



## Analysis of the Areas of Integration between Policies and Regulatory Procedures under ISA 315 and Governance Mechanisms: An Analytical Study from the Perspective of External Auditors in Baghdad

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Received: 6/2/2025

Accepted: 31/8/2025

Published: 1/10/2025



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### Abstract:

The study aims to design a methodology that directs attention to areas of weakness in the control policies, procedures, and mechanisms that should be taken into account when implementing audit tasks and determining the size, nature, and extent of designing substantive tests as part of the auditor's tasks. The significance of the research is based on the following hypotheses: The first is "The auditor's assessment of control policies and procedures using an approach based on the integration of ISA315 with corporate governance mechanisms helps strengthen his opinion about the effectiveness of those policies and procedures." The researchers prepared the applied aspect of examining and analysing the policies and procedures of the international standard ISA315 and the requirements of the mechanisms through an examination form designed to collect information about activities related to governance, procedures, and instructions. The research outlines a set of conclusions, the most important of which are: Control policies and procedures based on ISA315 are effective from the auditor's perspective when they maintain the integration of information with the requirements of governance mechanisms. To achieve this, various controls must be available to examine the accuracy and completeness and delegate transaction powers. Additionally, there is a statistically significant relationship between the control policies and procedures based on ISA 315 and the governance mechanisms. Finally, a statistically significant relationship was found for the auditor's responsibility to understand the control policies and procedures and work within the governance mechanisms.

**Keywords:** ISA 315, Corporate Governance, Internal Control Policies, External Audit, Risk Assessment.

### 1.Introduction:

Well-designed control policies and procedures help achieve management objectives in three categories (Sadiq & Ahmed, 2022), which are: producing accurate reports, protecting assets as one Payment line when protecting resources and making optimal use of them and promoting sustainability (Ibrahim et al., 2019, Ghadeeb, 2024), and maintaining the business reputation in a way that ensures a positive return on investment and using assets effectively and efficiently, and adhering to laws by achieving compliance (Al Saffar & Hussein, 2020).

International Standard on Auditing ISA315 requires the auditor to understand the economic entity and its environment, including control policies and procedures, to a sufficient degree to identify and assess the risks of material misstatements. This understanding should also enable the auditor to design and perform additional tests and review procedures (ISA315, 2013) .

ISA315 is linked to ISA330. “Auditor’s Procedures to Address Assessed Risks” is the auditor’s responsibility to design and perform audit procedures that address the risk assessment. The auditors use professional judgment to determine the degree of understanding required for control policies and procedures, assess the risks of material misstatement in the financial reports, and design audit procedures. To achieve this goal, the auditor must obtain appropriate information through inquiry, for example (ISA500, 2009):

1. Inquiries to those charged with governance to understand the financial reporting environment.
2. Inquiries were directed to internal audit about the design and effectiveness of internal control and whether management had adequately addressed identified weaknesses.
3. Employees involved in recording complex or unusual transactions were consulted to evaluate the appropriateness of selecting and applying accounting policies.
4. Inquiries to the Unit’s internal legal counsel regarding compliance with laws and regulations affecting warranties and obligations.

Governance mechanisms represent practices that seek to protect the rights of stakeholders, tighten control over management performance, and monitor the external auditor's performance. These Mechanisms are typically classified as Internal or External. The internal mechanism responsibility of the Board of Directors for monitoring and holding the executive management accountable for achieving the objectives, the powers and authorities of the internal audit department, the management’s commitment to applying local and international accounting standards, the independence of the Audit Committee, and the level of use of information technology. The external governance mechanisms concern the auditor’s performance, including auditor performance monitoring mechanisms such as mandatory periodic change, the degree of his independence, and his commitment to applying local and international auditing standards. (Request, 2015).

Standard on Auditing (ISA 265) requires the external auditor to address letters to those charged with governance, and the management informs them of the information and recommendations related to the control policies and procedures. (IAASB, 2020). In addition to reporting deficiencies, which are important and worth considering in the auditor’s professional opinion (ISA265, 2009).

The study aims to design a methodology that directs attention to areas of weakness in the control policies, procedures and mechanisms that should be considered when carrying out audit tasks and determining the size, nature and extent of designing substantive tests as part of the auditor’s tasks. The main problem lies in the limited interest of economic units in developing the requirements of control policies and procedures as outlined in the ISA 315. Auditors also lack awareness of the importance of considering the integration between control policies and procedures and corporate governance mechanisms when designing audit procedures and informing officials of the evaluation results.

The checklist was completed by an audit firm contracted to review the financial reports of a private bank listed on the Iraq Stock Exchange. Due to the confidentiality of information and weaknesses, the names of the audit firm and the bank will be withheld from the practical side of the research. The audit list included a three-tier scale: integrated (2), partially integrated (1), and non-integrated (0). A questionnaire was also designed to clarify the auditor's responsibility for reporting weaknesses in control policies and procedures, as well as cases of non-integration with governance mechanisms. The questionnaire was distributed to several auditors working in audit offices and firms that provide services to companies listed on the Iraq Stock Exchange. The questionnaire data were analysed using the statistical analysis program SPSS version 28.

The structure of this paper is as follows. Section 2: reviews the relevant literature. Section 3: analyses the methodology that has been used to conduct empirical research on section 4: the results of the paper. section 5: conclusion.

## 2. Literature Review:

Smagina and Petrova examined the impact of the new requirements of revised ISA 315 on identifying and assessing the risks of material misstatement by understanding the economic entity and its environment, based on a risk-based audit approach. The aim of the research is to identify the new requirements that impact one of the most important audit steps, namely, identifying and assessing risks, in accordance with the new principles of revised ISA 315. Conclusions and significance: The updated requirements of ISA 315 affect the scope and nature of risk assessment procedures. To conduct an audit in accordance with the new requirements, entities need to train their staff and update their working papers. Audit firms and companies can use the proposed working paper models in their practical activities to reflect a risk-based approach when performing an audit (Smagina & Petrova, 2024).

