

## The Role of the Compliance Officer in Auditing Compliance to Meet the Requirements of the Central Bank of Iraq

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### Abstract:

The Central Bank of Iraq is one of the supervisory bodies over private banks, as it seeks to preserve the banking system through a set of tools, the most prominent of which is the creation of the position of Compliance Controller, which is part of compliance controls, and mandated banks to appoint personnel to monitor the implementation of its circulars based on its letter No. 9-3-346, dated 20-8-2019 "Sharia Compliance Report and Compliance Monitoring", which takes it upon itself to follow up on the bank's commitment to the instructions and decisions issued by the Central Bank and the Board of Directors, in addition to providing advice and consultation in order to correct violations, if any, to avoid being exposed to financial and administrative penalties. The study sought to demonstrate the impact of this function and the procedures it undertakes, which could affect a bank's exposure to penalties for non-compliance with requirements. An inspection form was used to verify compliance with the requirements specified by the Central Bank of Iraq. At the end of the study, the research reached a set of conclusions, the most prominent of which is that the compliance officer in banks, as one of the bank's departments within its organizational structure, has specific justifications. These include contributing to avoiding legal penalties on the bank and preventing financial losses and risks to the bank's reputation. Banks face many and diverse risks due to their business and activities. Among these risks, which have notably increased in recent years, are legal penalty risks, reputational risks, and economic loss risks. These three risks are referred to as compliance risks.

**Keywords:** Compliance Controller, Central Bank of Iraq, Non-Compliance Risk, Islamic Bank.

### دور مراقب الامتثال في تدقيق الالتزام تلبية لمتطلبات البنك المركزي العراقي / دراسة في مصرف إسلامي

#### خاص

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#### الخلاصة :

يُعد البنك المركزي العراقي من الجهات الرقابية على المصارف الخاصة، إذ يسعى إلى الحفاظ على النظام المصرفي من خلال مجموعة من الأدوات، أبرزها استحداث وظيفة مراقب الامتثال، والتي تُعد جزءاً من ضوابط الامتثال، وألزمها بتعيين كادر لمتابعة تنفيذ تعاميمه بناءً على كتابه المرقم 346-3-9، بتاريخ 20-8-2019 "تقدير الامتثال الشرعي ومراقبة الامتثال"، والذي يتولى متابعة التزام المصرف بالتعليمات والقرارات الصادرة عن البنك المركزي ومجلس الإدارة، بالإضافة إلى تقديم النصائح والمشورة لتصحيح المخالفات، إن وجدت، لتجنب التعرض للعقوبات المالية والإدارية. وقد سعت الدراسة إلى بيان أثر هذه الوظيفة والإجراءات التي تتخذها، والتي قد تؤثر في تعرض المصرف للعقوبات في حال عدم الالتزام بالمتطلبات. تم استخدام استمار فحص للتحقق من الالتزام بالمتطلبات التي حددتها البنك المركزي العراقي. وفي نهاية الدراسة، توصلت الدراسة إلى مجموعة من الاستنتاجات هي لمراقبة الامتثال في المصارف مبررات محددة كمنع العقوبات القانونية وتجنب الخسائر المالية ومخاطر الإضرار بسمعة المصرف، وتواجه المصارف مخاطر متعددة ومتغيرة نتيجةً لعملياتها وأنشطتها التجارية. مخاطر عدم الامتثال أو مخاطر الامتثال، و يتولى مسؤول الامتثال مسؤولية مراقبة امتثال البنك لقوانين ولوائح وتعليمات جميع إداراته، بالإضافة إلى امتثاله لقرارات مجلس الإدارة والسياسات والإجراءات التي يضعها مجلس الإدارة والإدارة

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التنفيذية. و يوصي الباحثون بمجموعة من التوصيات هي تعزيز ثقافة الامتثال من خلال ترسیخ معايير الثقة والأمانة والنزاهة المهنية، ضرورة تعزيز رقابة الجهات الإشرافية على الامتثال للقوانين، و مراجعة الإدارات التنفيذية لتقارير مراقب الامتثال بشأن التدقيق الداخلي الشرعي، وتطوير برامج تدريبية تُعزز مهارات وقدرات موظفي إدارة الامتثال لتعزيز قدرتهم على الحد من مخاطر عدم الامتثال.

**الكلمات المفتاحية:** مراقب الامتثال، البنك المركزي العراقي، مخاطر عدم الامتثال، المصادر الإسلامية.

## Introduction

The position of Compliance Officer, as one of the compliance oversight tools in private Iraqi banks, is an independent position of strategic importance. It audited the bank's compliance with the laws, instructions, and regulations issued by the Central Bank of Iraq and local and international regulatory bodies, particularly in the areas of combating money laundering and terrorist financing, and compliance with tax requirements. Its responsibilities include monitoring adherence to internal policies, procedures, and applicable banking regulations, as well as assessing the consequences of non-compliance and proposing appropriate controls in cooperation with the Risk Management Department. The Compliance Officer is also responsible for submitting periodic reports to the bank's Board of Directors and Audit Committee on the compliance status and contributing to the training of banking personnel on compliance and financial crimes. He also coordinates with regulatory bodies, primarily the Central Bank of Iraq, to ensure the adoption of international best practices in this field. The position requires extensive banking experience and an important level of professionalism, preferably at a managerial level that allows controllers to participate in Board of Directors meetings and decision-making. The role of the Compliance Officer is subject to periodic review and evaluation through internal and external audits to ensure the efficiency and effectiveness of his supervisory performance.

The research begins by reviewing the method followed in its preparation, followed by a theoretical introduction to the function of the compliance monitor, and compliance risks (non-compliance). This presentation is then reinforced by an applied analysis of compliance reports and their impact on reducing the risks of non-compliance, identifying the gap in non-compliance with the instructions of the Central Bank of Iraq, and a statistical analysis that clarifies the opinions of a sample of compliance

monitors from a number of banks. This is followed by listing the most important conclusions and recommendations that have been reached.

## Chapter One: Research Methodology

### First: The Research Problem

Banks face the risk of non-compliance with instructions when conducting their activities, which may expose them to legal penalties, financial losses, and reputational damage. Therefore, there is a need to establish a compliance monitor to monitor compliance through written programs developed by the compliance monitor and the bank's board of directors. Reports are then submitted to the Central Bank.

The research problem is represented by the following questions: the insufficient implementation of compliance requirements in the bank Research sample, does the presence of a compliance controller as a supervisory requirement help reduce the cases of deficiencies in the implementation of the Central Bank's instructions in the bank under study? What are the measures to be followed to reduce or reduce non-compliance with the Central Bank's instructions?

### Second: The Importance of Research

In view of the developments and changes that have occurred in the applications of banking that are noticeable and require auditing and control through compliance with all the requirements issued by the Central Bank, through this research, the extent of compliance with these requirements will be examined, and through it, the research achieves the importance represented in two aspects, which are:

#### Scientific importance

Scientific and academic studies and research are found to enhance the economic and regulatory stability of the banks' business Clarification of the supervisory role played by the compliance controller in auditing compliance with the instructions.

