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The Distress of Bank Debt and the Role of Internal Audit in Scaling it

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Abstract

Internal audit was able to reduce the huge losses faced by international institutions as a result of mismanagement, fraud and corruption. It has been able to highlight weaknesses in internal auditing systems, uncover shortcomings in the administrative system, and work to improve risk management efficiently and effectively. Although the internal audit department does not generate financial returns, it has become an important and complementary part of the organizational management structure, and has become one of the most important departments in institutions. The internal audit performs many activities that help strengthen corporate risk management, evaluate governance performance, enhance oversight, and provide consulting and assurance services. Thus, it is a fundamental pillar of the management process. Hence, the function should receive adequate attention by depending on international standards or enhancing local standards for the internal audit function, which will be reflected in raising the quality of its work, especially in Iraqi banks. These banks suffer from low quality work provided by their external audit departments. (Fleih, Hadi, 2020: 92). Therefore, internal audit plays an important role in managing distress of Iraqi banks debts. The more effective the internal auditing system is in crisis management, the more positive the effect on managing distressed debts. Thus, this study sheds light on the role of internal audit in limiting the distress of bank debt in light of technological variables and financial inclusion.

Keywords: Bank Debt, Internal Audit, Role.

• Introduction

Bank debts distress provides a great opportunity for both the banking sector and investment companies to identify financial and future needs and prepare for them. Moreover, this allows them to enact policies and corrective plans at the right time since the bank debts distress is one of the common phenomena that are not limited to a certain country or specific sector. The reasons could be due to internal and other external causes, the features of which are clearly shown in the form of liquidity deficits, weak financial structure and low profitability.

Financial distress is a decrease in the value of assets compared to the value of liabilities, and this occurs as a result of not exploiting investment opportunities in the best possible way. Therefore, the company or banks will suffer from financial hardship as a result of following ill-conceived policies in their production operations. Bank debts distress is associated with several general terms: financial hardship, bankruptcy, default, and predicting corporate or bank financial distress is of great importance in the field of financial management in particular, due to the major damages that companies or banks' distress entails for stakeholders.

Predicting distress also achieves many positive benefits for those who predict it in a timely manner,

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as it allows them to take the necessary measures to address it in its early stages on the one hand, and avoid reaching bankruptcy and liquidation on the other hand. The bank debts distress does not occur quickly, but goes through several stages: the emergence stage, the cash flow decline stage, the failure stage, and the bankruptcy declaration or confirmation stage, which will be addressed in this chapter. Consequently, the researcher has divided this chapter into two main sections:

Section One: A Conceptual Introduction to Bank Debt Distress

Section Two: Measuring Financial Distress and the Role of Internal Audit in predicting it.

• **The Study Problem**

The study problem is stemmed from the following questions:

1. Is there a role for internal audit in Iraqi banks to limit the distress of bank debt?
2. Are the procedures taken by Iraqi banks to address cases of bank debt distress effective?
3. Is there a correlation or effect between internal audit and bank debt distress in light of technological variables and financial inclusion?

• **Goals of the Study**

The present study aims at:

1. Emphasizing the real role of internal audit in society and the business environment, and changing the stereotypical and negative image of it as a seeker of errors and material misstatements.
2. Identifying the concept, importance and means of internal audit, and the standards related to it and the relationships associated with it, due to its effective role in improving the performance of Iraqi banks.
3. Determining the role of the Internal Audit Authority, and demonstrating the role of international and ethical standards in enhancing the effectiveness of internal audit.

• **Importance of the Study**

Internal audit is of great importance in improving bank performance and is an important part of the corporate governance structure within the institution. Internal audit represents the oversight activities carried out by the Board of Directors and the Audit Committee to ensure the integrity of the financial reporting process. The Institute of Internal Auditors (IIA) may see that internal audit supports and enhances organized performance mechanisms, evaluates effectiveness, and improves risk management. (Coram et al, 2010: 6).

