficiency Scale

Construct validity was assessed by calculating Pearson’s correlation coefficients between each item and the total score of the risk management efficiency scale. This statistical method allows for the determination of the degree to which each item is related to the overall construct being measured. The results, presented in Table 3.4, show that all items have statistically significant correlation coefficients with the total score of the scale. This indicates that each item is appropriately aligned with the overall construct of risk management efficiency. Therefore, the scale possesses a satisfactory level of construct validity, confirming that it effectively measures the intended dimension of risk management efficiency.

Table 3.4: Correlation Coefficients of Risk Management Efficiency Items with Tool Total Degree

No.	R with total degree	No.	R with total degree	No.	R with total degree
1	.776**	4	.761**	7	.785**
2	.757**	5	.731**	8	.731**

No.	R with total degree	No.	R with total degree	No.	R with total degree
3	.727**	6	.706**	9	.751**

It is noted from the data presented in Table (3.4) that all items exhibit statistically significant correlations with the total score of the risk management efficiency scale at the 0.01 significance level. This indicates a strong relationship between each item and the overall construct being measured. Such results provide reassurance to the researcher that the items included in the risk management efficiency scale are valid indicators and accurately measure the intended concept. Therefore, the scale demonstrates acceptable construct validity.

3.7.5. Reliability of risk management Scale

Reliability was assessed through internal consistency by computing the Cronbach's alpha coefficient, as presented in the following table (3.5):

Table 3.5: Reliability of Risk Management Efficiency Scale

Variables	Number of items	Cronbach's α
Total degree (all indicators)	9	.818

The results in Table 3.5 indicate that the Cronbach's alpha coefficient for the overall score was high, with the reliability coefficient for the risk management efficiency scale reaching a value of 0.818.

3.8 Questionnaire Correction

The response scores for the study scale items were distributed using the five-point Likert scale, with item weights assigned as follows: very high = 5 points, high = 4 points, medium = 3 points, low = 2 points, and very low = 1 point. All items reflected a positive direction within the internal auditing and risk management efficiency scales. To interpret the arithmetic means and assess the levels of internal auditing and risk management efficiency in commercial banks in Palestine, as perceived by the study sample, the scoring range (1–5) was converted into three levels: low (2.33 or below), medium (2.34–3.67), and high (3.68 or above).

3.9 Statistical Processing

To accomplish the study's objectives, the completed questionnaires were entered into the Statistical Package for the Social Sciences (SPSS), a widely used program for statistical data analysis that provides precise and reliable results.

Descriptive statistics such as percentages, frequencies, and arithmetic means were employed to describe the characteristics of the study sample, assess the extent of their responses, and determine the distribution of variable categories. Additionally, the validity and reliability of the study instrument were tested.

Cronbach's alpha coefficient was used to evaluate the internal consistency and stability of the study tool. Pearson's correlation coefficient was applied to assess the construct validity of the instrument by measuring the strength of the relationships between variables.

Furthermore, simple and multiple regression analyses were conducted to examine the impact of independent variables on the dependent variables.

Chapter Four: Data Analysis

4.1 Descriptive Statistics for Study Variables

4.2 Study Hypotheses Examination

This chapter presents the analysis of the current study’s data, displays the results, and tests the hypotheses to determine whether they are accepted or rejected.

4.1 Descriptive Statistics for Study Variables

Results for the First Question: What is the current situation of internal auditing in commercial banks in Palestine?

To address the first question, arithmetic means, standard deviations, and relative weights were utilized to assess the status of internal auditing in commercial banks in Palestine, as illustrated in table 4.1:

Table 4.1: Arithmetic Means, Standard Deviations, and Relative Weights Illustrating the Status of Internal Auditing in Commercial Banks in Palestine, Organized in Descending Order

No	Items	Mean	Std.	%	Approval
14	Auditor has authority for surprise inventory checks.	4.28	0.81	85.6	High
15	Auditor is free to communicate with all bank units.	4.15	0.87	83.0	High
16	Auditor can inquire about operational risk matters from management.	4.12	0.90	82.4	High
18	Auditor verifies dual controls in banking operations.	4.12	0.92	82.4	High
17	Auditor’s authority allows evaluation of credit risk management.	4.11	0.95	82.2	High
10	Board grants necessary authority for auditors to perform duties.	4.10	0.94	82.0	High
13	All auditor requests are responded to during audits.	4.06	0.93	81.2	High
12	Auditor can select and inspect audit activities.	4.05	0.89	81.0	High
11	Internal audit charter approved by board clarifies role and responsibility.	4.02	0.93	80.4	High
Auditor’s Authority		4.11	0.45	82.2	High

