



# **The Impact of Governance on Improving the Effectiveness of Risk Management: The Moderating Role of Internal Audit at Saudi Commercial Banks**

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## **Abstract**

This study aimed to identify the impact of governance in its dimensions (work systems, participation, transparency) on enhancing the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks) and the moderating role of internal audit in Saudi commercial banks. To achieve the study's objectives, the descriptive-analytical approach was used, as it aligns with the study's goals. A questionnaire was constructed based on the theoretical literature and previous studies on the subject. The study population consisted of Saudi commercial banks, where a comprehensive survey method was employed. The study sample included senior, middle, and lower management. A total of 344 questionnaires were distributed, of which 321 valid responses were retrieved for analysis.

The study's results indicated that governance in Saudi commercial banks is at a high level, while the effectiveness of risk management is at a moderate level. The variable of internal audit moderates the impact of governance on risk management by 16.5% of the total variance. Furthermore, the results showed a statistically significant effect of governance in its dimensions (work systems, participation, transparency) on the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks) in Saudi commercial banks.

Based on these results, the study made several recommendations, the most important of which is to enhance participation in governance, as it promotes accountability within banks, ensures close monitoring of the performance of management and the board of directors, and limits risks and inappropriate behaviors. This also reinforces adherence to ethical standards and laws. The study further recommends applying the model to other sectors and using other variables to better understand the relationship between the independent and dependent variables, as well as exploring additional variables other than governance that may impact risk management.

**Keywords:** Governance, Risk Management, Internal Audit, Saudi Commercial Banks.

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## **Chapter One**

### **General Framework of the Study**

#### **1.1 . Introduction**

Saudi commercial banks strive to achieve stability, growth, and development. These banks need to adapt whenever consumer needs and expectations change, to keep up with the rapid pace of technological advancements and the continuous shifts in the external environment. This requires achieving a state of quick adaptation and balance within the internal environment. Risk management holds great significance due to the nature and sensitivity of banking activities. Governance plays a pivotal role in providing the

necessary framework to identify, assess, and manage various risks. Supervision and internal control, especially internal auditing, are essential elements of this framework.

Banks face numerous risks originating from a wide range of sources, including financial uncertainties, legal liabilities, technological issues, strategic management errors, accidents, and natural disasters. Therefore, banks must identify, assess, and control the threats to their capital, profits, and operations. Effective risk management helps banks consider the full spectrum of risks they face, allowing them to avoid potential dangers (Nguyen, 2022).

Consequently, organizations are leaning towards the concept of governance, where the board of directors takes responsibility for approving and overseeing the execution of management's strategic objectives, governance framework, and corporate culture. Specifically, the board bears the ultimate responsibility for the organization's business strategy, including making strategic decisions regarding its future (Al-Mojham & Mubarak, 2023).

Successful governance enhances the distribution of powers, clearly defines responsibility and accountability, and establishes decision-making boundaries at all levels and for every role. Governance acts as a remedy for those who exceed their authority and for those who do not exercise their powers. Proper application leads to transparency and clarity, ensuring fair treatment for everyone in line with the organization's interests, rather than individual interests. It also minimizes conflicts of interest and promotes ethical conduct in the workplace (Khashaba & Saleh, 2022).

Internal audit is a key element of internal control. It is an independent activity performed by a specialist within the organization, serving as an effective tool to help management verify the implementation of administrative policies that ensure asset protection and the accuracy of data, with the aim of maximizing productivity efficiency. Internal auditing, in turn, enhances the effectiveness of risk management by providing an objective and independent perspective on the application and effectiveness of risk-related policies and procedures (Al-Raimi, 2022). Therefore, this study explores the impact of governance on enhancing the effectiveness of risk management and the moderating role of internal audit in Saudi commercial banks.

## **2.1. Study Problem**

Risks are a daily occurrence in most banks, making it essential to implement an effective control system. Risks, by their nature, can escalate into incidents if not properly managed, which not only harms employees but also leads to productivity loss, increased administrative burdens, and unfortunate legal disputes. Therefore, banks, regardless of their size, need strong risk management, as it helps proactively identify and control threats and vulnerabilities that can negatively impact the banks (Hamed & Al-Bloui, 2022).

Achieving operational efficiency, decision-making ability with high commitment, and sufficient levels of responsibility and transparency are clear outcomes of applying a governance system. Its impact is reflected through consistent management and coherent policies. Thus, effective governance application contributes to the growth and development of commercial banks. An independent evaluation activity must be carried out by a department or division within the banks, tasked with auditing operations in accounting, finance, and operations, as well as assessing the performance of various departments. This serves as a foundation for supporting senior management. Moreover, there must be administrative oversight through the measurement and evaluation of the effectiveness of other control measures (Pincus, 2023).

The study by Zadairiya and Al-Tayeb (2022) recommended conducting further future studies in the area of enhancing the effectiveness of risk management in banks. Nguyen (2022) suggested that banks should consider restructuring risk governance to enhance the effectiveness of risk management, rather than merely focusing on controlling banking risks, given the low effectiveness of risk management in banks. Appropriate rules or guidelines related to banking risk management should be established. Additionally, Vyash (2022) emphasized the importance of bank governance and its role in managing banking risks,

which is one of its primary objectives. The focus should be on having an independent and effective risk management function that identifies, monitors, and supervises risks. Tamimi (2021) recommended paying significant attention to risk management through internal audits, increased involvement from senior management and the board of directors in risk management, and conducting further studies in the future on the role of internal audit in improving risk management effectiveness.

