

# Internal Audit and its Impact on Risk Management at the Islamic Banks Listed in Amman Stock Exchange

**Dr. Ashraf Mohammad Salem Alrjoub**

Al-Balqa Applied University, Al-Salt 19117 Jordan

Email: Ashraf-alrjoub@bau.edu.jo

**Dr. Muhannad Akram Ahmad**

Al-Bayat University, Mafraq25113, Jordan

Email: dr.muhammadahmad@aabu.edu.jo

DOI: 10.6007/IJARBSS/v7-i8/3245 URL: <http://dx.doi.org/10.6007/IJARBSS/v7-i8/3245>

## Abstract

This study aims to explain the impact of internal audit on the management of risks at the Islamic banks listed in Amman Stock Exchange, The population of the study consists of financial managers and accountants working at the Islamic banks listed in Amman stock exchange, which are three in number, according the report of ASE for the year 2016. Due to the small number of banks of the population of the study, all of them were included in the sample. (100) questionnaires were distributed among the participants of the study sample, of which (87) were recovered. The main conclusions of the current study can be summarized as the commitment of Islamic Banks listed in Amman Stock Exchange to the standards of internal audit related to attributes as a whole is (3.86). Results showed also that managements of internal audit at Islamic banks are committed to the standards of Purpose, authority and responsibility; the standard of independence and objectivity; the standard of proficiency and due professional care; and the standard of Quality Assurance and Improvement Program to a high degree. The highest commitment is to the standard of independence and objectivity, while the lowest level of commitment was directed to the standard of Quality Assurance and Improvement Program among the managements of internal audit at Islamic banks.

Based on these conclusions, the analysis of data and testing the hypotheses, the researchers recommends .Increasing the attention paid to internal audit, due to its importance in supporting the function of risk management, through the relevant specialized training courses, and the provision of support to the managements of internal audit in terms of human resources, which are trained and qualified, academically and practically.

**Keywords:** Internal Audit, Risk Management, Islamic Banks Listed in Amman Stock Exchange,

## Introduction

With the technological developments in the Banking industry, and the increase and variability in banking operations, which resulted in an increase in competition between banks, and in banking risks, the concept of internal audit was embraced at banking institutions, as a

response to these developments and requirements, and it became consequently an advisory and guiding resource, which assists in monitoring the level of risks in banking operations, and formulating the supervisory procedures necessary for controlling the negative impacts and ensuring their suitable application. Nowadays, internal audit as a concept encompasses functions beyond auditing financial operations, and considered such as the assessment of risks.

### **Problem of the Study:**

The central bank of Jordan has issued the Compliance Monitoring regulations (33/2006), which ought to be observed and applied by the Jordanian Banks listed in Amman Stock Exchange, through their relevant policies, in order to alleviate the risks to which they are exposed, which include the operational risks, market risks, and the strategic risks. Thus, this study was conducted in order to determine the impact of internal Audit on the management and assessment of risks, which are considered among of the most important requirements of governance at firms. The problem of the study is related to the following questions:

1. Are the Islamic Banks listed in Amman Stock Exchange committed to the standards of internal audit related to the attributes?
2. Do the Islamic Banks listed in Amman Stock Exchange manage the risks which encounter their activities?
3. Are there statistically significant impacts for the commitment of Islamic banks to the standards of internal auditing related to the attributes on the management of risks which encounter their activities (operational risks, market risks, strategic risks)?

### **Aims of the Study**

This study aims to explain the impact of internal audit on the management of risks at the Islamic banks listed in Amman Stock Exchange, for the purposes of protecting the Jordanian Islamic banks from banking risks, through the achievement of the following aims:

1. Determining the commitment of the Islamic Banks listed in Amman Stock Exchange to the standards of internal audit related to the attributes.
2. Determining the level of risks' management among the Islamic Banks listed in Amman Stock Exchange in terms of the risks which encounter their activities.
3. Identifying the impact of the commitment of Islamic banks to the standards of internal audit related to the attributes on the management of risks which encounter their activities (operational risks, market risks, and strategic risks).

### **Importance of the Study:**

The importance of the current study is related to the role of internal auditing at the Islamic banks listed in Amman Stock Exchange in terms of supporting the role of management of the risks which encounter the Islamic banks, through their commitment to the international standards of internal audit and the compliance policies applied at Jordanian banks which contributes consequently to protecting them from banking risks, and sustain them in their competitive market. Additionally, the study seeks to determine the impact of internal audit on trusting the performance of Islamic banks, as well as determining the risks which are related to

different sources, and which require monitoring and providing strategies and monitoring methods which contribute to controlling the negative impacts of those risks and managing them in a sound manner.