The practical importance is Maintaining the integrity of the financial system through important levels of compliance requirements to prevent financial crimes such as money laundering and terrorist financing, which protects the financial system from manipulation and maintains its stability. This in turn enhances governance that ensures the application of international standards and good practices, which helps the research sample to formulate policies and make decisions better.

In addition, compliance monitoring processes develop the control mechanisms, as the Central Bank develops internal and external control mechanisms in banks, represented in automating operations and verifying banks' compliance with the instructions and regulations issued by the Central Bank to limit the application of the stipulated penalties in the event of legal violations that contradict the implementation of those instructions.

### **Third: Research Objectives**

The research aims to achieve the following:

1. Identify the role of the compliance officer in examining the level of compliance with laws, regulations, and instructions.
2. Identify the procedures adopted by the bank under study to address the risk of non-compliance.
3. Clarify the nature of the procedures adopted by the bank under study to reduce the risk of non-compliance.

### **Fourth: Research Hypothesis**

First Main Hypothesis: "The compliance monitor implements a set of procedures to examine the bank's compliance with the Central Bank's instructions."

Second Main Hypothesis: "The availability of compliance requirements according to the Central Bank of Iraq's instructions helps strengthen the role of the compliance monitor and identify the non-compliance gap."

**Fifth: Timeframe.** The research timeframe was 2023, 2024, and 2025.

**Sixth: Research Methodology.** To achieve the research objectives, the research adopted a descriptive approach based on theoretical studies that provided theoretical framework for the research, and an analytical approach through data collection, analysis, and hypothesis verification.

**Seventh: Methods of collecting data and information.** The data and information necessary for the research were collected in two main aspects: The theoretical aspect. References and Arab and foreign periodicals related to the research topic. The practical aspect. An examination form was adopted that included a set of procedures to examine the level of compliance with the instructions of the Central Bank of Iraq.

### **Section Two: Theoretical Framework of the Research**

#### **First: The concept and duties of the compliance officer**

The Iraqi Banking Law defines the "compliance officer" position in paragraph (first) of Article (71) of Instructions (4) of 2010, issued to facilitate the implementation of Banking Law (94) of 2004. This position is concerned with assessing the extent to which the bank complies with legal and regulatory requirements in its daily operations, ensuring the integrity of internal policies and procedures, and working to avoid errors and violations that may expose the bank to multiple risks, in coordination with the various departments and divisions within the bank.

The "Supervisory Work Manual" issued by the Central Bank of Iraq (Banking Supervision Department) emphasized in its first article, entitled "Establishment of the Compliance Department and its Duties," the necessity for all banks, whether public or private, to establish a compliance department within their organizational structure. This department is responsible for developing policies and procedures related to compliance activities. These policies are to be presented to the Board of Directors for approval and then submitted to the competent authorities at the Central Bank for review and official approval. The manual also emphasized the importance of ensuring that the number of employees in this department and the allocated resources are proportional to the size of the bank's activities and the number of its branches. The Compliance Department is responsible for conducting a thorough audit and review of the bank's level of compliance with the requirements of the laws and regulations related to its banking operations, while ensuring the effectiveness of the policies and procedures

followed and avoiding any legal or professional violations. These tasks are conducted in full coordination with all other bank departments [ 1 ]. In the same context, some researchers believe that the compliance officer's role represents a supervisory role performed by an individual or group of individuals whose mission is to monitor the level of compliance of all bank employees with the laws, instructions, and regulations governing banking operations [ 2 ]. This aims to protect the bank and its customers from losses and limit potential damage, in cooperation with the board of directors and executive management [ 3 ] , [ 4 ] . It can be said that the compliance officer has organizational independence within the bank, concerned with verifying the bank's compliance with all legal requirements, regulations, and regulatory instructions issued by the Central Bank [ 5 ].

The importance of banking compliance is highlighted by its role in ensuring the implementation of laws, regulations, and instructions, which enhances the bank's stability, increases its competitiveness, and contributes to preserving its reputation [ 6 ]. Compliance also plays a pivotal role in establishing public confidence in banks and achieving efficient performance, in addition to being an effective tool in expanding the scope of banking operations and effectively managing risks [ 7 ] . Compliance requirements in banks include a set of organizational and functional foundations. The most prominent of these requirements is the establishment of an independent compliance department included within the bank's organizational structure, with full powers to conduct its supervisory and coordination tasks with all internal departments and units [ 8 ] . Preparing clear, written policies and procedures that regulate compliance activities and presenting them to the Board of Directors for approval, then referring them to the Central Bank for review and approval. Availability of a specialized and qualified cadre of employees within the Compliance Department, provided that their number and competencies are commensurate with the size of banking operations and the number of branches. Compliance employees enjoy professional independence and impartiality in performing

their duties to ensure integrity and transparency in assessing internal compliance [ 9 ], The bank has established an effective system that monitors risks associated with non-compliance, implemented internal control mechanisms and continuous auditing of compliance with Central Bank circulars, implemented training and qualification programs on an ongoing basis to raise employee efficiency and enhance their awareness of changing laws and regulations, adopted modern technologies that help document data, analyze compliance indicators, and detect any violations early, adhered to the principles of banking governance, and activated internal reporting channels for violations, which enhances the culture of compliance and contributes to the prevention of legal, financial, and reputational risks [ 10 ].

#### **Second: Islamic banks' compliance with the requirements of the Central Bank of Iraq**

The Central Bank of Iraq supervises the regulation and oversight of Islamic banks operating in Iraq within a legal and institutional framework that considers the specific nature of these banks, whose activities are based on the principles of Islamic Sharia [ 11 ] . Although no specific law has yet been issued for Islamic banks, the Central Bank has adopted the regulation of their work within the provisions of Banking Law No. (94) Of 2004, issuing special instructions and controls consistent with the nature of Islamic banking operations [ 12 ] . The Central Bank has established, within its administrative structure, a department dedicated to Islamic banking affairs, which oversees and monitors their compliance with international banking standards, along with Sharia requirements. In addition, the Central Bank mandates that Islamic banks establish an independent Sharia Supervisory Board inside each bank. This board is responsible for overseeing the bank's adherence to Sharia principles in all its transactions and financing products (such as Murabaha, Ijarah, Musharaka, and Mudaraba) [ 13 ] . The Central Bank's requirements include the following:

1. Board of Directors' compliance requirements:  
Qualification of the Chairman of the Sharia Supervisory Board, avoiding conflicts of interest, adopting a clear compliance policy, ensuring the independence of the Compliance

Department, the Internal Sharia Audit Charter, following up on audit observations, reporting to the Sharia Audit Department, supervising the executive management, aligning strategies, approving the risk strategy, implementing risk management, acceptable risks, stress testing, information and communication systems, compliance with financial disclosure, forming and monitoring committees, conflicts of interest, the Code of Professional Conduct, the bank's organizational structure, final accounts and reporting, approving the annual plan, promoting a culture of governance, implementing Central Bank circulars, and submitting periodic and annual reports to the committees emanating from the Board of Directors.

