

Original Article

The Role of Internal Auditing in Increasing the Profitability of Islamic Banks in Palestine

Dr. Amer Sadi Jaber

Doctor of Islamic finance, Faculty of Administrative and Economic Sciences, Quds Open University, Palestine

Abstract - The study aimed to identify the role of internal auditing in increasing the profitability of Islamic banks in Palestine. The researcher used the descriptive-analytical method. The study society consisted of employees of the internal audit departments and financial departments in Islamic banks in Palestine as well as supervisors of Islamic banks in the Palestinian Monetary Authority. The sample was composed of audit staff, employees of the financial departments, and employees of the Monetary Authority Supervisors of Islamic banks in Palestine. The sample number (35) was single in all survey members. The response rate was 85.7% (30) questionnaire from the study community. The study reached many results, the most important of which was that the field of financial auditing has a high role in increasing the profitability of Islamic banks in Palestine. The field of administrative auditing has a high role in increasing the profitability of Islamic banks in Palestine. The Islamic banks in Palestine comply with the regulations and instructions issued by The Palestinian Monetary Authority is high. The study recommended strengthening the culture of the Islamic Bank as a whole (management and branches) with the importance of internal auditing, the need to follow the instructions and instructions issued by the Audit Department at the bank, and the need to pay attention to the staff of Islamic banks. In the field of auditing the work of Islamic banks, especially that there are countries with advanced experience in the field.

Keywords - Internal Audit, Islamic Banks in Palestine, Profitability of Islamic Banks.

I. INTRODUCTION

Internal auditing is one of the most important means for the management of institutions in general and financial institutions in particular. The function of internal auditing in Islamic banks is the key to the shareholders' confidence in the soundness of their financial investments in all internal activities, as well as adequate protection of bank assets and encouragement. To achieve the efficiency of production and management in banks, where the need for the internal audit function is known to detect errors, fraud, and manipulation (Joma, 2011). The concept of internal auditing is generally confined to

financial and accounting auditing aimed at fault-hunting, and the search for the mistakes of the workers or their

Failure to implement the laws and regulations governing the work of the institution, which may cause losses to the institution or exposure to other risks. And to ensure the integrity of its application, a legal obligation of the institution. (Shawwal, 2014)

The external audit was preceded by the emergence of internal audit as a separate function. The most important reasons that led to the creation of this function in the institutions, in general, are the size and expansion of the institutions, as well as the urgent need for accurate and clear financial statements that reflect the actual performance of the organization and required by senior management. (Garcia and Barbadillo. 2012)

The Islamic banks in Palestine emerged after the arrival of the Palestinian Authority and the signing of the Oslo Agreement and the Paris Economic Protocol, which is the basis of the work of banks in general and Islamic banks in particular. Article 4 of the Protocol provides for the establishment of a monetary authority in Palestine that is responsible for regulating and supervising banking activities. The Palestinian Central Bank, and currently operating in Palestine, three Islamic banks are Palestine Islamic Bank, the Arab Islamic Bank, and Safa Bank.

II. THE STUDY PROBLEM

The Islamic banks in Palestine faced many difficulties in order to reach some kind of competition in the presence of local and foreign commercial banks, which increased the intensity of the competition. These banks had some internal solutions in order to achieve profits and provide the ability to continue. The most important solution is the provision of an internal control system, consisting of internal audit to ensure that the practice of business is in accordance with the plans and laws set, which reduces expenses and increases revenues, and the problem of the study in the main question the following: What is the role of internal audit in increasing the profitability of Islamic banks in Palestine? The main question of the study stems from the following sub-questions:

- What is the role of financial auditing in increasing the profitability of Islamic banks?



- What is the role of administrative auditing in increasing the profitability of Islamic banks?
- What is the role of auditing compliance with laws, regulations, and regulations in increasing the profitability of Islamic banks?

III.OBJECTIVES OF THE STUDY

The overall objective of the study is to explore the relationship between the function of internal auditing in Palestinian Islamic banks and increase their profitability. The main objectives are as follows:

- Identifying the role of the internal audit types (financial auditing, administrative auditing, compliance audit of laws and regulations) in increasing the profitability of Islamic banks in Palestine.
- Contribute to the awareness of the community and the business environment of the real role of internal auditing and change the negative image of it as a troublemaker.

