

Article info

Research Article

Received on: 25.10.2021

Accepted on: 30.11.2021

Published on: 30.11.2021

doi: <https://doi.org/10.52688/ASP60148>

The impact of senior management on internal audit activities and its reflection in mitigating financial fraud – field study

Wisam Neema Hussein ^{1,*}, Ali Miteb Hilal ²¹ College of Administration and Economics, Tikrit university, Tikrit, Iraq* wisam.hussein@tu.edu.iq

ABSTRACT

The study aimed to test the effect of senior management (SM) in supporting internal audit activities (IA) and its reflection in mitigating financial fraud (FF), as a field study on a sample of banks and insurance companies listed in the Iraq Stock Exchange. For the purpose of achieving the objectives of the study, a sample of to collect data, the researcher prepared a questionnaire for this purpose, and it was distributed to the study sample individuals. And the effect between the variables of the study by using the statistical program (SPSS) and the statistical program (AMOS: Ver. 22) was used to measure these direct and indirect effects between the variables of the study, and to identify the level of significance of the direct and indirect relationships between those variables the odds method was used The Great (Maximum Likelihood). The study finds that SM and IA activities act as critical organizational factors for managing FF in organizations. Our findings indicate that appropriate SM support leads to better opportunities for fraud prevention and detection by expanding the scope of IA activities, the study recommended increasing and expanding support for IA's activities due to the importance of the results achieved from this support in mitigating FF.

Keywords: Senior management, internal audit, financial fraud

INTRODUCTION

Fraud is one of the challenges facing institutions, as it disrupts performance and wastes money and resources, which are scarce, and harms institutions and their reputation. In other words, the damage may take many forms other than the financial loss itself, regardless of its value. And the public with it, therefore, may lead to its exposure to many risks, and the problem is huge by all standards, and it is not limited to a particular institution in the private or public sector, whether it is an industrial, financial or service institution. [1] In addition, fraud is a global crime. Fraudulent activities impede sustainable development and cause great losses to the global economy. A recent study shows that fraud costs the world economy \$4 trillion [2] and fraud adapts to the variables that may occur in any activity. Fraud and its occurrence, and it is often difficult to recover wasted funds due to fraudulent activity, and in most cases this is almost impossible. Therefore, anti-fraud programs and control of its operations are less costly, more effective and feasible than trying to recover those embezzled funds. [1] and choose Organizations not reporting fraud incidents for fear of the negative impact of these incidents reports on the relevant sector [3] Fraud can extend from simple, ordinary fraudulent activities, such as the seizure of simple items of office equipment, to complex schemes that can be carried out by managers and administrators of organizations to manipulate the results of businesses or financial statements, according to SAS 99, fraud to several types such as theft, embezzlement, transfer of assets, bribes and commissions, and it explains that fraud is the deliberate misrepresentation in the financial statements for the purpose of misleading the user of the financial statements. Fraud is divided into two types: [4] employee fraud and the majority of fraud incidents include manipulation of records, embezzlement, fraud, ministerial and bribery [5] and management fraud Fraudulent activities cause reputational damage to institutional and shareholder investments [3] Several studies have suggested that the best practices to mitigate fraud are [6].

1. Consider fraud risks as part of the organization's strategy.
2. Develop a fraud prevention and control strategy.
3. Develop appropriate communications.
4. Develop public policies related to fraud.

***Corresponding author**

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

The IA represents an effective line of defense against FF, and it has a role in monitoring risks and evaluating the policies used in fraud risk management [6] As the study [7] found, there is an inverse relationship between the role of the internal auditor in Institution and administrative and financial corruption. The study [8] concluded that the internal auditor can enhance the credibility of information and oblige others to follow the procedures and objective bases in preparing and presenting information in order to achieve reliability with that information and transparency. Effective in detecting fraud in the organization, [9, 10] argue that once internal auditors are concerned about potential fraud, they need to decide which audit procedures to use when trying to determine whether Fraud has already occurred, and the Institute of Internal Auditors provides mandatory guidance for internal auditors within the framework of international professional practices through the International Standards for the Practice of IA, as there are several standards that define the role of the internal auditor in detecting, preventing and controlling fraud risks Addressing those risks in audits and investigations [11, 12]