2. Compliance requirements by executive management. Adherence to contract templates, risk allocation, credit ratios, credit guarantee management, credit file preparation, loss mitigation, Sharia consultations, deposit attraction, market valuation of investment properties, deposit portfolio diversification, banking transaction pricing, liquidity management, profit calculation and distribution to investors, purchase or sale of assets, illegal activities, and monitoring of the bank's financial position.
3. Compliance with requirements by risk management.
4. Compliance with the Internal Sharia Control and Audit Department. CSAA certification, policies and procedures manual, Internal Sharia Control and Audit Department charter, development of a risk-based internal Sharia audit program, development of a comprehensive audit and review plan, independence of the Sharia Control and Audit Department, effectiveness of implementation of the operational risk mitigation framework, and submission of monthly, quarterly, and semi-annual reports.
5. Reporting Money Laundering and Terrorist Financing. Account opening form, checking customer status on international blacklists, analyzing customer data, verifying withdrawals and deposits, examining sources of funds, establishing company contracts,

updating forms, appointing a manager and assistant manager for the Money Laundering and Terrorist Financing Reporting Department, independence, opening high-risk accounts, a work guide for the Money Laundering and Terrorist Financing Reporting Department, and obstacles facing the department [ 14 ].

6. Compliance requirements of the legal department. Litigation database, legal advice, written legal procedures, explanation, and interpretation of legal materials.
7. Compliance requirements by Sharia Compliance. Preparing compliance reports, developing a guide for the Compliance Department, linking the Sharia Compliance Department and Compliance Monitoring to the Board of Directors, preparing a risk guide for the Compliance Department, preparing audit plans for the Compliance Department, adhering to the bank's internal regulations, ensuring the bank's compliance with its contracts, and obtaining a certificate of competence in combating money laundering and terrorist financing.

**Third: An introductory overview of the risks of non-compliance (adherence) to the requirements of the Central Bank of Iraq**

Non-compliance risks are among the most prominent challenges facing banks, as they may lead to financial losses resulting from sanctions imposed by the Central Bank, negatively impacting the bank's reputation [ 15 ]. This is attributed to the bank's failure to comply with laws, legislation, and regulations, as well as the ethical and behavioral standards that must be applied across all its banking activities [ 16 ]. Non-compliance risks are defined as those resulting from some employees violating regulatory instructions or failing to implement them properly [ 17 ], which may expose the bank to various penalties, whether in the form of financial fines or restrictions on the practice of certain activities [ 18 ]. Compliance risks manifest in several forms, the most prominent of which are:

1. Legal and regulatory risks. These are risks that arise because of violating or failing to implement laws, regulations, instructions, and controls governing banking operations, or due to a lack of clarity in defining the legal

rights and obligations related to these operations [ 19 ].

2. Reputation risk. This risk arises when a negative public or customer perception of a bank develops, potentially leading to the loss of important funding sources or the transfer of customers to competing banking institutions. This is frequently linked to a lack of security and trust, poor quality of services provided, or inappropriate actions by bank management or employees. Reputation risk is perceived as a direct consequence of a bank's failure to effectively manage one or more of the other categories of banking risks.
3. Financial risks. This refers to the possibility of a bank being exposed to losses resulting from deterioration or instability in its financial position [ 20 ] . This can be due to several reasons, including poor asset and liability management efficiency, failure to adhere to approved financial standards, market and interest rate fluctuations, or low liquidity. These risks may also arise from the bank's failure to assess the creditworthiness of customers, or because of excessive exposure to parties with weak financial solvency. These risks have a direct impact on the bank's capacity to meet its commitments, which might lead to a loss of trust among depositors and investors and make it more likely that regulators would step in or punish the bank.

### **Section Three: The Practical Aspect of Research**

The position of Compliance Controller was established in Iraqi banks to exercise a supervisory role, identify and address cases of non-compliance, and provide assurances regarding the implementation of laws, regulations, and Central Bank instructions. The position of Compliance Controller is based on independence, integrity, and confidentiality to ensure the reliable conduct of its activities. The quality of banking operations shows how well the rules and instructions are being followed. Everyone at the bank, from the Board of Directors to the staff, has a diverse set of responsibilities when it comes to compliance. These responsibilities rely on their roles, tasks, and powers. In compliance with the Basel Committee's decisions of 2005 and based on the

instructions of the Central Bank of Iraq No. (9/1/4/306) of 9/19/2016 and based on Article (71) of Instructions (4) of 2010 and in addition to the administrative instructions of banks No. (40) of 6/27/2007, it was decided to create the position of Compliance Controller and define its responsibilities and duties.

The Compliance Officer shall prepare a periodic report every three months and submit it to the Central Bank, accompanied by the Board of Directors' comments and decisions. This report shall include the efforts made during the period covered by the report regarding unusual transactions, suspicious transactions and the measures taken in this regard, any amendments made to internal policies or systems, a statement of the extent of compliance with the implementation of the plans established during the reporting period, and verification of the application of the provisions, laws, and regulatory controls.

### **Analysis of the Compliance Monitor Requirements Checklist Items Based on the Central Bank's Instructions**

To prove the research hypotheses and identify the gap in non-compliance with the Central Bank of Iraq's requirements, the researchers designed a checklist based on the Central Bank's Circular (Sharia Compliance Report and Compliance Monitor) No. 9-3-346 dated August 20, 2019, to measure the level of compliance of the bank under study with legal and regulatory requirements. The checklist included seven requirements, as follows: (Board of Directors, Executive Management, Risk Management, Internal Sharia Control and Audit, Money Laundering and Terrorist Financing Reporting, Legal Department, Sharia Compliance). Each requirement includes several paragraphs, totaling (93) paragraphs.

The checklist items were coded (compliant, partially compliant, non-compliant) into three scores (2: compliant, 1: partially compliant, 0: non-compliant). The checklist items were completed by the compliance department manager at an Islamic bank listed on the Iraq Stock Exchange. The researchers withheld the bank's name at the request of the compliance department manager due to weaknesses identified in the checklist questionnaire. The

main statistical measures used to analyze the checklist requirements are as follows:

$$1. \text{ Calculate the weighted mean } \bar{X}_W = \frac{\sum x_i w_i}{\sum w_i}$$

3. Calculate the gap: Gap measurement = 1 - Relative Importance

2. Calculate the percentage of conformity

$$\text{Relative Importance} = \frac{\bar{X}_W}{\text{high weight}}$$

$\bar{X}_W$ : The weighted meaning from the equation

High weight: The highest weight assigned to the checklist.

**Table (1)** : Results of the compliance monitor's checklist when auditing the requirements of the Central Bank of Iraq

Central Bank Requirements	weighted mean	percentage of compliance	Size of the non-compliance gap
1. Board of Directors (16 compliant items, eight partially compliant items)	1.667	83%	17%
2. Executive Management (13 compliant items, two partially compliant items, 1 non-compliant item).	1.75	87.5%	12.5%
3. Risk Management (12 compliant items, 2 partially compliant items, 7 non-compliant items).	1.238	62%	38%
4. Internal Sharia Control and Audit (5 compliant items, 2 partially compliant items, 1 non-compliant item)	1.5	75%	25%
5. Reporting of money laundering and terrorist financing (12 compliant paragraphs)	2	100%	0%
6. Legal Section (3 compliant paragraphs, 1 partially compliant paragraph)	1.75	87.5%	12.5%
7. Sharia Compliance (6 items compliant, 2 items partially compliant)	1.75	87.5%	12.5%

**First, the compliance monitor examines compliance with the Board of Directors' requirements.**

Table (2) illustrates the compliance monitor's examination using an audit methodology designed to demonstrate the Board of Directors' level of compliance with legal requirements and instructions.