### **Review of Literature**

Al-Hawari (2014) conducted a study titled (The Role of Internal Audit on the Assessment of Risks at the Jordanian industrial Firms: A Field Study), which aimed to explore the role of internal audit on the assessment of risks at the Jordanian industrial firms, including the operational risks, market risks, and strategic risks. In order to achieve the aims of the study, a questionnaire was developed and distributed to a sample which consisted of (131) internal audit participants, working at Jordanian industrial firms. The descriptive statistics were used (the means and standard deviations). The results of the study showed the capability of internal audits in terms of distinguishing between the various types of risks encountered by industrial firms, and the importance of the role of internal audit on the assessment of market-related risks, operational risks, and strategic risks. The study recommended supporting the role of internal audit, and the provision of professional development to its members in accordance with the international standards of internal audit.

Radwan (2012) conducted a study which aimed to investigate the impact of internal audit in the management of banking risks at commercial banks in the Gaza Strip accordance with International Standards on Auditing and to achieve the objectives of this study a questionnaire was developed consisting of four areas, based on previous studies and theoretical framework and distributed to internal auditors in commercial banks in Gaza Strip, the total number (33), was recovered, of which (30) were valid for analysis, which represents the return of (91%) approximately. One of the most important results of the study: 1) there is a positive correlation between the application of standards and features of (independence, objectivity and professionalism ...) devices by the internal audit of commercial banks in the Palestinian and the management of banking risks. 2) There is a positive sign between the application of performance standards and represented in (audit activities and management planning, resource management, corporate governance and the information ...) devices by the internal audit of commercial banks in the Palestinian and the management of banking risks. 3) A positive sign between the internal auditor's role in the management of banking risks and the extent of realization of the mechanisms of their application. The study concluded some recommendations including: 1) Paying attention to the administrative authorities in the internal audit of banks actively helping to develop this functionality and provide the necessary resources to strengthen its position within the bank. 2) The necessity of legislation, the profession of internal audit departments in terms of the independence and qualifications of audit staff. 3) The need to organize training courses for banks, auditors entrants in banking risk management techniques and how to confront and evaluation.

Al-Madhoun (2011); Darwish (2015) conducted a study titled "The Role of The Internal Auditor In Activating The Risk Management in the Banks Operating In Gaza Strip (An Applied Study)" The study aimed to identify the internal auditor's role in activating the risk management in the banks operating in Gaza Strip. The study presents the concept of the

internal audit in the banks and the statement of its importance, objectives and principles. Then, it has addressed the role of the internal auditor in the risk management in the banks. The descriptive analytical method has been used in the study to collect the data from the primary and secondary sources in which the data were collected through a questionnaire specially prepared for this purpose. It is distributed to the population consisting of (50) internal auditors in banks in Gaza Strip .Also, the statistical analysis program (SPSS) has been used to analyze the data and test the hypotheses. The study has found a set of results which are the most important. Firstly, the internal auditor should be conscious of the importance of his role in activating the risk management in the banks operating in Gaza Strip. Secondly, he should recognize the importance of a robust system for the internal audit works. Thirdly, his important role in monitoring and assessment of the risk management system in the bank. The study also has found that it is not the function of the internal auditor to identify the risks and manage them, but his role is to provide the consultations and recommendations on the risk management. And, it is important to have coordination between the internal audit and the risk management to ensure efficient workflow in the bank. Moreover, the study has found some essential recommendations. It is important to increase the coordination between the internal auditors and the risk management in the banks, and to work to enhance the skills and knowledge of the internal auditors to enable them to perform effectively in the field of risk management .Furthermore, the study has recommended on the strength of the pillars and the foundations of the independence of the internal auditor to be able to perform his duties to the fullest.

Al-Hizan (2008) conducted a study titled "The Development of the Performance of Internal Audit in order to fulfill the Requirements of Governance", which aimed to shed light on the qualification of internal audit departments in the kingdom of Saudi Arabia in order to fulfill the requirement of governance. The attitudes of managers and internal audits at corporate industrial firms in Al-Riyadh were explored and analyzed, through the use of the questionnaire. Results of the study showed that the qualifications of internal audits, and the autonomy provided to them are in line with the requirements of governance. However, additional qualifying is required in order to develop the accounting and internal audit functions in the kingdom of Saudi Arabia according to the standards of governance.

