

**Evaluating Quality of Control Policies and Procedures for Banking Transactions  
Using the Non-application Gap Model to Enhance Financial Reporting  
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This work is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International \(CC BY-NC 4.0\)](https://creativecommons.org/licenses/by-nc/4.0/)**Abstract:**

The research aims to enhance the level of evaluation of the performance of banking transactions control policies and procedures. The research is based on the following hypothesis: efficient transactions control policies and procedures contribute enhancing financial reporting, by assessing non-application gap of those policies and procedures in a manner that helps to prevent, discover, and correct material misstatements. The researchers designed an examination list that includes the control policies and procedures related to the transactions, as a guide to the bank audit program prepared by the Federal Financial Supervision Bureau. The research methodology is designed to evaluate control policies and procedures of banking transactions, by adopting the non-application gap approach and its impact on the quality of financial reporting. Application and full documentation of control policies and procedures for eight transactions, discussed in this paper, have a positive reflection on the quality of the accounting information reported in the financial reports, while the reflection will be negative in case of non-application. Weaknesses of bank policies and procedures for eight transactions were analyzed, namely: fortified chamber, cashier, deposits, saving, current account, foreign currencies sale, loan transactions, and non-current assets. Importance of this paper is to explain the effect of deficiencies in fulfilling transactions control policies and procedures on financial reporting.

**Keywords:** Policies and procedures, financial reporting, banking transactions, non-application gap.

**Introduction:**

Financial reporting is an accounting activity aims at providing information to decision makers. Accounting information must enjoy a high degree of quality, through its sincere and fair representation, and free from material misstatements. To achieve this goal, controls in terms of policies and procedures must be available, in order to ensure the accuracy of banking transactions.

This study consists of five sections follow this introduction. The first is research methodology, the second a literature review to financial reporting, the third is a review to the quality of policies and procedures for transaction control and financial reporting relationship. The fourth is an analytical evaluation of some policies and procedures for banking activities Based on the non-application gap model, to meet financial reporting requirements; finally it is followed by conclusions and recommendations.

**1. Research methodology**

Methodology of this paper encompasses the following:

**1-1: The research problem**

Banks must provide true information through their financial reports. To ensure this is achieved, they must maintain control policies and procedures for transactions executed. Failure to apply appropriate controls on bank transactions leads to a breach of financial reporting requirements. The problem in this paper can be formulated using the following two questions:

1. Is it possible to use the non-application gap approach in banking transactions policies and procedures, in order to strengthen financial reporting requirements?
2. How can the steps of the non-application gap approach be applied, in banking transactions control policies and procedures efficiently?

**1-2: The research importance**

Importance of the research lies in shedding light on the supervision of banking transactions and the basis for evaluating them to preserve available resources and enhance financial reporting.

The importance of the research lies in shedding light on the control of banking transactions and the basis for evaluating them through the use of the non-application gap, to preserve the available resources and enhance financial reporting.

**1-3: Research objectives**

The research aims to achieve the following:

1. Developing and raising the evaluation level of banking transactions control policies and procedures, to serve the internal and external parties interested in accounting information.
2. Explain the effect of deficiencies on financial reporting when banking transactions control policies and procedures are not fulfilled.

**1-4: The research hypothesis**

The research is based on a hypothesis contends that "efficient transactions control policies and procedures contribute enhancing financial reporting, by assessing non-application gap of those policies and procedures in a manner that helps to prevent, discover, and correct material misstatements."

### **1-5: Research Limitations**

Research limits are as follows:

1. Time limitations: Research time limits are 2019-2020.

2. Spatial limitations: The spatial limit for the research is represented in an Iraqi private bank. Name of the bank will not be mentioned due to secrecy of information about weakness in the policies and procedures of some effective banking transactions, for example, fortified chamber transactions, current account transactions, loan transactions ... etc. The bank will be referred to as "the bank subject to study".

### **2. Literature review to financial reporting**

The availability of high-quality information on any economic entity is a major objective of financial reporting, as this information positively affects stakeholders interests.

Financial reporting is defined as the production of general purpose financial statements that meet the needs of users who have limited access to internal information of an economic entity (Whittington, 2008). The definition focuses on the importance of financial statements, the information it contains and how to communicate them. It is also defined as presenting financial statements about the status of an economic entity, its operating performance and the flow of funds for a specific accounting period. Financial statements are backed up by additional relevant information that can be included in various forms for users, especially external, such as annual reports and official bulletins (Siegel & Shim, 2000). Financial reporting encompasses several elements, including financial statements, which are the most important key reporting techniques composes of the following (AICPA, 1994):

- **Balance sheet:** represents a list of available resources and claims arising against those resources.
- **Income statement:** a statement of revenues and expenses that contributed to achieving those revenues.
- **Change of ownership equity statement:** a statement of any change in the equity of owners, whether throughout additions to capital, distributions of dividend, or change in the structure of the components of equity.
- **Statement of cash flows:** a statement of cash receipts through which the economic entity obtained cash, and payment of that cash. It is considered as a tool by which certain accounting items are excluded because they are non-monetary in addition to being subject to personal assessment (such as intangible asset amortizations or premiums, gains or losses of disposal of capital assets).
- **Value-added statement:** It represents a statement that shows the income generated by a group of primary parties of stakeholders, foremost shareholders, lenders, workers in the economic entity and the government as a custodian of society interests.

The most commonly reporting techniques are the following: financial statements, notes to margins of financial statements, attached lists and tables, and auditor certification. When the four aforementioned reporting techniques are combined into one package, they are placed under the heading of financial reports, which should be prepared according to certain conditions in order to achieve satisfactory disclosure.