Despite calls for better corporate governance mechanisms, focus on IA's role and SM's support for mitigating FF has been rather poor. IA's relationship with management remains a growing concern among various stakeholders such as policy makers, board of directors, management, audit committee etc. Reputational threat and legal risks posed by fraud SM creates tremendous pressure on IA as the foundation of the company Governance mechanisms and information source for stakeholders to be more active to ensure better practices within banking institutions. The nature of work in these institutions The study derives its importance from the fact that it deals with one of the important topics, which is the impact of SM in supporting IA activities and its reflection in mitigating FF. As well as studying and analyzing the impact of SM and supporting IA activities and its reflection in mitigating FF, and investigating the views of each of the auditors and workers in SM, the study sample, about the role of audit activities in reducing FF practices. Some literature focuses on the impact of the internal auditor's efficiency in discovering FF in contracting companies in the Kingdom of Saudi Arabia [13] and a study [14] The study aimed to qualitatively assess the relationship between IA and SM and analyze the expectations and perceptions of both parties, and study [15] the study aimed to explore the relationship between IA effectiveness, internal auditor responsibility, training and fraud detection, during the past decade, IA has become an integral part of modern business because it is able to On the discovery of errors or irregularities that lead to fraud, in order to investigate the above-mentioned relationship, and a study [3] IA in Bank Fraud Management, and a study [16] The study aimed to investigate the moderate effects of SM support in the relationship between internal quality dimensions and organizational performance in Nigerian federal universities, and through what was previously mentioned, the question raised by the study is : What effect can SM contribute to support IA activities and reflect in mitigating FF? Through the general question, the following questions can be formulated:

1. Is there an influence relationship between the study variables?
2. Does SM have an effect on IA's activities and mitigating FF?
3. Does the effect of SM differ in attenuating FF by mediating IA activities?

The remainder of this paper is divided as follows. Section 2 discusses the literature review and development of hypotheses. Section 3 discusses the methodology. Section 4 analyzes the data and discusses the results. Finally, Section 5 summarizes the research and conclusions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

SENIOR MANAGEMENT SUPPORT

There is no doubt that SM represents an essential and important element in all stages of the administrative process in general, as SM represents the center of the process in all its aspects and dimensions. Without the effective participation of SM, it is not possible in any way to implement the system or reap the fruits of any of its multiple benefits. It comes among the supporting factors in addressing all challenges. This leadership must be ready for change and able to adapt and adapt to it, [17] and [14] explains that acceptance and appreciation of IA within the organization depends heavily on the support they receive from SM, SM and the Board may wish to obtain objective assurance and advice about risks and the system of internal control, and the IA has provided such assurance and advice. The study [18] showed that SM support directly increases the effectiveness of IA. In contrast, the [19] study confirmed that the internal audit's organizational position is an important factor in determining the value of the IA function, and this is what It was confirmed by a study [20] which identified the factors that affect the effectiveness of IA, namely IA quality and SM support [21] and [22] explained that SM's lack of interest in the IA function gives a negative signal about its importance, and also clarified that SM's interest in the IA function means implementing the suggestions and recommendations made by IA that have a positive impact on the effectiveness of the performance of IA's tasks and that management's lack of interest in the value and importance of IA is the failure to implement the recommendations and suggestions made by the internal auditor, and this has a negative impact on the effectiveness of performing IA's tasks. The growing interest of management in IA recommendations has encouraged internal auditors to do their best [23] and clarifies [24] that SM should verify the existence of an effective IA assistant directly associated with SM and report to it, as confirmed by [25] that insufficient support on the part of SM for job IA hinders the effective performance of tasks, that is, it contributes to hindering the effective performance of the internal auditor's tasks. The internal auditor, which has a negative impact on performance, and therefore we assume that

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

H1 There is a statistically significant correlation between the study variables.

H2 There is a statistically significant effect of SM in each of (IA activities and FF mitigation) branching out from the following sub-hypotheses:

H2.1 There is a statistically significant effect of SM on IA activities.

H2.2 There is a statistically significant effect of SM in mitigating FF.

Internal audit activities

IA provides a set of advisory and assurance services as it is an internal function of the basic functions of SM in the institution and therefore we can derive from these services a set of activities it provides. [26] , [27] and [28] preventive activities, construction activities, operational activities, evaluation activities, and remedial activities, and the reason for these services performed by the internal auditor is due to several reasons. [29]

a. The continuous presence of IA within the institution and its coexistence with its internal problems.