Stanciu (2008) conducted a study titled (Internal Audit Approach in Banks), which aimed to explore the new role of internal audit on the light of the implementation of Basel II requirements and the principles of governance, as well as the importance of internal audit within the new organizational environment. The sample of the study consisted of the Romanian banks in Bucharest, and the questionnaire was used as a tool for data collection in the study. Results showed that management at the banks is responsible for monitoring the implementation of the Basel II requirements, based on the different types of risks, and that the role of internal audit incorporates the assessment of the levels of risks, and monitoring the implementation of the requirements, including the lowest level of capital, as well as the compliance with the requirements of Basel II. Results showed also that the professionalism and mastery of internal audit function are important in terms of responding to the requirements of governance.

### **Hypotheses of the Study:**

Based on the problem of the current study, and in order to achieve its aims, the following hypotheses will be explored:

The first main hypothesis: the Islamic banks listed in Amman Stock Exchange are not committed to the standards of internal audit related to attributes (purpose, authority and responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Program).

The second main hypothesis: Islamic banks listed in Amman Stock Exchange do not assess the risks which encounter their operations.

The third main hypothesis: there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of risks surrounding their operations.

This hypothesis is subdivided into the following sub-hypotheses:

First sub-hypothesis: there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of operational risks.

Second sub-hypothesis: there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of market-related risks.

Third sub-hypothesis: there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of strategic risks.

### **Population and Sample of the Study:**

The population of the study consists of financial managers and accountants working at the Islamic banks listed in Amman stock exchange, which are three in number, according the report of ASE for the year 2016. Due to the small number of banks of the population of the study, all of them were included in the sample. (100) questionnaires were distributed among the participants of the study sample, of which (87) were recovered. Islamic banks were selected due to the high levels of deposits therein, and their importance in the economies of Arab countries, including Jordan.

### **Tool of the Study:**

A questionnaire was developed for data collecting concerning the commitment of Islamic banks to the standards of internal audit related to attributes on the assessment of risks facing their operations. The questionnaire consisted of (30) items, based on Likert five point scale, in which high agreement with the content of the item is given five points, and high disagreement one point. The questionnaire included two parts:

The first part: is devoted to the demographic information concerning the participants of the sample of the study, including: specialization, academic qualification, age and practical experience.

The second part: consisted of two sections devoted to the variables of the study, and consisted of 35 items.

### **Statistical Methods:**

Descriptive statistics were used, such as frequencies and percentages in exploring the characteristics of the participants of the study, and the reliability test through Cronbach alpha Coefficients was used to test the reliability of the tool of the study, and the Kolmogorov-Smirnov (K-S) Test was used to determine whether sample data is normally distributed.

One sample T-Test was used in order to test the first and second hypotheses, so that the null hypothesis is rejected if the mean exceeds the cut point (3) significantly descriptive statistics were also used in order to calculate the means of the responses of participants of the study to the items in the questionnaire, as well the standard deviation in order to calculate the dispersion of the responses relative to their means.

The third hypothesis was tested through the use of multiple linear regression, which is usually used to test the impact of several independent variables on the dependent variable simultaneously (Al-Heity, 2006). In the current study, this test was used to explore the impact of the commitment of Islamic banks to the standards of internal audit related to attributes on the assessment of risks as a dependent variable.

Multicollinearity was tested through Variance Inflation Factor (VIF), in order to test for the presence of high correlation between the independent variables, which indicates the presence of a problem that may impact the results of regression results (Cooper and Schindler, 2003).

### **Analysis of Data and Testing the Hypotheses:**

Table (1) shows the distribution of the participants of the sample of the study in terms of demographic variables, and it shows that (60.9%) of the participants were specialized in accounting, holding B.A degrees, while the percentage of those holding M.A or PH.D. degrees was (25.9%). Concerning the practical experience, the table shows that the majority of the participants have more than 5 years of experience (86.2%). These characteristics support the ability of the participants to comprehend and respond appropriately to the items of the questionnaire in an objective manner, and they reflect also the attention paid by Islamic banks to the recruitment of employees with high qualifications, especially those in managerial positions.

**Table (1)** the distribution of the participants of the study according to demographic variables:

<b>Variable</b>	<b>Categories</b>	<b>Number</b>	<b>Percentage</b>
<b>Specialization</b>	<b>Accounting</b>	53	60.9
	<b>Business</b>	9	10.3
	<b>Finance and Banking</b>	11	12.6
	<b>Accounting Information Systems</b>	14	16.1
<b>Academic qualification</b>	<b>Diploma</b>	8	9.4
	<b>B. A</b>	57	64.7
	<b>M.A</b>	18	21.2
	<b>PH.D.</b>	4	4.7
<b>Practical Experience</b>	<b>Less than 5 years</b>	12	13.8
	<b>5-10 years</b>	22	25.3
	<b>10-15 years</b>	27	31.0
	<b>15- more years</b>	26	29.9
<b>Total</b>		87	100.0

### **Validity and Reliability**

Cronbach Alpha was used to test the validity and reliability of the tool of the study, and the statistically acceptable value was set at (60%) or higher (Sekaran, 2014), and table (2) shows the results.