### **3. Review to the quality of policies and procedures for transaction control and financial reporting relationship**

The accounting information system processes data. Data represent facts that are collected, recorded, stored, and processed by an information system. As for information, it is data that is organized and processed in order to be understood by a user. In order to obtain the correct information, a set of control policies and procedures should be available that include the following (Romney & Steinbart, 2018)

- a. An authorization to create and enter transactions in records.
- b. Strengthening protection on records and documents from unauthorized access.
- c. Determine data access for authorized personnel.
- d. Preventing, detecting and correcting errors that may occur during transaction processing.
- e. Protecting the outputs of the accounting system from unauthorized access or disclosure.

The controls associated with converting data into information can be classified as follows (Arens et al., 2017):

1. **Data entering Control.** Designed to detect and report physical misrepresentations in data. This control seeks also to provide appropriate assurance that the data entered for processing are authorized and recorded correctly.
2. **Data processing control.** This type of audit seeks reasonable assurance about correctness and accuracy of data-processing process. By avoiding duplicate registering the same transaction, confirming the data associated with it, and validating it's posting to ledger accounts.
3. **Output control.** These audits seek to provide a reasonable degree of assurance of the correctness and accuracy of the outputs of data-processing operations such as lists of accounts, to ensure the correctness, accuracy and completeness of the information, and to distribute the outputs to authorized individuals.

Some believe that the financial reporting process can be exposed to a set of threats, which necessitate the availability of a set of policies and procedures as follows (Romney & Steinbart, 2018):

1. **Threats:** material misstatements while updating the general ledger and preparing financial reports.

**Control Policies and Procedures:** Control of processing operations, inputs, adjustments, control reports, and implementing the audit trail.

2. **Threats:** Loss of data, unauthorized disclosure, and change of financial statements.

**Control Policies and Procedures:** Control data entry and implement an audit trail.

4. Analyzing aspects of evaluating the policies and procedures of some banking transactions to meet requirements of financial reporting in the bank subject to study

#### **4-1: Introductory information to the bank subject to study**

The bank the subject to research had been established in 1994 in accordance with the provisions of Article (21) of the amended Companies Law (36) for the year 1983, with a capital of (100) million Iraqi dinar and obtained a license to practice banking in accordance with the provisions of paragraph one of the forty-first article of the amended law of the Central Bank of Iraq (64) for the year 1976.

The capital was increased over several different years to become (300) billion Iraqi dinars in 2013. The Bank provides a set of banking services.

To put the research concepts in practice, the two researchers familiarized themselves with control policies and procedures for the transactions of the bank subject to research. Questions and inquiries were directed to internal audit department staff, performing the evaluation and follow-up. As well as, access to internal audit reports, about the policies and procedures of the bank subject to research. Taking into consideration, that, the internal audit department, is responsible for implementing this evaluation.

The data collection was implemented by using a check list designed based on manuals for examining policies and control procedures followed by the Federal Board of Supreme Audit. While the cases presented are about the failure of control policies and procedures, they are based on cases the bank previously faced and some of them were treated according to the notes of internal audit reports.

#### **4-2: Evaluating the control policies and procedures of banking transactions, by adopting the non-application gap approach and its impact on the quality of financial reporting**

The bank subject to study deals with many types of transactions, eight banking transactions were chosen, as shown in Table (1).

Table (1)

Banking transactions

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth
Bank transactions	Fortified Chamber's transactions	Cashier Fund transactions	Deposit transactions	Savings transactions	Current account transactions	Foreign currency sale transactions	loans and advances transactions	Fixed assets transactions

Source: prepared by the researchers

The researchers designed an examination list that includes the control policies and procedures related to the transactions mentioned in the aforementioned schedule, as a guide to the bank audit program prepared by the Federal Financial Supervision Bureau. In addition, as well as assistance of Law (94) "Instructions to Facilitate the Implementation of the Banking Law for the year 2004 and the Anti-Money Laundering and Terrorist Financing Law (39) for the year 2015.

#### 4-2-1: Evaluating the policies and procedures of the fortified chamber's transactions

The chamber's transactions are represented by management of Affairs related to the preservation and supply of Iraqi and foreign cash and financial stamps, withdrawal of cash surplus from the branches and the preservation of valuable assets and documents belonging to the bank. Some examples can be mentioned in case of failure when the requirement is not met.

- An authorized person holds the two keys to the fortified chamber.
- Keep no spare keys in a safe and close location, for use when needed. As well as, the spare keys is not used interchangeably with the copy that the author holds.
- Failure to periodically count the fortified chamber, which causes, the person in charge of the fortified chamber to feel safe and creates an opportunity for theft. Besides, less attention is paid to reconciliation process. The periodic count should be implemented suddenly and for 7 to 8 times yearly.
- The labels attached to the cash package, does not reflect the existing data (currency type, treasurer's name, date, and treasurer's seal).
- Absence of authorized names or dates, when signing implemented transactions.
- The possibility of the bank being exposed to warnings or punishment imposed by the Central Bank, in the event of no registration of forged currency.
- Cash overkeeping in the fortified chamber more than specified in the instructions issued by the Central Bank.

Table (2), shows the policies and procedures of the fortified chamber's transactions, as it includes an assessment of the level of implementation and documentation of control procedures. The source of the threat is for financial reporting.

Table (2)

#### Evaluating the policies and procedures of the fortified chamber's transactions

NO.	Policies and procedures for controlling fortified chamber transactions	Evaluation results	Source of threat for financial reporting
1	There is an administrative command for authorized persons to keep the keys of the fortified chamber and the secret numbers.	The controls are fully applied and fully documented	Use of bank assets by unauthorized persons. Threat, cash theft for personal purposes.
2	Opening the fortified chamber is subject to the double responsibility of two authorized persons.	The controls are partially applied and fully documented	Use of bank assets by unauthorized persons. Threat, using cash for personal purposes.