In light of this, the researcher identified the study problem as examining the impact of governance on enhancing the effectiveness of risk management and the moderating role of internal audit in Saudi commercial banks.

### 3.1 Study Questions

To achieve the purpose of the study and based on the study problem, the researcher sought to answer the following questions:

#### Main Question:

Is there an impact of governance in its dimensions (work systems, participation, transparency) on improving the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks) in Saudi commercial banks? From this main question, the following sub-questions emerge:

#### Sub-question 1:

Is there an impact of governance in its combined dimensions on improving the effectiveness of strategic risk management in Saudi commercial banks?

#### Sub-question 2:

Is there an impact of governance in its combined dimensions on improving the effectiveness of financial risk management in Saudi commercial banks?

#### Sub-question 3:

Is there an impact of governance in its combined dimensions on improving the effectiveness of operational risk management in Saudi commercial banks?

#### Main Question 2:

Is there a role for internal auditing in modifying the impact of governance in its dimensions on improving the effectiveness of risk management in its dimensions in Saudi commercial banks?

### 4.1 Study Objectives

The main objective is to identify the impact of governance in its dimensions (work systems, participation, transparency) on improving the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks) in Saudi commercial banks, in addition to achieving the following specific objectives:

- Identifying the level of governance application in Saudi commercial banks.
  - Determining the level of risk management effectiveness in Saudi commercial banks.
  - Indicating the level of internal audit effectiveness in Saudi commercial banks.
- The study also aims to demonstrate the moderating role of internal auditing in the impact of governance on improving the effectiveness of risk management in Saudi commercial banks.

### 5.1. Importance of the Study

The importance of the study is highlighted through the following:

#### First: Scientific (Theoretical) Importance

The scientific importance is evident in the theoretical framework presented, which explains the impact of the independent variable, governance in its dimensions (work systems, participation, transparency), on the dependent variable, improving the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks). Additionally, it sheds light on the moderating variable, internal auditing, which is considered a scientific addition to the current study. The study's significance lies in the moderating role of internal auditing, and it is hoped that this study will enrich Arabic libraries.

#### Second: Practical (Applied) Importance

The practical importance stems from the recommendations resulting from the study's findings, which may assist Saudi commercial banks in improving and developing their performance, highlighting the role of governance in enhancing the effectiveness of risk management. It also emphasizes the role that internal auditing will play in mitigating and confronting these risks. The study's significance is further underscored by the importance of the sector under investigation, specifically commercial banks and their crucial role in the country's economic development.

### 6.1 Study Hypotheses

To achieve the study's objectives, hypotheses were formulated that can be tested to answer the study questions and achieve its goals. These hypotheses are as follows:

#### Main Hypothesis 1: (H01)

There is no statistically significant impact at the significance level ( $\alpha \geq 0.05$ ) of governance in its dimensions (work systems, participation, transparency) on improving the effectiveness of risk management in its dimensions (strategic risks, financial risks, operational risks) in Saudi commercial banks.

#### Main Hypothesis 2: (H02)

There is no statistically significant impact at the significance level ( $\alpha \geq 0.05$ ) of internal auditing in modifying the impact of governance in its dimensions on improving the effectiveness of risk management in its dimensions in Saudi commercial banks.

#### Study Model (7.1)

The researcher designed a specific model for the study to achieve the set objectives and to fulfill the purpose of investigating the effect of the independent variable on the dependent variable with the internal audit serving as a moderating variable.

#### Operational and Terminological Definitions (8.1)

**Governance:** A set of procedures and guiding principles that govern interactions between parties and achieve several objectives, including fairness, openness, and equality (Zdairh & Al-Tayyib, 2022).

**Operational Definition:** It refers to the system through which commercial banks are controlled and operated, and the mechanisms through which these banks and their individuals are held accountable. Governance was measured through the following dimensions:

- **Work Systems:** A set of laws, regulations, and guidelines aimed at achieving excellence and quality in performance by selecting appropriate and practical means (Ferreira & Nikolowa, 2023).
- Operational Definition:** The systems and controls that regulate the relationships between stakeholders and achieve principles such as fairness, transparency, and equality in Saudi commercial banks. This dimension was measured through survey items (1-7).

- **Participation:** Employee participation, or joint determination, refers to activities and measures taken to involve employees together in an initiative to achieve a common goal (Zhang et al., 2023). **Operational Definition:** Situations where employees have some degree of contribution to the work activities they perform in Saudi commercial banks. This dimension was measured through survey items (8-13).

- **Transparency:** The clarity, accuracy, objectivity, and integrity of the information provided to the organization, which contributes to improving administrative decisions and increasing productivity at the administrative level (Schafer, 2023). **Operational Definition:** The ability of Saudi commercial banks to provide the necessary data accurately and timely to all stakeholders, both internal and external. This dimension was measured through survey items (14-18).

**Risk Management Effectiveness:** It means effectively managing risks and attempting to control future outcomes as much as possible by acting proactively rather than reactively. Effective risk management, therefore, reduces the likelihood of risks occurring and mitigates their potential impact (ElSayed et al., 2023). **Operational Definition:** A process that allows for proactive understanding and management of individual risk events and overall risks, thereby improving success by minimizing threats and maximizing opportunities in Saudi commercial banks. This variable was measured through the following dimensions:

- **Strategic Risks:** The organization's ability to achieve expected outcomes, where such risks may harm the organization's ability to grow and thrive, arising from technological change, evolving competitive landscapes, mismanagement, or shifts in customer demands (Altaf et al., 2022). **Operational Definition:** The potential risk of failure in strategic planning, affecting the inability of Saudi commercial banks to achieve their core objectives. This dimension was measured through survey items (19-23).