No	Items	Mean	Std.	%	Approval
2	Appointment requires professional experience in accounting operations.	4.10	0.91	82.0	High
8	Audit tasks are executed per international auditing standards.	4.10	0.94	82.0	High
7	Board approves policies ensuring auditor incentives and training.	4.02	0.96	80.4	High
9	Auditor is assigned executive tasks by bank management.	3.98	0.92	79.6	High
4	Regular training helps the auditor stay updated in auditing and risk management.	3.96	0.97	79.2	High
6	Auditor is familiar with risk-related policies set by management.	3.93	0.92	78.6	High
1	Internal auditor appointments require professional certifications.	3.93	0.96	78.6	High
5	A sufficient number of certified auditors are recruited.	3.92	0.94	78.4	High
3	The internal auditor provides recommendations in a formal audit report.	3.87	1.03	77.4	High
Internal Auditor Competence		3.98	0.48	79.6	High
19	Auditor checks adequacy of controls to enhance operational risk management.	4.20	0.89	84.0	High
20	Auditor ensures controls are suited to nature of operational risks.	4.19	0.97	83.8	High
22	Auditor verifies efficiency of internal controls on systems and records.	4.15	0.90	83.0	High
21	Auditor verifies effectiveness of controls over banking systems.	4.06	0.95	81.2	High
27	Risk management controls are updated based on audit recommendations.	3.91	1.06	78.2	High
23	Auditor evaluates controls preventing operational risks.	3.85	1.02	77.0	High
24	Positive link between audit evaluations and risk management efficiency.	3.85	1.04	77.0	High
26	Auditor gives risk-related recommendations to the board.	3.80	1.01	76.0	High
25	Positive link between internal audit effectiveness and reduced credit risk.	3.73	1.09	74.6	High
Auditor's Tasks		3.97	0.49	79.4	High

No	Items	Mean	Std.	%	Approval
35	Internal audit maintains independence and objectivity.	3.94	1.07	78.8	High
28	Auditors comply with IIA international standards.	3.94	1.02	78.8	High
33	Internal audit adopts procedures aligned with good governance.	3.83	1.10	76.6	High
34	Auditor performance is evaluated based on professional standards.	3.82	1.01	76.4	High
30	Auditors adhere to professional conduct and integrity.	3.81	1.02	76.2	High
29	Reports follow internationally approved professional practices.	3.78	1.06	75.6	High
31	Audit tasks are reviewed periodically for standard alignment.	3.78	1.01	75.6	High
36	Confidentiality and neutrality are upheld in all audit stages.	3.78	1.03	75.6	High
32	Auditors receive continuous training to enhance standard compliance.	3.63	1.03	72.6	Moderate
Compliance with Professional Standards		3.81	0.62	76.2	High
Total degree of the Reality of Internal Auditing in Commercial Banks in Palestine		3.97	0.32	79.4	High

The results reveal that the overall level of internal auditing practices scored a mean of (3.97) with a standard deviation of (0.32) and a relative weight of (79.4%), indicating a high level of implementation. This finding implies that the internal audit function in Palestinian commercial banks is regarded as highly effective, well-supported institutionally, and aligned with recognized professional standards. The consistently strong ratings across most items demonstrate the existence of a well-organized and operational internal audit framework within the banking sector.

The dimension of auditor's authority ranked highest, achieving a mean of (4.11), a standard deviation of (0.45), and a relative weight of (82.2%). This elevated score reflects that internal auditors are provided with sufficient autonomy and access to carry out their responsibilities effectively. In particular, the item "The auditor has authority for surprise inventory checks" obtained the highest mean among all items (4.28), underscoring the auditors' empowerment to perform unannounced inspections, which is a vital element of risk-based auditing.

Additional items with high scores within this dimension include the auditor's freedom to communicate with all departments (mean = 4.15) and the authority to assess credit and operational risks (means ranging from 4.11 to 4.12). These results demonstrate a strong adherence to governance principles, particularly emphasizing the auditors' independence and unrestricted access to critical information.

The auditor's tasks dimension achieved a mean score of (3.97), with a standard deviation of (0.49) and a relative weight of (79.4%), similarly classified as high. This indicates that internal auditors in the examined banks are actively involved in value-added functions, especially those related to evaluating operational risks and control processes.

Items like "The auditor checks the adequacy of controls to enhance operational risk management" (mean = 4.20) and "The auditor ensures that controls are suited to the nature of operational risks" (mean = 4.19) highlight the critical role of the internal audit function in strengthening risk management frameworks. Nevertheless, lower scores on items related to the connection between audit activities and credit risk reduction indicate that some strategic aspects of audit contributions are still in the process of being fully embedded within the banks' practices.