Table (2) shows that the value Cronbach alpha Coefficient for the section related to the commitment to the standards of internal audit is (85.7%), which is considered high. The values ranged between (72.3%) for the standard of proficiency and due professional care the standard of (78.1%) for the standard of purpose, authority and responsibility. The values for the assessment of risks was at (84.2%), and it ranged between (70.6%) for the management of operational risks, and (81.1%) for strategic risks. The Coefficient value for the tool as a whole was (92.2), which is high, and exceeds the acceptance value of (60%), and considered acceptable for the purposes of the current study.

**Table (2)** internal consistency coefficients of the sections of the tool and the tool as a whole:

<b>Internal audit</b>	<b>Alpha Value</b>	<b>Risk Assessment</b>	<b>Alpha Value</b>
<b>Purpose, authority and responsibility</b>	0.781	<b>Operational risks management</b>	0.706
<b>Independence and objectivity</b>	0.727	<b>Market-related risks management</b>	0.785
<b>Proficiency and due professional care</b>	0.723	<b>Strategic risks management</b>	0.811
<b>Quality Assurance and Improvement Program</b>	0.751	<b>Management of risks as a whole</b>	0.842
<b>Total degree of commitment to the standards of internal audit</b>	0.857		
<b>The tool as a whole</b>			0.922

#### **Testing the normal Distribution of Data**

One-Sample Kolmogorov – Smirnov Test was used in order to explore whether the data are distributed normally or not, which is important for testing the hypotheses, in that the data are distributed normally if the sig. level was higher than the acceptable value (0.05). Table (3) shows the results of the test.

**Table (3)** testing the normal distribution of the sections of the tool and the tool as a whole.

	<b>k. s Value</b>	<b>Sig.</b>
<b>Purpose, authority and responsibility</b>	0.979	0.549
<b>Independence and objectivity</b>	0.827	0.501
<b>Proficiency and due professional care</b>	0.920	0.366
<b>Quality Assurance and Improvement Program</b>	1.552	0.116
<b>Total degree of commitment to the standards of internal audit</b>	<b>0.645</b>	<b>0.800</b>
<b>Operational risks management</b>	0.998	0.272
<b>Market-related risks management</b>	1.201	0.114
<b>Strategic risks management</b>	0.962	0.310
<b>Management of risks as a whole</b>	0.724	0.342
<b>The tool as a whole</b>	0.852	0.462



The table shows that all the values of statistical significance related to the commitment to the standards of internal audit related to attributes, and the level of risk management were higher than  $(0.05 \geq \alpha)$  for all the sections of the tool, which shows that the data are distributed normally.

**Testing the Suitability of the Model of the Study**

Before testing the hypotheses of the study, it is important to test the suitability of the study data to the linear regression analysis between two or more variables, so the following tests were conducted:

**First: Correlation Matrix of the Independent Variables:**

The regression model was tested in order to explore the presence of high mutual correlations between the independent variables. Studies (Shwiyat et al., 2013 ‘Anderson et al., 1993) indicate that the presence of a correlation higher than (70%) between two or more independent variables, may result in distortion in the relationship between one of the variables and the dependent variable, which makes it difficult to explain the relationship between them. Thus, a correlation matrix was used as shown in table (4).

**Table (4)** correlation matrix for the section of the requirements of internal audit related to risk assessment:

Variable	Purpose	Independence	Proficiency	Program
Purpose, authority and responsibility	1			
Independence and objectivity	0.464**	1		
Proficiency and due professional care	0.269**	0.542**	1	
Quality Assurance and Improvement Program	0.560**	0.359**	0.442**	1

\*\* Sig. at  $(\alpha \leq 0.01)$

The table shows that the correlation values of correlation between the independent variables were less than (70%), and were statistically significant at the level (0.01), which indicates the lack of high mutual correlations between the variables of the study, to levels that may impact the results of regression analysis.