3	Ensure that the bank maintains a record for names of key holders, and secret numbers and their replacements (in case they leave), for cash safes and the fortified chamber.	The controls are fully applied and partly documented	Use of bank assets by unauthorized persons. Threat, loss of cash, and/or using cash for personal purposes.
4	Ensure that the additional copies of the safes' keys are kept for the dual control of two authorized persons at the same time.	The controls are partially applied and fully documented	Use of bank assets by unauthorized persons. Threat, loss of cash, and personal purposes.
5	Implement sudden count of the assets kept in fortified chamber in local and foreign currencies and securities.	The controls are fully applied and fully documented	No match of assets actually exists, with the recorded in documents due to material misstatements. Threat, a decrease or an increase in cash without discovering it.
6	Compliance with the instructions for receiving Iraqi and foreign cash from the Central Bank and branches.	The controls are fully applied and fully documented	Violating the instructions of the Central Bank. Threat, imposing punishments on the bank.
7	Daily entries related to local and foreign currency transactions.	The controls are fully applied and fully documented	Failure to record or delay daily transactions. The restrictions do not reflect the amount in the safe. Threat, the financial statements do not reflect the business outcome.
8	Existence of forged currency notices appearing on the local and foreign currencies.	The controls are fully applied and fully documented	Forged currency not registered. Threat, the possibility of being used in financial transactions.
9	Existence of memorandum of decrease and increase in cash during counting and sorting.	The controls are fully applied and fully documented	Failure to follow the reasons for the decrease or increase in cash, during counting and sorting. Threat, using cash for a personal benefit.

10	Existence of labels on cash packages showing currency type, treasurer's name, date, and treasurer's seal signed by him	The controls are partially applied and fully documented	Not knowing the person who caused the error with the package. Threat, cash theft.
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Source: Prepared by the researchers based on the checklist data and personal interviews.

#### 4-2-2: Evaluating cashier's transactions policies and procedures

Cashier's transactions represent the receipt and currency of Iraqi and foreign cash. Some examples can be mentioned in case of failure when the requirements are not met, and the effect on financial reporting.

- A decrease or increase in the cash, without paying attention to the cause or search for it. The decrease is paid by the person responsible for it.
- An error occurs and an attempt is made to hide it, by tearing the registration paper, or using correction ink to conceal it.
- An error occurred through forgetting to mark the processing of the transaction.

Table (3), shows the policies and procedures for controlling cashier's transactions, as it includes evaluating level of implementation and documentation of control procedures, and source of threat on financial reporting.

Table 3  
Evaluating cashier's transactions policies and procedures controls

NO.	Policies and procedures for cashier's transactions	Evaluation results	The source of the threat for financial reporting
1	A count of cash by the cashier, and reconciling physical count to the general ledger records.	The controls are fully applied and fully documented	A shortage of cash. Threat, fail to discover the deficiency.
2	Cash journal is free from scratching and correction white ink.	The controls are fully applied and fully documented	Hide material misstatements when recording transactions. Threat, financial reports do not reflect the truth.
3	Reconciling journal and posting entries to the general journal and ledger.	The controls are fully applied and fully documented	Failure to register or post to the relevant accounts, or delay it. Threat, financial reports do not reflect the truth.
4	Existence of supporting documents of payments and receipts transactions.	The controls are fully applied and fully documented	Implementing unauthorized receipt or payment transactions. Threat, cash theft for personal purposes.
5	Marking and stamping documents upon payment.	The controls are fully applied and fully documented	Implementing unauthorized receipt or payment transactions. Threat, using cash for personal interests.
6	Management's approval upon payments and those payments are made exclusively by the treasurer.	The controls are fully applied and fully documented	Performing unauthorized transactions. Threat, transactions contain material misstatements.



7	No exceed to the maximum cash limit allowed.	The controls are partially applied and fully documented	Violating the Central Bank instructions. Threat, penalties the Central Bank.
8	Implementing periodic transfers among cashiers every six months.	The controls are partially applied and partly documented	Violating instructions of the policies and procedures. Threat, the possibility of bypassing policies and procedures for personal benefits.
9	Personal liability insurance for cashiers.	The controls are fully applied and fully documented	Failure to obtain compensation from insurance companies, in case of breach of trust. When the cashier commits dishonesty, the insurance company does not compensate the bank. Threat, loss of bank's cash.

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

#### **4-2-3: Evaluating fixed deposit transactions policies and procedures**

This activity represents a contract whereby the bank agrees to open a deposit account for the customer, in which the amounts are deposited for interest payment in return, granted by the bank to the depositor. The depositor can withdraw the deposited amount at the end of the deposit period plus the interest, but if it is withdrawn before the agreed time, the customer loses the interest. Below are some examples of failure, if the policies and procedures required are not met.

- The figure of the deposited amount when opening an account does not match the figure written in words, or an error occurs in registering the account number.
- Opening accounts without branch manager approval. This allows the possibility of opening accounts to fake persons, or who have legal problems.
- The amounts included in the deposit record are incorrect, approval may be incomplete in terms of signing and writing the name when registering.
- Opening an account without conducting an examination for the customer on the issue of money laundering or those who are prohibited from opening accounts, with a promise that examination process takes place at a later time, or it may not take place at all.
- Calculating interest on deposits withdrawn before the agreed time.
- Renewing the deposit period via a phone call from the customer without submitting a written request by the depositor, due to the trust between him and the employee.
- Reports on deposits whose owners have not claimed their amounts are not followed up. In the event that the amount is not claimed for a period of 7 years, it is deposited in the Central Bank.

Table (4) clarifies the policies and procedures for deposit transactions, as it includes assessing the level of implementation and documentation of control procedures. The source of the threat is for financial reporting.