The study importance stems from the importance of the role played by banks. They play a prominent role in several areas including savings and providing banking facilities as well as opening bank accounts. Since banks are public benefit financial institutions that depend on the public system which consists of a set of public benefit needs that the legislator gave them protection status, these banks had to maintain the public interest and the trust placed in them by the state and customers. Here came the role of internal audit because of its great effect on protecting Iraqi banks from deterioration and collapse because of its methods and evaluations that help control the work.

Section One: A Conceptual Introduction to Bank Debt Distress

1.2. The Concept of Financial Distress and Distinguishing its Terms

The issue of financial distress in banks and companies has become one of the main topics discussed in various accounting studies. Financial distress is one of the important issues that many public and private companies and banks have faced, due to its negative effects on companies, banks and investors, as well. Thus, the need has arisen to study this variable, analyze it and predict it to assist decision makers in making appropriate and correct investment or financing decisions. (Kerroucha et al., 2016:20)

The distress or bankruptcy of companies (including the legal proceedings for corporate bankruptcy reorganization) is an economic reality that reflects the unique nature of most global companies (corporate death), and the phenomenon of financial distress of bank debts received some exposure during the seventies, and more so during the recession years (1980- 1982).

Interest in this phenomenon (financial distress) increased during the great default and bankruptcy in the period between (1989- 1991), and unprecedented interest in the corporate catastrophe in the period (2001- 2002), and this phenomenon will remain under study and analysis in the future as long as work will be done in an environment fraught with ambiguity and uncertainty and contains a lot of sudden events (Altman & Hotchkiss, 2006: 3).

Financial distress has been studied for decades, although existing research has been dominated by studies that seek to predict distress, and that studies focusing on identifying the causes of businesses' financial distress are fragmented and often cover narrow areas (Lukason & Hoffman, 2015: 45).

Financial distress of debt is associated with several general terms, financial hardship, bankruptcy, default (Agostini, 2018: 13), so these terms will be clarified as follows:

- 1- Financial hardship: Financial hardship represents an intermediate stage between financial health and potential bankruptcy (Pozzoli & Paolone, 2017: 6). (Muller et al., 2009: 22) describes financial hardship as the stage in which the company or bank is unable to continue its work and therefore includes: bankruptcy or restructuring.
- 2- Technical hardship: It is the real precursor to financial failure and technical hardship refers to the company's inability to meet its financial obligations (Younes, 2022: 346), and a set of literatures that adopt this approach determine financial hardship quantitatively by several financial indicators as criteria for detecting liquidity, and the state of financial hardship is associated with not achieving the pre-set target returns, and the beginning of financial hardship is determined in the first year in which operating income is less than interest and tax costs .(Pozzoli & Paolone, 2017: 6)
- 3- Bankruptcy: It is the company's inability to pay financial obligations when they are due, and it is the highest degree of failure. Bankruptcy represents the final stage of the company's or bank's life cycle (Al-Amiry, 2010: 241). Bankruptcy is the legal mechanism adopted to allow creditors to take responsibility when asset values decrease to the degree of default, and in fact, bankruptcy occurs when shareholders exercise their right to default. Accordingly, the principle of bankruptcy means that when a company faces financial problems, shareholders exploit the terms of liability and decide to leave the company in the hands of creditors. Bankruptcy is the natural or likely consequence of financial hardship, and therefore bankruptcy is a tool adopted to deal with financial hardship conditions. (Patti, 2015: 13).

- 4- Financial distress: It is the decrease in the value of assets compared to the value of liabilities, and this occurs as a result of not exploiting investment opportunities in the optimal manner. Hence, the company or bank will suffer financial hardship (Agostini, 2018: 13).

Table No. (1) shows the phenomenon of difference in financial distress terms.