IV.HYPOTHESES OF THE STUDY

H1: There is a statistically significant relationship between financial auditing and the increasing profitability of Islamic banks in Palestine.

H2: There is a statistically significant relationship between administrative auditing and the increasing profitability of Islamic banks in Palestine.

H3: There is a statistically significant relationship between compliance audit with laws, instructions, and regulations and increasing the profitability of Islamic banks in Palestine.

V. PREVIOUS STUDIES

a. The study of (**boqaila & zoom**) 2019, entitled "The impact of audit quality on the cost of property rights, has been applied to the industrial and service companies listed on the Amman Stock Exchange," concluded that the impact of the quality of the audit on the cost of property rights for the public industrial and service companies had reached an impact of quality audit Both the size of the company and the profitability of the company reduce the cost of equity and thus increase profits.

b. The study of (**BELAALEM**) 2015 entitled "The role of internal audit in improving the financial performance of banking institutions" Reached That the function of internal auditing is one of the most important functions of the institution, especially in the financial field for banks, which assesses the financial performance within the bank is a tool to reduce expenses and thus achieve profits on the one hand, and on the other compliance with laws and regulations increases the process of control of receipts Sizes and especially large cash receipts.

c. The study of (**HUSAIN**) 2015 entitled "The Impact of the Audit Committees on Improving the Quality of Profits in Jordanian Industrial Joint Stock Companies" concluded that The existence of a statistically significant impact on the composition of the audit committees (the size of the audit committee, the independence of the audit committee, the experience and knowledge of the audit committee and the number of times the audit committee met) on improving the quality of profits in the Jordanian joint-stock companies listed on the Amman Stock Exchange, A statistical report on the administrative and technical tasks of the Audit Committee on improving the quality of profits in Jordanian joint-stock companies listed on the Amman Stock Exchange.

d. The study of (**HAMDON& OTHERS**) 2012 entitled "The Role of Audit Committees in Continuing Profits" Reached a positive impact on the number of meetings of the audit committees on the continuity of profits, and a positive impact of the administrative and financial expertise of the members of the Audit Committee on the continuity of profits.

VI.METHODOLOGY AND PROCEDURES OF THE STUDY

The descriptive-analytical approach was used for the study since this approach describes the phenomenon studied correctly to suit the approach to the nature of the study. The following is an overview of the society and sample, study tools, and statistical treatments used in the study.

a. Society and Study Sample

The study population consists of employees of internal audit departments and financial departments in Islamic banks in Palestine, as well as supervisors of Islamic banks in the Palestinian Monetary Authority. The sample was chosen from auditing employees, employees of financial departments, and employees of the Monetary Authority supervising Islamic banks in Palestine. The study population, which is the same sample of the study (35) and the study of all the vocabulary of the study community, was retrieved (30) questionnaire of the study community response rate 85.7%.

b. Study Tools

The researcher used the questionnaire as a tool for gathering information and reaching the objectives of the study. A number of previous studies and tools were used. A questionnaire was developed to measure the role of internal auditing in increasing the profitability of Islamic banks in Palestine. The second part may be the paragraphs that measure the role of internal auditing in increasing the profitability of Islamic banks in Palestine, where the number of these paragraphs (17) paragraph addressed to employees of Islamic banks and the Palestinian Monetary Authority,

and distributed to three main areas, and the following tables illustrate that:

Table 1. Distribution of the sections of the study tool on the main areas of the role of internal auditing in increasing the profitability of Islamic banks in Palestine

Ranking	field	Number of paragraphs
first	Financial Audit	6
second	Compliance with Shari'a laws and regulations	6
third	Administrative Auditing	5
Total		17

Table 2. Distribution of sex variable for respondents from the study sample

Sex	Number	Percentage
Male	21	%70
Female	9	30%
Total	30	%100

Table 3. Distribution of the variable number of years of experience for respondents from the study sample

Years of Experience	Number	Percentage
Less than 5 years	6	20%
5 years - 10 years	9	30%
More than ten years	15	50%
Total	30	100%

Table 4. Distribution of the variable of the scientific qualification of the respondents from the sample of the study

Qualification	Number	Percentage
Diploma	4	13.3%
Bachelor	21	70%
Master	5	16.7%
PHD	0	0
Total	30	100%

Table 5. Distribution of the age variable of respondents from the study sample

Age	Number	Percentage
Less than 30 years	9	30%
30 years - 40 years	15	50%
More than 40 years	6	20%
Total	30	100%

c. Stability Of The Tool Study

The researcher calculated the internal stability of the questionnaire and its field using the stability coefficient (Alpha Cronbach). Table (6) shows the internal stability coefficients in the Cronbach alpha method on the different dimensions and degrees of resolution.