B . The regularity of IA work throughout the year and in a comprehensive manner and for all operations.

[26] believes that the function of IA has evolved to include various aspects represented by activities before the implementation of operations, which are preventive activities, and when executing operations represented by construction activities and operational activities, and after the implementation of operations represented by evaluation activities and remedial activities (developing treatments and solutions to problems). Then we assume that

H3 There is a statistically significant effect of IA activities in mitigating FF.

H4 The effect of SM in attenuating FF is increased by mediating IA activities.

METHODOLOGY

DATA SETTING

Data were collected from reputable banks and Iraqi insurance companies (Iraq Stock Exchange, 2021) and the banking sector suffers from a high incidence of fraud, which raises concerns among the public, educators and policy makers. (Alazzabi et al.,2020).

STUDY AND SAMPLING COMMUNITY

The banking sector and the insurance sector in Iraq were chosen as a field for the current study due to the importance of these two sectors in building and consolidating the foundations of the local economy, while the community was represented by workers in the internal audit department, and in risk management, in addition to the executives of banks and insurance companies operating in Iraq by 15 A bank and 6 insurance companies, and a judgmental sample was determined, as 12 forms were distributed to each bank or insurance company, so that the number of distributed forms was 252 questionnaires, The recovered forms valid for analysis amounted to 170 forms representing the respondents, with a rate of 67.4% as a response rate, as shown in Table 1.

Table1: Number of questionnaire forms distributed and received

Statement	the number
The number of forms distributed	252
lists valid for analysis 170	170
Percentage of lists valid for analysis	% 67.4

THE TOOL AND MEASURE THE VARIABLES

The tool was designed based on a comprehensive review of the existing literature and is divided into three sections. An independent variable SM was placed in the first section and the variables IA and FF are present in the second and third sections, respectively.

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

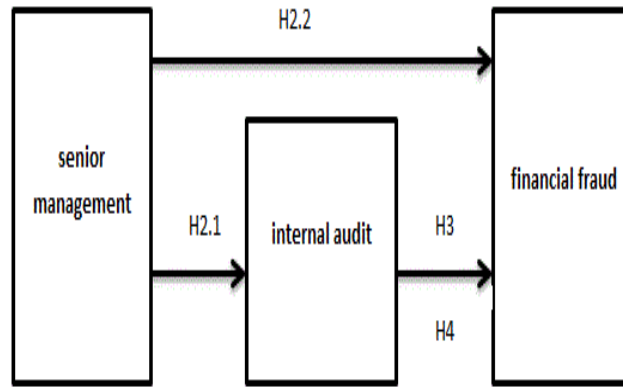


Figure 1: Study variables.

and the variables were measured based on the study [30] and the study [3] and table (2) shows the study variables. The numbers of the phrases in the questionnaire form.

Table 2: Variables and The numbers of the phrases in the questionnaire form

Study variables		The number	Sequence
Independent	SM	5	1-5
Mediator	IA	10	6-15
Follow	FF	8	16-23

Based on a five-point Likert scale (1 = strongly disagree and 5 = strongly agree). And The questionnaire was presented to a group of arbitrators, and it was judged by them, and their comments were taken and the form was modified to become its final form. The validity of the scale was measured by relying on self-honesty, and it was calculated by finding the square root of Cronbach's Alpha stability coefficient, as Table 3 appears. The value ranged between (0.853 to 0.950), which is a high value that reflects the acceptable representation of the questionnaire's vocabulary. Stability is the ability of the tool to give the same results if the same measurement is repeated several times under the same conditions. The researcher verified the stability of the resolution for each of the three paragraphs of the questionnaire separately, as well as the total of the paragraphs using Alpha Cronbach, and the value of the Alpha Cronbach coefficient ranged between (0.729 to 0.903), and the value of the accepted Alpha Cronbach coefficient is (70%) or more as shown in the table 3.

Table 3: The square root of Cronbach's Alpha stability coefficient

Variable	Cronbach's alpha coefficient	honesty coefficient
SM	0.729	0.853
IA	0.887	0.941
FF	0.779	0.882
Total	0.903	0.950

From the table 3 above, we show that the coefficient (Cronbach's alpha) for the total of the resolution paragraphs is (0.903), which is within the statistically acceptable ratio, and this enhances confidence in the study's variables and their validity for statistical analysis, and that the validity coefficient is equal to the square root of the Cronbach's alpha. According to the results, there is consistency and stability in the questionnaire measures.