Safonva and Mamushkina examine the revised requirements and recommendations of the current ISA 315 - Identifying and Assessing the Risks of Material Misstatement, and compare them with the provisions of the previous redrafted standard - Identifying and Assessing the Risks of Material Misstatement by Understanding the Entity and Its Environment. The research aims to analyse the new version of ISA 315, which reflects significant changes made in response to the Entity's changing operating environment, use of information technology, and financial reporting structure. The article identifies the most significant changes made to the revised ISA 315 and describes the status of the internal control assessment based on the relationship between the control environment, the risk assessment process, the information system, control activities, and control procedures. The article concludes that the improvements and clarifications provided by the current ISA 315—Identifying and Assessing the Risks of Material Misstatement help auditors apply audit risk models to identify and assess the risks of material misstatement (Safonova & Mamushkina, 2022).

Lubenchenko and Koriko highlight the practical aspects of implementing ISA 315. The study indicates that during the planning phase of an audit engagement, the auditor should consider industry, regulatory, and other external factors affecting financial reporting, including the adopted conceptual framework. The auditor should also analyse the characteristics of the economic unit, such as the nature of its activity, ownership structure, governance, investment patterns, organisational structure, and financing methods. ISA 315 helps the auditor form an opinion on the risks of material misstatement, which are essentially risks related to the unit's business. When planning an audit of small companies, the auditor can benefit from "economies of scale," which allow for simplified control procedures by applying control environment components in ways different from those used in larger entities. Audit procedures related to the control environment should begin with inquiries, observations, document review, and risk assessment procedures. The assessment of business risks and control measures are organized based on the client's business conditions and potential events that may indicate the presence of material misstatements in the financial reports (Lubenchenko & Korinko, 2021).

A study by Manginte aims to explore how strong internal control mechanisms contribute to enhancing corporate governance by supporting transparency and accountability within the unit, focusing on the interactive relationship between internal control and corporate governance practices. The most prominent findings indicate an impact of internal control on governance, as the components of strong internal control are associated with higher levels of transparency and accountability, risk reduction, compliance assurance, and asset preservation. The study highlights the importance of integrating artificial intelligence, data analytics, and blockchain to enhance the effectiveness of control and risk detection. It emphasises the importance of instilling a culture of integrity and ethical behavior as an effective foundation for internal control and governance. The most significant challenges are the complexity of organisational structures, limited resources, and increasing regulatory compliance requirements, especially for small and medium-sized units (Manginte, 2024).

Another study by Mangasih et al. (2020) aimed to analyse the impact of internal audit quality and internal control effectiveness on the implementation of good corporate governance (finance companies). The measurement tools used included: Internal audit quality was measured by performance, efficiency, and objectivity. Internal control effectiveness was measured by the control environment, risk assessment, control activities, information and communication, and monitoring. Corporate governance was measured by the governance framework, shareholder protection, stakeholder role, information transparency, and the roles and responsibilities of the board of directors and commissioners. The main findings were as follows: Internal audit quality has a positive impact on good corporate governance. The higher the quality of internal audit (in terms of performance, efficiency, and objectivity), the better the corporate governance practices in finance companies. Internal control effectiveness has a positive impact on good corporate governance. The presence of effective internal control (in terms of the control environment, risk assessment, control activities, information and communication, and monitoring) leads to enhanced implementation of corporate governance principles.

A study by (Wehrhahn & Velte, 2024) aims to analyse the relationship between audit committees, external audit, and internal control systems, focusing on the mutual influences between these parties to provide an integrated perspective on multilateral control mechanisms within companies. The study also seeks to highlight the importance of integrating sustainability and fraud considerations into the traditional roles of audit committees and auditors. The study relied on a systematic review of 71 quantitative studies published between 2005 and 2022, with a focus on research following the enactment of the Sarbanes-Oxley Act (SOX) in the United States. The studies were analysed according to a typology that distinguishes between the quality of internal control systems and the internal audit function, in addition to the characteristics of audit committees and external auditors (in terms of incentives and competencies), and the interrelationships between them. The most important findings were: There is a dynamic triangular network of relationships between audit committees, external auditors, and internal control systems. Audit committees with high competencies (such as expertise, experience, and appropriate size) contribute to improving the quality of internal control systems, leading to reduced external auditors' efforts. The quality of internal control systems, in turn, affects the incentives and competencies of external auditors, such as reducing audit fees, reducing audit duration, and improving auditor reports.

Bari et al conduct a study that explores the role of internal audit in combating corruption and enhancing corporate governance from the board of directors' perspective, focusing on how internal auditors contribute to uncovering control flaws, preventing fraud, promoting ethical behavior, and assessing risk and monitoring compliance. The study confirms that internal audit has become an essential part of corporate governance systems, playing a pivotal role in monitoring and controlling corruption, enhancing transparency, and ensuring continued profitability. It also highlights the importance of objectivity, competence, and independence of internal auditors.

The study concludes with the need to continuously support and develop the internal audit function, foster a culture of integrity and transparency within the unit, and encourage cooperation between internal and external audit and audit committees to achieve the best results in combating corruption and improving governance (Bari et al., 2024).

A study conducted by Al-Astal and others aims to propose a strategic framework that clarifies the relationship between internal control systems and corporate governance, focusing on the role of internal control components in enhancing the efficiency and effectiveness of corporate governance. The study relied on a review of previous literature related to corporate governance and internal control systems, with a theoretical analysis of internal control components and their impact on corporate governance. The study demonstrated a complementary relationship between governance and internal control, as each contributes to supporting and achieving the objectives of the other, providing a safer and more effective work environment (Al Astal et al., 2024).