**Table (4)**  
**Evaluating fixed deposit transactions policies and procedures**

<b>NO.</b>	<b>Policies and procedures for controlling fixed deposit transactions</b>	<b>Evaluation results</b>	<b>The source of the threat for financial reporting</b>
<b>1</b>	<b>The customer submits the deposit request, completes the forms, under the supervision of the employee involved, and signs them to prove the validity of the data.</b>	<b>The controls are fully applied and fully documented</b>	<b>Opening accounts to fake persons, or those with legal problems. Threat, the bank is subject to penalties and by the Central Bank.</b>
<b>2</b>	<b>Customer forms, along with the customers' request, are submitted to the manager for approval to open the account.</b>	<b>The controls are fully applied and fully documented</b>	<b>Opening accounts to fake persons, or those with legal problems. Threat, the bank is subject to penalties and by the Central Bank.</b>
<b>3</b>	<b>Validity of registration and posting processes in related records.</b>	<b>The controls are fully applied and fully documented</b>	<b>Failure to record transactions in the relevant records. Threat, financial reports do not reflect correct amounts.</b>
<b>4</b>	<b>The customer must own the eligibility requirements and must not be recorded in money laundering list.</b>	<b>The controls are fully applied and fully documented</b>	<b>Fraud or money laundering. Threat, the bank is subject to penalties and by the Central Bank.</b>
<b>5</b>	<b>Depositor must have a serial account number.</b>	<b>The controls are fully applied and fully documented</b>	<b>Possibility of money laundering, by opening fake accounts. Threat, the bank is subject to penalties and by the Central Bank.</b>
<b>6</b>	<b>Interest on the deposit must be recorded if it is withdrawn prior to the due date.</b>	<b>The controls are partially applied and fully documented</b>	<b>Error in the amount of interest expense. Threat, financial reports do not reflect the correct amounts.</b>
<b>7</b>	<b>There is a request to renew the deposit before the date of the deposit due in case the depositor wants to renew it.</b>	<b>The controls are fully applied and partly documented</b>	<b>Wrong disclosure of deposits. Threat, financial reports do not reflect the correct amounts.</b>

8	Prepare reports about operations performed on the suspended accounts	The controls are partially applied and fully documented	Perform fake withdrawals. Threat, use of suspended cash for personal benefit.
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Source: Prepared by the researchers based on the checklist data and personal interviews.

#### **4-2-4: Evaluating savings transactions policies and procedures**

The savings activity is a contract whereby the bank agrees to open a savings account for the customer, in which the amounts are deposited in return for an annual interest granted by the bank. The account holder or his agent is entitled to withdraw and deposit the amounts at any time through his savings book. Some examples can be mentioned in case of failure when the requirement is not met.

- Opening accounts to fake persons, or they have legal problems.
- The customer card is not updated, for example customer information from an address, and old sources of income.
- Incorrect data entry during electronic processing, and thus the processing will be incorrect.
- Calculating interest on closed accounts, and taking interest for personal benefit.
- Calculating interest on accounts whose owners do not wish to receive the interest amount. And taking their sums for personal benefit.

Table (5) below shows the policies and procedures for savings transactions, as it includes evaluating the level of implementation and documentation of control procedures. Some examples can be mentioned in case of failure when the requirement is not met.

Table (5)

#### **Evaluating savings transactions policies and procedures**

NO.	Policies and procedures for controlling savings transactions	Evaluation results	The source of the threat for financial reporting
1	For approval of the manager to open the saving account, customer's request and legal documents must be attached.	The controls are fully applied and fully documented	Opening accounts to fake persons, or those having legal problems. Threat, the bank is subject to penalties by the Central Bank.
2	To open saving account, official documents must be Signed by employee in charge.	The controls are fully applied and fully documented	Opening accounts to fake persons, or they have legal problems. Threat, the bank is subject to penalties and fines by the Central Bank.
3	Providing the customer with a saving account book.	The controls are fully applied and fully documented	Withdraw the amount by someone other than the customer. Threat, bank cash theft.

4	Entering data into the electronic system and signing the validity of the entry.	The controls are fully applied and fully documented	Wrong processing of data. Threat, financial reports do not reflect correct amounts.
5	Review posting of journal entries.	The controls are fully applied and fully documented	Failure to record transactions in correct accounts and relevant records. Threat, financial reports do not reflect correct amounts.
6	Applying the correct interest rate specified by the Central Bank.	The controls are fully applied and partly documented	Calculating interest expenses erroneously. Threat, financial reports do not reflect correct amounts.
7	Customer name must not be included in money laundering list.	The controls are fully applied and fully documented	Possibility of money laundering operations. Threat, the bank is subject to penalties and by the Central Bank.
8	Customer signature is required in case of his unwillingness to receive.	The controls are fully applied and fully documented	Calculating interest on accounts that their owners do not want interest. Threat, stealing interest by employee in charge for personal benefit.
9	Password is required for the data entry employee.	Controls are not applied and not documented	Wrong processing, or material misstatements. Threat, financial reports do not reflect correct amounts.
10	Auditing the process of closing an account according to customer request, with the signature of the bank manager.	The controls are fully applied and fully documented	Calculating interest on closed accounts. Threat, stealing faked interest amounts by employee in charge.
11	Identify the reasons behind some customers request to close their accounts.	The controls are partially applied and partly documented	Possibility of money laundering operations. Threat, the bank is subject to penalties and by the Central Bank.
12	Withdrawals from the account must be done using saving account book.	The controls are fully applied and fully documented	Paying amounts to wrong persons. Threat, bank loss of cash and reputation.

13	Interest must not be added to accounts whose owners do not want to receive it.	The controls are fully applied and fully documented	Calculating interest on accounts that their owners do not want interest. Threat, bank loss of cash.
14	Verify the presence of two witnesses in case of customer illiteracy.	The controls are partially applied and partly documented	Possibility of money laundering, or faked operations. Threat, the bank is subject to penalties and by the Central Bank.
15	The customer must own the eligibility requirements and must not be recorded in money laundering list.	The controls are partially applied and fully documented	Possibility of money laundering operations. Threat, financial reports do not reflect correct amounts.

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

#### 4-2-5: Evaluating current account transactions policies and procedures

Current account is an account that the bank opens to the customer and has the right to withdraw or deposit at any time via a checkbook. The bank is obligated towards to pay the full amount upon withdrawal and no interest is given to the customer. Some examples can be mentioned in case of failure when the requirement is not met.