DATA ANALYSIS AND RESULTS

DEMOGRAPHIC INFORMATION

In terms of gender: the number of female respondents was 93, the age of the respondents was 50 people from (31 to 40) years, the number of respondents who obtained a bachelor's degree was 67 people, the number of respondents who had years of experience

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

from 11 to 15 years was 45 people, and the number of respondents who obtained a job as an employee 46 individuals, and the number of respondents who obtained a professional certificate reached 149, and this indicates the presence of superiority in occupying positions in banks and Iraqi insurance companies for the benefit of those holding a professional certificate. This shows that the individuals in the research sample have a good scientific level to answer the paragraphs of the questionnaire accurately and objectively, which means the possibility of relying on the achieved results.

DESCRIPTIVE STATISTICS

Table (4) shows the arithmetic mean, standard deviation and relative importance as values to describe the study variables and to determine their availability and the agreement of the respondents about the importance of those variables.

Table 4: The arithmetic mean, standard deviation and relative importance

	SM	IA	FF
Arithmetic mean	4.6776	4.5506	4.6794
standard deviation	.36650	.40533	.36077
Minimum	3.80	3.60	3.88
the highest rate	5.00	5.00	5.00
coefficient of difference	0.0784	0.0891	0.0771
Relative importance	0.93552	0.91012	0.93588

From Table 4, it is clear that

1. That there is agreement about the variables of the study from the respondents' point of view.
2. There is consistency in the answer and a decrease in dispersion and variance in it.

TEST FOR THE NORMAL DISTRIBUTION OF THE DATA

In order to verify the assumption of a normal distribution of the data, the researcher relied on calculating the value of the Skewness coefficient and the Kurtosis coefficient for all study variables (SM, IA and FF) and Table 5 shows the skewness and flatness coefficients for the study variables.

Table 5: Test for the normal distribution of the data

	SM	IA	FF
Skewness	.831	.268	.802
Std. Error of Skewness	.186	.186	.186
Kurtosis	.734	.969	.667
Std. Error of Kurtosis	.370	.370	.370

As the data approaches the normal distribution if the value of the skewness and flatness coefficient is between (1 to -1), as Table 5 shows that the skew coefficient of the SM amounted to (0.831), the IA amounted to (0.268) and the mitigation of FF amounted to (0.802). The flatness coefficient for SM was (0.734), IA (0.370) and FF mitigation (0.370), and all transactions fall within the permissible limits almost, so the data follows an approximate normal distribution, and then the parametric statistical analysis tools and methods can be used.

TEST INFLATION, VARIANCE AND ALLOWABLE VARIANCE

In order for the data used to meet the statistical integrity conditions for testing multiple linear regression equations, the Variation Inflation Factor (VIF) test was used to detect whether the data suffers from polylinearity or not. If $VIF > 10$, this means that there is a high polylinearity, and the permissible variance (Tolerance) must not be less than (0.1), because in the case of the allowable variance to be less than (0.1), it means that the multiple correlation with other variables is high, which increases the Probability of multiple linear accompaniment. And Table 6 shows the coefficient of variation and coefficient of variation inflation of the SM and IA activities.

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

Table 6: test the Variation Inflation Factor (VIF)

Variables	Tolerance	Contrast Inflation Factor (VIF)
SM	0.425	2.351
IA	0.746	1.341

The results in Table 6 indicate that the VIF values are much lower than the accepted value (10). This means that multilinearity is not a problem in this study.

HYPOTHESIS TESTING

RELATIONSHIP HYPOTHESIS TESTING

It includes one main hypothesis:

H1 There is a statistically significant correlation between the study variables.

For the purpose of testing this hypothesis, the Pearson correlation coefficient was measured to show the degree and significance of the relationship between the study variables (SM IA activities and mitigating FF) and table 7 shows the values and significance of the correlation coefficient for all study variables.