**Table (2) : Methodology for the Compliance Monitor Examination of the Board of Directors' Requirements**

<b>Central Bank requirements</b>	<b>Compliance requirements by the Board of Directors</b>	<b>Compliance level</b>	<b>Procedures adopted to mitigate the risk of non-compliance (non-adherence)</b>
1. Qualification of the Chairman of the Sharia Supervisory Board	Has the Council committed to ensuring that the Chairman of the Sharia Supervisory Board holds a master's degree in Sharia sciences and has experience in issuing fatwas and Sharia rulings?	Compliant	Chairman of the Sharia Supervisory Board holds a Ph.D.
2. Avoid conflicts of interest	Has the Board committed to ensuring that a member of the Supervisory Board is not a member of another body working in the financial or banking sector, to prevent a conflict of interest?	Compliant	There is no conflict of interest, and the conflict-of-interest policy was prepared and approved on 6/20/2022.
3. Adopting a clear compliance policy	Has the Board promised to put in place a clear compliance policy to make sure the bank follows the rules and laws that apply to it, and to check and assess this policy's implementation on a regular basis?	Compliant	The Board of Directors assures us that the Bank complies with the standards in all activities, through meetings, department reports to the sub-committees, and approval by the Board in the annual financial reports.
4. Ensuring the independence of the compliance department	Has the Board committed to ensuring the independence of the Sharia Compliance Department and compliance monitoring?	Compliant	Through the organizational structure, the department is linked to the Audit Committee, which in turn is linked to the Board of Directors and the Chairman of the Board.
5. Internal Sharia Audit Charter	Has the Board committed to the adoption of an "Internal Sharia Audit Charter" that delineates the duties, powers, and obligations of the Internal Sharia Audit Department?	Partially compliant	The Internal Sharia Audit Charter was approved by the Board of Directors on June 15, 2021. It has not been updated or approved by the Board of Directors.

6. Follow up on audit notes	Has the Board committed to following up on correcting the internal Sharia audit observations?	Partially compliant	The internal audit manager submits a follow-up report every nine months that includes observations and violations. The managing director receives a copy. The audit committee does not receive the results of the quarterly audits of departments and subdivisions from the audit manager.
7. Subordination of the Sharia Audit Department	Has the Board pledged to guarantee that the Internal Sharia Audit Department operates under the direct oversight of the Sharia Board and reports to both the Chairman of the Sharia Board and the Audit Committee?	Partially compliant	The Board of Directors receives internal audit reports directly. The Audit Committee is required to formulate recommendations in accordance with the internal audit reports that have been submitted to the committee.
8. Supervising the executive management	Does the Board of Directors oversee senior management, assess its performance, assure the bank's financial stability, and implement policies and processes to supervise and evaluate the bank's performance?	Compliant	Follow-up-through board meetings. The CFO is invited to review the financial situation. A special committee is formed to update policies and procedures implemented by executive management, and a committee is formed from oversight, internal audit, compliance, and the audit committee to resolve violations.
9. Aligning strategies	Has the Board of Directors committed to ensuring continued alignment between the financing strategy, the risk management strategy, and the liquidity risk management strategy	Partially compliant	The Bank's four-year strategy, from 2020 to 2024, was approved by the Board of Directors at its meeting held on July 20, 2020, but has not yet been updated.
10. Adopting a risk strategy	Has the Board of Directors committed to the annual approval of the risk strategy designed by the Risk Management Department considering the financing strategy?	Partially compliant	The Bank's four-year strategy was approved by the Board at its meeting held on March 5, 2019, but is not updated based on emerging changes.

11. Implementing risk management	Has the Board committed to adopting an effective risk management strategy and monitoring its implementation?	Partially compliant	The completion rate of the research is 65%, based on information from the Risk Management Department.
12. Acceptable risks	Has the Board pledged to address the excesses of acceptable risk levels, including holding the relevant top management responsible for these excesses?	Partially compliant	There is a related Risk Appetite policy, updated on September 30, 2021, to comply with the requirements of the regulatory guide circulated by Central Bank No. 9-6411 dated October 7, 2019. A copy was sent to the Central Bank. However, it has not yet been updated.
13. Pressure tests	Has the Board committed to ensuring that risk management conducts stress testing?	Compliant	A copy of the stress tests conducted in 2023 was sent periodically to measure the bank's ability to cope with increased risks.
14. Information and Communication Systems	Has the Board of Directors made a commitment to the use of effective and appropriate information and communication systems, particularly in the context of risk monitoring and control and the maintenance of the information management system's efficiency?	Compliant	The Risk Management Department produces regular reports for the Board, with copies sent to the Central Bank of Iraq. Monthly reports to the bank's top management, the Risk Committee, and the Board provide insights into the bank's adherence to risk limits, highlighting any breaches, their underlying reasons, and the remedial action plan.
15. Financial Disclosure Compliance	Is the Board dedicated to ensuring that the Bank adheres to the disclosures outlined in the International Financial Reporting Standards (IFRS), Standard No. 1 of the Accounting Standards issued by the AAOIFI, and the Central Bank's instructions?	Compliant	The bank's adherence to the Central Bank of Iraq's instructions, accounting standards, and International Financial Reporting Standards is illustrated in the annual and interim financial reports.
16. Forming and following up on committees	Are the subcommittees listed in the Governance Manual going to be formed, and will the Board be responsible for overseeing their work	Compliant	The committees (Audit, Risk, Appointments and Remuneration, Corporate Governance, and IT Governance) were formed, based on the Governance Manual dated 1/5/2022.

	and making sure they are effective?		
17. Conflict of Interest	Has the Board committed to adopting policies and procedures for addressing conflicts of interest?	Compliant	The Conflict-of-Interest Policy was prepared and approved on 6/20/2022.
18. Code of Professional Conduct	Has the Board committed to adopting the Bank's policies and Code of Professional Conduct?	Compliant	A Code of Professional Conduct has been circulated to all employees and signed. It was updated and approved by the Bank's Board of Directors on April 6, 2023.
19. Organizational structure of the bank	Has the Board of Directors committed to adopting an organizational structure for the bank that defines a clear administrative hierarchy?	Compliant	The bank updated its organizational structure, and the Board of Directors approved the amendments at its meeting held on 12/20/2023.
20. Final accounts and reporting	Has the Council committed to preparing the final accounts for the previous year within the first six months of the year and compiling a detailed report on the outcomes of executing the yearly plan.	Compliant	The Board is committed to preparing financial reports for the previous year within the first six months, through the preparation of paper and electronic copies to be published on the Iraq Stock Exchange.
21. Approval of the annual plan	Has the Board committed to discussing and approving the annual plan for the bank's activities for the coming year?	Compliant	The annual plan is discussed and approved during the last six months of the year. The Managing Director must prepare for it during the last six months of the year considering the bank's objectives.
22. Disseminating the culture of governance	Has the Board committed to spreading the culture of governance within the bank and attending training courses on it?	Partially compliant	The bank published a corporate governance guide only in 2020, on its website. It did not hold training courses or introductory seminars.
23. Implementation of Central Bank circulars	Has the Board committed to following up on the implementation of the circulars issued by this bank that have been complied with and are currently being implemented?	Compliant	The Council pledged to follow up on the implementation of the Central Bank's circulars and send a copy of the compliance requirements to the Central Bank.