Ibrahim et al (2029) discussed the relationship between internal control systems and governance effectiveness in Sudanese banks and measured the impact of internal control elements (administrative, financial, and audit) on governance effectiveness. The study instrument was a questionnaire directed at employees of internal audit departments in the Sudanese banking sector (Ibrahim et al., 2019).

(Ahmed & Ibrahim, 2020) discussed the relationship between corporate governance mechanisms and corporate social responsibility (CSR) reports in the Iraqi context, attempting to measure the impact of these mechanisms (such as the board of directors, internal audit, governance committee, etc.) on the level of disclosure of CSR reports. The researchers adopted a descriptive analytical approach, using financial and non-financial data from a sample of Iraqi companies listed on the Iraq Stock Exchange, which were statistically analysed using SPSS. The results showed a significant impact of some governance mechanisms (such as the size of the board of directors and the frequency of its meetings) on the level of disclosure in CSR reports. Other mechanisms had no impact, indicating a weak institutional governance structure in some companies. Disclosures vary between companies based on sector and ownership.

A study by (Abdulkareem & Mohammed, 2021) sought to measure the level of commitment of the Middle Oil Company to implementing internal control procedures, to identify the reality of control practices in one of the most important companies in the Iraqi oil sector. The researchers relied on the descriptive-analytical approach, and a questionnaire was distributed to the company's employees to collect data. The most important finding of the study is that the company applies the dimensions of the COSO framework at an average level, with an overall compliance rate of 67.25%. The highest compliance rate was in the "control environment" dimension, while "control activities" was at the lowest level of implementation. The results also confirmed a positive relationship between implementing the COSO framework and improving the effectiveness of internal control. The study recommended increasing attention to the least applied dimensions within the COSO framework, activating the control culture, and updating control procedures based on the framework.

A study conducted by Ahmed & Ibrahim (2020) aimed to enhance the quality of evaluation of banking transaction control policies and procedures by applying the non-application gap model. It also aimed to clarify the impact of shortcomings in the implementation of these policies and procedures on the quality of financial reporting. The study adopted an applied approach using a field checklist to assess the extent of implementation of control policies and procedures on eight types of banking transactions in an Iraqi private bank, relying on the non-application gap model. The gap was calculated using a seven-point scale that assesses the degree of implementation and documentation. The most important results: There was a clear disparity in the level of implementation of policies and procedures across transaction types. The largest implementation gap appeared in current account transactions (39%) and fixed assets (22%). The highest compliance rate was in foreign exchange sales (92%) and cash transactions (87%).



The greater the full compliance with implementation and documentation, the better the quality of financial reporting, and vice versa. The study is an important applied study in a developing banking environment like Iraq. It used a clear analytical model to measure the non-compliance gap and linked it to the level of financial reporting quality, paving the way for the model to be adopted in other financial sectors. However, the limited application to only one bank may reduce the generality of the results, and the fact that the bank's name was not mentioned for security reasons may hinder the study's replication in the future.

Rehman et al (2021) aimed to analyse the impact of sustainable corporate governance (SCG) on the internal audit function (IA) in listed Omani companies, applying agency and institutional theories, with theoretical reference to Chinese investments in the Sultanate of Oman. The researcher adopted a quantitative approach using a descriptive cross-sectional study design. Data were collected through an electronic tool directed at members of boards of directors, related committees, executive management, and heads of internal audit in listed companies in Muscat. The sample size was 80 companies. Key findings: The results showed a direct and statistically significant relationship between sustainable governance and the internal audit function. The study confirmed that supporting sustainable governance across boards of directors, audit and risk committees, nomination and remuneration committees, and executive management enhances the efficiency and independence of internal audit (Rehman, 2021)

A study by (Almasria, 2022) aims to understand the relationship between internal corporate governance mechanisms and the quality of the external audit process, and to identify the governance mechanisms that can influence certain aspects of external audit quality. The study relied on semi-structured interviews with external auditors in Jordan to explore how internal governance mechanisms (such as the audit committee, the board of directors, and internal audit) affect the quality of external auditing. Key findings: Internal governance mechanisms affect the quality of external auditing in several ways, including holding regular and effective meetings, ensuring auditor compliance with regulatory requirements through periodic monitoring, and improving the quality of evidence collected by the external auditor and providing valuable guidance. Communication between internal governance mechanisms and the external auditor focuses on issues such as audit findings, the effectiveness of internal controls, scope limitations, and material misstatements, thus enhancing the effectiveness of the audit process.

### 3. Methodology:

**3.1** The level of understanding required about control policies and procedures according to the International Standard ISA315. ISA315 focuses on the auditor's responsibility to identify and assess the risks of material misstatements that may occur in the financial statements, by understanding the economic unit and its environment, including control policies and procedures. The understanding includes the following (IAASB, 2020 ,Hussein & Mjyd, 2023).

1. Reviewing the positions and orientations of the Board of Directors and executive management, and their awareness regarding the applied control policies and procedures, as policies and procedures can be created without their implementation
2. Obtaining knowledge about the unit's process of estimating the expected risks, as this knowledge enables understanding how to take into account the risks related to the objectives of financial reporting, which include the objectives of financial reporting related to the preparation and publication of reliable financial statements prepared in accordance with generally accepted accounting principles, enhancing the effectiveness and efficiency of the economic unit's movement towards the optimal use of its resources, and compliance with applicable laws and instructions. (Abdulkareem & Mohammed, 2021)
3. Understand control activities, to assess the risks of material misstatements and plan the audit process. Control activities include policies and procedures related to the following: (Aljboul & abdel Megid, 2023)
  - Selecting and developing general IT control activities.