1.2 The Importance of Predicting the Financial Distress of Debt

Predicting the financial distress of corporate or bank debt is of great importance in the field of financial management in particular, due to the great damages resulting from their distress to stakeholders in the company or banks. Predicting distress also achieves many positive advantages for those who expect it in a timely manner, as it enables them to take the necessary measures to address it in its early stages on the one hand, and avoid reaching bankruptcy and liquidation on the other hand. The importance of predicting financial debt distress stems from the interest of many parties in this issue, as predicting distress is of great importance to the following parties (Al-Rafai, 2017: 26-25):

- 1. Management:** it is an important issue to identify indicators and causes of financial distress and ways to address them, and they may also be prone to dismissal due to the company's exposure to such circumstances. The company or bank management team develops and implements the company's strategy under the supervision of the CEO or general manager, and therefore, it is the first responsible for the results achieved, which makes anticipating the future situation necessary to take appropriate corrective actions (Abbas et al., 2018: 130).
- 2. Investors:** Investors are interested in predicting corporate or bank distress to rationalize their investment decision-making process and choose between available alternatives, and avoid high-risk investments. It is certain that the importance of predicting distress may differ depending on the nature of investors, between current and future investors, equity holders and bondholders (Musa, 2021:18).
- 3. Creditors:** Banks and other lenders can be considered the most important beneficiaries of predicting corporate financial distress. One of the most important activities they carry out continuously is assessing the credit risk of their clients, and therefore it is very important for them to determine the size of risks and methods of managing them. Moreover, the strategy of dealing with distressed clients, and the terms of granting credit, including applicable interest rates, methods of payment and guarantees provided (Al-Rafai, 2021: 26).
- 4. Auditors:** They are responsible for auditing and reviewing the financial statements of those companies and banks, and certifying their correctness and the extent to which they truthfully express their financial position and the result of their activity, which makes it possible to identify risk points in them and the appropriateness of the return on funds invested in them (Safiya, 2014: 10).

1.6. Methods of Handling Financial Distress in Banks

The issue of handling financial distress can be viewed from three angles: the first is desire, the second is ability, and the third is methods of treatment. The desire of financial management, owners and creditors is whether the bank continues to operate or not, which is one of the main influencing reasons in choosing the appropriate treatment, in addition to the ability to succeed and support the proposed treatment method. Increasing desire and availability of ability makes management choose one of the solutions such as restructuring, merging, etc. The lack of desire and weak ability makes the choice limited to the lower solutions of liquidation or sale (Hajr, 2018: 45). There are many ways and means that banks can follow to treat financial distress, and these means may overlap or one or more of them may be used to treat it. These means are: (Khawaled, Dahmani, 2015: 46-40) (Al-Janaby, 2013: 75-69):

2.1.6.1 Restructuring Strategy

Adopting a new strategy will help banks address areas of dysfunction that led some to financial distress. One of these strategies is the restructuring strategy, which is intended to adopt a set of activities and events that are designed to increase organizational efficiency and improve the bank's competitive ability. The main purpose behind this is to raise both efficiency and effectiveness (([www.al hayat.com](http://www.alhayat.com)). It does not only include financial restructuring, but it is necessary to include administrative restructuring, which includes management and other departments so that the two are harmonized and their efforts are combined to achieve effective results that can overcome weaknesses and strengthen positives. Restructuring includes the following aspects (Ruqaya and Al-Zahra, 2016:30).

1- Financial Restructuring

The bank restructures financially to maintain its liquidity and ability to continue its activity. Or, the bank transfers ownership to another bank, by conducting a detailed analysis to identify the causes of the bank's insolvency. Then revaluing the bank and studying the available restructuring alternatives and providing periodic technical advice to customers, and monitoring performance until full debt repayment or improvement of the financial situation. Finally, it works on assisting to control the accounting systems used in the bank and studying the available means of providing financial funding, and studying the investment opportunities available to the bank. Furthermore, bank's continuous follow-up and full utilization of its capabilities, expertise and relationships in this field to provide the best opportunities to achieve successful financial structuring (www.acc4arab.com). The most important methods followed by the bank are (Gottardo & Moisello, 2018:6 60) (Du Jardin & Severin, 2012:267)):

- **Assets Revaluation**

Revaluing assets allows the bank ample scope to employ funds of bank's accumulated deposits, capital and loans from others in light of the bank's need for primary and secondary reserves to lend and invest. When revaluing all or some assets, this is done based on market value and not book value. This leads to improving the debt-to-equity ratio (Horen, 1995:123).