24. The committees emanating from the Board of Directors shall submit periodic and annual reports.	Have the committees emanating from the Board of Directors committed to submitting periodic reports and the annual report on the results of their work?	Compliant	The committees emanating from the Board of Directors (Audit, Risk, Appointments and Remuneration, Corporate Governance, and Information Technology Governance) are committed to submitting periodic annual follow-up reports.
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Table (1) shows that the bank's level of compliance with the Central Bank's instructions regarding the Board of Directors' requirements reached 83%, indicating a 17% non-compliance gap. The most prominent areas of weak compliance, as illustrated in Table (2), are as follows:

- The internal Sharia audit charter was not updated, nor was it approved by the Board of Directors.
- Internal audit reports were submitted directly to the Board of Directors, despite the Central Bank's instructions stipulating that they must first be submitted to the Audit Committee, which in turn submits them to the Board of Directors.
- The bank's strategy for the next four years (2025–2029) was not updated.
- The bank's risk appetite policy was updated on September 30, 2021, to comply with the requirements of the supervisory manual issued by the Central Bank pursuant to Circular No. 9/6411 dated October 7, 2019. However, it has not been updated since that date.
- The bank has not held training courses or introductory seminars related to banking governance and the principles of the Basel Committee.

**Second: The compliance monitor's examination of compliance with executive management requirements.**

Table (3) illustrates the compliance monitor's examination of the executive management's level of compliance with legal requirements and Central Bank instructions.

**Table (3) :** Methodology for the compliance monitor's examination of executive management requirements

Central Bank requirements	Compliance requirements by executive management	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Commitment to contract models	Does the executive management adhere to the specified contract templates?	Compliant	The Executive Management shall adhere to the contract models approved by the Sharia Supervisory Authority.
2. Sharia consultations	Is the executive management obligated to seek Sharia advice from the Sharia Supervisory Board regarding the introduction of new services or products?	Compliant	Consultations are obtained from the Sharia Supervisory Board regarding the introduction of new services or products and the submission of relevant documents.
3. Mitigating losses	Does executive management adhere to specific procedures to	Compliant	Executive Management is obligated to request the Risk Management Department's

	mitigate losses for investment account holders?		recommendation before concluding contracts that are characterized by enormous amounts and long terms.
4. Preparing credit files	Does the executive management prepare credit files for the granted financing?	Partially compliant	The credit file is updated regularly, but there is no checklist for important documents in the file, and the files are not subject to secondary checking by the department's management.
5. Guarantee Management	Has the executive management committed to following specific procedures for managing guarantees?	Compliant	Ensure that the mortgage and guarantee are Sharia-compliant.
6. Credit ratios granted	Does the executive management adhere to the specified percentages for granting credit?	Compliant	Commitment to the ratios of credit and concluding contracts for relatives of members of the Board of Directors and Executive Management.
7. Risk allowance	Does the executive management commit to allocating provisions to address risks?	Compliant	Adequate provisions are made to meet risks and create reserves for expansion and growth.
8. Attracting deposits	Does the executive management adhere to procedures to attract deposits?	Compliant	Attraction is achieved through raising interest rates, especially fixed ones, and diversifying banking services.
9. Market valuation of real estate intended for investment	Is the executive management committed to re-evaluating the market for real estate intended for use and real estate intended for investment?	Non-compliant	There is no market valuation for real estate intended for use and real estate intended for investment.
10. Diversification of the deposit portfolio	Is the executive management committed to diversifying the deposit portfolio?	Partially compliant	Promotes the opening of Sharia-compliant investment accounts, including restricted investment accounts, but does not commit to diversification.
11. Banking transaction prices	Does the bank adhere to the banking transaction pricing schedule?	Compliant	The bank is committed to the banking operations price schedule.
12. Liquidity Management	Does executive management adhere to written procedures for	Compliant	There are specific procedures for reporting liquidity status to the Board of Directors, imposed by

	liquidity management?		the Central Bank.
13. Calculating and distributing profits to investors	Does the executive management adhere to written and specific procedures for calculating and distributing profits to investment account holders?	Compliant	Executive management is committed to following written and specific procedures for calculating and distributing profit to investment account holders.
14. Purchase or sale of assets	Has the bank committed not to buy or sell assets from related persons?	Compliant	Article 31, Paragraph 2, of Banking Law No. 94 of 2004 serves as the foundation for the commitment. According to Paragraph 3 of Article 94 of Banking Law No. 94, the Board of Directors must authorize the acquisition of assets, and preferential prices may not be provided.
15. Illegal acts	Is the bank obligated to notify the Central Bank if it becomes aware of a transaction or receipt or payment of an amount that is related or may be related to any crime or illegal act?	Compliant	The executive management provides the supervisory authorities with the reports they request and facilitates the completion of their supervisory and inspection duties. It also provides detailed information on the bank's operations to the Sharia Supervisory Board prior to its meeting. It also implements the recommendations of the internal Sharia auditor.
16. Monitoring the bank's financial position	Does the executive management monitor the bank's financial position?	Compliant	The implementation of annual plans and the monitoring of profits within the context of a sensible trade-off between risk and return.

Table (1) shows that the bank's compliance with the Central Bank's instructions related to the Board of Directors' requirements reached 87.5%, reflecting a non-compliance gap of 12.5%. The most prominent manifestations of poor compliance, as summarized in Table (3), are the following:

- Failure to update the credit file periodically and regularly, in a manner inconsistent with effective oversight requirements.
- Lack of market valuation of bank-owned properties, whether those intended for use or allocated for investment.
- Executive management's failure to diversify the deposit portfolio, which may increase the risk of financial concentration and negatively impact the stability of the bank's financial position.

The previous observations indicate deficiencies in the implementation of some fundamental aspects of governance and internal control. The failure to periodically update credit files weakens the quality of credit decisions and increases the likelihood of default. The absence of a market valuation of real estate may lead to inaccurate asset estimates, negatively impacting the accuracy of financial statements.

Furthermore, a lack of diversification of the deposit portfolio means increased reliance on specific categories of depositors, which increases liquidity risk.

**Third: The compliance monitor's examination of compliance with risk management requirements.**

Table (4) shows the compliance monitor's examination of risk management and the level of compliance with legal requirements and instructions circulated by the Central Bank.