- Deploying control activities and determining what is required to be implemented.
- 4. Obtain knowledge of the accounting information system for financial reporting to understand the types of transactions and how they are recorded, processed and reported in the financial statements.
- 5. Obtain sufficient knowledge about follow-up.

### 3.2 Governance Mechanisms:

#### Internal Governance Mechanisms:

Internal governance mechanisms consist of:

**First: Board of Directors Mechanisms.** The Board of Directors is the fundamental pillar on which the effectiveness of corporate governance is built (Saleh, 2022), as it preserves the rights of shareholders through the supervisory authority over the actions of executive management, the guarantor of maximising the value of the unit (Luo & Yue, 2025). It can be said that the Board of Directors has a dual mission, which is as follows:

1. Guidance: Guiding the executive management in strategic matters, in support of the continuity of the unit's business.
2. Monitoring and supervision: The board monitors and ensures the performance of the executive management in the field of maximising value and reducing agency costs (Akhtar et al., 2021).

The board of directors nominates a group of subcommittees to protect the rights of stakeholders (Jiang & Kim, 2020), including (the Audit and Supervision Committee, the Nomination Committee, the Remuneration and Incentives Committee) (Mahdi & Hassan, 2021). These committees must be independent and include members with financial expertise.

**Second: The Mechanism of Ownership Concentration:** Ownership concentration refers to the ownership of a group of shareholders of a significant portion. This concentration of ownership leads these shareholders to increase efforts to preserve capital as they are more careful and responsible than shareholders with low ownership in the unit, which is why it play a supervisory role over the performance of the executive management (Li & Guo, 2022)

**Third: The Mechanism of Administrative Ownership:** This means the amount and importance of management in the ownership of the unit, and managers are keener to follow up on performance if their ownership is greater (Tawfik et al., 2022). Since the main reason for agency problems lies in the separation of management from owners, this in turn leads to management working to maximise its interests at the expense of shareholders' interests (Almashhadani & Almashhadani, 2022), and thus administrative ownership saves agency costs.

**Fourth: The Mechanism of Internal Audit.** Internal audit is one of the most important axes on which the success of corporate governance depends (ZINIYEL & TWUM, 2024) Internal audit has undergone significant development processes through its transformation from auditing financial activities to examining operational activities (Kaawaase et al., 2021). It has also become a neutral, objective, independent, and reassuring advisory activity that aims to add value and improve the operational processes of the economic unit (Hazaea et al., 2023). It helps the unit achieve its goals by relying on an organised approach to evaluate and improve the effectiveness of management procedures in confronting risks and imposing control and governance (AL-Sarraf & Al-Taie, 2022).

#### External Governance Mechanisms:

External governance mechanisms consist of:

**First: External Audit.** Corporate governance is described as a set of mechanisms that regulate sound practices to preserve the rights of stakeholders and shareholders. An external audit is one of these mechanisms to assure other stakeholders (Soyemi et al., 2021). The auditor plays an important role in improving the quality of financial reports (Almasria, 2022). To achieve this quality, he must compete with the audit committee regarding the quality of these reports, and with the important role played by the board of directors, especially the audit committee, in the process of selecting the auditor. The audit committee requires that the audit be of quality, which in turn encourages the selection of competent auditors.

**Second: Market Mechanisms for Unit Control.** This mechanism seeks to control the performance of executives and the board of directors (Puni & Anlesinya, 2020) When internal mechanisms fail, by purchasing loss-making unit ownership positions or acquire underperforming units.

**Third: Legislation and Laws.** Legislation and laws play an important role, and these mechanisms affect the interaction between the main actors in the governance process. This mechanism has affected not only the role played by the main actors, but also how they interact with each other. The Sarbanes-Oxley Act introduced requirements that forced the joint-stock economic units operating in the financial markets to increase the number of independent board members, and to work on strengthening the role of the audit committee in the process of preparing financial reports. It obliged the executive and financial managers to sign the accuracy of the reports, policies and control procedures, and established a mechanism for communication between the external audit and the audit committee. It gave the audit committee the responsibility of appointing and dismissing the external auditor and approving non-audit services. As for Iraq, Law (21) of 1997 and its amendments were issued regarding the affairs of public companies in the Iraqi market in terms of establishment, management and liquidation, and their subjection to the control process, as well as for banks, as Law (94) of 2004 was issued to regulate the work of the bank.

#### **4. Discussing the Results of Integrating ISA315 Policies and Procedures with the Corporate Governance Mechanisms of the Unit under Study.**

##### **4.1 Discussion of the results of analysing the areas of integration between ISA 315 and governance mechanisms and determining the size of the gap based on the checklist.**

###### **First. Control environment policies and procedures.**

The nature of the audit procedures implemented and the evidence obtained. Examining the following:

- Examining the selection of board members from the candidates after ensuring that they meet the requirements and specifications stated in Articles (106) and (121) of Companies Law 21 of 1997, amended in 2004.
- Commitment to ethical conduct standards (for bank employees), through a set of procedures, for example, annual evaluation forms. Preparing reports and taking prompt action on deviations from the established ethical conduct standards, for example, minutes of investigation committees.
- Board of Directors skills: Documented skills and experiences.
- Copies of responsibilities delegated from the board of directors to the executive management, and to the various levels of the economic unit.
- The existence of corporate governance reports announced to the stakeholders
- Examination of training contracts concluded with the technical, financial and accounting training services provider
- A copy of the incentives and rewards granted to the members of the Board of Directors, the executive management and the working individuals.
- Obtaining a copy of the organisational structure of the bank.