- **Financial Risks:** The risk of losing money in an investment or business decision involving financial risks. Financial risks, such as credit risk, liquidity risk, and operational risks, can lead to capital losses for both individuals and companies (Shahada & Al-Arada, 2023). **Operational Definition:** The risk of losing money in Saudi commercial banks, where credit risk, liquidity risk, and operational risks are the most prevalent. This dimension was measured through survey items (24-28).

- **Operational Risks:** These risks arise from inadequate or failed internal processes, employee errors, cybersecurity incidents, or external events such as natural disasters (Nguyen, 2022). **Operational Definition:** The risk of losses resulting from operations, policies, or systems within Saudi commercial banks. This dimension was measured through survey items (29-33).

**Internal Audit:** An ongoing review of the operations and records within an organization by employees designated for this purpose. In large organizations, internal audits may involve areas beyond accounting matters (Al-Reimi, 2022). **Operational Definition:** The effectiveness of evaluating tasks and performance within Saudi commercial banks to serve the organization, including testing the appropriateness of the accounting system and the internal control system. This variable was measured through survey items (34-38).

## 9.1 Study Boundaries

The boundaries of this study are as follows:

- **Spatial Boundaries:** This study is limited to commercial banks in the Kingdom of Saudi Arabia.
- **Temporal Boundaries:** The study was conducted during the 2023-2024 academic year.
- **Human Boundaries:** The study focuses on employees in upper, middle, and lower management at commercial banks in the Kingdom of Saudi Arabia.
- **Subject Boundaries:** This study addresses literature related to governance in its various dimensions in enhancing the effectiveness of risk management within commercial banks in Saudi Arabia, in addition to the moderating variable represented by internal auditing.

## Chapter Two

### Theoretical Framework and Relevant Previous Studies

#### Governance

##### 1.1.2. The Concept of Governance

The term "governance" describes how different organizations, including governments, companies, nonprofits, and others, manage their affairs and make decisions. The primary goals of governance include defining authority, ensuring accountability, and promoting transparency in administrative procedures and decision-making (Al-Mutairi, 2020).

Governance refers to how affairs are managed and decisions are made within various institutions such as the state, corporations, and charitable organizations. Governance emphasizes defining authority and responsibilities, ensuring transparency and accountability in administrative processes and decision-making (Al-Araibi, 2020).

Aguilera et al. (2021) defined governance as the structures and procedures used to control and direct institutions, organizations, and societies. It encompasses all systems, communications, and institutions employed to exercise power and make decisions.

According to Al-Mutawalli (2022), governance refers to how authority and relationships between governments, citizens, and other institutions are organized. In the economic context, governance is associated with corporate management, financial institutions, and how the interests of shareholders and beneficiaries are protected.

Ismail (2023) noted that governance involves the system through which an organization is controlled and operated, along with the mechanisms through which the organization and its individuals are held accountable. Ethics, risk management, compliance, and administration are all elements of governance.

Zhou et al. (2023) defined governance as the processes and systems through which organizations or societies are managed and controlled, including the establishment of policies, procedures, and structures to ensure accountability, transparency, and effectiveness in decision-making and operations.

The researcher concludes from the above that good governance is essential for the operation and long-term sustainability of any organization, whether governmental, corporate, nonprofit, or community group. Good governance encourages long-term planning, reduces the likelihood of power abuse, and fosters public trust. It provides a framework for managing organizations, defining who can make decisions, who has the authority to act on behalf of the organization, and who is accountable for how the organization and its members act and perform.

##### 2.1.2 The Importance of Governance

To achieve accountability, fairness, transparency, credibility, and administrative stability, it is essential for organizations to implement governance. Many organizations seek to adopt governance because it separates modern organizational management from ownership. Governance plays a key role in defining roles and authority, as well as establishing processes that ensure openness in decisions and operations within organizations and governments while safeguarding the assets and ownership of shareholders (Al-Junaidi, 2020).

Establishing a regulatory framework is crucial to ensuring optimal organizational management. Implementing a governance system enhances accountability within organizations and governments by setting the standards and practices required to achieve accountability, define responsibilities, and establish performance accountability. Governance also helps achieve fairness within organizations and governments by outlining the standards and practices necessary to ensure fairness in dealing with employees, beneficiaries, and society at large (de Almeida et al., 2021).

A governance system describes the ethical and legal rules and procedures necessary to build credibility and enhance trust in organizations and governments, contributing to organizational and governmental

credibility. It also aids in achieving stability by setting the standards and practices needed to stabilize operations and decisions and balance different interests (Koutoupis et al., 2021).

Governance strengthens institutional operations by facilitating better decision-making and corporate management, increasing the effectiveness of organizations in achieving their goals. Effective governance fosters sustainable development by creating an attractive and efficient investment environment, promoting economic and social development in a sustainable manner (Hassan, 2022).

The researcher concludes that governance is a vital element for the stability and progress of societies. It plays a significant role in building trust between institutions and individuals, which enhances long-term economic and social growth. Governance helps provide equal opportunities for everyone and promotes social justice by ensuring that public policies are fair and equitable.

## **Chapter Two: Risk Management**

### **2.2.1. Definition of Risk Management**

Risk management refers to how an organization handles any uncertain event or circumstance that could positively or negatively impact the project's objectives. These events may include threats, unexpected situations, and conditions that could affect the progress of the project as required (Abu Al-Qumsan, 2020).

Mahmoud (2020) defined risk management as the process of identifying, assessing, and managing risks related to financial stability and company profitability. Financial instability, legal liabilities, technological problems, poor strategic management, unfortunate incidents, and natural disasters are all causes of such risks.