**Table (4) :** Methodology for the compliance monitor's examination of risk management requirements

Central Bank requirements	Compliance requirements by risk management	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Risk Management Department Manager Certification	Has the bank committed to ensuring that the risk management department manager holds the Certified Islamic Specialist in Risk Management?	Compliant	Risk Management Department Manager, Certified Islamic Specialist in Risk Management
2. Risk management strategy	Has the Risk Management Department committed to developing a risk management strategy and updating it periodically?	Compliant	The Risk Department periodically updates the risk management strategy considering the financing strategy, as of 10/3/2024.
3. Setting goals	Does the risk management strategy include setting objectives?	Compliant	The Risk Department determines the banking objectives for Islamic banking operations and updates them periodically.
4. The Risk Department reports to the Board of Directors.	Does the Risk Management Department intend to have the Risk Management Committee report to the Board and upper management get a copy as well?	Compliant	In comparison to the "Acceptable Risk Document," the Risk Committee provides the Board and Executive Management with periodic and annual reports that contain information on the actual risk profile of all the Bank's activities. Additionally, the committee monitors the management of negative deviations.
5. Evaluating the performance of financiers and suppliers	Has the risk management department committed to evaluating the performance of both financiers and suppliers?	Non-compliant	Financiers and speculators are not evaluated, for example, failure to take into account the non-fulfillment of a party through delay or non-payment in Murabaha or Ijarah, or being a party in a case of transgression or negligence (there is no specific policy for dealing with external parties, despite the Central Bank's demand for it)

7. Provision for impairment of leased assets	Has the bank committed to setting aside a provision to cover the estimated decline in the value of leased assets?	Non-compliant	There is no provision for estimated impairment of leased assets.
8. Preparing a semi-annual evaluation of all assets.	Has the risk management department committed to preparing a semi-annual assessment of all assets?	Non-compliant	The Risk Management Department does not evaluate all assets, nor does it determine the amounts of rises and falls in their prices and collateral. Shares held by the bank as investments in other companies are not evaluated.
9. Investment risk reserve and profit rate reserve.	Has the bank committed to allocating the investment risk reserve and the profit rate reserve?	Compliant	Compliance has been made in accordance with the contractual terms with investment account holders, and this is reflected in the balance sheets sent to the Central Bank.
10. Market risks	Has the department of risk management promised to figure out the amount of market risk?	Non-compliant	The bank does not specify a market risk level or financial ratio as a potential cost for transactions that the bank must not exceed.
11. Target profits	Has the bank committed to setting target profits that are in line with the profits achieved by other Islamic banks?	Non-compliant	The Risk Management Department does not measure the profits of the banking sector and compare them with what the bank has achieved.
12. Withdrawal from the current account	Are withdrawal levels measured on current accounts?	Compliant	Measurement is made quarterly to avoid sudden withdrawals that would have a negative impact on the balance of assets and liabilities.
13. Liquidity Risk Management Strategy	Has the bank committed to developing a liquidity risk management strategy separate from its risk management strategy?	Compliant	The liquidity risk strategy is separate from the overall risk management strategy and is monitored periodically to ensure its implementation.
14. Account Risk Analysis	Has the risk management department committed to an account risk analysis?	Partially compliant	The department analyzes the risks of accounts with high relative importance (high concentrations).
15. Create due dates	Has the bank committed to establishing maturity schedules according to appropriate time frames in accordance with cash flow metrics?	Non-compliant	Failure to update due dates according to new information.

16. Emergency Financing Plan	Has the bank, through the participation of all departments, committed to developing an emergency financing plan, regardless of the nature and complexity of its activities?	Partially compliant	An emergency funding plan is being prepared, but it is not updated according to developments.
17. Analyze the risks of each project.	Has the risk management department committed to analyzing the risks of each project individually?	Compliant	Preparing reports on project risks not exceeding the ceilings specified in the financing strategy
18. Preparing an operational risk management list	Has the risk management department prepared a regulatory framework that represents a comprehensive framework for various operational risks and is supposed to provide a comprehensive view of those risks?	Compliant	Compiling a list of risks associated with losses stemming from inadequate or ineffective internal processes, personnel, and systems, or arising from contemporary events.
19. Insurance	Did the bank undertake to transfer part of the risks through insurance?	Compliant	Insurance is provided through Takaful insurance companies that comply with Sharia law.
20. Risks of non-compliance with Sharia	Is the bank exposed to the risk of non-compliance with Sharia?	Compliant	The bank seeks to avoid the risks of non-compliance with Sharia.
21. Disaster Recovery Plan	Does the bank have a disaster recovery plan?	Non-compliant	Approved disaster recovery plan dating back to previous years 2021.

Table (1) shows that the bank's level of compliance with the Central Bank's instructions related to risk management requirements reached 62%, reflecting a 38% non-compliance gap. The most prominent manifestations of weak compliance in banking performance are evident in a number of essential aspects presented in Table (4), most notably:

- Deficiencies in the assessment of financiers and speculators: This deficiency is represented by the lack of an accurate assessment of the credit behavior of financiers and speculators, while ignoring cases of breach of contractual obligations, such as delays or failure to pay in Islamic financing contracts such as Murabaha and Ijarah contracts, or involvement in cases of transgression and negligence.
- Lack of provisions for asset impairment: Insufficient provisions are made to address potential declines in the carrying value of leased assets, which could negatively impact the bank's financial solvency.
- Limited scope of risk assessment: The risk management department lacks comprehensive coverage in its assessment of assets and is unable to accurately determine the extent of price volatility or assess the accompanying collateral.
- Lack of clarity in determining market risk: The bank does not accurately define market risk levels and does not use clear financial indicators to measure the maximum potential losses from transactions.
- Failure to update emergency financing plans: Although emergency financing plans exist, they are not regularly reviewed or updated to keep pace with ongoing developments in the operating environment.

- Lack of an effective disaster recovery plan: The bank does not have a comprehensive and integrated disaster recovery plan, leaving it vulnerable to operational disruption and business continuity threats in the event of sudden crises.

**Fourth: The compliance officer must review compliance with internal Sharia oversight and audit requirements.**

Table (5) illustrates the compliance monitor's examination of internal Sharia control and audit requirements, and the level of compliance with legal requirements and instructions issued by the Central Bank.

**Table (5) :** Methodology for the compliance monitor's examination of internal Sharia control and audit requirements

Central Bank requirements	Compliance by internal Sharia control and audit	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Certified Sharia Auditor and Controller (CSAA)	Has the Director of the Internal Sharia Control and Audit Department obtained the Certified Sharia Auditor and Controller (CSAA) certificate?	Non-compliant	The Director of the Internal Sharia Audit and Control Department did not obtain the Sharia Supervisor and Auditor Certificate.
2. Guide to Policies and Procedures	Is there a guide for policies and procedures that regulate the work of the Internal Sharia Audit and Control Department, approved by the Board of Directors and the Audit Committee?	Partially compliant	The department has rules and procedures sanctioned by the bank's Board of Directors and revised in 2020. The handbook is exempt from examination and revision by the Audit Committee.
3. Sharia Supervision and Audit Charter	Is there a charter for the Internal Sharia Audit and Control Department and the Audit Committee?	Compliant	There is a charter, and it was approved in 2021, and updated in 2024.
4. Risk-based internal audit program	Has the Internal Sharia Audit and Control Department committed to developing a Sharia audit program based on the risk assessment process?	Compliant	The Department prepares the internal Sharia audit program at the end of each year, which is approved by the Board of Directors.
5. Develop a comprehensive audit and review plan.	Has the Internal Sharia Audit and Control Department committed to developing a comprehensive audit and review plan?	Compliant	Audit plans are developed at the end of each year, identifying programs, implementing personnel, and financial resources. They are approved by the