Table (1) shows the areas of integration of the policies and procedures of the control environment with the mechanisms of corporate governance



**Table (1)**” Integration of Control Environment Policies and Procedures with Corporate Governance Mechanisms

<b>Corporate Governance Mechanisms Requirements</b>	<b>Analysis of Areas of Integration</b>	<b>Integration Level</b>	<b>Areas of Weak Integration Identified by the Auditor</b>
Is the bank's commitment to integrity and ethical values integrated with the following: - Drawing clear lines of responsibility and accountability for all activities. - Establishing a high culture of ethical standards, integrity and professional conduct for administrators.	- Forming investigative committees in the event that an employee's behavior harms the work. - The bank is committed to publishing its financial activities through interim and annual reports on its platform in the Iraq Stock Exchange. - The bank prepares a governance report, which is announced to shareholders and stakeholders.	Integrated	- There are annual performance evaluations that include some paragraphs on the employee's commitment to ethical behavior. - The bank issued a report on banking governance in 2020, and no other report has been issued since.
Is the practice of control responsibilities integrated with the following: - The executive management has skills commensurate with the size of the unit and its risks - Providing recommendations and decisions related to banking operations such as managing deposits, loans, investments, etc.	Approving the conformity of banking operations with the laws according to Article 66, Instructions 4 of 2011 - Selecting the Board of Directors by adopting Articles 106 and 121 of Companies Law 21 of 1997, and Banking Law 94 of 2004	Partially integrated	- Internal audit follows up on the design and implementation of control policies and procedures, only when implementing annual audit programs.
Is the definition of powers and responsibilities by the bank's board of directors integrated with the following: - The board of directors appoints the managing director and determines the salary, reward and authority. It supervises his work and dismisses him.	- The managing director sets a job description for the tasks according to the Companies Law 21 - Implementing information technology systems to facilitate the exchange of information.	Partially integrated	- The bank does not take into account the management of the risks of hacking electronic systems. - The bank does not evaluate the reporting lines in terms of suitability and appropriate timing. - Weak commitment to implementing the internal audit observations, announced in its field reports

Is the bank's commitment to efficiency integrated with the following: - The Board of Directors approves the appointments of the executive management with a focus on transparency of nominations and periodic evaluation of them. - The Chairman of the Board of Directors of the bank or any member of the Board is not allowed to benefit from any interests in the contracts concluded	- The existence of annual banking performance evaluations regarding work. - The existence of instructions regarding incentives and rewards.	Integrated	- Efficiency standards are not linked to employment and training policies and procedures. - Actions are not taken towards weak or average performance. - There is no strategy for granting rewards and incentives based on the burdens assigned. - External service providers are evaluated and selected through tenders, i.e. the selection is for the lowest cost offer.
Is the bank's enhancement of accountability integrated with the following: - The Board of Directors bears responsibility for the bank, including approving, monitoring and implementing the objectives, and its governance framework.	- The Board of Directors sets the bank's work structure. According to the rules of Labor Law No. 37 of 2015.	Partially integrated	- There are no instructions specifying the nature of the work of individuals holding supervisory duties. - There is no periodic review of the declared performance measures. - The bank submitted only one report on the bank's governance in 2020

**Source:** Prepared by researchers based on the checklist and personal interviews

### Second. Risk Assessment Policies and Procedures.

The nature of the audit procedures implemented and the evidence obtained. Examining the following:

- Examining the nature of the bank's operational objectives and ensuring that they are included in the minutes of the Board of Directors meetings.
- Obtaining approval from the management on the preparation of the financial statements in accordance with the regulations and instructions of the Central Bank and international standards.
- Obtaining copies of internal audit reports showing the size and nature of the material distortions discovered, and the measures taken to prevent them, in addition to reviewing the procedures and programs of internal audit based on risks
- The nature and size of the security breaches recorded in the accounting information system
- The policy and procedures manual of the risk management department in the bank, risk management reports including estimates of banking risks (financial risks, operational risks, international risks, etc.), and ways to avoid or mitigate them.
- The management announces the unit's objectives in accordance with the laws, regulations, standards and banking frameworks.
- Obtaining copies of the compliance department reports.

Table (2) shows the areas of integration of risk assessment policies and procedures with corporate governance mechanisms

**Table (2):** Integration of Risk Assessment Policies and Procedures with Corporate Governance Mechanisms

Corporate Governance Mechanisms Requirements	Analysis of Integration Areas	Level of Integration	Areas of Weak Integration Identified by the Auditor
Is the bank's determination of objectives and risk assessment integrated with the following:	- The bank discloses the main objectives according to the Board of Directors' reports. The operational objectives are also included in the minutes of the management meetings.	Partially integrated	- The bank does not assess the relative importance of possible distortions in financial reports.
- The Audit Committee follows up on the preparation of financial statements in accordance with the regulations and instructions of the Central Bank and international standards.		Integrated	- There is a weakness in updating and reviewing performance standards.
Is the bank's identification and analysis of the risks of failure to achieve objectives integrated with the following:	- Banks are committed to Companies Law 21, Labor Law 2015, Banking Law 94, and Central Bank instructions.	Partially integrated	- The evaluation of the bank's activities is limited to some financial ratios, liquidity and trading...etc, and excludes non-financial ratios, such as ratios related to the customer, risks, and sustainable development.
- The Audit Committee, the Risk Management Committee and the Risk Department review risk management strategies before they are approved by the Board of Directors	- The bank takes into account the risks circulated by the Central Bank in the 2019 Supervisory Work Guide only.	Integrated	- It does not take into account information technology risks, the risks of material misstatements of fundamental importance. And taking the necessary measures to address or mitigate damages in the event of their occurrence.