Khalaf (2023) noted that risk management identifies, evaluates, and addresses the different elements of risk that arise in the daily operations of a company. Proactive, rather than reactive, action is key to effective risk management, which aims to exercise the greatest possible control over future outcomes. As a result, effective risk management reduces the likelihood of risks and their potential consequences.

Qansoua (2023) defined risk management as a series of actions taken to reduce losses and maintain an appropriate rate

of return relative to the risk. Any investments made in the hope of future profits are considered beneficial, but many variables could turn these gains into losses.

The researcher defines risk management as the systematic approach and practice of managing uncertainty to minimize potential harm and loss while maximizing potential opportunities and gains. The primary goal of risk management is to "identify the best course of action under uncertainty by identifying, assessing, understanding, making decisions about, and communicating risk-related issues." Risk management helps organizations and individuals identify potential risks before they occur, allowing for the development of early intervention and mitigation strategies.

### **2.2.2. The Importance of Risk Management**

A study by ElSayed et al. (2023) indicated that understanding and analyzing potential risks can help improve performance development within the bank. It also encourages banks to respond to risks in the best possible way to minimize losses, reduce the amount of money lost, and ensure that the project team continues to meet its objectives by closely monitoring details through regular risk management.

Similarly, Al-Sabagh's study (2023) offered a comprehensive and in-depth perspective that helps identify potential risks that banks may not immediately recognize. It supports banks in making the most intelligent and appropriate decisions. By providing access to the best available risk data, it minimizes unpleasant surprises when potential risks are preemptively investigated. This, in turn, benefits the team while ensuring the bank's budget is closely monitored, as risk management also involves cost analysis.

Mousa's study (2023) highlighted that risk management is more important now than ever before, given the complexities of risks modern organizations face. These risks are driven by the rapid pace of globalization, with new risks emerging every day, often related to the widespread use of digital technology.

Alzoubi's study (2022) emphasized that risk management enables a company to use necessary tools to appropriately identify, handle, and mitigate potential risks. Furthermore, risk management provides businesses with the foundation to make sound decisions, evaluate risks, and manage them in preparation for the challenges that may obstruct progress and growth.

The researcher concludes that risk management is not only about avoiding negative outcomes; it is also about creating a foundation for sustainable growth, resilience, and informed decision-making across all organizational levels and personal contexts. Effective risk management can support sustainable growth by instilling confidence in stakeholders, including investors, customers, and employees, thereby fostering a stable environment for growth.

### 2.2.3. Types of Risk Management

Al-Sabagh (2023) pointed out that, given the numerous potential risks in business, there are many types of risk management that must be considered, and a suitable risk management plan should be developed within the organization. The types of risk management include the following:

1. **Health and Safety Risks:** This category allows for the identification of potential risks, such as chemical, biological, and physical hazards, in addition to assessing and mitigating them through appropriate controls to ensure the safety of the public and the well-being of the staff (Addy et al., 2024).
2. **Reputational Risks:** A company's good standing with investors, employees, and customers is one of its most valuable assets. Negative perceptions of the company can arise from its actions and incidents it is held accountable for, making it important to recognize and address reputation-related risks (Odejide & Edunjobi, 2024).
3. **Compliance Risks:** Government entities must adhere to a set of laws, policies, regulations, and practices to ensure ethical business practices. Failure to do so may have negative financial and legal implications, potentially jeopardizing the company's objectives (Khalaf, 2023).
4. **Operational Risks:** These are risks that can lead to loss in the event of internal system or process failures, or external events, such as fraud, employee loss, litigation, global crises, or IT system failures. Therefore, companies must be aware of the mechanisms that can mitigate these risks (Hasan et al., 2024).
5. **Strategic Risks:** The success, progress, and future growth of banks depend on effectively managing their strategic goals. Strategic risks arise from external factors or events significant enough to alter a bank's strategic direction and impact its future success or failure (Nguyen, 2024).
6. **Financial Risks:** These involve the flow of funds into and out of the business, which can lead to unexpected financial losses. Since most risks have financial implications, such as increased expenses or lost revenue, sound financial management is crucial for any organization to achieve its goals (Opabola & Galasso, 2024).

The researcher concludes that these risks are interconnected and can amplify each other under certain conditions. Effective risk management practices are essential for banks to identify, assess, monitor, and mitigate these risks to ensure financial stability and resilience.

## Section Three: Internal Audit

### 3.3.1. Definition of Internal Audit

Internal audit is a process conducted by an organization or institution to evaluate and review its internal system, including procedures, policies, and processes, to ensure their efficiency and effectiveness. This



process is carried out by an independent internal team, known as internal auditors, who work independently of the departments they audit. Their primary goal is to enhance operational performance, reduce risks and costs, and ensure the organization's compliance with applicable laws and regulations (Abdel Razek, 2021).

According to Abdeen (2022), internal audit is a neutral evaluation conducted by a department or division within the organization to assess various accounting, financial, and operational activities, in addition to evaluating the performance of departments and divisions. The purpose of this evaluation is to provide senior management with information. It is also an administrative control measure aimed at assessing the effectiveness of other control measures.

Wahdan (2022) defines internal audit as a continuous examination of documents and completed tasks within a project by the employees assigned to this task. Internal audit may also cover topics unrelated to accounting, especially in some large-scale initiatives.

Hegazy (2023) describes internal audit as an internal function of the management of the establishment. It involves independent internal activities that establish administrative control, including accounting, to evaluate the alignment of the system with management requirements or ensure the proper utilization of resources in a manner that maximizes production efficiency.