Table 7: Test the matrix of relationships between study variables

		SM	IA	FF
SM	Pearson Correlation	1	.498**	.204**
	Sig. (2-tailed)		.000	.008
	N	170	170	170
IA	Pearson Correlation	.498**	1	.644**
	Sig. (2-tailed)	.000		.000
	N	170	170	170

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

It is noted from Table 7 of the matrix of relationships between variables that:

1. There is a significant relationship between SM and the rest of the variables at a significant level of 1%, and the largest relationship was with IA, followed by the relationship with FF relief, in terms of correlation coefficients.
2. There is a significant relationship between the activities of IA and the rest of the variables at the level of significance of 1%, and the largest relationship was with the mitigation of FF, followed by its relationship with SM, in terms of the correlation coefficients.
3. There is a significant relationship between the dilution of FF and the rest of the variables at a significant level of 1%, and the largest relationship was with IA activities, followed by its relationship with SM, in terms of correlation coefficients.
4. From Table 7 it is noted that the strongest correlation between the study variable is between IA activities and FF dilution with a correlation coefficient (0.644), and then followed by the relationship between SM and IA activities with a correlation coefficient (0.498). Therefore, the first main hypothesis is accepted.

TESTING THE TOTAL EFFECT HYPOTHESES

H2 There is a statistically significant effect of SM in (IA and FF) from which the following sub-hypotheses are derived:

H2.1 There is a statistically significant effect of SM in IA.

A simple linear regression equation was formulated to estimate IA in terms of SM, in order to know the level of SM's effect on IA, and Table 8 shows this effect.

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

Table 8: SM effect regression equation in IA

Dimensions	R C (β)	value (T) (Sig.)	value (F) (Sig.)	(R)	(R ²)	(R) rate
SM	0.498	7.439 (.000)	55.345 (.000)	0.498	0.248	0.243

It is noted from Table 8 that:

1. The stability of the regression model in terms of the value of (F) of (55.345) which is significant at the level of significance of 5%, meaning that IA can be estimated in terms of SM and this indicates the validity of the model.
2. The stability of the constant limit coefficient of the value (T) of (7.439), with a significant significance (0.000), which is less than 5%, which indicates the significant effect of SM in IA.
3. The value of β of (0.498) with a positive value indicates that the effect is positive, meaning that the higher the level of SM support, the higher the level of IA activities.
4. The value of the coefficient of determination (R²) of (0.248) indicates that SM explains (24.8%) of the changes in IA, which is a relatively acceptable percentage, and that the largest explanation percentage (75.2%) is due to other causes and factors that are not apparent in The current model, Based on the above, the first sub-hypothesis is accepted.

H2.2 There is a statistically significant effect for SM in FF.

A simple linear regression equation was formulated to estimate FF in terms of SM, in order to know the level of SM's effect on FF, and Table 9 shows this effect.

It is noted from Table 9 that:

1. The stability of the regression model in terms of the value (F) of (7.289), which is significant at the level of significance of 5%, meaning that FF can be estimated in terms of SM and this indicates the validity of the model.
2. The stability of the constant limit coefficient of the value (T) of (2.700), with a significant significance (0.008), which is less than 5%, which indicates the significance of the effect of SM on FF.
3. The value of beta (β) of (0.204) with a positive value indicates that the effect is positive, meaning the higher the level of SM support, the more it is reflected in the increase in the level of mitigation FF.
4. The value of the coefficient of determination (R²) of (0.042) indicates that SM support explains (4.2%) of the changes in FF dilution, which is a relatively acceptable percentage, and that the largest explanation percentage (95.8%) is due to causes and factors other than It appears in the current model, and based on the above, the second sub-hypothesis is accepted, and thus the second main hypothesis is accepted.

Table 9: SM effect regression equation in FF

Dimensions	RC (β)	value (T) (Sig.)	value (F) (Sig.)	(R)	(R ²)	(R) rate
SM	0.204	2.700 (0.008)	7.289 (0.008)	0.204	0.042	0.036

H3 There is a statistically significant effect of IA in mitigating FF

A simple linear regression was formulated to estimate FF dilution in terms of IA, in order to know the level of effect of IA on FF dilution, and Table 10 shows this effect.

It is noted from Table 10 that:

1. The stability of the regression model in terms of the value (F) of (118.841), which is significant at the level of significance of 5%, meaning that FF can be estimated in terms of IA, and this indicates the validity of the model.
2. The stability of the constant limit coefficient of the value (T) of (10.901), with a significant significance (0.000), which is less than 5%, which indicates the significant effect of IA in mitigating FF.

The value of β of (0.644) with a positive value indicates that the effect is positive, meaning the higher the level of IA, the higher the level of FF dilution.