**Source:** Prepared by researchers based on the checklist and personal interviews

### Third: Policies and procedures of control activities

The nature of the audit procedures implemented and the evidence obtained. The following was examined:

- A copy of the policies and procedures for processing banking transactions approved by the bank, ensuring the legality of all documents and restrictions as they are signed by the regulator, authorised persons (A) and (B), audited and contain the authorised seals.
- Expenditure operations implemented by the bank on information technology, development plans approved by the Board of Directors on developing information technology, information technology policies and procedures set by the bank, and the research sample.
- The internal control policies and procedures guide in the bank, and evaluation reports are implemented by the control department.

Table (3) shows the areas of integration of control activities, policies and procedures with corporate governance mechanisms.

**Table (3):** Integration of Control Activities, Policies and Procedures with Corporate Governance Mechanisms

<b>Corporate Governance Mechanisms Requirements</b>	<b>Analysis of Integration Areas</b>	<b>Level of Integration</b>	<b>Areas of Weak Integration Identified by the Auditor</b>
Is the selection and development of control activities that contribute to mitigating the risks of achieving the objectives integrated with the following:	- Identifying early warning indicators to identify potential sources of risks according to the bank's activities.	Partially integrated	- The bank does not have a clear plan to rotate employees between departments regularly. - The individuals responsible for IT applications are not familiar with how to deal with processing problems, which makes them causes more damage than they fix.
- The bank establishes a governance framework for risk management and supervision.	- Reviewing performance by focusing on the number of planning budgets as stated in Article (102) of the Companies Law 21.	Integrated	- The approved version of the operating system is determined by the IT Department based on the directives of the Central Bank. There are no manuals or guidebooks, but they are characterised by generality and meet the need to a limited extent
- The bank establishes clear procedures to address business risks	- The bank establishes an assessment of the risks of banking activities and money laundering according to the Iraqi Banking Law 94	Integrated	- The bank does not make estimates of information technology risks.

**Source:** Prepared by researchers based on the checklist and personal interviews

#### **Fourth: Information and Communication Policies and Procedures**

The nature of the audit procedures implemented and the evidence obtained. Examining the following:

- Reviewing the scanners, placing the electronic archiving devices in a safe place, and only the electronic archiving employee has the authority to access and work on them.
- All transaction documents and customer files, daily work documents of the branches, official reports and letters, electronic messages, bank employee files, general administration documents, and statements of the file transfer agreement via communication systems that include a set of reports, such as the general ledger account balances report, the special cases report, the daily transfers report, etc.
- Reviewing the archiving disks and that they are in more than one copy, and are kept in the secure rooms and the general administration.
- Archiving operations are documented by a weekly follow-up curtain sent by the branches to the general administration.

Table (4) shows the areas of integration of information and communication policies and procedures with corporate governance mechanisms.

**Table (4):** Integration of Information and Communication Policies and Procedures with Corporate Governance Mechanisms

<b>Corporate Governance Mechanisms Requirements</b>	<b>Analysis of Areas of Integration</b>	<b>Level of Integration</b>	<b>Areas of Weak Integration Identified by the Auditor</b>
The bank's use of appropriate information to achieve functional support for control is integrated with the following:	- The Board of Directors draws up and approves control policies and procedures through the minutes of its meetings.	Partially Integrated	- The bank does not maintain a written plan for any future changes to the components of information technology, in addition to the weakness of documentation of the physical components of information technology, and the periodic inventory of computers and attached devices is sufficient.
- The risk management follows up on the report prepared by the Anti-Money Laundering Office to know the procedures and plans taken to prevent suspicious transactions.	- The information system collects data and processes it into information and delivers it to all internal and external beneficiaries in the financial reports published on the bank's website.	Partially Integrated	The bank does not use a system to detect breaches, in addition to the lack of software to protect data sent by e-mail, except for Office Outlook protection for the mail that the bank subscribes to, and there are no procedures for scanning for viruses and suspicious messages, except for Outlook Express procedures for e-mail and protection against viruses in operating systems.
Is the delivery of information to internal levels integrated with the following:	- Facilitating the flow of information permanently and in a timely manner according to the administrative levels, according to Article 67 of Instructions 4 of 2011	Integrated	- As for the procedures applied to prevent information leakage, they are represented in restricting access to data and documentation devices (archiving) to employees authorised to document.

**Source:** Prepared by researchers based on the checklist and personal interviews

#### **Fifth: Follow-up Policies and Procedures**

The nature of the audit procedures implemented and the evidence obtained. Examining the following:

1. Examining administrative follow-up and enhancing job performance to meet the needs of business activities and new reporting requests.
2. Reviewing internal audit reports on policies and procedures and related controls, in a satisfactory manner.



3. Evidence confirming that errors and problems resulting from errors and weak adherence to controls do not recur.
4. Review of the sample's opinions on the importance of integrating control policies and procedures based on ISA315 with governance mechanisms and the auditor's role in reporting the results of weak control policies and procedures based on the international standard

**Table (5):** Integration of Follow-up Policies and Procedures with Corporate Governance Mechanisms

Corporate Governance Mechanisms Requirements	Analysis of Areas of Integration	Level of Integration	Areas of Weak Integration Identified by the Auditor
Are continuous or separate assessments implemented to ensure that control policies and procedures are in place and working, with the following:	The internal audit department enjoys independence in its work. Continuous review of the effectiveness and application of the risk management system and methods of evaluating it. Periodic review of administrative and financial information systems according to Articles 56 and 60 of Instructions 4 of 2011.	Not integrated	- Internal audit does not evaluate control policies and procedures at the bank level as a whole. Internal audit evaluates control policies and procedures for transactions only, and is based on samples. - The external audit evaluates the control procedures for the purpose of completing the audit procedures and determining the audit plan.
	- According to Companies Law 21 of 1997, Article 133, Paragraph One: The company's accounts are subject to financial audit. The control is studied and evaluated within the Audit Guide No. (4) issued by the Accounting and Auditing Standards Board in the Republic of Iraq. This is done through a survey form.	Partially integrated	- Weak control procedures are reported through the internal audit report - The unit management does not submit a declaration on the design and implementation of control policies and procedures.