The researcher concludes that internal audit is a set of distinct activities within the organization, evaluated by management to execute operations and assess boundaries. The goal is to ensure the accuracy of accounting and statistical data, the adequacy of safety measures to protect the organization's funds and assets, and the compliance of employees with policies, plans, and administrative procedures. Ultimately, internal audit measures the validity of plans, policies, and all other tools in monitoring the achievement of goals and making the necessary adjustments to optimize production efficiency.

### **3.3.2. Importance of Internal Audit**

Internal audit plays a crucial role in organizations by helping to identify and assess risks, including operational, financial, and compliance risks. Through regular audits, potential risks can be mitigated or avoided entirely. Internal auditors also ensure that the organization complies with relevant laws, regulations, and internal policies, which is essential to avoid legal issues, fines, and damage to the organization's reputation (El-Sirafy, 2021).

Process improvement is another significant benefit of internal audit. Audits often reveal deficiencies or areas where processes can be enhanced. By identifying these opportunities, internal auditors help streamline processes, reduce waste, and improve overall efficiency. Additionally, internal audits protect the organization's assets, including financial resources, intellectual property, and physical property. This protection is vital for ensuring the organization's sustainability and growth (El-Sayed, 2022).

Internal audit contributes to good governance by providing independent assurances to the board of directors and senior management. This oversight helps maintain accountability and transparency in decision-making processes. Internal auditors also play a key role in detecting and preventing fraud within the organization. Through their audits, they can identify suspicious activities, irregular transactions, or weaknesses in internal controls that malicious actors could exploit (Al-Qadasi, 2024).

By providing insights and recommendations based on audit findings, internal auditors support the achievement of the organization's strategic goals. Their input can benefit strategic planning and decision-making processes. Internal audit fosters a culture of continuous improvement within the organization. Through regular assessments and feedback, internal auditors help drive positive change and enable the organization to adapt to new challenges or opportunities (Noweigi, 2022).

The researcher concludes that internal audit is essential for maintaining organizational integrity, efficiency, and sustainability in a dynamic and competitive business environment. It is a critical function that not only protects the organization but also contributes to its long-term success and growth. Internal

audits also help assess how processes are implemented and their effectiveness, which enhances performance and increases efficiency.

### 3.3.3. Components of Internal Audit

The components of internal audit include key elements and activities performed by internal auditors within the organization to provide assurance and consulting services. The main components are as follows:

1. **Risk Assessment:** Internal auditors identify and assess risks that may impact the achievement of organizational objectives. This includes understanding the organization's risk tolerance, evaluating risk management processes, and prioritizing areas of focus for the audit (Ba'aqtouh & Al-Shihri, 2021).
2. **Planning:** Planning is a critical component where internal auditors develop an audit plan based on identified risks and priorities. This plan outlines the audit's scope, objectives, required resources, and the timeline for conducting audits (Qadri, 2021).
3. **Execution (Fieldwork):** Execution involves implementing audit procedures, gathering evidence, testing controls, and evaluating processes according to established standards. Internal auditors conduct interviews, review documents, and observe operations to assess compliance, effectiveness, and efficiency (Shleida, 2023).
4. **Reporting:** After completing fieldwork, internal auditors prepare audit findings and recommendations. The reports typically include the audit objectives, scope, findings, conclusions, and actionable recommendations for improvement. Clear, concise, and objective reporting is crucial for communicating findings to management and stakeholders (Khalilov, 2024).
5. **Follow-Up:** Internal auditors monitor the implementation of audit recommendations by management. Follow-up ensures that agreed-upon actions effectively address identified issues and risks. It also involves verifying the sustainability of corrective actions and the achievement of desired outcomes (Al-Dosari & Haddad, 2023).

The researcher concludes that these components collectively ensure that internal audit adds value to the organization by enhancing governance, risk management, and effective control. Through providing insights and recommendations, internal auditors support management in achieving strategic goals and improving organizational performance.

## Section Four: Overview of the Study Community

### 1.4.2 Saudi Commercial Banks

Saudi commercial banks are financial institutions that play a vital role in the Saudi economy by offering a wide range of banking services, including loans, deposits, and financing for individuals and businesses. These banks are a crucial part of the Kingdom's financial system and contribute to economic stability and growth.

Saudi commercial banks provide a variety of services, including current and savings accounts, personal loans, business loans, credit cards, and investment services. These services target individuals, businesses, and government institutions. The commercial banking sector in Saudi Arabia is regulated and supervised by the Saudi Arabian Monetary Authority (SAMA), which oversees the financial and banking sector to ensure financial stability and protect depositors. Saudi commercial banks operate through an extensive network of branches and ATMs, and they also offer online and mobile banking services to effectively meet customer needs.

### 2.4.2 The Importance of Commercial Banks in the Saudi Economy

The significance of Saudi commercial banks stems from their contribution to economic growth by providing loans and financing to small, medium, and large projects. This financing helps create jobs, stimulate industrial and commercial growth, and provide liquidity by accepting deposits and offering

loans. Commercial banks provide the necessary liquidity for the economy, which aids in achieving market stability and improving economic conditions.

Commercial banks also play a role in stimulating investment by offering financial advice and funding to investors. They provide investment tools such as mutual funds and bonds, which help individuals and businesses achieve their financial goals. In terms of risk management, banks play a key role in managing financial risks by offering loan insurance services and protecting individuals and companies from financial risks.

Additionally, commercial banks contribute to financial stability through proper oversight and regulation, which enhances confidence in the national financial system. They also promote financial inclusion by providing banking services to unbanked individuals, thus expanding the customer base and increasing financial integration.