The competence dimension attained a mean score of (3.98), with a standard deviation of (0.48) and a relative weight of (79.6%), reflecting a strong level of satisfaction with the auditors' technical expertise and professional qualifications. Notably, items related to experience criteria and compliance with international standards received high ratings, such as "Audit tasks are executed per international standards," which scored a mean of (4.10).

However, certain concerns were noted, as items related to the recruitment of certified auditors (mean = 3.92) and the requirement for professional certifications (mean = 3.93) received comparatively lower scores. This suggests a possible gap between the desired professional qualifications and the existing capabilities of the audit staff, indicating a need to strengthen recruitment practices and certification policies for auditors.

The compliance with professional standards dimension received the lowest rating among the four dimensions, with a mean of (3.81), a standard deviation of (0.62), and a relative weight of (76.2%), yet it is still classified as high. Key aspects of professional conduct, such as independence, integrity, and adherence to international standards, were rated positively. However, the item

“Auditors receive continuous training to enhance standard compliance” stood out as the only one across the entire questionnaire rated at a moderate level, with a mean of (3.63) and a relative weight of (72.6%).

This finding highlights a significant gap in continuous professional development, which could undermine the sustained alignment of internal audit practices with evolving international standards. Without regular training and systematic updates, the professional competence and technical precision of internal audit activities risk becoming outdated, potentially affecting the overall effectiveness and credibility of the audit function in the long term.

Results for the Second Question: How effective is risk management in commercial banks in Palestine?

To answer the second question, arithmetic means, standard deviations, and relative weights were used to assess the reality of risk management efficiency in commercial banks in Palestine, as presented in table (4.2):

Table 4.2: Displays the Arithmetic Means, Standard Deviations, and Relative Weights of the Current State of Risk Management Efficiency in Commercial Banks in Palestine, Organized in Descending Order

No	Items	Mean	Std.	%	Approval
6	Understanding operations and internal controls enhances risk management.	3.89	1.21	77.8	High
4	Bank submits operational risk reports to the board.	3.84	1.21	76.8	High
8	Institution monitors risks to improve systems and staff training.	3.83	1.17	76.6	High
5	Bank periodically reviews risk-related policies for improvement.	3.82	1.14	76.4	High
1	Bank has a written operational risk policy.	3.81	1.16	76.2	High
7	Bank conducts training workshops on handling operational risks.	3.76	1.14	75.2	High
9	Bank sends regular reports on operational risks to the monetary authority.	3.68	1.30	73.6	High

No	Items	Mean	Std.	%	Approval
2	Bank management discloses all potential risks with transparency.	3.67	1.12	73.4	Moderate
3	Bank has a clear policy for risk assessment and monitoring.	3.63	1.17	72.6	Moderate
Total Degree of the Reality of Efficiency of Risk Management		3.77	0.75	75.4	High

Table 4.2 presents the statistical analysis of respondents' perceptions concerning the effectiveness of risk management practices in commercial banks across Palestine.

The overall efficiency of risk management received a mean score of 3.77, with a standard deviation of 0.75 and a relative weight of 75.4%, placing it within the high category. This reflects a generally favorable assessment of the risk management systems in Palestinian commercial banks, indicating the presence of a functional and reasonably effective risk governance structure. Nonetheless, the score's closeness to the boundary between moderate and high levels suggests that ongoing improvements and strengthening of these systems are necessary.

The item that received the highest rating was "Understanding operations and internal controls enhances risk management," with a mean score of 3.89 and a relative weight of 77.8%. This finding emphasizes the crucial importance of operational insight and thorough understanding of internal controls in strengthening risk mitigation efforts. It highlights how Palestinian banks demonstrate considerable competence in integrating audit expertise and internal processes within their risk management frameworks.

Other well-rated items include "The bank submits operational risk reports to the board" with a mean of 3.84, "The institution monitors risks to improve systems and staff training" scoring 3.83, and "The bank periodically reviews risk-related policies for improvement" at 3.82. These results reflect a proactive approach by Palestinian commercial banks in risk reporting, continuous monitoring, and policy enhancement to strengthen their overall risk management effectiveness.

These findings indicate that Palestinian banks actively engage in continuous risk monitoring and maintain established processes for regular reporting and policy updates. Such practices are vital elements of an adaptive and resilient risk management framework, enabling banks to respond effectively to emerging risks and evolving operational challenges.