- **Increase the Bank's Capital**

Some banks resort to increasing their capital, especially if banks can achieve profits in the future when they have the necessary liquidity by issuing new shares. However, this method faces some criticism as banks only resort to it in the event of financial failure. In addition, the process of offering new shares may not find acceptance from shareholders due to their fear of the bank's condition and future circumstances (Gamba & Triantis, 2008: 2236).

- **Increasing Cash Inflows**

Many banks follow strategies that positively affect incoming cash as increasing cash in all three activities that cause cash flow, which include operating, investing and financing activities. Incoming cash flows from operating activities include cash receipts from customers, interest and short-term financial investments. While incoming cash flows from investing activities include flows resulting from the sale of fixed assets and the sale of long-term securities and those resulting from loan recovery. As for incoming cash flows from financing activities, they include flows from issuing common shares, issuing bonds and borrowing cash (Gamba & Triantis, 2008: 2236). In general, incoming cash flows consist of receiving cash in return for

banking services provided to customers by selling certain assets, receiving interest accrued on an investment, and owners investing in the bank (Danilov, 2014: 18).

The researcher believes that early detection of financial distress is the key to methods and means of treatment and is a prevention before treatment, as the saying goes. The more regularly the company follows detection procedures on the results of its operations and financial position, the earlier the detection of distress in the early stages, the easier it is for the bank to find solutions, treatments or maneuver between the means available to it, because it has provided sufficient time to take the necessary actions through early detection of financial distress.

Section Two Measuring Financial Distress and the Role of Internal Audit in Predicting it

2.2.1 Financial Distress Prediction Models

Financial distress prediction models can be divided into two sections: before and after the nineties. Before the nineties, financial distress prediction techniques were dominated by static (single period) rating models, which tried to find unique characteristics that distinguish between successful and failed companies. It started with P. J. Fitz Patrick (1932), who was considered the first researcher to use univariate analysis to compare successful and failed industrial companies. Then, (Beaver, 1968) and (Altman, 1968) provided subsequent research to shed light on a mix of financial ratios to predict financial distress, when the process of distinguishing between failed and healthy companies began. The adoption of Altman's Z-score scale became prevalent and these models formed the basis for various applications, including the selection of securities portfolios and credit assessment (Kiaupaite-Grushniene, 2016: 222). These models are:

2.2.1.1 Beaver Model, 1966

Beaver (1966) defined distress as the inability of a company or bank to meet its financial obligations when due. Beaver applies a univariate statistical analysis in his model to predict corporate distress, comparing the methods adopted by distressed companies or banks with those of non-distressed counterparts. It shows that distressed companies have low financial ratios. In the five years before bankruptcy, the financial ratios of distressed companies are lower than the financial ratios of healthy companies (Pozzoli & Paolone, 2017: 12).

Beaver set three criteria for selecting ratios to analyze a set of distressed companies in the five years before distress: (Pozzoli & Paolone, 2017: 12)

- Use the ratios applied in studies.
- Performance of ratios in previous studies.
- Use of ratios within the "cash flow" theory framework.

He compared (79) distressed companies with (79) non-distressed companies, with distressed companies identified in Moody's industrial directory during the period 1954-1964. After obtaining the financial data for both groups up to 5 years before bankruptcy, Beaver identifies 30 ratios between the two groups. These 30 ratios were selected based on previous studies, identified in terms of cash flow as shown in Table (4) below:

Table (1): Beaver Ratios, 1966.

Fourth Group: Liquidity to Total Assets Ratios		First Group: Cash Flow Ratios	
<ol style="list-style-type: none"> 1. Cash to total assets 2. Marketable investments to total assets 3. Current assets to total assets 		<ol style="list-style-type: none"> 1. Cash flow to sales 2. Cash flow to total assets 3. Cash flow to net income 4. Cash flow to total debt 	
Working capital to total assets			
Fifth Group: Liquid Assets to Current Liabilities Ratios		Second Group: ratios of Net Income	
<ol style="list-style-type: none"> 1. Cash to current liabilities 2. Marketable investments to current liabilities 		<ol style="list-style-type: none"> 1. Net income to sales 2. Net income to total assets 3. Net income to net worth 4. Net income to total debt 	
Current ratio (current assets to current liabilities)			
Sixth group: Sixth Group: Turnover percentage		Third group: percentage of Debt to Total Assets	
<ol style="list-style-type: none"> 1. Cash to sales 2. Accounts receivable to sales 3. Inventory to sales 4. Marketable investments to sales 5. Current assets to sales 		<ol style="list-style-type: none"> 1. Cash flow to sales 2. Cash flow to total assets 3. Cash flow to net income 4. Cash flow to total deb 	