**Second: Multicollinearity Test**

The power of the General Linear Model (G.L.M) depends mainly on the hypothesis of the independence of each of the independent variables, and if this condition is not met, the general model becomes useless, because it exaggerates the value of  $(R^2)$  (Al-Seifo and Mashal, 2003). To check for that, tolerance Coefficient was calculated for each of the independent variables, as well as the variance inflation factor for each variable as well. The presence of a (VIF) value

which is higher than (10) indicates the presence of the problem of the multiple linear regression for the relevant independent variable (Gujarati, 2003). Table (5) shows the results of the test.

**Table (5)** results of Multiple Linear Regression

Variables	Tolerance	VIF
Purpose, authority and responsibility	0.431	2.323
Independence and objectivity	0.838	1.193
Proficiency and due professional care	0.577	1.733
Quality Assurance and Improvement Program	0.375	2.668

The table above shows that the values of (VIF) for all the independent variables were higher than (2) and less than (10), and ranged between (1.193-2.668), and that the values of tolerance ranged between (0.375-0.838), which is bigger than (0.05), which indicates the absence of the problem of multiple linear regression among the independent variables of the study.

### Testing the Hypotheses

The first Hypothesis: the Islamic banks listed in Amman Stock Exchange are not committed to the standards of internal audit related to attributes (purpose, authority and responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Program).

In order to test this hypothesis, One-Sample T-Test was used, so that the null hypothesis is rejected if the mean exceeds the standard score of (3) with statistical significance, and table (6) shows the results.

**Table (6):** One- Sample T-Test for the Commitment of Islamic banks to the standards of internal audit related to attributes:

Rank	NO.	Variable	Mean	Std. Dev.	T Value	sig	Degree
1	2	Independence and objectivity	3.92	0.57	27.014	0.000	High
2	3	Proficiency and due professional Care	3.83	0.69	20.055	0.000	High
3	1	Purpose, authority and responsibility	3.79	0.53	24.873	0.000	High
4	4	Quality Assurance and Improvement Program	3.44	0.67	10.265	0.000	High
<b>Internal audit as a whole</b>			<b>3.86</b>	<b>0.50</b>	<b>28.710</b>	<b>0.000</b>	<b>High</b>

The table above shows that the mean for the commitment of Islamic banks listed in ASE to the standards of internal audit related to attributes was (3.86), which is higher than the standard value of (3), with a standard deviation of (0.50). results showed also that the value of (T) was (28.710), with a sig. level of (0.000), which is statistically significant at ( $\alpha \leq 0.05$ ), which indicates that the mean is statistically significant, and that Islamic banks are committed to the standards of internal auditing related to attributes, to a high degree.

Results also show that all the means for the commitment to the standards of internal audit ranged between (3.44) for the Quality Assurance and Improvement Program standard, and (3.92) for the independence and objectivity standard, and all values were higher than (3), and the standard deviations for the commitment to the standards ranged between (0.53-0.69), which shows consistency in the responses of the participants of the sample. Results of t-test showed also that all the means were statistically significant at the level of (0.05), so there is a high level of commitment to the standards of internal audit related to attributes among the Islamic banks listed in ASE. Table (6) shows also that Islamic banks are committed firstly to the standard of independence and objectivity, and in the second rank to the standard of proficiency and due professional care.

Based on these results, the first null hypothesis is rejected, and the alternative hypothesis is accepted, which states that "the Islamic banks listed in Amman Stock Exchange are committed to the standards of internal audit related to attributes (purpose, authority and responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Program).

The second Hypothesis: Islamic banks listed in Amman Stock Exchange do not assess the risks which encounter their operations.

In order to test this hypothesis, One-Sample T-Test was used, so that the null hypothesis is rejected if the mean exceeds the standard value (3), with statistical significance, and table (7) shows the results for this hypothesis.

**Table (7)** One-Sample T-Test for the level of risk management at Islamic banks.

Rank	NO.	Variable	Mean	Std. Dev.	T Value	sig	Degree
1	1	<b>Operational risks</b>	3.85	0.60	23.745	0.000	High
2	2	<b>Market risks</b>	3.74	0.57	21.664	0.000	High
3	3	<b>Strategic risks</b>	3.67	0.56	20.115	0.000	High
<b>Risk management as a whole</b>			<b>3.68</b>	<b>0.44</b>	<b>26.130</b>	<b>0.000</b>	<b>High</b>

The table above shows that the mean for the risk management at the Islamic banks listed in ASE (3.68), which is higher than the standard value of (3), with a standard deviation of (0.44). Results showed also that the value of (T) was (26.130), with a sig. level of (0.000), which is statistically significant at ( $\alpha \leq 0.05$ ), which indicates that the mean is statistically significant, and that there is a high level of risk management at the Islamic banks.