Although the general perception of risk management efficiency was favorable, two specific items received only moderate approval. The statement “Bank management discloses all potential risks with transparency” scored a mean of 3.67 with a relative weight of 73.4%, while “The bank has a clear policy for risk assessment and monitoring” recorded a mean of 3.63 and a relative weight of 72.6%. These moderate ratings suggest there is room for improvement in transparency and in formalizing risk assessment and monitoring policies within Palestinian commercial banks.

The findings presented in Table 4.2 indicate that Palestinian commercial banks have established a moderately solid foundation for risk management practices, particularly emphasizing internal operational understanding, regular reporting to boards, and ongoing staff training efforts. Nevertheless, the relatively weaker scores in areas such as transparency, clarity of risk policies, and external risk disclosure suggest that the risk governance frameworks within these banks are still in a developmental phase and have yet to reach full maturity.

4.2 Study Hypotheses Examination

Results for the Third Question: Does internal auditing have a meaningful statistical effect on how well risk management works in commercial banks in Palestine?

To address the third question, it was reformulated into the following main hypothesis: “There is no significant effect at the 0.05 significance level of internal auditing on the efficiency of risk management in commercial banks in Palestine”.

To test this main hypothesis, multiple regression analysis was employed, with the results presented in table 4.3:

Table 4.3: Displays the Results of Multiple Regression Analysis Conducted to Assess the Impact of Internal Auditing on the Efficiency of Risk Management in Commercial Banks in Palestine

Independent Variables	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-3.230	0.410		-7.875	0.001		
Internal Auditor Competence (X_1)	0.433	0.083	0.274	5.221	0.001	0.68	1.48

Independent Variables	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
Auditor's Authority (X ₂)	0.660	0.091	0.397	7.242	0.001	0.62	1.62
Auditor's Tasks (X ₃)	0.468	0.083	0.306	5.616	0.001	0.63	1.60
Compliance with Professional Standards (X ₄)	0.185	0.063	0.153	2.934	0.001	0.69	1.46
F= (81.06), sig. (0.001)	R = 0.777		R² = 0.604		Adjusted R² = 0.596		

**Dependent Variable: Efficiency of Risk Management*

Table 4.3 shows that the multicollinearity statistics, Tolerance and Variance Inflation Factor (VIF), confirm the validity of the regression model. All Tolerance values range between 0.62 and 0.69, while VIF values fall well below the critical limit of 10, ranging from 1.46 to 1.62. These results indicate the absence of multicollinearity among the predictor variables, ensuring that they are sufficiently independent and that the regression coefficients remain reliable.

Table 4.3 displays the findings of a multiple regression analysis conducted to assess the influence of different internal auditing dimensions on the efficiency of risk management in Palestinian commercial banks. The model incorporates four independent variables: internal auditor competence (X₁), auditor's authority (X₂), auditor's tasks (X₃), and compliance with professional standards (X₄).

The results show that the overall regression model is statistically significant, with an F-value of 81.06 and a p-value of 0.001, which is well below the standard significance level of 0.05. The model exhibits strong explanatory power, indicated by a multiple correlation coefficient (R) of 0.777 and an R² value of 0.604. This means that approximately 60.4% of the variance in the dependent variable, efficiency of risk management, is explained by the four independent variables. Furthermore, the adjusted R² of 0.596 confirms the stability of this proportion after adjusting for the number of predictors, highlighting the robustness of the regression model.

Each of the four independent variables demonstrated a statistically significant impact on the efficiency of risk management, with all p-values equal to 0.001, confirming the strong influence of each variable within the model.

Auditor's Authority showed the most substantial standardized impact on the dependent variable, with a (B) coefficient of 0.433 and a t-value of 7.242. This indicates that greater auditor authority significantly enhances the efficiency of risk management, likely by providing improved access, stronger decision-making power, and more effective enforcement of controls.

Auditor's Tasks also demonstrated a significant impact, with a (B) coefficient of 0.660 and a t-value of 5.616. This highlights the vital role of auditors' activities in assessing risks, detecting control weaknesses, and ensuring adherence to operational procedures.

Internal Auditor Competence followed, with a (B) coefficient of 0.468 and a t-value of 5.221, indicating that the auditors' professional qualifications, experience, and technical expertise play a significant role in strengthening their contribution to effective risk governance.

Compliance with Professional Standards showed the smallest yet still significant effect, with a (B) coefficient of 0.185 and a t-value of 2.934. Although its impact is less pronounced than the other variables, this finding underscores that adherence to international standards and ethical practices remains an important factor in enhancing the effectiveness of risk management.