- Open a current account without obtaining approval.
- No update is made to data of current accounts' customers.
- No update is made to agencies for customers who have agents.
- Grant credit facilities to customers with poor credit.
- Implement overdrafts without approval from the manager.

Table (6) clarifies the current account transactions policies and procedures, as it includes evaluating the level of implementation and documentation of control procedures.

Table (6)  
Evaluating the checking of current account transactions

NO.	Policies and procedures for controlling current account transactions	Evaluation results	The source of the threat for financial reporting
1	The customer submits official documents, and the applicant must not be registered in the blacklist accounts.	The controls are fully applied and fully documented	Opening accounts to fake persons, or they have legal problems. Threat, the bank is subject to penalties and by the Central Bank.
2	Update the account information annually or as change occurs.	Partially applied and partially documented	Open accounts to fake persons, or they have legal problems. Threat, the bank is subject to penalties and by the Central Bank.

3	Current accounts must not be opened to people with limited education (semi-illiterate), and in case of exception, they should not be provided with a checkbook.	Controls are not applied and not documented	The possibility of money laundering operations, or fraud. Threat, the bank is subject to penalties by the Central Bank.
4	Providing the customer with current account number and a checkbook stamped and registered in the bank's records.	The controls are partially applied and fully documented	Opening accounts to fake persons, or facing legal problems. Threat, the bank is subject to penalties by the Central Bank.
5	Agents have official agency authorization.	The controls are partially applied and partly documented	Implementing withdrawals and deposits by unauthorized persons. Threat, cash theft for personal benefit.
6	Open a current account for any government agency by approval of the Ministry of Finance and the Central Bank.	The controls are fully applied and fully documented	Possibility of money laundering. Threat, the bank is subject to penalties and by the Central Bank.
7	A statement of rejected checks, its amount and the name of the drawee, must be available.	Controls are not applied and not documented	Possibility of submitting the same check for collection again. Threat, bank cash theft.
8	Branch manager approval to grant credit (overdraft).	The controls are fully applied and fully documented	Granting credit to customers with poor credit. Threat, bank cash loss.
9	The customer must not exceed the allowable limit for overdraft.	The controls are fully applied and fully documented	Granting credit to customers with poor credit. Threat, bank cash loss.
10	Calculate interest on the balance of the overdraft amount.	The controls are fully applied and partly documented	Error in calculation leads to a loss of interest income. Threat, financial reports do not reflect correct amounts.
11	Update the customer's credit information.	The controls are fully applied and fully documented	Opening accounts to fake persons. Threat, the bank is subject to penalties by the Central Bank.
12	Requesting monthly statements from some current account customers to verify the validity of balance.	Controls are not applied and not documented	Opening accounts to fake persons. Threat, the bank is subject to penalties by the Central Bank.
13	Preparing a statement of closed accounts and mentioning their reasons.	Controls not applied and partially documented	Using closed accounts for money laundering purposes. Threat, the bank is subject to penalties by the Central Bank.
14	Commission must be calculated correctly when processing the current account.	The controls are fully applied and fully documented	Calculation errors lead to a loss of commission income. Threat, financial reports do not reflect correct amounts.

15	Preparing a statement of static (nonmoving) current accounts, and management procedures in this concern.	The controls are not applied and partially documented	Possibility of using these accounts to carry out illegal transactions. Threat, the bank is subject to penalties by the Central Bank.
16	Separating the amounts deposited in the bank by the local currency from accounts opened by foreign currency.	The controls are fully applied and fully documented	Failure to separate the accounts of the two currencies leads to loss of commission income and interest in foreign currencies. Threat, financial reports do not reflect correct amounts.
17	Job rotation for employees from time to time, within a year.	The controls are partially applied and fully documented	Carrying out one job by the employee, can lead to material misrepresentations that are not discovered. Threat, financial reports do not reflect the correct amounts.

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

#### 4-2-6: Evaluating the policies and procedures for transactions in foreign currency sales

It is an account to sell foreign currencies where the bank sells foreign currencies (dollars) to customers for travel and treatment, and the amount sold, the currency rate, and commission are specified by the Central Bank of Iraq. Some examples can be mentioned in case of failure when the requirement is not met.

- Implement unauthorized sales or out of compliance to instructions.
- Selling more than the capacity of the bank, which means that there is a shortage of cash that is required to be paid to customers when requesting to pay their accounts in dollars.
- Error in calculating the commission, or its classification.
- Inadvertently the sales price does not match the market price.

Table (7) clarifies the policies and procedures for transactions in foreign currency sales, as it includes evaluation of the level of implementation and documentation of control procedures.

Table (7)

#### Evaluating foreign currency sale policies and procedures

NO.	Policies and procedures for controlling foreign currency transactions	Evaluation results	The source of the threat for financial reporting
1	Approval form the bank manager to sell foreign currencies	The controls are fully applied and fully documented	Selling foreign currencies more than the authorized. Threat, the bank is subject to penalties by the Central Bank.

2	Audit the validity of data entry, with accounting entries.	The controls are partially applied and fully documented	Carry out fake sales, or fictitious people. Threat, the bank is subject to penalties by the Central Bank.
3	Reporting canceled currency sales.	The controls are fully applied and partly documented	Implementing fake sales. Threat, the bank is subject to sanctions by the Central Bank.
4	Keep records prove the preparation of daily transactions to match them with the remaining cash in the fortified chamber.	The controls are fully applied and fully documented	Implementing unauthorized sales. Threat, financial reports do not reflect the correct amounts.
5	Calculate the commission of selling foreign currency.	The controls are fully applied and fully documented	Loss of revenue from commission of selling foreign currency. Threat, financial reports do not reflect the correct amounts.
6	Providing the Central Bank with daily reports on foreign currency sale transactions.	The controls are fully applied and fully documented	Implementing unauthorized sales, or out of compliance with the instructions. Threat, the bank is subject to penalties by the Central Bank.
7	The specified amount that should be sold to every person must not be exceeded.	The controls are partially applied and fully documented	Implementing sales to fictitious people, or for personal interests. Threat, the bank is subject to sanctions from the Central Bank.
8	The specified ceiling amount, set by the Central Bank to sell foreign currencies should not be exceeded.	The controls are fully applied and fully documented	Implementing unauthorized sales. Threat, the bank is subject to sanctions by the Central Bank.