Results also show that all the means for risk management ranged between (3.67) for strategic risks management, and (3.85) for operational risks management, and all values were higher than (3), and the standard deviations for the commitment to the standards ranged

between (0.56- 0.60), which shows the consistency of the responses of the participants of the sample. Results of t-test showed also that all the means were statistically significant at the level of (0.05), so there is a high level of risks management among the Islamic banks listed in ASE.

Table (7) shows also that Islamic banks are committed firstly to management of operational risks, and in the second rank to the management of market risks.

Based on these results, the second null hypothesis is rejected, and the alternative hypothesis is accepted, which states that "Islamic banks listed in Amman Stock Exchange assess the risks which encounter their operations."

Third Hypothesis: there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of risks surrounding their operations.

In order to test this hypothesis, Multiple Linear Regression was used, so that the null hypothesis is accepted if the mean exceeds the sig. value of (0.05), and is rejected if it is less than (0.05).

**First sub-hypothesis:** there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of operational risks.

Table (8) shows that the value of correlation Coefficients between commitment to the standards of internal audit related to attributes and the management of operational risks is (0.641), which indicates the presence of a positive and statistically significant correlation at the sig. level of ( $\alpha \leq 0.05$ ), while the percentage of Adj. R<sup>2</sup> is (0.403), which means that the standards of internal audit related to attributes as a whole are capable of explaining (40%) of the variance in the management of operational risks at Islamic universities, which is supported by the F-value (48.199), and the sig. level (0.000), which is less than (0.05).

**Table (8):** results of multiple regression of the impact of commitment to the standards of internal audit related to attributes on the management on operational risks.

Independent variables	$\beta_i$	T-value	Sig.	R	Adj. R <sup>2</sup>	F-value	Sig.
Purpose, authority and responsibility	0.215	4.108	0.000	0.641	0.403	48.199	0.000
Independence and objectivity	0.265	3.890	0.000				
Proficiency and due professional care	0.105	1.993	0.042				
Quality Assurance and Improvement Program	0.170	3.183	0.002				

**Dependent Variable:** operational risks management.

Table (8) shows the presence of a positive impact, statistically significant at (0.05), for commitment to the standards of internal audit related to attributes on operational risks management, where the T-Value for all variables was significant at (0.05), with the value of  $\beta_i$  for the commitment to the standard of purpose, authority and responsibility (0.215), and for the standard of commitment to the standard of independence and objectivity (0.265), and for the standard of commitment to the standard of Proficiency and due professional care (0.115), and for the standard of commitment to the standard of Quality Assurance and Improvement Program (0.170). The values of  $\beta_i$  show also that commitment to the standard of independence and objectivity has the highest impact on the management of operational risks at Islamic banks, with the value of  $\beta_i$  at (0.265), and at the sig. level of (0.000), which means that increasing the level of commitment to this standard one point entails an increase in the level of operational risks management by (0.265), thus, the null hypothesis is rejected, and the alternative hypothesis is accepted " there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of operational risks."

**Second sub-hypothesis:** there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of market-related risks.

Table (9) shows that the value of correlation Coefficients between commitment to the standards of internal audit related to attributes as a whole and the management of market risks is (0.362), which indicates the presence of a positive and statistically significant correlation at the sig. level of ( $\alpha \leq 0.05$ ), while the percentage of Adj.  $R^2$  is (0.241), which means that the standards of internal audit related to attributes as a whole are capable of explaining (24%) of the variance in the management of market risks at Islamic banks, which is supported by the F-value (27.231), and the sig. level (0.000), which is less than (0.05).

**Table (9):** results of multiple regression of the impact of commitment to the standards of internal audit related to attributes on the management on market risks.

Independent variables	$\beta_i$	T-value	Sig.	R	Adj. $R^2$	F-value	Sig.
Purpose, authority and responsibility	0.117	1.693	0.092	0.362	0.241	27.231	0.000
Independence and objectivity	0.237	8.262	0.000				
Proficiency and due professional care	0.151	2.195	0.029				
Quality Assurance and Improvement Program	0.130	3.345	0.001				

**Dependent Variable: market risks management**

Table (9) shows the presence of a positive impact, statistically significant at (0.05), for commitment to the standards of internal audit related to attributes on market risks

management, where the T-Value for all variables was significant at (0.05), with the value of  $\beta_i$  for the commitment to the standard of purpose, authority and responsibility (0.092), and for the commitment to the standard of independence and objectivity (0.265), and for the commitment to the standard of Proficiency and due professional care (0.151), and for the commitment to the standard of Quality Assurance and Improvement Program (0.130). The values of  $\beta_i$  show also that commitment to the standard of independence and objectivity has the highest impact on the management of market risks at Islamic banks, with the value of  $\beta_i$  at (0.237), and at the sig. level of (0.000), which means that increasing the level of commitment to this standard one point entails an increase in the level of market risks management by (0.237), thus, the null hypothesis is rejected, and the alternative hypothesis is accepted "there is a statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of market-related risks".

