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Supervisory Role of the Board of Directors under the Governance Mechanisms on the Performance of Iraqi Banks

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By the student under supervision

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Abstract

It was noted that the weakness of the efficiency of internal control systems and the low level of disclosure and transparency caused financial crises and collapses in many banks, which stressed the need of banks to rules through which Raising the level of banking performance and facing the changing environment, which affects the Iraqi banks so it was the rules of governance that ensure this path to banks because it is a set of legal and administrative procedures through which the Board of Directors can direct and guide employees Hence, the research problem emerged as whether there is an impact on the supervisory role of the Board of Directors of the Bank on banking performance. The most important recommendations recommend the Board of Directors to design and implement the internal control systems. Key Conclusions The Board is indirectly involved in its committees to maintain the lead in the development within and outside the institution.

introduction

The banks witnessed financial crises and the collapse due to the weakness of the efficiency of the internal control systems and the low level of disclosure and transparency. These reasons emphasized the banks 'need for rules and evidence to cope with the changing environment with all the new variables that affect the banks' performance. Governance includes a set of legal and administrative procedures and internal mechanisms of governance is the Board of Directors and one of its main functions in the banks is the design and development of internal control systems and controls and its pursuit of a system of governance and general supervision and supervision Of its effectiveness and modify it when needed and review the effectiveness of internal control procedures and that the Council in turn, supervisory and oversight in banks puts banking policies and follow up its implementation, and that the Council's application of internal control systems makes it the first in charge of the bank's success and this application demonstrates the oversight role of the Board.

The first topic

The first requirement: - Research methodology

First: - Research problem:-

The requirements of the principles of governance are that the Board of Directors of the Bank in its supervisory role through its design and implementation of internal control systems and this shows its oversight role on the performance of banks in view of the Governing Council in the field of governance is responsible for the success of banks and achieving the objectives, the problem of research is determined by the following question:

-What is the impact of the supervisory role of the Board of Directors on banks

Second: - The importance of research:-

The importance of the research is to identify the role of the Board of Directors in supervising and supervising and activating the role of the Boards of Directors and to show the great role played by the Board of Directors of the Bank through good management.

Third: - Research objectives:-

-Statement of the importance of effective internal control systems designed by the Board of Directors of the Bank.

Fourth: - The hypothesis of research:-

There is a supervisory role of the Board of Directors on Iraqi banks.

Fifth: - Society and sample research:-

Research community: - The research community consists of a group of Iraqi banks.

Where the society consists of supervisors and administrators and members of the Board of Directors in the banks and the number of 240 employees divided into government banks (180) and private banks (60) were withdrawn a random sample of banks in general and at the level of significance (0.05) and error sampling (9%) and size The sample (80) was then applied to the random stratified sample, where the size of the sample was drawn to the government

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banks (60) and the private banks (20). Table (1) shows the size of the withdrawn sample.

Table (1) shows sample size

Preview error ratio	The size of the drawn sample	The size of society	Banks
%9	60	180	Government banks
	20	60	National banks
	80	240	total summation

Table of the researcher's numbers to show the size of the withdrawn sample

The research sample:-

1- Rafidain Bank 2 - Industrial Bank.

3-The Middle East Bank of Iraq for Investment. 4- The North Bank for Finance and Investment.

Sixth: - Limits of research:-

1-Time Limits: - The time limits that the researcher sees fit to complete the research from 2010 until 2013.

2-Spatial boundaries: - The study is conducted on a group of government and private banks in Baghdad

(Rafidain Bank - Industrial Bank - Bank of the Middle East Iraqi Investment - Bank of the North)

Seventh: Research Methodology

Theoretical side: - The researcher adopted the descriptive approach to address the problem of research and prove its hypothesis through the use of books, letters, texts and laws related to the subject of research.

The practical side: - The researcher adopted the analytical approach in this aspect using the questionnaire tool and a set of statistical methods.

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The second requirement: – Previous studies

1– The virtue of 2007

Studying and evaluating the effectiveness of the internal control system in banks Master of Science in Economics and Management Sciences and Business Science	Study Title
–Try to know the objectives of the internal control system and methods of administrative control and accounting, the possibility of clarifying the parameters and determinants of the system of internal control sound in banks.	Purpose of the study
– If the internal control system in commercial banks is applied in a good and appropriate manner, it has an effective role in evaluating its performance. In the absence of strict and effective rules and procedures of the system, it will lead to failure and inability to achieve its objectives as desired	Highlights studying
To increase the level of the internal financial control system through the activation of risk measurement and assessment systems, results, and control and control systems.	The main recommendations of the study
Similar to the current study through its internal control and its components and importance.	Similarities
Differ from the current study with its variables.	The differences