Source: Pozzoli, M., & Paolone, F. (2017). *Corporate Financial Distress: A Study of the Italian Manufacturing Industry*. Springer.

Based on this model, a certain point is determined (called the cutoff point). If the company's ratio is lower than this point, the company is classified as distressed, and if higher, the company is classified as non-distressed. Using this method, Beaver identifies the three strongest ratios: (cash flow/total assets, cash flow/total debt, net income/total debt), then classifies companies based on cutoff points (Pozzoli & Paolone, 2017: 12).

2.2 2.1 (Altman Model), 1968

The Altman model is one of the adopted measures for predicting distress. Altman developed what is known as the Z-Score model, which depends on data from a group of American manufacturing companies. Therefore, this model has become widely used. Altman used five financial ratios (independent variables) that are important ratios for predicting distress, and the mathematical formula for this model is given by the following equation: (Adriatico, 2019: 644)

$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5$$

Where

Z: Dependent variable (distress indicator used to predict distress or non-distress).

X1: Working Capital ÷ Total Assets

X2: Retained Earnings ÷ Total Assets

X3: Earnings before Interest and Taxes ÷ Total Assets

X4: Market Value ÷ Total Assets

X5: Sales ÷ Total Assets

The coefficients (0.012, 0.014, 0.033, 0.006, 0.999) represent the weights of the function variables, and indicate the relative importance of each variable. Based on this model, companies

are classified into three categories according to their ability to continue. According to the Z value equal to 2.99 as follows: (Altman, 2018: 10)

- 1- If $Z \geq 2.99$, the company is healthy and viable.
- 2- If $Z < 1.81$, this means the company is distressed as its performance is low.
- 3- If $1.81 < Z < 2.99$, the company is operating in the gray area, so there is a need for a detailed study of the company's situation, as it is difficult to determine whether the company is distressed or not.

5- The Role of Internal Audit in Predicting Financial Distress

Internal audit is considered one of the important functions in institutions due to the great expansion in business and the major developments that have occurred in the financial and administrative fields, and the increased intensity of competition between companies and banks. Thus, the inability of management to carry out the regulatory functions entrusted to it. There have been many recent developments in internal audit, whether in terms of scope, independence or organizational affiliation, general standards, the emergence of the Audit Committee, the role and responsibilities of the internal auditor, and other developments that have given this function new dimensions (Ruqaya and Al-Zahra, 2016: 1). Financial distress is a phenomenon faced by all institutions because they operate in an environment fraught with many diverse risks that threaten their existence and increase the likelihood of their exposure to financial distress, resulting in negative effects at the management and investors level, the national economy and society as a whole (Kadri et al., 2018: 4).

The International Auditing and Assurance Standards Board (IAASB) has issued International Standard on Auditing (ISA) 570 in response to the emergence of financially significant misstatements and accounting errors with relative importance, and the auditors' failure to detect them on one hand. There is controversy surrounding the auditors' role in reporting instances of financial distress that may be encountered by the audited management on the other hand, which are as follows:

First: Imposing Continuity and the Principle of Historical Cost

Given that the historical cost approach is widely accepted in everyday life and that the assumption of a company's continuity justifies the application and spread of measurement according to historical cost as usual, most accounting scholars believe that the going concern assumption is the basis on which traditional accounting measurement depends. This is the prevailing view in accounting literature (Galassi,2020:29).

Second: Imposing Continuity and Imposing Periodicity

This assumption requires dividing the life of the company and bank into time periods, applying continuity to functional periods, and showing accounting treatment using accounting procedures at the end of the economic period, the financial period, and previous periods (IFRS,2010:23).