### **Section Five: Relevant Previous Studies**

The researcher conducted a survey of previous studies to develop a model and conceptual framework upon which the current study is based. Below is a review of some of the Arabic and foreign studies that addressed the subject of this research and its variables.

#### **1.5.2 Studies Related to the Independent Variable (Governance)**

- **Zahrani and Badaoud (2023):** This study aimed to identify the reality of implementing administrative governance dimensions (transparency, accountability, and participation) at King Abdulaziz University from the perspective of faculty members. The researcher used a descriptive survey methodology and employed a "questionnaire" as a data collection tool. The sample consisted of 83 randomly selected faculty members at the university. The results showed statistically significant differences in the degree of administrative governance application in all dimensions, attributed to gender, in favor of females. It also revealed significant differences in the application of governance in the dimensions of accountability and participation, attributed to academic rank, favoring lecturers, except in the transparency dimension. The study concluded with several recommendations, most notably the establishment of an administrative governance unit at King Abdulaziz University to develop and review governance systems in various university sectors and monitor their implementation.
- **Al-Aleemi and Al-Sanbani (2023):** This study sought to determine the impact of governance dimensions (transparency, independence, participation, accountability, and effectiveness) on enhancing competitive advantage in private universities in the Yemeni capital, Sana'a. The study followed a descriptive correlational survey methodology, with a population of 524 academic and administrative leaders from 10 private universities. A questionnaire was distributed to a sample of 222 individuals, and 205 valid responses were retrieved for statistical analysis. The findings indicated a moderately high level of governance implementation and achievement of competitive advantage in Yemeni private universities. The study also showed a statistically significant effect of governance application on achieving competitive advantage. Among the key recommendations was the need for increased attention to applying governance principles in all aspects of universities under study, as this ensures the smooth running of operations in a competitive environment.
- **Al-Naghy, Johari, and Mughal (2023):** This study aimed to test the impact of the integration between internal governance mechanisms and international internal audit standards on the quality of external auditing in Egyptian companies listed on the stock exchange. The researcher used a deductive methodology for the theoretical framework, drawing from relevant previous studies, articles, and research. An inductive approach was used in the applied study, with a sample of 212 observations to test the study hypotheses. The results indicated a significant effect of the integration between internal governance mechanisms and international internal audit standards on improving the quality of external audits. The study recommended drafting a unified law covering all board roles, duties, and responsibilities, applicable across all sectors and industries, and adherence to governance guidelines in both letter and spirit.

- **Hamed and Al-Balwi (2022):** This study aimed to examine the effect of applying governance mechanisms (work systems, transparency, participation) on the management of institutional work risks in the public sector at Jeddah Municipality. It also aimed to assess the level of governance implementation and risk management in the municipality. A questionnaire was used as the primary data collection tool, and the study population consisted of 2,000 administrative employees in Jeddah Municipality, with a random sample of 321 employees. The results showed that the application of governance mechanisms significantly impacted the management of institutional work risks in the public sector. The study recommended enhancing work systems to activate governance and risk management across various departments and increasing the involvement of leadership in decision-making processes.
- **Khashaba and Saleh (2022):** The primary objective of this study was to investigate the impact of banking governance on financial performance. A quantitative descriptive approach was used. After filtering 37 banks, only the two largest banks in Kirkuk Governorate, Iraq (Al-Rafidain and Al-Rasheed), remained. The initial sample size was 400, with 385 valid responses entered into SPSS for analysis. The results indicated a strong correlation between banking governance and various dimensions of financial performance. The study recommended that upper management in banks prioritize governance principles as a tool for oversight and accountability.
- **Altat et al. (2022):** This study explored how operational risk management procedures identification, assessment, analysis, monitoring, and control—affect corporate governance, which in turn supports effective operational risk management techniques. A questionnaire was distributed to 167 operational risk managers in banks engaged in trade. The results showed that operational risk management procedures in Pakistani commercial banks were significantly influenced by corporate governance, particularly in the areas of risk identification, monitoring, and control. The study recommended strengthening governance structures to improve operational risk management practices.

## 2.5.2 Studies Related to the Dependent Variable (Risk Management)

- **Nasira (2022)** aimed to evaluate the effectiveness of internal corporate governance mechanisms and external mechanisms in risk management within Algerian stock companies. The theoretical framework of this study addressed the concept of corporate governance, alongside its essential mechanisms and components. It also discussed the concept of risk management, its foundational pillars, related policies, success factors, and the relationship between corporate governance mechanisms and risk management. In the practical aspect, a questionnaire was developed consisting of three sections, each containing a set of statements relevant to the study. The sample comprised 145 participants, including board members, audit committee members, internal and external auditors, as well as specialized university professors. Through statistical analysis of the responses using SPSS, the study concluded that there is a significant impact of both internal and external corporate governance mechanisms on risk management in stock companies.
- **Nguyen (2022)** examined the determinants of banking risk governance structures using data from ASEAN countries. The study involved a sample of 104 commercial banks across ten countries. It was found that the risk management structure—comprising the audit committee size, independence of the audit committee, presence of financial and accounting experts on the audit committee, frequency of audit committee meetings, existence of a risk committee, and quality of external audits—positively correlates with the bank's operational scope and monitoring advantages, while negatively correlating with monitoring costs and negotiation power with the CEO. However, these relationships varied between banks with high and low risk levels and among banks in countries with different institutional characteristics. The findings have significant policy implications for designing governance structures in the financial industry and risk management.
- **Al-Qahtani and Hassan (2022)** aimed to identify the role of strategic risk management dimensions in achieving sustainable development within the Ministry of Environment, Water, and Agriculture in the Asir region. The study also sought to assess the awareness level of ministry employees

regarding the importance of strategic risk management for sustainable development. The study population consisted of 1,242 employees, with a simple random sample of 292 individuals. The results indicated a statistically significant relationship between strategic risk management dimensions and achieving sustainable development. The research provided several recommendations, including the need for periodic and continuous assessment of strategic risks due to the high risks that may impact the ministry's strategy and advocating for the adoption of sustainable development principles to enhance the administrative aspect of strategic risk management.