2–Christopher–2012

KEY DETERMINANTS OF EFFECTIVE BOARDS OF DIRECTORS	Study Title

-Identify the factors affecting the effectiveness of the Board and understand the main determinants of the boards of directors and the motives of these determinants	**Purpose of the study**
–The oversight function carried out by the Board of Directors to ensure that the institution has sound internal controls and that the administration is committed to them.	**Highlights studying**
–The establishment of well-functioning councils, not enough to add more independent directors as recommended by good governance codes; on the contrary, councils wishing to improve their functions should pay more attention to their internal processes.	**The main recommendations of the study**
Similar to the current study in that it explains the responsibility of the Council and its functions and oversight role.	**Similarities**
Differ from the current study with its variables.	**The differences**

The second topic

The first requirement: – The general framework of the Board of Directors

First: – The concept and definition of banking governance

The concept of governance is one of the modern concepts that have varied definitions. The researchers and the writers did not agree on a unified definition of it. Governance is a concept and term commonly used in the early 1990s by international organizations (Waeli: 2014: 38)

(Jonathan: 2003:2) is the system under which banks are managed and controlled to achieve their ends, which is the system by which they deal with their capital resources (Akoum: 2003: 42). Governance is a set of relationships between the management of the company and its board of directors, shareholders and other stakeholders The interests also include the structure that clarifies and defines the objectives of the company and the means to achieve these objectives and monitor performance.

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Second: Banking governance mechanisms

A - The external mechanisms: - The markets include acquisitions where these markets control the control of the institution and the behavior of internal customers who must either improve the performance of the institution or are at risk and prepares the market for the purposes of control of the institution (Naimi: 2011:48) The functions of this market to activate the performance of managers Executives and board of directors and encourage them to make developmental decisions that are consistent with the requirements of internal mechanisms. (Hamidi: 2011: 63)

B- **Internal mechanisms: These are the mechanisms of executive compensation, ownership concentration and board of directors.**

1 .Compensation of Executive Directors

2 .Concentration of ownership

3 . Board of Directors: - A group of elected individuals whose responsibilities are to work in accordance with the interests of the owners through the control and control of managers at the highest executive level and classify them into three levels (external - related external). (Zamili: 2014:47)

Table (2) Definitions of the Board of Directors

the definition	Source	t
The ideal board is a board that includes members from different disciplines and perhaps some of them are skilled in financial, technical or marketing matters with others with other expertise.	**Jonathan:2003:13**	**1**
The Board is responsible for the adoption of oversight mechanisms to ensure that the conduct and conduct of the Department are consistent with the interests of the owners.	**Christopher:2012:64**	**2**

The table of the numbers of the researcher based on the literature mentioned above

The Board of Directors has a set of basic functions including:

1 -Reviewing and guiding the company's strategy, work plans, activity plans, risk policy, and annual budgets, setting performance goals, following up on implementation and performance of the company and supervising capital expenditure.

2 - Selection of key executives, salary and benefits report and follow-up. (OECD: 2004: 33)

3 -Review the salary levels and benefits of the executive officers and members of the Board of Directors and ensure transparency of the nomination process of the Board of Directors. (Yusuf: 2007:155)

4 - Follow-up and management of different conflicts of interest for the Executive Management, Board of Directors, and shareholders.

The role of the Board of Directors is illustrated by three main tasks:

1 - **Monitoring**: - The Council acts through the committees emanating from it and maintains the lead in development in both inside and outside the institution.

2 - **Design**: - The Board draws the mission of the institution and determines the options before the administration and active councils are the task of design in addition to previous tasks

3 - **Evaluation**: - The Board examines the proposals submitted by the administration and its decisions that agree or disagree with them and provide advice and offer proposals and provide alternative schemes. (Devedo Thomas: 2014:42)

Third: Composition of the Board of Directors

1 -The one-tier council: - which is based on combining the functions of the Chairman of the Board and the Executive Director with one person.

2 -The two-tier board: - a separate management structure, which divides the roles between the chairman of the board of directors and the executive director. (Al-Rubaie and Radi: 2013:120)

Partition is preferred because of the heavy workload of the two functions, on the one hand, and because it reduces the risk arising from the potential for concentration of power on the other (Jonathan: 2003: 13)

Article (20) of the Public Companies Law (22) for the year 1997 specifies the composition of the board of directors of the general company to consist of the general manager of the company as chairman and eight members to be named as follows:

First: Four members selected by the Minister from among the heads of formations in the company with experience and competence in matters related to its activities.

Second: Two members elected from the company's employees.