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

#### 4-2-7: Evaluating loan control policies and procedures

It is a contract between the two parties, the first borrower (the customer) and the second party, the lender (the bank). The bank sets certain conditions for loans such as the terms of payment, mortgages, and the interest rate. Some examples can be mentioned in case of failure when the requirement is not met.

- Validity of restricting the loan amount exceeded. To overcome this obstacle, the loan is divided into two amounts and granted to same person.
- Single signature of authorized employees, in charge to grant the loan, this means, possibility of granting loans violate instructions.
- Grant loans to customers their guarantees do not cover the loan plus interest.
- Payment of loan with interest is not recorded with intention to steal the money.



Table (8) clarifies the policies and procedures for loan transactions, as it includes an assessment of the level of implementation and documentation of control procedures, and then clarifies deficiencies in the event of failure to fulfill the requirement.

**Table (8)**  
**Evaluating loan control policies and procedures**

<b>NO.</b>	<b>Policies and procedures for controlling loan transactions</b>	<b>Evaluation results</b>	<b>The source of the threat for financial reporting</b>
1	Granting the loan must be approved by the manager.	The controls are fully applied and partly documented	Grant fake loans. Threat, bank cash theft.
2	Signatures of authorized employees on loan documents.	The controls are fully applied and fully documented	Loans granted to customers with poor credit. Threat, bank cash loss.
3	Reports of granted and repaid loans must be prepared.	The controls are partially applied and fully documented	Repayment of loans with interest may not be recorded. Threat, stealing loan amounts and interest for personal benefit.
4	Loan amount paid to the customer, must be done after calculating and deduction of interest in advance.	The controls are fully applied and fully documented	Loss of interest on loan granted. Threat, financial reports do not reflect correct amounts.
5	Interest for payment delayed must be calculated.	The controls are fully applied and fully documented	Revenue loss on loan interest, overdue Threat, financial reports do not reflect correct amounts.
6	Follow-up for slow loans' payment must be available.	The controls are partially applied and fully documented	Loss of loan amounts, with interest income. Threat, financial reports do not reflect correct amounts.
7	Detention sign must exist on the properties that guarantee the loan.	The controls are fully applied and fully documented	Loan amount with accrued interest income may be lost. Threat, financial reports do not reflect correct amounts.
8	Existence of records that prove all data related to the customer, the loan granted to him, and the guarantees provided by him.	The controls are fully applied and fully documented	Loan amount with accrued interest income may be lost. Threat, financial reports do not reflect correct amounts.
9	Credit limit allowed must not be exceeded.	The controls are fully applied and fully documented	Loss of loan amount, with interest revenue, due to granting credit to customer with poor credit. Threat, financial reports do not reflect the correct amounts.

10	Legal arrangements must be taken, in the event of non-payment of loan installments, and interest.	The controls are fully applied and fully documented	Loss of loan amount, with accrued interest income. Threat, financial reports do not reflect correct amounts.
11	Visits to projects used as loan guarantee must be documented.	Controls are not applied, not documented	Grant fake loans. Threat, loss of bank's money.

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

#### 4-2-8: Evaluating the policies and procedures for controlling fixed assets

Fixed assets represent assets relate to the bank business, such as lands, buildings and furniture. Some examples can be mentioned in case of failure when the requirement is not met.

- The asset register does not match the actual presence for several reasons, including lack of updating when the sale or purchase of the assets takes place, transfer of assets among departments and divisions.
- Excess of authorization if assets are purchased at inflated prices, using a single offer of one seller.
- No distinction is made between capital and revenue expenditures in concern with fixed asset.

Table (9), shows the policies and procedures to control transactions on fixed assets, as it includes an assessment of the level of implementation and documentation of control procedures.

Table (9)  
Evaluating the policies and procedures for controlling fixed assets

NO .	Policies and procedures for controlling fixed assets transactions	Evaluation results	The source of the threat for financial reporting
1	Records include full information about each fixed asset such as name, type, code, and its cost...etc.	The controls are partially applied and fully documented	Stealing unrecorded assets. Threat, financial reports do not reflect the correct amounts.
2	Use of official documents from board of directors meetings, indicating authorities and instructions, to verify that additions and exclusions were made legally.	The controls are partially applied and fully documented	Implement addition and exclusion without management knowledge. Threat, using cash for personal purposes.
3	Existence of the asset purchase vouchers that support acquisition.	The controls are partially applied and fully documented	Performing fake purchases for assets not received. Threat, bank cash theft.
4	Verify that the renewal or improvements expenditures are added to the existing asset, and it has increased its useful life, capacity, or efficiency.	The controls are partially applied and partly documented	Mismatch of capital and revenue expenses. Threat, financial reports do not reflect correct amounts.