**Source:** Prepared by researchers based on the checklist and personal interviews

#### 4. Discussion of Results:

1. The analysis of the integration between the control environment and governance mechanisms revealed an integration level of 70%, with an implementation gap of 30%, primarily due to the bank's failure to incorporate the management of electronic system breach risks into its priorities. The findings also indicated deficiencies in evaluating reporting lines, weak compliance with internal audit observations, the absence of clear guidelines for control-related functions, a lack of periodic review of performance measures, and the issuance of only one governance report, published in 2020.
2. The results of the analysis of the second component showed a 75% integration rate in risk assessment, with a 25% gap attributed to the absence of evaluating the materiality of potential

misstatements and the weakness in reviewing performance standards. In addition, the bank did not assess the risks of fraud, unauthorised use of assets, or manipulation of financial records and reports, leaving control gaps that affect the reliability of reports and compliance with governance requirements.

3. The analysis of the third component, Control Activities, indicated an integration level of 83%, with gap attributed of 17% primarily due to the absence of a clear plan for rotating employees among departments regularly, as well as the limited competence of staff responsible for IT applications in handling processing issues, which may result in exacerbating problems rather than resolving them.

4. The analysis results for the fourth component, Information and Communication, indicated an integration level of 60%, with a gap attributed to 40% due to the absence of an intrusion detection system and the lack of dedicated software for protecting data transmitted via email, except for the protection provided by Office Outlook for the bank's email. Moreover, antivirus and suspicious email scanning procedures are limited to those offered by Outlook Express and the built-in protection features of operating systems.

5. The analysis results of the monitoring component indicated an integration level of 25%, with a 75% gap attributed to the internal audit's limitation to evaluating control policies and procedures for transactions based on sampling, without assessing the control policies and procedures at the bank-wide level, in addition to the absence of a declaration by the bank's management regarding the design and implementation of such policies and procedures.

#### 4.1 The statistical analysis of the survey results of external auditors on the analysis of areas of integration between ISA 315 and governance mechanisms.

**First:** Educational qualification. It is noted from Table (6) that most of the sample members have a bachelor's degree at a rate of 67.4%, followed by a master's degree at a rate of 17 at a rate of 19.1%, then a certified public accountant at 12 at a rate of 13.5%.

**Table (6):** Educational Qualification

Academic qualification	Bachelor's	Master's	Chartered Accountant	Total
Frequency	60	17	12	89
Percent	67.4	19.1	13.5	100

**Source:** Prepared by the researchers based on the SPSS program.

**Second. Years of service.** It is noted from Table (7) that most of the sample members have years of service ranging from 8-15 years, representing 34.8%, followed by 23 years of service or more, representing 28, representing 31.5%

**Table (7):** Years of service

Years of work	7 years or less	years 15 - 8	16 – 22 years	23 years or more	Total
Frequency	17	31	13	28	89
Percent	19.1	34.8	14.6	31.5	100

**Source:** Prepared by the researchers based on the SPSS program.

**Third: The Nature of Work in the Audit Team.** It is noted from Table (8) that most of the sample members are part of the work team, with 60 individuals and a percentage of 67.4%

**Table (8):** The Nature of Work in the Audit Team

Nature of the work team	Within the team	Auditor Assistant	Head of Audit Teams	Total
Frequency	60	17	12	89
Percent	67.4	19.1	13.5	100

Source: Prepared by the researchers based on the SPSS program.

#### 4.2.1 Testing the Normal Distribution and Homogeneity of the Study Axes

The normal distribution and homogeneity of the data will be tested to determine the appropriate statistical test to prove the hypotheses, and the following results illustrate this

#### 4.2.2 Testing the Normal Distribution of the First and Second Axes

Table (9) shows the results obtained for the normal distribution test of the first axis according to the academic qualification. The Kolmogorov-Smirnov method was used to obtain the results as follows

**Table (9):** Kolmogorov-Smirnov Test for the First and Second Axes According to the Academic Qualification

The First Axis Kolmogorov-Smirnov			
Academic qualification	Bachelor's	Master's	Chartered Accountant
Statistics	0.134	0.210	0.258
df	60	17	12
Sig.	0.09	0.09	0.027
second axis Kolmogorov-Smirnov			
Academic qualification	Bachelor's	Master's	Chartered Accountant
Statistics	0.104	0.138	0.172
df	60	17	12
Sig.	0.171	0.200	0.200

Source: Prepared by researchers based on the SPSS program

Table (10) shows that the data were distributed normally, as the significance value was higher than the results of the two axes for the academic qualification, 0.05.

**Table (10):** Kolmogorov-Smirnov Test for the First and Second Axes According to Years of Experience

Kolmogorov-Smirnov				
Years of Experience	7 Years or Less	8 - 15 Years	16 – 22 Years	23 Years or More
Statistics	0.336	0.138	0.154	0.143
df	17	31	13	28
Sig.	0.000	0.138	0.200	0.146
Kolmogorov-Smirnov				
Years of Experience	7 Years or Less	8 - 15 Years	16 – 22 Years	23 Years or More
Statistics	0.233	0.222	0.254	0.159
df	17	31	13	28
Sig.	0.015	0.000	0.022	0.067

Source: Prepared by researchers based on the SPSS program

Table (11) shows the results, and according to the normal distribution test, the data is normally distributed. It is noted that the sig value is greater than 0.05.