**Third sub-hypothesis:** there is no statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of strategic risks.

Table (10) shows that the value of correlation Coefficient between commitment to the standards of internal audit related to attributes and the management of operational risks is (0.321), which indicates the presence of a positive and statistically significant correlation at the sig. level of ( $\alpha \leq 0.05$ ), while the percentage of Adj.  $R^2$  is (0.213), which means that the standards of internal audit related to attributes as a whole are capable of explaining (21%) of the variance in the management of operational risks at Islamic banks, which is supported by the F-value (34.665), and the sig. level (0.000), which is less than (0.05).

**Table (10):** results of multiple regression of the impact of commitment to the standards of internal audit related to attributes on the management on strategic risks.

Independent variables	$\beta_i$	T-value	Sig.	R	Adj. $R^2$	F-value	Sig.
Purpose, authority and responsibility	0.147	4.047	0.000	0.321	0.213	34.665	0.000
Independence and objectivity	0.259	4.983	0.000				
Proficiency and due professional care	0.160	3.674	0.001				
Quality Assurance and Improvement Program	0.121	3.425	0.011				

**Dependent Variable: Strategic risks management.**

Table (10) shows the presence of a positive impact, statistically significant at (0.05), for commitment to the standards of internal audit related to attributes on strategic risks management, where the T-Value for all variables was significant at (0.05), with the value of  $\beta_i$

for the commitment to the standard of purpose, authority and responsibility (0.147), and for the standard of commitment to the standard of independence and objectivity (0.259), and for the standard of commitment to the standard of Proficiency and due professional care (0.160), and for the standard of commitment to the standard of Quality Assurance and Improvement Program (0.121). The values of  $\beta^i$  show also that commitment to the standard of independence and objectivity has the highest impact on the management of operational risks at Islamic banks, with the value of  $\beta^i$  at (0.259), and at the sig. level of (0.000), which means that increasing the level of commitment to this standard one point entails an increase in the level of operational risks management by (0.259), thus, the null hypothesis is rejected, and the alternative hypothesis is accepted "there is a statistically significant impact of the Islamic banks commitment to the standards of internal audit related to attributes on the management of strategic risks."

### **Conclusions and Recommendations**

The main conclusions of the current study can be summarized as follows:

1. The mean for the commitment of Islamic Banks listed in Amman Stock Exchange to the standards of internal audit related to attributes as a whole is (3.86). Results showed also that managements of internal audit at Islamic banks are committed to the standards of Purpose, authority and responsibility; the standard of independence and objectivity; the standard of proficiency and due professional care; and the standard of Quality Assurance and Improvement Program to a high degree. The highest commitment is to the standard of independence and objectivity, while the lowest level of commitment was directed to the standard of Quality Assurance and Improvement Program among the managements of internal audit at Islamic banks.
2. The Islamic banks listed in Amman Stock Exchange manage the risks which encounter their activities, with a mean of (3.68). Results also show that Islamic banks manage the operational risks, market risks and strategic risks to a high level. Operational risks has the highest level of management, while the strategic risks has the lowest level among the Islamic banks listed in Amman Stock Exchange.
3. There is a positive statistically significant impact for the commitment of Islamic Banks to the standards of internal audit related to attributes on the management of operational risks, and the impact for each standard of attributes is of statistical significance on the management of operational risks. Results showed also that the standard of independence and objectivity has the highest impact on the management of operational risks, while commitment to the standard of proficiency and due professional care has the lowest impact on the management of operational risks at the Islamic banks.
4. There is a positive statistically significant impact for the commitment of Islamic Banks to the standards of internal audit related to attributes on the management of market risks, and the impact for each standard of attributes is of statistical significance on the management of market risks, except for the standard of purpose, authority and responsibility. Results showed also that the standard of independence and objectivity has the highest impact on the management of operational risks, while commitment to

the standard of Quality Assurance and Improvement Program has the lowest impact on the management of market risks at the Islamic banks.