Third: Two experienced and competent members chosen by the Minister from outside the Company and approved by the Traffic Authority

Fourth: The board of directors shall have three members of the reserve. The members shall elect one of them and the minister shall appoint the other members.

V. The Council shall, at its first meeting, elect a Vice-Chairman from amongst its members and replace the Chairperson in his absence.

Article (17/3) of the Banking Law (94) for the year 2004 stipulates that one of the conditions that must be met by whoever occupies the presidency or membership of the Council is:

A) He must be at least 30 years of age and be a fit person.

B) Most members of the Board of Directors shall have significant banking experience.

Committees emanating from the Board of Directors

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Article 117 of the Companies Law (21) of 1997, as amended in paragraph 8 thereof, provides that the Board of Directors shall establish two of its members to make recommendations regarding:

1 - Selection of independent financial auditors who are not working in the company Audit and Financial Audit Committee.

2 - Determining the nature and amount of fees paid to members of the Board of Directors and to the authorized director of the wages committee.

The second requirement: - Board of Directors' control

First: - the concept of censorship

The control is one of the administrative processes, which is an activity that overlaps with all the activities and is not independent. The continuity of the administrative process makes the control a constant activity, a constant confrontation of problems and finding solutions (Essential :2009: 43)

The importance of monitoring through the need for it is a tool that helps the administration to measure the actual performance and rationalize this performance and focus the effort and save time and cost, and prevent the occurrence of deviations before or recurrence and guide subordinates to prevent them from making mistakes. (Al-Ali: 2015:117)

Second: The Board of Directors as an internal control tool

The mechanisms of governance in the banking sector are the internal mechanism of control and the Council is the representative of this mechanism. It has a central role in control by limiting the ability of the senior management responsible for decision making to carry out any activity that harms the interests of the bank, shareholders and stakeholders(Sisi: 2011:216)The Board's control over administrative conduct is also referred to as the role of oversight or control. The Board of Directors represents the stakeholders that supervise the operations of the institution and monitors the performance of the senior management in order to protect the interests of the shareholders. (Christopher:2012:64) The Council is engaged in two types of oversight:

1 . Direct control

The distinguishing feature of positive control is the commitment of the Board of Directors and senior management to oversight. The Board of Directors is responsible for establishing and maintaining effective internal control that meets legal and regulatory requirements and responds to changes in the environment (Comptroller's Handbook: 2001: 15)

One of the Board's requirements for an effective oversight mechanism is:

A-Free access to sensitive information to members of the Board of Directors.

B- The number of board members should be modest to be more effective.

C- The importance of separating the functions of the CEO and the functions of the Board of Directors because this has a negative impact on the effectiveness of the Board's oversight. (Moameri: 45: 2011)

2 - indirect control

The Council exercises its indirect control through the committees emanating from it. These committees are:

1- The Audit Committee: The committee that is mandated to review the financial statements through an independent auditor (Kenneth et al: 2012: 71). This committee consists of a number of independent board members with management experience and authority in auditing, accounting and finance. The committee meets four times a year (Hammad:2007: 31). The duties of this committee are explained in Instructions No. (4) to facilitate the implementation of the Banking Law No. 94 of 2004 in Article 65 / III / Which-:

1 -Reviewing the accounting procedures and recommending approval of them and reviewing, controlling and following up the annual audit plan of the bank.

2 - Review the audited financial statements and the auditor's report thereon and submit a report thereon to the Board of Directors with its observations and recommendations before approving them.

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3 -Follow-up the reports of the internal audit department at the bank and study them and make recommendations in order to take appropriate measures to improve the performance of the bank after approval.

4 - Follow up the reports of the compliance monitor and comply with laws and instructions issued by the supervisory and supervisory bodies concerned with the work of the bank and submit reports and recommendations on the procedures to be taken.

5 -Reviewing the Bank's various operations on the basis of approved plans or as per the request of the Board of Directors or the request of shareholders who hold 10% of the voting rights.