Third: Imposing Continuity and the Principle of Revenue Realization

This assumption greatly affects the calculation of the company's and bank's profit and financial position because it also delays the assessment of the unit's financial situation until after the end of its life, profit or loss is determined by the continuous evaluation of the performance or failure of operations related to the company and bank (Ritchi et al.,2016:3).

Fifth: Imposing Continuity and the Principle of Caution

In terms of not recognizing unrealized profits and potential gains until they are realized and recognizing all expected losses, it is a matter of caution and caution about the restrictions that also agree with the going concern assumption. Through the concept of caution, we find that it can only be applied in the case of the existence of a going concern assumption (Essa et al., 2014: 85).

Sixth: Imposing Continuity and Accrual Basis

According to the accrual basis, revenues are considered realized when the asset is transferred from the unit to the customer, whether its monetary value has been collected or not, i.e. the revenues of the accounting period. The accrual basis was built on the fact that the economic unit continued to operate for more than one fiscal year (Kiesio,2016:25).

The researcher believes that this is a warning or early warning about the financial distress suffered by companies or banks and the possibility of their failure and cessation of activity. Auditors must take the necessary steps to assess management's ability to continue, and their report should include an explanatory paragraph regarding this ability. According to the bank or company management, it will continue to operate in the foreseeable future for at least one fiscal year unless there is information to the contrary. As a result, the assumption is used that assets will be realized and liabilities will be settled at the specified time to record assets and liabilities.

The internal auditor has a major role in detecting material misstatements and discovering fraud in the financial statements. This has increased the interest of auditors and researchers in raising the role of the profession and the efficiency and effectiveness of the auditor's performance. Through his profession, he can warn of risks that may lead to the failure of banks or companies in the future. Predicting distress early on is very important for many stakeholders, and thus intervening and taking appropriate corrective action before the company or bank ultimately fails. To judge the performance of management, the financial analyst resorts to evaluating financial performance, as financial performance is a tool to judge the efficiency and level of activity of the company or bank and the extent to which it achieves its effective goals.

Practical Aspect

1. Results of Testing the First Main Hypothesis

To test the first hypothesis, which states that (there is a relationship of statistical significance between internal auditing and mitigating bank debt distress), the responses of the sample individuals regarding the variables were analyzed. The correlation was measured using SPSS V.26 software with Pearson correlation test. The results are as shown in Table (1).

Table (2): Correlation Matrix Between Internal Auditing and Bank Procedures to Mitigate Bank Distress.

variable		Y
Pearson Correlation	0.773**	
Sig. (2-tailed)	.001	X
N	404	

The results in Table (2) show a relationship of statistical significance between internal auditing and bank procedures in mitigating bank distress, with a coefficient of 0.773, representing a

strong relationship, and at a significance level of 0.001, with a confidence level of 99%. This indicates banks' interest in internal auditing to mitigate bank distress. Iraqi banks should pay more attention to internal auditing to ensure the mitigation of bank distress. Based on this, it is evident that the first hypothesis, stating (there is a relationship statistical significance between internal auditing and bank distress), is accepted.

1. Results of Testing the Fourth Main Hypothesis

The fourth main hypothesis states: "There is an effect of statistical significance of internal auditing on bank procedures in mitigating bank distress."

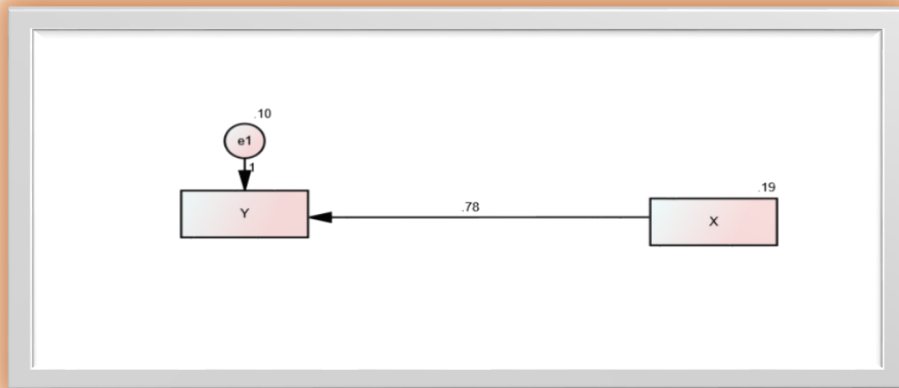


Figure (2): The Path of Regression Specific to the Fourth Study Hypothesis according to the Structural Equation Modeling Approach.