			Chairman of the Sharia Supervisory Board and the Chairman of the Board of Directors.
6. Independence of internal Sharia oversight and auditing	Does the job description of the work team and the position of the Internal Sharia Audit and Control Department within the bank's organizational structure contribute to independence?	Compliant	The department is independent and reports to the Audit Committee of the Board of Directors.
7. Effectiveness of the operational risk mitigation framework	Has the Internal Sharia Audit, Control and Compliance Department committed to verifying the effectiveness of the operational risk mitigation framework?	Compliant	Assessing operational risk avoidance, by the Control and Audit Department and the Compliance Department and providing the Board of Directors with the results on a quarterly basis.
8. Submitting monthly, quarterly, and semi-annual reports.	Is the Audit Committee provided with monthly, quarterly, and semi-annual reports on business results by the Internal Sharia Audit and Control Department?	Partially compliant	There is a follow-up report every six months, prepared by the department manager, containing all outstanding violations and observations with the department. These are followed up with the departments and branches, and a copy is sent to the board of directors. However, the monthly report is not sent regularly.

Table (1) indicates that the bank under study's compliance level with the Central Bank's instructions related to these requirements reached 75%, meaning there is an estimated 25% compliance gap. This percentage represents an incomplete level of compliance with Sharia oversight standards and is an indicator of the presence of regulatory and operational risks that may negatively impact the bank's Sharia-compliant performance. The most prominent manifestations of non-compliance are evident in several fundamental aspects, as illustrated in Table (5), reflecting the weakness of the organizational and operational structure of the

internal Sharia control and audit department. These can be explained as follows:

- Lack of professional competence among the department's leadership. The director of the Internal Sharia Audit and Control Department has not obtained the "Sharia Controller and Auditor" certification, a specialized professional certification that is a prerequisite for this position. This deficiency may undermine the department's ability to efficiently perform its oversight role and limit its ability to accurately detect and assess Sharia violations.

- Weakness in the system for updating policies and procedures. The department has organizational policies and procedures approved by the bank's board of directors and updated in 2020. However, these policies are not subject to periodic review and updating by the audit committee, which constitutes an institutional flaw that could lead to outdated operational guidelines and their failure to keep pace with regulatory or Sharia changes.
- Deficiencies in the role of follow-up and periodic reports. The department manager prepares a follow-up report every nine months, including a list of violations and observations that have not been resolved. This report has been worked on with the right departments and divisions. The Board of Directors also gets a copy of this report. Even though this mechanism is in place, the time between reports (every nine months) is pretty long and doesn't meet the needs of effective oversight, which calls for more frequent reports and direct oversight from higher committees like

**Table (6)** : Methodology for the compliance monitor's examination of the requirements for reporting money laundering and terrorist financing

Central Bank requirements	Reporting money laundering and terrorist financing	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Account opening form	Does the bank have an account opening form according to the model circulated by the Central Bank?	Compliant	The bank prepares an account opening form that matches the one sent by the Central Bank on July 18, 2020, and adds detailed information to identify the customer. The form is updated every two years, or when necessary.
2. Inquire about the customer on international ban lists	Is the customer's occupation identified, and is he/she checked against international block lists? The form must be signed by the customer, the form's organizer, the Money Laundering Reporting Department manager, and the branch manager.	Compliant	All the requirements mentioned in Requirement (2) are implemented, including obtaining proof of the profession, inquiring about the ban lists, and signing the form by the customer and authorized people. During 2024, the account opening procedures for individuals and companies, as well as the authority matrix, were updated and circulated to all branches after approval by the executive management.

the Sharia Supervisory Board or the Audit Committee.

From the above, the bank suffers from clear weaknesses in its compliance with internal Sharia oversight requirements, exposing it to compliance risks that could impact its reputation and Sharia credibility. This calls for strengthening the department's organizational structure, enhancing the efficiency of its staff, ensuring regular updates of manuals and policies, and implementing more consistent and accurate internal oversight.

**Fifth: The compliance monitor's examination of compliance with the requirements for reporting money laundering and terrorist financing.**

Table (6) shows the compliance monitor's examination of the requirements for reporting money laundering and terrorist financing, and the level of compliance with the legal requirements and instructions circulated by the Central Bank.

3. Customer data analysis	Does the bank analyze customer data, and is it consistent with the volume of transactions and account activity?	Compliant	Reporting money laundering, in collaboration with the liaison staff at each branch, analyzes financial data and determines whether it aligns with the volume of customer transactions. At the end of the analysis, a recommendation is made to update the file. If the data does not match accountancy and suspicions of money laundering are confirmed, a suspicious transaction report is submitted to the Anti-Money Laundering Office.
4. Confirm withdrawal and deposit	4. Does the bank verify the names of those authorized to withdraw and deposit?	Compliant	There are instructions circulated to all branches, including directing those authorized to manage the account to obtain documents regarding the following: - If the account is for individuals, the transfer must be made through an official power of attorney certified by a notary public. - If the account is for companies, an official letter from the company must be obtained, specifying the names of those authorized to withdraw and deposit, signed by the managing director, and including sample signatures.
5. Checking sources of funds	Does the bank verify the sources of the customer's funds?	Compliant	The bank verifies the source of funds and has a verification procedure in place. This must be accompanied by a form signed by the customer for deposits exceeding \$10,000 or its equivalent in local currency.
7. Update forms	Does the bank update the account opening form for its customers?	Compliant	The bank updates customer files annually for high-risk customers, every three years for low-risk customers, and every two years for medium-risk customers. It also updates final accounts and corporate tax IDs annually. However, it has been noted that high-risk customer forms are not updated annually in accordance with the Central Bank's requirements.
8. Appointment of staff for the Money	Has the bank hired a manager and an	Compliant	One person is in charge of the Anti-Money Laundering and

Laundering and Terrorist Financing Reporting Department	assistant manager for the department that reports money laundering and terrorist financing, as well as contact officers to work with other departments?		Terrorist Financing Reporting Department, and there are also assistants and contact workers in each office.
9. Independence	Does the Money Laundering and Terrorist Financing Department enjoy complete independence, and are its reports submitted exclusively to the Board of Directors and the Anti-Money Laundering Office?	Compliant	The department is separate from the company and is sent to the Board of Directors through the Audit Committee. The Anti-Money Laundering Office gets a copy of the report every six months and sends it to the Board of Directors. The report is then sent to the Central Bank of Iraq.
10. Opening high-risk accounts	Does the Anti-Money Laundering Department Manager report and comment on the opening of high-risk accounts?	Compliant	High-risk accounts require approval from the bank's senior management, the Compliance Department, and the Money Laundering Reporting Department, and any comments are recorded by them. Procedures stipulate that opening high-risk accounts must be approved by the executive management, the compliance officer, and the assistant and manager of money laundering reporting.
11. Money Laundering and Terrorist Financing Reporting Department Operational Guide	Are there policies, procedures, and guidelines in place? Is the Board of Directors in agreement with the Anti-Money Laundering and Terrorist Financing Reporting Department's work?	Compliant	The updated Anti-Money Laundering Reporting Department policies were approved for implementation by the Bank's Board of Directors at its meeting held on June 8, 2021, and were attached to a compliance report for the fourth quarter of 2024. They were also updated and approved at the meeting held on November 20, 2024.
12. Obstacles facing the department	Does the Director of the Money Laundering Reporting Department inform the Board of Directors of the obstacles he faces in his work?	Compliant	The department manager submits his reports to the Audit Committee, submits a semi-annual report to the Central Bank of Iraq, and a copy to the Anti-Money Laundering Office, including any work impediments, if any.