### 3.5.2 Studies Related to the Moderator Variable (Internal Audit)

- **Shahada and Al-Arada (2023)** conducted a field study in Kuwaiti banks to determine the impact of initiating internal audit operations on digital transformation processes in enhancing risk management techniques within the country. A questionnaire was distributed to a sample of 109 individuals working in risk management in these banks. The study aimed to improve the risk management methodology concerning data input risks, operational data risks, data output risks, and internal and external environmental risks in Kuwaiti banks. The findings suggested a role for activating internal audit activities concerning the digital transformation processes in Kuwaiti banks. The study recommended that Kuwaiti banks focus on improving the methodology for managing digital transformation risks and establishing a specialized department for managing these risks to develop specific risk indicators arising from digital transformation.
- **Dossary and Haddad (2023)** aimed to explore internal audit management and its effect on enhancing governance within the Ministry of National Guard. The study sought to define internal audit management, its roles, and responsibilities in the Ministry of National Guard, involving a sample of 120 employees. Among the significant findings, there was clarity regarding roles and responsibilities, as well as the effectiveness of governance within the Ministry. The internal audit unit contributes to evaluating potential financial and non-financial risks the ministry may face and formulates appropriate plans to address these risks. The study's main recommendations included clarifying the functional roles of ministry employees, which is one of the internal audit unit's tasks, and providing periodic recommendations and consultations to relevant departments to improve practices and regulate internal operations, thus minimizing transgressions and violations.
- **Al-Reimi (2023)** aimed to measure the impact of internal auditing on applying governance principles in commercial banks in the Republic of Yemen, using a descriptive analytical approach and a questionnaire as data collection tools. The study population comprised 18 banks in Yemen, and the researcher distributed 242 questionnaires, retrieving 227. Data collected were analyzed using the Statistical Package for the Social Sciences (SPSS). The study employed a comprehensive survey method. Key findings indicated a positive effect of internal auditing on the application of governance principles. Additionally, the study revealed that internal audit variables and the application of governance principles were generally available at a high degree, with a noted decline in the implementation of certain internal audit tasks and a low level of application of some governance principles. The study recommended that banks adhere to international internal audit standards.

### 4.5.2 Distinctions of the Current Study from Previous Studies

- The current study focuses on the impact of governance on improving the effectiveness of risk management in Saudi commercial banks, which constitute the study population. To the best of the researcher's knowledge, this topic requires further investigation, particularly within the banking sector. The significance of the study arises from the scarcity of previous research on this topic, especially since it combines three variables in a single study. Additionally, there is diversity in this study regarding the study population and its application context.
- Regarding the study's objective, this research aims to examine the effect of governance on enhancing the effectiveness of risk management and the moderating role of internal audit. This study

differs from previous studies that addressed governance and risk management alongside other variables, such as the study by Al-Mujham & Mubarak(2023) and the study by **Khashaba and Saleh (2022)**.

- The sample of the current study bears similarities to some previous studies, particularly since the objective of the current research aligns with the main aims of other studies, such as the study by **Al-Reimi (2023)** and the study by **Nguyen (2022)**. However, it differs from other studies concerning the study population, as evidenced by the study conducted by **Nasira (2022)**, which focused on Algerian stock companies.
- This study is distinguished from others by the introduction of a moderating variable, namely internal audit, while some studies have treated this variable as either independent or dependent, as seen in the study by **Shahada and Al-Arada (2023)**.

## **Chapter Five**

### **Discussion of Results and Recommendations**

#### **5.1 Introduction**

This chapter presents a summary of the findings reached by the researcher, which have been analyzed and discussed in accordance with the study's questions and hypotheses. Based on these findings, recommendations are proposed.

#### **5.2 Study Results**

The results for the main independent variable, governance in Saudi commercial banks, were in the high range. The dimension of transparency ranked first among the governance dimensions, with a high level of agreement, while the dimension of participation ranked the lowest with a moderate level of agreement. The mean score was 3.78, with a standard deviation of 0.811. Governance tasks in banks include ensuring compliance with all banking-related laws and regulations. Banks must also operate in accordance with international, local, and professional standards. The role of governance is to build trust between the bank, its shareholders, clients, and other regulatory bodies through transparency in business operations, financial reports, and decision-making. These results are consistent with the findings of **Zahrani and Badawad (2023)**.

The results also indicated that the dimension of "Work Systems," one of the governance dimensions, achieved a mean score of 3.85 with a standard deviation of 0.815, indicating a high level of agreement. Work systems represent the backbone of the bank's operations, influencing various aspects of banking and financial activities. Effective work systems facilitate daily operations within banks, from transaction processing and account management to customer service delivery. These findings are consistent with **Hamed and Al-Balawi's (2022)** study.

The results revealed that the dimension of "Participation," another governance dimension, achieved a mean score of 3.60 with a standard deviation of 0.795, reflecting moderate levels of agreement. Participation in governance helps improve the quality of bank management, as it incorporates multiple perspectives and diverse experiences in strategic and tactical decision-making. This leads to better decisions more aligned with institutional objectives. These findings align with **Al-Aleemi and Al-Sanbani's (2023)** study.