The dependent variable was represented by the following linear relationship:

$$Y = (-3.23) + (0.433)X_1 + (0.660)X_2 + (0.468)X_3 + (0.185)X_4$$

The above equation clearly shows that a one-unit increase in Internal Auditor Competence results in a 0.433 increase in the efficiency of risk management. Similarly, a one-unit increase in Auditor's Authority leads to a 0.660 improvement in risk management efficiency. An increase of one unit in Auditor's Tasks corresponds to a 0.468 enhancement in risk management efficiency, while a one-unit rise in Compliance with Professional Standards improves risk management efficiency by 0.185.

The results indicate that while compliance with standards is essential, its practical impact may be limited unless supported by tangible authority and competencies. This implies that regulatory efforts and bank policies should not only ensure adherence to international audit standards but also

focus on enabling auditors with real authority, ongoing training, and clearly defined, risk-centered tasks.

The results indicate that the null hypothesis was rejected, and the alternative hypothesis was accepted. This means there is a statistically significant effect of internal auditing on the efficiency of risk management in commercial banks in Palestine at the 0.05 significance level.

The First Hypothesis: There is no significant effect at the 0.05 significance level of internal auditing on the efficiency of risk management in commercial banks in Palestine

To examine the first hypothesis, a simple regression analysis was conducted, and its results are presented in the following table (4.4):

Table 4.4: Findings of the Simple Regression Analysis Assessing the Impact of Internal Auditor Competence on the Efficiency of Risk Management in Commercial Banks in Palestine

Independent Variable	B	Std. Error	Beta	t	Sig.	
(Constant)	0.469	0.367		1.278	0.203	F= (82.15) sig. (0.001)
Internal Auditor Competence (X ₁)	0.830	0.092	0.525	9.064	0.001	
R = 0.525		R² = 0.276			Adjusted R² = 0.272	

**Dependent Variable: Efficiency of Risk Management*

The results presented in Table 4.4 confirm the strength of the model in evaluating the first hypothesis. The computed F-value was (82.15), with a significance level (p-value) of (0.001), which is below the accepted threshold of (0.05), indicating that the model has strong predictive capability.

Table 4.4 further reveals that the independent variable, internal auditor competence, has a statistically significant effect on the dependent variable, efficiency of risk management. This conclusion is supported by a t-value of (9.064), which exceeds the critical tabular t-value of (1.96) at the 0.05 significance level, confirming the significance of the relationship.

Moreover, the adjusted coefficient of determination (R^2) indicates that internal auditor competence accounts for approximately 27.2% of the variance in the efficiency of risk management. Based on the regression output, the relationship between the variables can be expressed using the following linear equation:

$$Y = (0.469) + (0.830)X_1$$

Y: Efficiency of Risk Management / X_1 : Internal Auditor Competence

It is evident from the above equation that an increase of one unit in internal auditor competence leads to an improvement in the efficiency of risk management by 0.830 units.

Based on the statistical analysis, the null hypothesis was rejected, and the alternative hypothesis was accepted, confirming that there is a statistically significant effect at the 0.05 level of auditor's competence on the efficiency of risk management in Palestinian commercial banks.

The Second Hypothesis: There is no significant effect at the significance level (0.05) on the auditor's competence on the efficiency of risk management in commercial banks in Palestine

To examine the second hypothesis, a simple regression analysis was conducted, and the findings are presented in the following table (4.5):

Table 4.5: Results of Simple Regression Analysis of the Effect of Auditor's Authority on the Efficiency of Risk Management in Commercial Banks in Palestine

Independent Variable	B	Std. Error	Beta	t	Sig.	
(Constant)	-0.587	0.359		-1.635	0.104	F= (148.77) sig. (0.001)
Auditor's Authority (X_2)	1.060	0.087	0.639	12.197	0.001	
R = 0.639		R² = 0.408			Adjusted R² = 0.405	

**Dependent Variable: Efficiency of Risk Management*

The results shown in Table 4.5 confirm the robustness of the model in testing the second hypothesis. The F-value calculated was (148.77), with a p-value of (0.001), which is below the significance threshold of (0.05), indicating strong predictive capability of the model.

Table 4.5 also indicates that the independent variable (Auditor’s authority) has a significant impact on the dependent variable (efficiency of risk management), as evidenced by the calculated t-value of (12.197), which exceeds the critical t-value of (1.96) at the 0.05 significance level. Additionally, the adjusted coefficient of determination (R²) reveals that Auditor’s authority accounts for (40.5%) of the variance in the efficiency of risk management. The relationship between the variables is expressed by the following linear equation:

$$Y = (-0.587) + (1.060)X_2$$

Y: Efficiency of Risk Management) / X₂: Auditor’s Authority

The above equation clearly shows that a one-unit increase in Auditor’s authority results in a 1.060 increase in the efficiency of risk management.