2-The Nomination and Remuneration Committee: The members of this committee shall be a non-executive committee of at least three members. The purpose of this committee is to monitor and ensure the transparency of the appointment, renewal and replacement of the members of the Board of Directors and the Chief Executive Officer, in addition to ensuring the transparency of the remuneration,(Governance Guide \ Bank Audi: 2016:8)

3 -Risk Management Committee: - Risk management is an essential part of institutional control which can be defined as a system through which the activities of the institution are directed and control at the highest level in order to achieve its objectives and meet the necessary standards of responsibility and integrity and its ability to know the facts and matters that influenced the achievement of the strategic objectives (Eid Haddad: 2016: 95)

4. **Credit Committee:**- The Credit Committee of the Board shall consist of the Chairman and three members of the Board. The Committee shall meet whenever necessary. The Committee shall approve the granting of loans and bank facilities exceeding the credit powers of the Bank's Credit Committee in accordance with the credit policy approved by the Board. (Corporate Governance Directory \ Arab Bank: 12: 2016)

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5. **The Committee of Governance**: - consists of non-executive members not less than three members and chaired by the Chairman of the Board and requires that the Committee includes one of the members of the Audit Committee The Committee on Governance to oversee the preparation and application of the governance guide and review and update and coordination with the Audit Committee to ensure compliance with the evidence on At least the objective is to develop and monitor the implementation of the governance framework and guide, as necessary. (Corporate Governance Guide / Bank Audi: 2016: 8)

Third: - Board oversight and its relationship to banking performance

(Ben-Darwish, 2007: 15). He is responsible for the design of internal control systems and is responsible for making decisions that best benefit the organization and the shareholders (Elias: 2015:21). Through the supervisory role of the Board, good governance is made to increase the likelihood of rapid response by the company to changes in the business environment. The supervisory role of the Board works to prevent administrative complacency and focus managers' attention on improving performance. It also ensures the replacement of managers who fail to perform their duties.(Yas: 2015:26) Since the supervisory role of the Board is governed by the ruling, this helps to reduce costs of all kinds and this will benefit the parties, the institution will benefit from reducing the cost and improve the performance, and shareholders benefit from the rise in the value of their shares and thus higher profits and increase economic stability in the country (Elias : 2015:26)

The third topic

Practical framework

Test search hypotheses

TEST TEST FOR ONE SAMPLING:

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In order to prove the importance of the study axes, we will use the T-test for one sample, which is the computational mean test with the mean mean. In the case of moral testing, the arithmetic mean is compared with the mean. If the mean is greater than the mean, this means that the mean is in favor of the arithmetic mean. The mean was smaller than the mean. This means that the moral in favor of the mean medium, ie the application of the axis in the negative form, the reverse, either the hypothesis of the test are:

Ho: $\mu = \mu o$ Vs

H1: $\mu \neq \mu o$

whereas:

μ: represents the arithmetic mean of the desired axis

μo: represents the mean medium

The hypothesis of the test is :-

Third: To test the main hypothesis which states:

Zero hypothesis: There is no supervisory role of the Board of Directors on Iraqi banks

Alternative Hypothesis: There is a supervisory role of the Board of Directors on Iraqi banks Results were shown in Table(1)

جدول (1) يبين الاختبار التائي لعينة واحدة

الوسط الحسابي	الانحراف المعياري	القيمة التائية المحسوبة	الوسط الفرضي	درجة الحرية	القيمة التائية الجدولية	الدلالة
4.16	0.41	25.42	3	79	1.99	دال

الجدول من أعداد الباحثة بالاعتماد على نتائج برنامج SPSS

The calculated T value is 25.42, which is greater than its tabular value at the level of significance of 0.05 and the degree of freedom of (79) of 1.99. This means rejecting the null hypothesis and accepting the alternative hypothesis, ie there are significant differences. This means

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there is a supervisory role for the board of banks. (4.16), which is greater than the value of the mean mean (3). This means that the moral in favor of the arithmetic mean, and this means that the Governing Council exercise its oversight role on the Iraqi banks sample research The researcher found that the result is positive because the value of the arithmetic mean is greater than the value of the mean and proved that there is a supervisory role of the council on the banks.

Conclusions and recommendations

First: – Conclusions

1 .The design and implementation of internal control systems by banks' boards of directors has an effective role in improving banking performance as well as for external control systems.

2 .The Board shall supervise indirectly through its committees to maintain the lead in the development inside and outside the institution and thus attract the attention of the institutions, examine the proposals submitted and their decisions, submit proposals, draw up plans for the tasks and determine the options before the administration and the council.

3 .The members of the boards of directors of banks and managers have the experience and qualifications to enable them to carry out banking work in the best manner, which helps to develop banking work and shows positively on banking performance.

Second: Recommendations

1 .We recommend that the Board of Directors identify the supervisory mechanisms adopted by the Bank to ensure the conduct and conduct of the executive departments in a manner consistent with the interests of all as a tool for monitoring the management and evaluating its performance.

2 .We recommend that the boards of directors design and implement internal control systems and keep pace with the developments in the external

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environment to be able to perform its function efficiently, which reflects positively on the performance of the bank.

3 .We recommend strengthening the role of the Audit Committee of the Board to ensure the efficiency of the performance of internal and external auditors and review the rules of governance.

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