

Provide a Model of Factors that Affect External Audits of Banks Based on an Effective Banking Supervision Approach¹

Seyyed Mohammad Reza Razavi Araghi², Azita Jahanshad³

Received: 2022/10/17

Accepted: 2023/03/11

Research Paper

INTRODUCTION

External auditors are critical to maintaining public trust in audited financial statements. This public role has a special relationship with financial stability in the banking industry, given the intermediary performance and role of banks in the country's economy. The quality of the audit is the most important effective factor in this relationship. Financial institutions, especially banks and credit institutions, have been a constant focus of attention for economic regulators for their key role in the national economy. Taking into consideration the previously mentioned issues, the significance and necessity of this research, as well as the interaction between banking supervisors and external auditors, stem from the fact that they can use the potential capacity of external auditors for effective banking supervision. Finally, the country's banking system works to maintain stability, health, and progress. This is basic, applied, and field research. It is also a descriptive-exploratory study. Based on the 29 Basel Core Principles for Effective Banking Supervision, it proposed a model for effective factors in external audits of banks and credit institutions. The

1. DOI: 10.22051/JAASCI.2023.41991.1734

2. Ph.D. Student, Department of Accounting, Science and Research Branch, Islamic Azad University, Tehran, Iran. (Mohamadrazavi514@yahoo.com).

3. Associate Professor, Central Tehran Branch, Islamic Azad University, Visiting Professor of the Department of Accounting, Science and Research Branch, Islamic Azad University, Tehran, Iran. (Corresponding Author). (az_jahanshad@yahoo.com).

research's innovation was to propose a framework for auditing banks and credit institutions, in addition to the central bank's use of external auditors' capacities to carry out effective banking supervision to protect social interests. Accordingly, to achieve this goal, innovative factors with no prior records should be identified.

MATERIALS AND METHODS

To achieve the study's objective, an integrated library study was conducted within the framework of the 29 Basel Core Principles for Effective Banking Supervision, as well as other related documents published by the Basel committee, to extract critical components. The final effective factors were then identified through semi-structured interviews with experts, as well as their consensus, and extracted using the Fuzzy Delphi Method (FDM). The FDM was used to make decisions and reach a consensus on issues where the goals and parameters are not explicit, which can result in invaluable results. The main feature of this method was that it suggested a flexible framework. The executive stages of the FDM involve both carrying out the FDM and conducting analyses of the data in light of fuzzy set theory. To select experts, judgmental sampling (a subcategory of purposive sampling) was used. Finally, 28 experts with at least ten years of experience in banking supervision or auditing were selected, including audit firm partners and managers who worked as external auditors of banks and credit institutions. To develop the final research model, 211 electronic questionnaires were filled out by banking experts, supervisors, and external auditors in the quantitative section, all of which were distributed based on the convenient statistical population. The data was analyzed in PLS using structural equation modeling (SEM) and statistical tests.

RESULTS AND DISCUSSION

Based on the 29 Basel Core Principles for Effective Banking Supervision, this study designed and proposed a model with an acceptable appropriateness rate for the effective factors in external audits of banks and credit institutions. Following the analysis of the relations between variables, in the external audits of banks and credit institutions, among the dimensions considered by the SEMs, 31 items were positive and significant as latent variables including

selecting external auditors, executing auditing operations, and reporting by external audits of banks and credit institutions based on the effective banking supervision approach based on 29 Basel Core Principles. In other words, the research hypotheses indicate that the aforementioned factors are effective in improving the process of bank and credit institution external audits

CONCLUSION

The obtained effective factors provide a turning point in aligning the external auditors and banking supervisors in Iran to significantly improve the health of the country's banking network and protect the interests of the public, particularly depositors. The findings are consistent with the findings of Masciandaro et al. (2020) concerning the expansion of interactions between external auditors and banking supervisors and the use of external auditors in the banking supervision process. The study's findings suggested that the Central Bank of Iran, as the primary authority in charge of supervising banks and credit institutions, focus on verifying the competency of external auditors to conduct bank audits and developing constructive relationships with them as well as audit upstream and supervision institutions such as the Iranian Association of Certified Public Accountants (IACPA). Furthermore, to identify the effective factors on each supervision, policymaking, and operation dimension to efficiently supervise Iran's banking network and avoid any crisis. The research findings suggest that the IACPA uses the obtained model to improve the specialty, proficiency, and professional competency in the banking industry by focusing more on the obtained factors related to auditing operations and reporting. Accordingly, to fulfill their professional and social responsibilities, as well as the public interest, banks must promote the effectiveness and efficiency of external audits and provide high-quality audit reports.

This study is the first of its kind to be conducted in Iran that focuses on bank audits and banking supervision according to international standards. As a result, it offers a useful framework for bank audits and the interaction between external auditors and banking supervisors. Furthermore, its findings contribute to the literature on banking supervision and audit. It recommends that future studies use the identified factors in this study to measure the quality of audits of banks and credit institutions using appropriate statistical tests. Besides,

subjects such as the rate of engagement of external auditors in the banking supervision process and the effects of the quality of audits of banks and credit institutions on basic risk management in the country's banking network such as operating, market, liquidity, and credit risk are covered.

Keywords: External Audit, Banking Supervision, Basel Committee, Fuzzy Delphi Method, Structural Equation Model.

JEL Classification: M42, E58, G21.

COPYRIGHTS



This is an open access article under the CC-BY 4.0 license.