Table (1) shows that the bank's compliance with the Central Bank's instructions regarding reporting money laundering and terrorist financing has reached 100%, indicating no compliance gap. The Central

Bank of Iraq circulated the "Guidance Manual for Self-Assessment of Money Laundering and Terrorist Financing Risks" as part of its Circular No. 9-4-318 dated July 8, 2024. The circular spoke on how important it is to audit compliance with Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) rules since these activities might have serious legal and reputational consequences. The handbook says that banks must put in place stringent rules and processes to make sure they follow these rules and stop people from using financial systems to do illicit things. Any shortcomings in compliance audits in this domain pose a substantial risk that may result in substantial financial fines imposed by regulatory bodies, the bank's placement on international watch lists, and harm to its reputation and trustworthiness.

**Sixth: The compliance officer shall ensure compliance with the requirements of the legal department.**

Table (7) shows the compliance monitor's examination of the legal department's requirements and the level of compliance with the legal requirements and instructions circulated by the Central Bank.

**Table (7)** Methodology for the compliance monitor's examination of the legal department's requirements

Central Bank requirements	Compliance requirements by the legal department	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Litigation database	Is the department committed to having a database of lawsuits classified according to the bank's branches?	Partially compliant	The existence of a branch-based database to track cases. Failure to establish and organize such a database led to the loss of information or delayed processing of cases, which negatively impacts legal performance. It has been noted that the database has not been updated.
2. Legal consultations	Are the rest of the bank's departments required to seek legal advice?	Compliant	They have a schedule of consultations provided to the departments.
3. Written legal procedures	Does the department have written legal procedures for the mechanism of implementing exit operations in investment contracts?	Compliant	There is
4. Explanation and interpretation of legal provisions	The department has an internal guide to explain and interpret the legal provisions of Islamic Banking Law No. 43 of 2015.	Compliant	There is

Table (1) shows that the bank's level of compliance with the Central Bank's instructions regarding the requirements of the legal department reached 87.5%, indicating a 12.5% non-compliance gap due to poor database updating, which led to the loss of information and negatively impacted legal performance.

**Seventh: The compliance monitor's examination of compliance with Sharia compliance requirements.**

Table (8) shows the compliance monitor's examination of Sharia compliance requirements and the level of compliance with legal requirements and instructions circulated by the Central Bank.

**Table (8) : Methodology for the compliance monitor's examination of Sharia compliance requirements**

Central Bank requirements	Compliance requirements by Sharia Compliance	Compliance level	Procedures adopted to mitigate the risk of non-compliance (non-adherence)
1. Preparing compliance reports	Has the Sharia Compliance and Compliance Monitoring Department committed to preparing a compliance report addressed to the Board of Directors?	Compliant	The report is prepared in coordination with the Risk Management and Internal Sharia Audit departments. It includes a review of compliance policies and procedures for all banking operations, identifying risks of non-compliance, and proposing appropriate amendments.
2. Establishing guidance	Has the Sharia Compliance and Compliance Monitoring Department committed to developing a guide?	Compliant	The Sharia Compliance and Compliance Monitoring Department coordinates to develop a guide for Sharia compliance and compliance monitoring rules.
3. The Compliance Department's connection to the Board of Directors	Has the bank committed to ensuring that the Sharia Compliance and Compliance Monitoring Department is linked to the Board of Directors?	Compliant	The department is independent through its connection with the Board of Directors. The compliance officer is granted access to information, records, and documents.
4. Preparing a risk guide for the compliance department.	Has the Sharia Compliance and Compliance Monitoring Department complied with the preparation of the risk guide?	Compliant	The department has prepared a risk guide outlining the consequences of non-compliance, based on legal texts and Islamic standards, and has distributed it to employees.
5. Compliance Department prepares audit plans.	Has the Sharia Compliance and Compliance Monitoring Department complied with the plan numbers?	Partially compliant	At the end of each year, the department develops a plan and schedule for field visits to the bank's branches, based on the implementation of the standards of the Accounting, Auditing, and Financial Services Organization (AAOIFI) and the Islamic Financial Services Board (IFSB). The plan has not been updated, and the department has not yet received

			approval from the Board of Directors for its implementation.
6. Commitment to the bank's internal regulations.	Has the Sharia Compliance and Compliance Monitoring Department committed to monitoring the Board of Directors' compliance with the internal regulations?	Compliant	The Board of Directors is committed to the Bank's internal regulations, employee training plans, and implementation of governance standards in Islamic banks.
7. The bank's commitment to its contracts	Has the Sharia Compliance and Compliance Monitoring Department coordinated with the Legal Affairs Department to ensure the bank's level of compliance through its contracts?	Compliant	The bank's commitment to its banking and administrative contracts.
8. Certificate of Specialization in Combating Money Laundering and Terrorist Financing.	Has the bank committed to ensuring that employees in the Sharia Compliance and Compliance Monitoring Department obtain the Certified Specialist in Anti-Money Laundering and Combating the Financing of Terrorism (CAMLTF) certification?	Partially compliant	The department's staff hold a certified anti-money laundering and counter-terrorism financing (AML/CFT) certification. There are no development courses to enhance staff competency in this area.

Table (1) shows that the bank's level of compliance with the Central Bank's instructions regarding the requirements for examining the compliance officer for Sharia compliance reached 87.5%, indicating a 12.5% non-compliance gap due to the Board of Directors' failure to approve the plan's implementation and the failure to implement development courses to enhance employee competence in this area.

#### **Section Four. Conclusions and Recommendations**

##### **First: Conclusions**

1. Monitoring compliance in banks, as a division of the bank and within its organizational structure, has specific justifications. These include preventing legal penalties and avoiding financial losses and the risk of damage to the bank's reputation.
2. Banks face many and varied risks due to their business operations and activities. Among

these risks, the increasing incidence of which has been observed in recent years, are the risk of legal penalties, reputation risks, and economic loss risks. These three risks are collectively known as non-compliance risks or compliance risks.

3. The compliance officer is responsible for monitoring the bank's compliance with all its departments' laws, regulations, and instructions, as well as its compliance with the decisions of the Board of Directors and the policies and procedures established by the Board of Directors and its executive management.

##### **Second: Recommendations**

1. Strengthen the culture of compliance by instilling standards of trust, honesty, and professional integrity, and ensure that compliance is an integral part of the bank's culture.

2. The need to strengthen oversight by supervisory authorities regarding compliance with applicable laws and regulations in banking.
3. Executive management must review the compliance controller's reports regarding Sharia internal audit.
4. Develop training programs that enhance the skills and capabilities of compliance department employees to enhance their ability to mitigate non-compliance risks.

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