The results indicate that the null hypothesis was rejected, and the alternative hypothesis, stating that Auditor’s authority has a statistically significant effect on the efficiency of risk management in Palestinian commercial banks, was accepted at the 0.05 significance level.

The Third Hypothesis: There is no significant effect at the significance level (0.05) on the auditor’s tasks on the efficiency of risk management in commercial banks in Palestine

To examine the third hypothesis, a simple regression analysis was conducted as presented in the following table (4.6):

Table 4.6: Results of Simple Regression Analysis Examining the Impact of Auditor’s Tasks on the Efficiency of Risk Management in Commercial Banks in Palestine

Independent Variable	B	Std. Error	Beta	t	Sig.	
(Constant)	0.343	0.343		0.998	0.319	F= (101.06)

Independent Variable	B	Std. Error	Beta	t	Sig.	
Auditor's Tasks (X ₃)	0.863	0.086	0.565	10.053	0.001	sig. (0.001)
R = 0.565		R² = 0.319			Adjusted R² = 0.316	

**Dependent Variable: Efficiency of Risk Management*

The results shown in Table 4.6 confirm the strength of the model in testing the third hypothesis. The F-value was calculated at (101.06) with a significance level of (0.001), which is below the 0.05 threshold, indicating strong predictive capability.

Table 4.6 further indicates that the independent variable (Auditor's Tasks) has a significant impact on the dependent variable (efficiency of risk management), as evidenced by a calculated t-value of (10.053), which exceeds the critical t-value of (1.96) at the 0.05 significance level. The adjusted coefficient of determination (R²) reveals that Auditor's Tasks account for 31.6% of the variance in efficiency of risk management. The relationship between the variables can be expressed by the following linear equation:

$$Y = (0.343) + (0.863)X_3$$

Y: Efficiency of Risk Management / (X₃): Auditor's Tasks

It is evident from the above equation that a one-unit increase in Auditor's Tasks results in an increase of 0.863 in the efficiency of risk management.

The Result: shows that the null hypothesis was rejected, and the alternative hypothesis, indicating a significant effect, was accepted. This confirms that Auditor's Tasks have a statistically significant impact on the efficiency of risk management in Palestinian commercial banks at the 0.05 significance level.

The Fourth Hypothesis: There is no significant effect at the significance level (0.05) on the Compliance with Professional Standards on the efficiency of risk management in commercial banks in Palestine

To test the fourth hypothesis, a simple regression analysis was conducted, as presented in the following table (4.7):

Table 4.7: Results of Simple Regression Analysis Examining the Impact of Compliance with Professional Standards on the Efficiency of Risk Management in Commercial Banks in Palestine

Independent Variable	B	Std. Error	Beta	t	Sig.	
(Constant)	2.775	0.311		8.923	0.001	F= (10.50) sig. (0.001)
Compliance with Professional Standards (X ₄)	0.261	0.081	0.215	3.241	0.001	
R = 0.215		R² = 0.046			Adjusted R² = 0.042	

**Dependent Variable: Efficiency of Risk Management*

The results in Table 4.7 demonstrate the model’s robustness in testing the fourth hypothesis. The calculated F-value reached (10.50), with a probability value of (0.001), which is less than the significance level of (0.05). This indicates that the regression model is statistically significant and possesses high predictive power in explaining the effect of Compliance with Professional Standards on the efficiency of risk management in Palestinian commercial banks.

Table 4.7 also indicates that the independent variable, Compliance with Professional Standards, has a statistically significant effect on the dependent variable, efficiency of risk management. This conclusion is supported by the calculated t-value of (3.241), which exceeds the tabular t-value of (1.96) at a 0.05 significance level.

Furthermore, the adjusted coefficient of determination ($R^2 = 0.042$) reveals that Compliance with Professional Standards accounts for approximately 4.2% of the variance in the efficiency of risk management. This suggests a modest, yet statistically significant, influence of professional standard compliance on risk governance effectiveness.

Accordingly, the linear relationship representing the effect is given by:

$$Y = (2.775) + (0.261)X_4$$

Y: Efficiency of Risk Management / (X₄): Compliance with Professional Standards

It is clear from the above equation that an increase in Compliance with Professional Standards by 1 unit leads to an increase in the efficiency of risk management by 0.261 units. This reinforces the conclusion that, although the effect size is relatively modest compared to other dimensions, adherence to professional standards still plays a meaningful and statistically significant role in enhancing the effectiveness of risk management practices within Palestinian commercial banks.