5. There is a positive statistically significant impact for the commitment of Islamic Banks to the standards of internal audit related to attributes on the management of strategic risks, and the impact for each standard of attributes is of statistical significance on the management of strategic risks. Results showed also that the standard of independence and objectivity has the highest impact on the management of strategic risks, while commitment to the standard of Quality Assurance and Improvement Program has the lowest impact on the management of operational risks at the Islamic banks.
6. The commitment to the standards of internal audit related to attributes as a whole was capable of explaining (0.40) of the variance in operational risks, (0.24) of variance in market risks, and (0.21) of variance in the strategic risks at the Islamic banks, and the F-Value was statistically significant at the level (0.05).

Based on these conclusions, the analysis of data and testing the hypotheses, the researcher recommends the following:

- 1) Increasing the attention paid to internal audit, due to its importance in supporting the function of risk management, through the relevant specialized training courses, and the provision of support to the managements of internal audit in terms of human resources, which are trained and qualified, academically and practically.
- 2) Evaluating the internal audit systems employed at the Islamic banks on a regular basis, and developing them in order to increase the efficiency of those systems and improving their positive impacts on the management of risks.
- 3) The necessity for coordinating with the Jordanian central bank and the Jordanian commercial banks in order to apply the methods of Basel Committee, and improving disclosure procedures at these banks, which ensures an efficient management, and assists in categorizing Jordan among the least risky states.
- 4) Increasing the attention of the banks listed in Amman Stock Exchange concerning the requirements of management and assessment of risks, in order to identify the risks of all types prior to their occurrence, through commitment to the compliance regulations issued by the central bank of Jordan, in order to alleviate the risks of all types, including the operational, market-related, and strategic risks.

## References

- Al-Hawari, A. (2014). *The Role of Internal Audit on the Assessment of Risks at the Jordanian industrial Firms: A Field Study*. Thesis, Yarmouk university, Jordan.
- Al-Jawhar, K. (2011). Reengineering Internal Audit on the Light of the Internal Standards and its Impact on the Improvement of risks' Management. *The Arab Journal of Business, University of Applied Sciences*, volume (30), issue (2).
- Ånerud, K. (2004). Developing International Auditing Standards: Cooperation between INTOSAI and the International Federation of Accountants. *International Journal of Government Auditing*, 31(4), 20-24.



- Arena, M., Arnaboldi, M., & Azzone, G. (2006). Internal audit in Italian organizations: A multiple case study. *Managerial Auditing Journal*, 21(3), 275-292.
- Association of International Accountants.(2007). *The International Standards of Internal Audit and Quality Assurance in Jordan* (third edition). AIA, Amman.
- Cooper, D.(2005). *Project risk management guidelines: Managing risk in large projects and complex procurements*. John Wiley & Sons, Inc.
- Darwish, S. Z. (2015). Risk and Knowledge in the Context of Organizational Risk Management. *Risk*, 7(15).
- Dallas, M.(2008). *Value and risk management: a guide to best practice*. John Wiley & Sons.
- Fearnley, S., Beattie, V. A., & Brandt, R. (2005). Auditor independence and audit risk: A reconceptualization. *Journal of International Accounting Research*, 4(1), 39-71.
- Institute of Internal Auditors.(2009) *The Role of Internal Auditing in Enterprise-Wide Risk Management*.Institute of Internal Auditors.
- Jamal A. (2011).The Reality and Constraints of Using Analytical Procedures in the Control of Public Fund.*Jordanian Audit Bureau Case European Journal of Economics, Finance and Administrative Sciences*, 34, 111-132.
- Ntsiful, S., &Mwenechanya, M. (2011).*The Independence and Objectivity of the Internal Auditor in the Discharge of his/her Professional Responsibilities: Evidence from the Reserve Bank of Malawi*.Dissertation, Karlstad Business School.
- Okafor, C., &Ibadin, P. (2009). The imperatives of internal audit in Nigerian banks: issues and prospects. *Global Journal of Social Sciences*, 8(2), 21-27.
- Radwan, E. (2012). *Impact of Internal Audit on the Management of risks on the light of the international Standards of Audit*.Thesis, Islamic University, Gaza strip.
- Sekaran, U., &Bougie, R. (2016). *Research methods for business: A skill building approach*. John Wiley & Sons.
- Sekaran, U., &Bougie, R. (2016). *Research methods for business: A skill building approach*. John Wiley & Sons.
- Silmi, A., Adous, S., & Abu Hamour, A. (2014). The Extent of Contribution of Coso Report in Improving the Internal Control at the Industrial Companies at Amman Stock Exchange. *Research Journal of Finance and Accounting*, 5(14), 93-103.
- Zhang, Y., Zhou, J., & Zhou, N. (2007).Audit committee quality, auditor independence, and internal control weaknesses. *Journal of accounting and public policy*, 26(3), 300-327.