The scale is based on a five-dimensional Likert scale. The paragraphs were built in a positive direction, and weights were given to the paragraphs as follows: Very agree: 5 Degrees, agree: 4 Degrees, Neutral: 3 Degrees, disagree: 2 Degrees, Very disagree: 1 Degree. Table (7): The criterion of

assessing the level of the role of internal auditing in increasing the profitability of Islamic banks in Palestine

Table 6. Internal stability coefficients in the Alpha Cronbach method on the different fields of resolution and on the total score.

field	value of Cronbach Alpha
Financial Audit	0.79
Compliance with Shari'a laws and regulations	0.89
Administrative Auditing	0.76
Total score	0.81

Table 7. The criterion of assessing the level of internal audit role in increasing the profitability of Islamic banks in Palestine

Period	Percentage	Estimate the level of the role
Less than 3.44	Less than 68.8%	very low
3.44- 3.82	From 68.8-76.4%	Low
3.83-4.21	From 76.6-84.2%	Average
4.22-4.60	From 84.4 to 92.0%	high
4.61 and more	92.2% or more	very high

d. Statistical Treatments

After the data were collected and processed statistically using the statistical program (SPSS) using the following statistical treatments: (Arithmetic averages, percentages, and repetitions, to calculate the relative weight of the subjects and areas of the study instrument) . The Alpha-Cronbach formula was used to test the stability of the questionnaire, which was explained in advance.

VII. TEST THE HYPOTHESES OF THE STUDY

To test the hypotheses of the study and answer the main question of the study and its sub-questions, the researcher used arithmetical averages, standard deviations, percentages, and level of the role.

To assess the level of the role of internal auditing in increasing the profitability of Islamic banks in Palestine, the researcher used a criterion based on the arithmetic average and the standard deviation of the total score of the internal audit role (mean 4.02, deviation 0.33).

a. To test the first hypothesis of the study, which states that "There is a statistically significant relationship between financial auditing and increasing profitability of Islamic banks in Palestine" ,the calculation averages, standard deviations, percentages, and the level of the role of each paragraph of the financial audit were calculated, the following table shows that:

Table 8. Arithmetical averages, standard deviations, and percentages for the financial audit field in descending order by grade level estimation

Seq	Paragraph	Ave	St.d	%	estimate
1	The Audit Department examines and analyses the results of branches and compares them with those in the same area.	4.76	0.44	95.4	very high
2	The Audit Department examines and complies with capital expenditure.	4.72	0.46	94.4	very high
3	The Audit Department verifies the correctness of the calculation of the tax expense.	4.68	0.69	93.6	very high
4	The Audit Department reviews the senior management remuneration at the Bank.	4.52	0.77	90.4	high
5	Your bank has a clear mechanism for controlling operating expenses.	4.48	0.87	89.6	high
6	The monthly payroll of the Bank's employees is reviewed by the Audit Department.	3.56	1.16	71.2	Low
The overall degree of financial audit		4.45	0.73	93.8	very high

Table (8) shows that the field of financial auditing has a very high role in increasing the profitability of Islamic banks in Palestine, thus accepting the first hypothesis of the study.