**Table (11):** Kolmogorov-Smirnov Test for the First and Second Axis According to the Nature of the Work Team

Kolmogorov-Smirnov			
Nature of the Work Team	Within the Work Team	Auditor Assistant	Head of Audit Teams
Statistics	0.134	0.210	0.258
df	60	17	12
Sig.	0.009	0.044	0.027
Kolmogorov-Smirnov			
Nature of theTeam	Within theTeam	Auditor Assistant	Head of Audit Teams
Statistics	0.104	0.138	0.172
df	60	17	12
Sig.	0.171	0.200	0.200

**Source:** Prepared by the researchers based on the SPSS program.

#### 4.2.3 Test of Homogeneity of the First and Second Axes

Researchers can clarify by presenting the results, which reflect the heterogeneity as in Table (12):

**Table (12)** Test of Homogeneity of Variances

TheHomogeneity of the Data for the First Axis is Shown			
df2	df2	df1	Levene Statistic
86	86	2	11,734
85	85	3	18,271
86	86	2	11,734
The Homogeneity of the Second Axis is Shown			
Sig.	df2	df1	Levene Statistic
0.000	86	2	9.591
0.000	85	3	19.983
0.000	86	2	9.591

**Source:** Prepared by the researchers based on the SPSS program.

**Results of Testing the First Hypothesis  $H_0$ :** There is no statistically significant relationship between the control policies and procedures based on the international standard ISA315 with governance mechanisms. As a result of missing data, one of the conditions is heterogeneity, but it was distributed normally. The Crooksall-Walli's test will be used, which is a nonparametric test that is consistent with the nature of the second sub-hypotheses of the research. The results will be displayed as in Table (13). Through the results of the Crooksall-Walli's test, the agreement between the opinions of the sample members according to the different demographic variables, i.e. according to their academic qualifications and according to their work experience and the nature of each individual's work, the significance value of 0.000, which is less than 0.05, indicates that most of the sample members agree on the existence of a statistically significant relationship. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted, which indicates the existence of a statistically significant relationship between the control policies and procedures based on ISA315 with governance mechanisms.

**Table (13):** Testing the First Sub-Hypothesis

Demographic Variables	Axes	Croxtall and Wallace		Moral Relationship
		Chi-square	sig	
Academic Qualification	The first axis	60.35	0.000	Moral
Length of Service		80.45	0.000	Moral
Nature of Work		60.36	0.000	Moral

**Source:** Prepared by the researchers based on the SPSS program.

**Testing the Second Sub-hypothesis  $H_0$ :** There is no statistically significant relationship for the auditor's responsibility in understanding the regulatory policies and procedures and working under corporate governance.

Through the results of the Croxtall-Wallis test shown in Table (14), the agreement between the opinions of the sample members according to the different demographic variables, i.e. according to their academic qualifications and according to their work experience and the nature of each individual's work, the significance value of 0.000, which is less than 0.05, indicates that most of the sample members agree on the existence of a significant statistical relationship, so the null hypothesis is rejected and the alternative hypothesis is accepted, which indicates the existence of a statistically significant relationship for the auditor's responsibility in understanding the regulatory policies and procedures and working under the governance mechanisms.

**Table (14):** Testing the Second Sub-hypothesis

Demographic Variables	Axes	Croxtall and Wallace		moral relationship
		Chi-square	Sig	
Academic qualification	The second axis	60.27	0.000	moral
Length of service		80.62	0.000	moral
Nature of work		60.27	0.000	moral

**Source:** Prepared by researchers based on the SPSS program

**Third Sub-Hypothesis  $H_0$ :** There is no statistically significant relationship for the integration between regulatory policies and procedures based on ISA315 with governance mechanisms in designing audit procedures

Through the results of the Kruskal-Wallis test shown in Table (15), there is agreement between the opinions of sample members according to the different demographic variables, i.e. according to their academic qualifications and according to their work experience and the nature of each individual's work. The significance value of 0.000, which is less than 0.05, indicates that most sample members agree on the existence of a statistically significant relationship. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, which indicates the existence of a statistically significant relationship for the integration between regulatory policies and procedures based on ISA315 with governance mechanisms in designing audit procedures.

**Table (15)** Testing the Third Sub-Hypothesis

Demographic Variables	Axes	Croxtall and Wallace		Moral Relationship
		Chi-square	sig	
Academic Qualification	The Third Axis (Integration)	60.25	0.000	Moral
Length of Service		80.61	0.000	Moral
Nature of Work		60.25	0.000	Moral

**Source:** Prepared by researchers based on SPSS program



## 5. Conclusions:

The research conclusions can be identified as follows:

1. Adopting control policies and procedures based on ISA315 contributes to ensuring compliance with laws and regulations and achieving objectives.
2. The bank does not take into account the assessment of the risks of unauthorised use of assets and changes in records. It focuses on the risks included in the control work guide for risks.
3. The bank does not use a system to detect breaches, in addition to the absence of software to protect data sent via e-mail.
4. Efficiency standards are not linked to employment and training policies and procedures. Actions are not taken towards weak or average performance. There is no strategy for granting rewards and incentives based on the burdens assigned.
5. The bank does not maintain a written plan for any future changes to IT components, and is satisfied with a periodic inventory of computers and peripheral devices.
6. The bank does not take into account the management of the risks of hacking electronic systems.

## - Author's Declaration:

We hereby confirm that all the figures and tables in the manuscript are mine and ours. Besides, the figures and images, which are not mine, have been permitted republication and attached to the manuscript.

- Ethical Clearance: The research was approved by the local ethical committee in the University of Baghdad.

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<https://doi.org/10.51505/IJEBMR.2024.8417>