Table (3): Regression Weights Specific to the Fourth Study Hypothesis Estimate.

Direct Regression Paths	Effect Value	Standard Error SE	Critical Value CR	Significance P	R2	Result
Y <--- X	0.778	0.036	21.463	***	0.53	Hypothesis accepted

From Figure (3), it is evident that there is a positive effect of statistical significance of the internal audit variable, as indicated by the standard coefficient of the effect value (0.778). Moreover, from Table (3), the coefficient of determination (R2) is (0.53), which means the internal audit variable is capable of explaining 53% of the variations in bank procedures in mitigating bank distress in the study's sample banks. The remaining percentage (47%) is attributed to other variables not addressed in the study model. Furthermore, the critical ratio (C.R.) value presented in Table (3) is (21.463), greater than (1.96), with a significance value (P.value.) of (0.000), which is less than 0.05. This indicates a significant level of effect of internal auditing on bank procedures in mitigating bank distress for the study's sample banks. The more they adopt internal auditing and focus on performing its tasks effectively, the more positively it reflects on increasing the mitigation of bank distress. Based on the above, the fourth main hypothesis can be accepted.

It is noteworthy from these results that there is a relationship of direct effect of internal auditing on bank procedures in mitigating bank distress and an indirect effect of internal auditing on bank procedures in mitigating bank distress through the mediating role of variables.

1. Results of Testing Correlation Hypothesis

The results of the hypotheses that sought to test the effect of internal audit on bank procedures in mitigating bank distress (financial distress) and its effect on the variables of technology and financial inclusion. Moreover, the effect of technological variables on procedures to mitigate bank distress and their ability to mediate the relationship between internal audit and bank procedures in mitigating bank distress (financial distress), can be summarized in the table below:

Table (4): Summary of Results of Testing the First Main Hypothesis.

Hypothesis No.	Main hypothesis	Type of correlation	significance	Result
1	There is a statistically significant positive relationship between internal auditing and mitigating bank distress	positive	Significant at 5%	Accepted

The study's results align with the findings of Hashim and Abdulzahra (2015), who indicated that changes occurring in the internal and external work environment have led to the emergence of major risks threatening companies' survival and continuity. Therefore, companies must manage these risks to achieve their goals. This has led to the emergence and widespread adoption of the risk management concept among companies, highlighting the need for companies' management to ensure that the risks they face are under control and that the measures used to reduce these risks are appropriate and sufficient for confrontation. This role has been assigned to the internal audit function, thus leading to the emergence since the mid-1990s of the concept of risk-based internal auditing. The occurrence of such extensive changes in the internal audit work environment has highlighted a deficiency in the traditional model's ability to meet these requirements. Consequently, there has been a pressing need to redesign the traditional model of the internal audit function to provide companies' management with assurance regarding the risks facing the company. This is also in agreement with the study of Binalqama and Sahehi (2018).

1- Results of Testing the Effect Hypotheses

The results of the hypotheses aimed at testing the effect of internal audit on bank procedures in mitigating bank distress (financial distress) and its effect on the variables of technology and financial inclusion. Moreover, in the effect of technological variables on procedures to mitigate bank distress and their ability to mediate the relationship between internal audit and bank procedures in mitigating bank distress (financial distress) are summarized in the table below:

Table (5): Summary of Results of Testing Effect Hypotheses.