Additionally, the dimension of "Transparency" achieved a mean score of 3.90 with a standard deviation of 0.825, indicating a high level of agreement among the study sample. Transparency enhances accountability within the bank, allowing stakeholders to effectively monitor the performance of management and the board. Transparency provides accurate data and information that facilitate assessment and oversight, thereby reducing corruption and inappropriate behaviors (**Al-Aleemi & Al-Sanbani, 2023**).

The dependent variable, which is risk management in Saudi commercial banks, showed a moderate level, with a mean score of 3.48 and a standard deviation of 0.820. The dimension of financial risk ranked first

among the risk management dimensions, with a moderate level of agreement, achieving a mean score of 3.65 and a standard deviation of 0.825. Financial risk management represents a critical part of governance and management processes in banks, encompassing various risks that require precise management to ensure the stability and sustainability of banking operations. It enhances financial stability, reduces systemic and legal risks, protects capital, improves financial performance, increases trust between stakeholders, and supports the execution of business strategies comprehensively and sustainably. These results are consistent with the findings of **Nasira (2022)**.

Strategic risk management ranked second among risk management dimensions, with a moderate level of agreement, achieving a mean score of 3.45 and a standard deviation of 0.821. Strategic risk management helps banks improve strategic planning processes by incorporating assessments of potential and expected risks into their future strategies. This makes planning more comprehensive and responsive to potential challenges. These findings align with the results of **Al-Qahtani and Hassan (2022)**.

Operational risk management ranked last among the risk management dimensions, with a moderate level of agreement, achieving a mean score of 3.35 and a standard deviation of 0.815. Operational risk management helps banks improve and ensure the efficiency of their operational processes. By evaluating and analyzing potential risks, such as human, technological, and procedural errors, banks can identify weaknesses and implement improvements to ensure the continuity of efficient operations. These findings align with **Nguyen (2022)**.

Regarding the results for the moderating variable, internal audit, it achieved an overall mean score of 3.75 with a standard deviation of 0.915, indicating a high level of relative importance as a moderating variable. Internal audit is considered a fundamental tool in governance and risk management in banks. It contributes to enhancing transparency, ensuring compliance, and improving operational performance. Internal audit also helps banks assess and examine financial, operational, and knowledge-related risks. These findings align with **Al-Dosari and Haddad (2023)**.

The results revealed a statistically significant effect at the significance level ( $\alpha \leq 0.05$ ) of governance dimensions (work systems, participation, transparency) in improving the effectiveness of risk management dimensions (strategic risk, financial risk, operational risk) in Saudi commercial banks. These results are consistent with the findings of **Hamed and Al-Balawi (2022)**.

There was a statistically significant effect at the significance level ( $\alpha = 0.05$ ) of governance dimensions combined in improving the effectiveness of strategic risk management in Saudi commercial banks. These results align with **Hamed and Al-Balawi (2022)** and **Al-Qahtani and Hassan (2023)**.

There was a statistically significant effect at the significance level ( $\alpha = 0.05$ ) of governance dimensions combined in improving the effectiveness of financial risk management in Saudi commercial banks. These results are consistent with **Al-Aleemi and Al-Sanbani (2023)** and **Nguyen (2022)**.

There was a statistically significant effect at the significance level ( $\alpha = 0.05$ ) of governance dimensions combined in improving the effectiveness of operational risk management in Saudi commercial banks. These results are consistent with **Al-Aleemi and Al-Sanbani (2023)** and **Altah et al. (2022)**.

There was a statistically significant effect at the significance level ( $\alpha \leq 0.05$ ) of internal audit in moderating the effect of governance dimensions in improving the effectiveness of risk management dimensions in Saudi commercial banks. These results are consistent with the findings of **Shaheda and Al-Arada (2023)**.

### 3.5 Recommendations

Based on the study's findings and the analysis and interpretation of these results, the current study proposes a set of recommendations for Saudi commercial banks, as follows:

1. The current study recommends that Saudi commercial banks place greater emphasis on implementing good governance, as it enhances the bank's ability to adapt to economic and market changes and supports long-term growth strategies.
2. The current study recommends improving participation in governance, as it enhances accountability within banks. The performance of management and the board of directors is closely monitored, reducing risks and inappropriate behaviors while reinforcing adherence to ethical standards and regulations.
3. The current study recommends that banks comply with legal standards and regulations related to banking operations. Risk management in operations helps banks implement procedures that align with these standards, protecting them from legal risks and penalties.
4. The current study recommends improving strategic risk management, which helps banks integrate their business strategies with their long-term vision and strategic goals. This ensures consistent and effective implementation of strategies, promoting sustainable growth and profitability.
5. The current study recommends improving financial risk management, which allows banks to protect capital and ensure sufficient liquidity to meet financial obligations on time. This reduces the risk of bankruptcy and financial distress.
6. The study recommends enhancing the focus on internal auditing, as it helps detect cases of fraud and misconduct within the bank through continuous auditing and review processes. Weaknesses or inappropriate behaviors can be identified and addressed accordingly.

#### **4.5 Recommendations for Future Research**

1. The current study recommends conducting future research to apply the study model to other sectors, such as the government sector.
2. The current study recommends that future studies utilize other mediating or moderating variables to better understand the relationship between governance and risk management, such as organizational agility or organizational commitment.
3. The current study recommends that future studies examine other variables that affect risk management beyond governance.

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