5	Checking classification correctness revenue or capital expenses by examining the accounts.	The controls are partially applied and partly documented	Confusion of capital and revenue expenses. Threat, financial reports do not reflect correct amounts.
6	Check correctness of assets being sold, and its related accumulated depreciation.	The controls are partially applied and fully documented	Keep assets in records despite selling them. Threat, financial reports do not reflect the correct amounts.
7	Verification of assets' disposals.	The controls are partially applied and fully documented	Maintaining assets in records despite its disposal. Threat, financial reports do not reflect correct amounts.
8	Verification of assets' disposal processing.	The controls are fully applied and fully documented	Maintaining assets in records despite disposal. Threat, financial reports do not reflect correct amounts.
9	Reconciliation of fixed assets balances in the register with balances in the general ledger record.	The controls are fully applied and fully documented	Mismatch of balances in journal, and general ledger. Threat, financial reports do not reflect correct amounts.
10	Ensure that assets physical count includes all bank assets, and that the results of the actual count match the records.	The controls are fully applied and fully documented	Existence of undisclosed assets, and vice versa. Threat, financial reports do not reflect correct amounts.
11	Existence of ownership documents for the company's assets issued by the official authorities for ownership.	The controls are fully applied and fully documented	Existence of assets in the financial statements that are not owned by the bank. Threat, financial reports do not reflect correct amounts.
12	Fixed assets depreciation must be calculated correctly.	The controls are fully applied and fully documented	Error in calculating depreciation. Threat, financial reports do not reflect correct amounts.
13	Depreciation is calculated for added or disposed assets during the year.	The controls are fully applied and fully documented	Error in calculating the depreciation Threat, financial reports do not reflect correct amounts.

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

#### **4-3: Measuring the non-application gap for banking transactions policies and procedures**

The hex scale has been used to measure the extent of conformity to the actual implementation of these policies and procedures by allocating a specific weight to each of the paragraphs of the measures. Table (10) shows items of the scale and their weights that range from application and full documentation (six degrees-weight), to no-application and no-documentation (zero-weight). Using the mean and percentages to calculate scope of the existing gap in documenting and applying these requirements.

**Table (10)**  
**Seven-degrees scale for determining the quality of bank transaction policies and procedures**

NO.	Application type and documentation	Weight of documentation and application	Explanation
1	Policies and procedures are fully implemented and fully documented.	6	The application of policies and control procedures for banking transactions by the employees in a holistic manner. And fully documented.
2	Policies and procedures are fully implemented and partially documented.	5	The application of policies and control procedures for banking transactions by employees in a holistic manner. Partially documented.
3	Policies and procedures are fully implemented and not documented.	4	The application of banking policies and procedures for banking transactions by the bank's employees. But it is not documented.
4	Policies and procedures are partially implemented and fully documented.	3	The application of control policies and procedures for banking transactions, partly by employees. Totally documented
5	Policies and procedures are partially implemented and partially documented.	2	Partial application of banking policies and procedures for banking transactions. Partially documented.
6	Controls not applied and partially documented.	1	Failure of employees to monitor banking policies and procedures. But it is partially documented.
7	Policies and procedures are not applied and not documented.	0	Failure to apply banking control policies and procedures by bank employees. And not documented.

Source: Prepared by the researchers based on (Al-Kateeb & Fayyadh, 2019).

The statistical methods necessary to calculate the performance gap are as follows (Al-Kateeb, 2008):

$$1. \text{ Weighted arithmetic mean} = \frac{\text{Sum (weights} \times \text{repetitions)}}{\text{Total iterations}}$$

$$2. \text{ The percentage of application} = \frac{\text{Weighted arithmetic mean}}{6 \text{ (highest repeatable weight)}}$$

## 3. Size of non-application gap = 1 - percentage of application

**Table (11)**  
**Summary of the evaluation of the banking policies and procedures for banking transactions**

NO.	Banking transactions	Weighted arithmetic mean	The percentage of application	Size of non-application gap
1	Fortified chamber transactions	5	83%	17%
2	cashier's transactions	5.2	87%	13%
3	Deposit transactions	5.12	85.5%	14.5%
4	Savings transactions	4.8	80%	20%
5	Current account transactions	3.65	61%	39%
6	Foreign currency sales transactions	5.5	92%	8%
7	loan transactions	4.91	82%	18%
8	Fixed assets transactions	4.69	78%	22%

Source: Prepared by the researchers based on analyzing checklist data.

1. The checklist recorded a gap in the lack of implementation of the policies and procedures for treating the fortified chamber (17%), with a weighted average (5) score of (6), and the level of application (83%). The cause of the gap is caused by the following:

- ◆ Sometimes the fortified chamber is opened by one of the authorized persons, and not both authorized.
- ◆ Additional copies of the locker keys are saved by one authorized person.
- ◆ Sometimes labels installed on the cash package bear the signature of the cashier only without stamping them or mentioning the date.

2. The checklist recorded a gap in the lack of implementation of the cashier's transactions policies and procedures for treatment (13%), with a weighted average (5.2) with a score of (6) and the level of application (87%). The cause of the gap was the following:

- ◆ Sometimes the allowed cash limit is exceeded.
- ◆ Treasurer rotations are performed during irregular periods.

3. The checklist recorded a gap in the lack of application of deposit treatment policies and procedures (14.5%), with a weighted average (5.12), a score of (6), and an application level (85.5%). The cause of the gap was the following:

- ◆ The interest on the deposit is calculated if it is withdrawn before the due date by mistake.
- ◆ Reports on suspended accounts are submitted, upon request, from the higher authorities of the bank.

4. The checklist recorded a gap in the lack of implementation of savings transactions policies and procedures (20%), with a weighted average (4.8), a

score of (6), and an application level (80%). The cause of the gap was caused by the following:

♦ There are passwords for the data entry employee. But it does not happen periodically.

♦ The reasons for the closure of some of their customers are not recognized.

♦ A savings account is opened for a customer who does not read or write, without bringing two witnesses. 5. The checklist recorded a gap in the non-application of current account transactions policies and procedures (40%), with a weighted average of (3.61), a score of (6), and an application level (60%). The cause of the gap was caused by the following:

♦ Current accounts are opened for those with limited education (semi-illiterate), and provided with a book of sukuk.

♦ Update the information in the current account form with separate periods, not every year.

♦ A statement of rejected checks is not prepared, as the rejected check is returned to its holder.

♦ A certificate of approval is not required for the balance of some current account customer to verify the validity of withdrawals and deposits.

♦ A statement of closed or static accounts is only prepared upon request from the higher authorities.

♦ The bank performs a rotation process for employees at intervals of time, or when needed.