***Corresponding author**

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

3. The value of the coefficient of determination (R^2) of (0.414) indicates that IA explains (41.4%) of the changes in FF dilution, which is a relatively acceptable percentage, and that the largest explanation percentage (58.6%) is due to other hidden causes and factors. In the current model, Thus, the third main hypothesis is accepted.

Table 10: Regression equation for the effect of IA in mitigating FF

Dimensions	RC (β)	value (T) (Sig.)	value (F) (Sig.)	(R)	(R^2)	(R) rate
IA	0.644	10.901 (0.000)	118.841 (0.000)	0.644	0.414	0.411

INDIRECT IMPACT TEST

A main hypothesis was formulated to test the indirect effect, and the statistical program (AMOS: Ver. 22) was used to measure these direct and indirect effects between SM and FF mitigation mediated by IA, and to identify the level of significance of the direct and indirect relationships between these variables, the method of maximum likelihood was used (Maximum Likelihood), the moral of the model was corroborated. As can be seen in the following table 11.

The table 11 shows a decrease in the value of (Ca^2 and the square root of the mean square of residuals, which amounted to zero), which indicates an increase in the strength and significance of the model. The results also showed an increase in the value of the matching quality index from the minimum (0.90), where it reached (1), and the results also indicate that the value of the comparative conformity index is higher than the minimum (0.95), as it reached (1), which indicates that the indicators were higher than the specified standards, and this confirms the high quality of the model.

Table 11: Significant Indicators Model Direct Impact Relationships of SM in FF

Pointer	Standard value	Calculated value
Significant Ca^2 (p. value) X2	<0.05	0.000
Quality of Conformance Index (GFI)	>0.90	1.000
Square root mean residuals (RMR)	<0.06	0.000
Comparative Match Index (CFI)	>0.95	1.000

H4 The effect of SM in mitigating FF is increased by IA .-mediated

The following is a presentation of the results of the statistical analysis to test this hypothesis, according to the proposed model of direct and indirect influence relationships between SM and FF mitigation, and Table 12 shows the results of these relationships when IA is cantered.

Table 12: Results of the analysis of direct, indirect and total SM effects in IA-mediated FF dilution.

Variable			Direct path parameter value	Indirect path parameter value	Total path parameter value
independent	Mediator	subordinate			
SM	IA	FF	0.155-**	0.359 **	0.204**

** : It means that the correlation is significant at (0,01).

It is clear from the above table 12 that the significant effect of SM increased in mitigating FF when averaging IA, where the value of the increase was (0.359), which is the value of the indirect effect, which leads to the validation of the validity of the sixth main hypothesis

That is, the effect of SM in mitigating FF is increased by (0.359) when IA is averaged.

Total Effect = Direct Effect + Indirect Effect

$$0.204 = -0.155 + 0.359$$

SUMMARY AND CONCLUSION

This study dealt with the impact of senior management on internal audit activities and its reflection in mitigating fraud in the Iraqi banking and insurance sectors. The study confirms that the support of senior management for internal audit activities contributes significantly to mitigating fraud. Our findings indicate that senior management support is adequate and internal audit is expanded Improved fraud prevention and detection opportunities. Subsequently, Allocate adequate resources and participate in audit plans as a form of support to senior management to improve Internal audit opportunities to reduce fraud risk. This work contributes to

*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

the existing Literature by defining the mediating effect of internal audit activities on the relationship between senior management support and mitigate fraud. The results indicate that banks are also successful in combating professional fraud Thus, it depends on providing adequate support through the allocation of resources Enhance the effectiveness of internal audit in preventing, detecting, investigating and reporting fraud. This paper addresses professional fraud mitigation in the banking sector in an emerging economy. Our study is one of the first attempts that contribute to facilities management in the Iraqi economy. Provides effects for: Government regulators who can use the findings to emphasize the importance of The internal audit function is to combat fraud and ensure sound practices in The banking sector; And senior management from its role towards internal audit Its function and effectiveness in the organization. Senior management executives are advised to pay attention to, and allocate appropriate resources to, internal audit activities.

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*Corresponding author

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq

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***Corresponding author**

Wisam Neema Hussein,
College of Administration and Economics, Tikrit university, Tikrit, Iraq
e-mail: wisam.hussein@tu.edu.iq