The results show that the null hypothesis, which stated that there is no statistically significant effect of Compliance with Professional Standards on the efficiency of risk management in Palestinian commercial banks, was rejected. Conversely, the alternative hypothesis was accepted, confirming the presence of a statistically significant effect at the 0.05 significance level. This outcome emphasizes that compliance with professional standards contributes positively, though to a lesser extent compared to other dimensions, to enhancing the effectiveness of risk management systems in these institutions.

Chapter Five: Conclusions and Recommendations

5.1 Conclusions

5.2 Study Limitations

5.3 Recommendations for Future Research

5.1 Conclusions

The primary objective of this study is to examine the impact of the internal auditing profession on the effectiveness of the risk management function in Palestinian commercial banks. To achieve this objective, the study adopts an analytical approach that systematically evaluates the relationship between various dimensions of internal auditing and risk management performance.

Based on the results of the data analysis, the null hypothesis was rejected in favor of the alternative hypothesis, indicating that internal auditing has a significant effect at the 0.05 significance level on the efficiency of risk management in Palestinian commercial banks.

In addition, the first sub-hypothesis was rejected, and the alternative hypothesis was accepted, confirming that auditor competence has a statistically significant effect at the 0.05 significance level on risk management in Palestinian commercial banks.

The second null hypothesis was rejected, and the alternative hypothesis was accepted, indicating that the internal auditor's authority has a statistically significant effect at the 0.05 significance level on risk management in Palestinian commercial banks.

Also, the third null hypothesis was rejected, and the alternative hypothesis was accepted, indicating that the internal auditor's tasks have a statistically significant effect at the 0.05 significance level on risk management in Palestinian commercial banks.

In addition, the fourth null hypothesis was rejected, and the alternative hypothesis was accepted, indicating that compliance with professional standards has a statistically significant effect at the 0.05 significance level on risk management in Palestinian commercial banks.

Based on the above findings, the internal audit department significantly influences the efficiency of risk management in Palestinian commercial banks. Consequently, both executive management and boards of directors should prioritize and support the internal audit function, recognizing its vital role in enhancing risk management effectiveness. This is achieved through the optimal utilization of bank assets and resources, minimizing and preventing risks before they materialize. Furthermore, internal auditing aids in identifying and monitoring factors that impact bank profitability, improving financial and administrative performance, strengthening internal controls,

and ensuring adherence to relevant laws and regulations. All of these contributions help banks achieve their objectives, bolster their reputation, and fulfill their strategic goals and policies.

One of the most vital functions within banks is risk management, which involves identifying and mitigating all potential risks. The success of this function heavily relies on the efforts of bank staff, especially the internal auditor. Internal audit plays a crucial role in initiating and supporting risk management by evaluating and reporting to the board of directors on the effectiveness of risk management activities. It provides assurance regarding the operation and reliability of risk management processes, verifies the accuracy of risk assessments, ensures the engagement of key management personnel, and reviews critical risk management procedures. The internal auditor is tasked with ensuring the integrity of the bank's risk management system. If any weaknesses or deficiencies are detected, the internal auditor notifies bank management and acts as an advisor by recommending measures to strengthen the risk management function. To achieve an effective risk management audit, coordination and integration between the internal audit function and the risk management department are essential, while preserving the independence of each department.

Based on the findings of this study, it is recommended that bank management and boards of directors grant the internal audit department full professional authority to carry out all necessary tasks related to risk management. Empowering the internal audit function in this way will assist banks in clearly defining their objectives, as well as effectively implementing the policies and procedures established by the board of directors.

5.2 Study Limitations

This study faced certain limitations that should be acknowledged. Firstly, there was limited access to employees working in the internal audit and risk management departments located in the Gaza Strip, whether through online communication or phone interviews. Secondly, due to the relatively small number of commercial banks operating in Palestine, the sample was drawn from all available employees within the internal audit and risk departments of these banks. This approach was necessary to ensure a sufficient number of responses to the study's questionnaire.

5.3 Recommendations for Future Research

Based on the findings of this study, it is recommended that future research expand the study population to encompass a wider range of organizations. This should include all types of companies, whether publicly listed, private, insurance, or banking institutions, as well as non-profit organizations. Such an expansion is warranted given the demonstrated significant impact of internal auditing on the effectiveness of risk management across different organizational contexts.

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Appendix

Questionnaire

This survey aims to identify the “*The Impact of Internal Auditing on Risk Management Efficiency in Commercial Banks in Palestine*”, as a requirement for obtaining a master’s degree in Accounting and Auditing from the Arab American University in Ramallah.