6. The checklist recorded a gap in the lack of application of foreign currency sale policies and procedures (8%), with a weighted average (5.5) score of (6), and an application level (92%). The cause of the gap was caused by the following:

♦ The bank prepares reports of canceled sales operations, when requested by higher authorities.

♦ The bank may exceed the sale amount in the specified dollar per person, in case of a surplus.

7. The checklist recorded a gap in the non-application of loan transactions policies and procedures (18%), with a weighted average of (4.91), a score of (6), and an application level (82%). The cause of the gap was caused by the following:

♦ The approval of the manager to grant the loan to the customer is obtained if the loan amount is within the limits of the powers. But sometimes the loan is split, if large, to get approvals.

♦ No visits are carried out to projects used as loan guarantees.

8. The checklist recorded a gap in the non-application of fixed assets transactions and policies (22%), with a weighted average (4.69), a score of (6), and an application level (78%). The cause of the gap was caused by the following:

♦ Mismatch of physical counts, with amounts recorded in the records.

♦ No distinction is made between capital and revenue expenses.

## **5 Conclusions and Recommendations**

### **5-1: Conclusions**

1. Application and full documentation of control policies and procedures for transactions have a positive reflection on the quality of the accounting information reported in the financial reports, while the reflection will be negative in case of complete or partial non-application.
2. Weakness of bank policies and procedures for the fortified chamber's transactions, as in the case of keeping the chamber's keys by a single authorized person.
3. Weakness of bank policies and procedures related to some of the cashier transactions. This may be considered a deviation in application, documentation, or both, as in the case of exceeding the allowable limit of cash in the safe.
4. Weakness of bank policies and procedures related to some of deposits transactions. This may be considered a deviation in application, documentation, or both, as in the case of not submitting reports on suspended accounts.
5. Weakness of bank policies and procedures related to some saving transactions. This may be considered a deviation in application, documentation, or both, as in the case of ignoring the eligibility requirements of the customer.
6. Weakness of bank policies and procedures related to some of current account transactions. This may be considered a deviation in application, documentation, or both, as in the case of not sending approval of balances to customers.
7. Weakness of bank policies and procedures related to some foreign currencies sale transactions. This may be considered a deviation in application, documentation, or both, as in the case of exceeding the amount allowable for each person to purchase.
8. Weakness of bank policies and procedures related to some loan transactions. This may be considered a deviation in application, documentation, or both, as in the case of not visiting projects used for loan granting.
9. Weakness of bank policies and procedures related to some non-current assets transactions. This may be considered a deviation in application, documentation, or both, as in the case of failure to distinguish between capital and revenue expenditures.

### **5-2: Recommendations**

Reform and process situations of non-application or partial application and documentation of policies and procedures for transactions control, for the following issues:

- A. Compliance with the Central Bank's instructions for the allowable limit of cash preserved in the safe.
- B. Prepare periodic reports about suspended accounts, in order to avoid manipulation with these accounts.
- C. Necessity of having two witnesses when an illiterate customer opens an account, in order to avoid misuse of the account.
- D. Necessity of visiting projects used for loan granting, to avoid granting loans with fake guarantees.
- E. The bank should distinguish between capital and revenue expenditures, for the purpose of proper disclosure of net profit or loss.

F. Reform and process the non-application gap that arose throughout the evaluation of policies and control procedures, by strengthening policies and procedures related to transactions.

G. Develop policies and procedures to monitor bank transactions, and use the proposed approach, to reduce situations that affect negatively financial reporting.

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## تقويم جودة سياسات وإجراءات رقابة المعاملات المصرفية باستعمال إنموذج فجوة عدم التطبيق تعزيزاً لمتطلبات الإبلاغ المالي- دراسة على مصرف عراقي خاص

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### المستخلص:

يهدف البحث إلى تعزيز مستوى تقويم اداء سياسات وإجراءات رقابة المعاملات المصرفية، بما يخدم الأطراف الداخلية والخارجية المستخدمة للمعلومة المحاسبية. فضلاً عن، بيان تأثير جوانب القصور في الإيفاء بسياسات وإجراءات رقابة المعاملات، على الإبلاغ المالي. وقد بُنيَ البحث على الفرضية الآتية " تُسهم سياسات وإجراءات رقابة كفاءة للمعاملات في تعزيز الإبلاغ المالي، من خلال تقويم فجوة عدم تطبيق سياسات وإجراءات رقابة المعاملات بالطريقة التي تساعد على منع أو إكتشاف وتصحيح تحريفات مادية. صممت الباحثتان قائمة فحص تتضمن سياسات وإجراءات الرقابة المتعلقة ببعض المعاملات المصرفية، مستوحاة من برنامج تدقيق المصارف الذي أعده ديوان الرقابة المالي الاتحادي. تم تصميم منهجية البحث لتقويم سياسات وإجراءات الرقابة على المعاملات المصرفية، من خلال اعتماد منهج عدم التطبيق وأثره على جودة الإبلاغ المالي. التطبيق والتوثيق الكامل لسياسات وإجراءات الرقابة المعاملات الثمانية، التي تمت مناقشتها في هذه الورقة، تحمل انعكاس ايجابي على جودة المعلومات المحاسبية الواردة في الإبلاغ المالي، في حين سيكون الانعكاس سلبياً في حالة عدم التطبيق. تم تحليل نقاط ضعف سياسات وإجراءات المعاملات المصرفية الوارد ذكرها في البحث، وهي: الغرفة المحصنة، الصندوق، والودائع الثابتة، التوفير، الحسابات الجارية، بيع العملات الأجنبية، القروض، الموجودات غير المتداولة. تكمن أهمية هذه الورقة في شرح تأثير أوجه القصور في تنفيذ سياسات وإجراءات رقابة المعاملات على الإبلاغ المالي.

**المصطلحات الرئيسية للبحث:** السياسات وإجراءات، المعاملات، الإبلاغ المالي، المعاملات

المصرفية، فجوة عدم التطبيق.