Hypothesis No.	Sub- hypothesis	Type of Effect	significance	Result
1	There is a statistically significant positive effect of internal audit on bank procedures in mitigating bank distress	positive	Significant at 5%	Accepted

Through the results of statistical analysis and testing hypothesis to test the relationship between internal auditing and financial distress, the internal auditing showed a positive effect on procedures to mitigate financial distress (bank debt distress).

Secondly: Internal Audit Axis.

No.	Question	Strongly disagree	disagree	neutral	Agree	Strongly agree
1	Undefined role of internal auditors in the business environment and lack of clarity in their responsibilities					
2	Supporting auditors' independence through: a- Establishing auditing committees b- Mandatory and periodic rotation of auditors					
3	Supporting auditors' professional competence through: a- Specialized and precise academic qualifications b- Periods of training and practical experience as a condition for practicing the profession c- Continuous education and training					
4	Compliance of internal auditors with Basel regulations plays a significant role in the success of the auditing process in banks					
5	Compliance of internal auditors with governance principles plays a significant role in supporting their work and the success of the reports they provide to senior management.					
6	Internal auditing ensures the independence and integrity in the implementation of instructions and laws governing banking operations by senior management and departments responsible.					
7	Internal auditing aims to protect the rights of stakeholders, including employees, by ensuring compensation in case of their rights' violation.					
8	It is assumed that internal auditing has a role, in cooperation with the board of directors, in monitoring, supervising, and selecting senior management.					
9	There are continuous training, development, and educational programs to enhance the capabilities and skills of internal auditors in the field of banking internal auditing.					
10	There is a prepared manual for the work of internal auditors that outlines the procedures for conducting auditing tasks, how to plan them, and how to submit reports on the results in light of the provisions of the applicable laws and regulations through reports issued to the relevant authorities.					

Third: Financial Distress Axis.

No.	Question	Strongly disagree	neutral	Agree	Strongly agree
21	The bank management depends on financial analysis as a basis for predicting financial distress.				
22	The bank provides its lending staff with continuous advanced training courses in financial analysis.				
23	The bank provides its staff with training courses in the field of predicting financial distress.				
24	The bank's credit management uses financial ratios to measure and evaluate the bank's profitability and liquidity.				
25	The bank's credit management uses comparative analysis of financial statements from previous years.				
26	The presence of an efficient internal control system and internal auditors in the bank obviates the need to rely on financial analysis equations.				
27	The inefficiency of staff in the lending department is considered a major cause of financial distress.				
28	The weakness of the work systems in credit management is one of the causes of financial distress.				
29	Inappropriate assessment of credit risks plays a role in financial distress.				
30	The bank's leniency in taking sufficient collateral can exacerbate the process of financial distress.				

Conclusion**- Results**

The results of the first hypothesis indicate that there is a significant relationship between internal audit and the bank's procedures in reducing shareholders' equity obligations, and its value is (0.773), which is a strong relationship, and the level of significance is (0.001), that is, determining its amount (0.99). This indicates interest in internal audit in order to reduce From the damage of internal damage. The Iraqi must pay more attention to internal adjustment in order to ensure that insurance costs are covered.

The Ministry of Internal Affairs is able to explain (53%) of the changes that occur in the bank's procedures for reducing bank debt defaults in the banks of the study sample, while the remaining percentage (47%) is due to other variables that were not addressed in the study

model. As the value of (C.R.) shown in Table (33) amounting to (21.463) was greater than (1.96) and in terms of the moral value (P.value.) which amounted to (0.000) which is less than (0.05), which indicates that the level of influence of internal audit morale In the bank's procedures for reducing defaults on bank debts for the banks in the study sample, the more they adopt internal auditing and pay attention to performing their tasks well, the more we reflect positively on the increase in reducing bank debt defaults.

- Recommendations

At the end of the study, the researcher recommends that Iraqi banks rely on simple programs up to complex programs in the auditing process through the use of information technology. The use of modern electronic technologies in Iraqi banks to help auditors in their work is considered very important to raise the efficiency of banks and reduce credit risks and must It should be included in the financial instructions and decisions of the Iraqi Ministry of Finance. A model, curriculum, or scientific department specializing in electronic accounting auditing must also be legislated.

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