We hope that you will kindly read the paragraphs contained in this questionnaire carefully and answer what is stated therein objectively by placing a mark (√) in front of the answer that expresses your point of view.

Your cooperation with us will be a reason for the success of this research, knowing that the information contained in this questionnaire will be confidential and is for scientific research purposes only.

Please express the utmost respect and appreciation.



First Domain: Internal Auditing

(1) Auditor's Competence

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Internal auditor appointments require professional certifications.					
2.	Appointment requires professional experience in accounting operations.					
3.	The internal auditor provides recommendations in a formal audit report.					
4.	Regular training helps the auditor stay updated in auditing and risk management.					
5.	A sufficient number of certified auditors are recruited.					
6.	Auditor is familiar with risk-related policies set by management.					
7.	Board approves policies ensuring auditor incentives and training.					
8.	Audit tasks are executed per international auditing standards.					
9.	Auditor is assigned executive tasks by bank management.					

(2) Auditor's Authority

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Board grants necessary authority for auditors to perform duties.					
2.	Internal audit charter approved by board clarifies role and responsibility.					
3.	Auditor can select and inspect audit activities.					
4.	All auditor requests are responded to during audits.					
5.	Auditor has authority for surprise inventory checks.					
6.	Auditor is free to communicate with all bank units.					
7.	Auditor can inquire about operational risk matters from management.					
8.	Auditor's authority allows evaluation of credit risk management.					
9.	Auditor verifies dual controls in banking operations.					

(3) Auditor's Tasks

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Auditor checks adequacy of controls to enhance operational risk management.					
2.	Auditor ensures controls are suited to nature of operational risks.					
3.	Auditor verifies effectiveness of controls over banking systems.					
4.	Auditor verifies efficiency of internal controls on systems and records.					
5.	Auditor evaluates controls preventing operational risks.					
6.	Positive link between audit evaluations and risk management efficiency.					
7.	Positive link between internal audit effectiveness and reduced credit risk.					
8.	Auditor gives risk-related recommendations to the board.					
9.	Risk management controls are updated based on audit recommendations.					

(4) Compliance with Professional Standards

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Auditors comply with IIA international standards.					
2.	Reports follow internationally approved professional practices.					
3.	Auditors adhere to professional conduct and integrity.					
4.	Audit tasks are reviewed periodically for standard alignment.					
5.	Auditors receive continuous training to enhance standard compliance.					
6.	Internal audit adopts procedures aligned with good governance.					
7.	Auditor performance is evaluated based on professional standards.					
8.	Internal audit maintains independence and objectivity.					
9.	Confidentiality and neutrality are upheld in all audit stages.					

Second Domain: Efficiency of Risk Management

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Bank has a written operational risk policy.					
2.	Bank management discloses all potential risks with transparency.					
3.	Bank has a clear policy for risk assessment and monitoring.					
4.	Bank submits operational risk reports to the board.					
5.	Bank periodically reviews risk-related policies for improvement.					
6.	Understanding operations and internal controls enhances risk management.					
7.	Bank conducts training workshops on handling operational risks.					
8.	Institution monitors risks to improve systems and staff training.					
9.	Bank sends regular reports on operational risks to the monetary authority.					

الملخص

هدفت هذه الدراسة إلى معرفة أثر التدقيق الداخلي على تحسين كفاءة إدارة المخاطر في البنوك التجارية الفلسطينية. يتناول هذا البحث أهم التقنيات والأدوات والأساليب المالية المستخدمة لمعرفة أثر التدقيق الداخلي على كفاءة إدارة المخاطر في البنوك التجارية الفلسطينية. لاختبار فرضيات البحث، استخدم الباحث المنهج الوصفي التحليلي، وذلك بتصميم استبانة تتضمن عدة أبعاد لقياس دور التدقيق الداخلي في كفاءة إدارة المخاطر في البنوك. ورَّع الباحث الاستبانة على جميع موظفي دائرة التدقيق الداخلي وإدارة المخاطر في البنوك التجارية الفلسطينية، وبلغ عدد الردود 218. أظهرت النتائج وجود تأثير إيجابي ذو دلالة إحصائية بشكل كبير بين التدقيق الداخلي وكفاءة إدارة المخاطر في البنوك التجارية الفلسطينية. قام الباحث بجمع الاستبانات واحتساب تأثير التدقيق الداخلي على كفاءة إدارة المخاطر باستخدام Z-score. أظهرت النتائج أن للتدقيق الداخلي في البنوك التجارية الفلسطينية تأثيراً إيجابياً ودلالة إحصائية كبيرة على كفاءة إدارة المخاطر في البنوك التجارية الفلسطينية.