- b. To test the first hypothesis of the study, which states that "There is a statistically significant relationship between administrative auditing and increasing profitability of Islamic banks in Palestine, "the calculation averages, standard deviations, percentages, and the level of the role

of each paragraph of the administrative audit were calculated, the following table shows that:

Table 9. Arithmetical averages, standard deviations, and percentages for the administrative audit field in descending order by grade level estimation

Seq	Paragraph	Ave	St.d	%	estimate
1	The Audit Department ensures that the organizational structure of the Bank's objectives and future plans is adequate.	4.56	0.51	91.2	high
2	The Internal Audit Department reviews the work plans and performance indicators for achieving the objectives.	4.52	0.59	90.4	high
3	The Internal Audit Department reviews the annual budget and prepares it in accordance with the plan.	4.32	0.69	86.4	high
4	The Internal Audit Department examines the Bank's annual plan in terms of flexibility and applicability.	3.96	0.84	79.2	Average
5	The Audit Department reviews the reasons for the deviations of the previous plan.	3.96	0.84	79.2	Average
The overall degree of administrative audit		4.26	0.69	85.26	high

Table (9) reveals that the field of administrative auditing has a high role in increasing the profitability of Islamic banks in Palestine, thus accepting the second hypothesis of the study.

c. To test the first hypothesis of the study, which states that "There is a statistically significant relationship between administrative auditing and increasing profitability of Islamic banks in Palestine, "the calculation averages, standard deviations, percentages, and the level of the role of each paragraph of the administrative audit were calculated, the following table shows that:

Table 10. The arithmetical averages, standard deviations, and percentages of the field of compliance with the Shari'a laws and regulations are arranged in descending order according to the level of the role.

Seq	Paragraph	Ave	St.d	%	estimate
1	The Audit Department reviews the observations of the PMA inspectors.	4.56	0.51	91.2	high
2	The Audit Department shall ensure that the Bank complies with the Banking Law issued by the Palestinian Monetary Authority.	4.56	0.71	91.2	high
3	The Internal Audit Department ensures that banking operations are approved by the Shari'a Supervisory Board.	4.20	0.82	84.0	Average
4	The Audit Department is in constant coordination with the Shari'a Supervisory Board to ensure that the provisions of Islamic Sharia are applied in all banking operations.	3.80	0.91	76.0	Low
5	The Audit Department reviews the financial and administrative	3.52	0.71	70.4	Low

	ve systems of the Bank on an ongoing basis.				
6	The Audit Department reviews the executive regulations of banking operations, and all branches operate according to the law.	3.28	1.24	65.6	very low
The total degree of compliance with the laws and Shari'a regulations		3.98	0.81	86	Average

Table 10 shows that the Islamic banks in Palestine comply with the regulations and instructions issued by the Palestinian Monetary Authority and Shari'a regulations and thus accept the third hypothesis of the study.

The following is the order of the study areas according to the level of their respective roles, and the total score for all the fields that constitute the role of internal auditing in increasing the profitability of Islamic banks in Palestine:

Table 11. Ranking the fields and the overall score of the role of internal auditing in increasing the profitability of Islamic banks in Palestine

Seq	Paragraph	Ave	St.d	%	estimate
1	Financial Audit	4.45	0.73	93.8	very high
2	Compliance with Shari'a laws and regulations	4.26	0.69	85.26	high
3	Administrative Auditing	3.98	0.81	86	high
The overall role of internal auditing in increasing the profitability of Islamic banks in Palestine		4.2	0.74	88.35	high

VIII. SUMMARY OF RESULTS

After presenting the results of the analysis of the questionnaire, we summarize the f results, which are as follows:

- The overall degree of the role of internal audit in increasing the profitability of Islamic banks in Palestine was high. The total percentage of respondents' responses to all paragraphs was 88.35%.

- The ranking of fields according to their total score in the role of internal auditing in increasing the profitability of Islamic banks in Palestine, ranked first: financial auditing, second rank: administrative auditing, and third rank: compliance with the laws and legal and Shari'a regulations.

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IX. RECOMMENDATIONS

Emanating from the Results, we recommend the following:

- Enhance the culture of the Islamic Bank as a whole (management and branches) with the importance of internal auditing and the need to follow the instructions issued by the Audit Department at the Bank.
- Enhancing the participation of other departments in Islamic banks in order to develop appropriate plans that contain verifiable objectives and through which the profitability of the bank can be increased.
- The need to pay attention to the staff of Islamic banks in terms of their maintenance and experience in the field of internal audit.
- Benefit from the experience of other countries in the field of auditing the work of Islamic banks, especially as there are countries with advanced experiences in the field.

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