Risk-Based Audit in Commercial Banks of Iran

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Abstract.

Risk-based auditing has emerged as a critical subject for businesses, particularly banks, not only for their own profitability but also for the security of the financial system as a whole. Because risk-based auditing is more useful than traditional auditing in developing countries due to advancements in technology and its benefits, auditors must embrace risk-based auditing as a regular and popular practice. Risk-based audit, on the other hand, has not been well received in Iran, despite the fact that the issue has been discussed in the nation since 2010. This research focuses on the risk-based audit method and efficacy in Iranian commercial banks, as well as risk management and corporate governance policies and procedures. Questionnaires were utilized to conduct the research, and the findings show that risk-based auditing occurs alongside compliance auditing, although there are still distinctions between the two. Banking supervisors' task is to identify, assess, monitor, and regulate the bank's different risks, which might include endogenous risks and updates. Compliance audits do not include all types of management audits, which primarily involve bank-level control systems, internal management, and risk supervision and control.

Keywords: banking; compliance audit; financial institution; middle east; risk management

1. Introduction

The role of risk-based Auditing is becoming more significant as both banks and supervisors around the world recognize that good risk management practices are very important, not only for the success of individual banks, but also for the security of the banking system as a whole (Griffiths, 2005). As a result, the world's leading banking supervisors have developed regulations based on a number of "good practices" methodologies used in risk management. These regulations, outlined in the International Convergence of Capital Measurement and Capital Standards, also known as the Basel II Accord, codify the risk management practices of many highly regarded banks. Risk-based audit is probably the most exciting and significant development in the Internal Audit profession's history (Kuzucu & Kuzucu, 2016). It has the potential to catapult the reputation of and the value added by this profession into the stratosphere. One of the most important of these areas is banks; the sub-banks collect on the one hand the deposits of the people and, on the other hand, carry out banking operations using these resources. Therefore, with regard to the constant changes in environmental factors and economic systems every day, different risks affect the financial structure of banks (Docherty & Viort, 2014).In this regard, the Iranian banking system faces risks due to its specific characteristics, identification and management of which types are very important, so that they can design methods, standards, training and systems for control, reduction and preventing undesirable events that have a damaging effect on the Iranian banks.

Of course, any ideas and innovations to address the issue of banking risk require the recognition of the fundamentals of risk management in traditional banking and the adequate recognition of the rich culture and Islamic behaviours in the field of Islamic transactions and contracts (Sadvandi, 2018).The main objective of risk-based audit is to determine whether the design of internal control and corporate risk management structures is correct, whether it works in accordance with business objectives. In addition, the analysis of corporate risk management and internal control practices in the management of the risks faced by the enterprise is also the subject of risk-based internal audit (Griffiths, 2005).

While corporate risk management focuses on the risks facing the business, audit committees traditionally focus on financial reporting risks. However, due to changing conditions, internal audit departments are obliged to evaluate the corporate policies developed against operational risks. Risk assessment is part of the internal control structure (Gonza et al., 2009). Therefore, the most important of the tasks of internal audit is the evaluation of the effectiveness and efficiency of internal controls; the necessity of conducting internal audit in a risk-based manner. In other words, internal audit should allocate more time to the risky areas and provide guidance in determining the necessary provisions.

Internal audit departments operating in enterprises are obliged to carry out risk assessment together with senior management (Görenler, 2017). The risk assessment to be carried out here is to evaluate the degree of success of the enterprise against the risks determined in internal control processes.It is the responsibility of the organization to identify and talk about the events that may occur in the prospect and that may gravely affect the business, to evaluate these events, to determine the risks and to determine the extent to which the identified risks will be accepted, to build up measures and controls beside unacceptable risks (Johnstone et al., 2013). However, to ensure that all of these procedures are carried out as planned, internal audit should be assessed in a risk-based way.

Risk management has become a warm area in the financial sector especially Banks (Gonza et al., 2009). Almost without exemption, institutions have rushed diving into major efforts to upgrade their risk management systems, and focus management attention on appropriate process for due to the consideration of the trade-off among risk and return. In a risk-based audit, resources are directed toward areas that may be distorted because of audit risks and business risks. The auditor puts the greatest emphasis on the areas of risk that are riskier. This is not to say the industry is completely happy with the results achieved thus far. Rather, it is to suggest that standards, or something like best practices, in this area are emerging (Castanheira et al., 2009).

In developing countries since risk-based auditing would be more helpful through progressive technology and its advantages than the traditional auditing technique, auditors need to welcome risk-based auditing as a frequent, as well as a popular one. However, in Iran, risk-based Audit has not been widely welcomed, even though since 2010, the risk-based audit topic has been raised in country. Auditors believe that implementation of risk-based audits will not be feasible without the necessary infrastructure and training and main management changes in existing system. Iranian National Tax Administration is the first government organization to use the Risk-based Audit in order to control the bank accounts, which are 20 million more that the country's population (Sabzro, 2010). Iranian banks began to use the Risk-based auditing method since 2017. The most important weakness of Iranian banking sector is many of Iranian bank financial resources are invested in real estate market and depression in this market faces banks with liquidity and credit risks. Therefore, the existence of the risk-based auditing method is necessary for the banking (Ghiyas Weblog, 2018).

Lack of professional development in auditing depends on diverse issues for example current economy situation, human forces, natural sources, etc. All the mentioned features are effective in Risk-based auditing in formal manner. The Iranian financial system, the banking system, is hugely varied. A selected auditor defines auditing as an independent inspection and expression of opinion on the financial statements of a unit in practice of that appointment and in compliance with any appropriate constitutional obligations. Risk-based Auditing approach is intended to make possible the auditor to focus the nature, timing and amount of audit procedures efficiently and effectively to those parts that have the most potential for causing material misstatement(s) in the financial report. Proper use of Risk-based Audit may result to saving important audit time and audit resources and coming up with suitable audit opinion.

Despite the recent adoption of Risk Based Audit in the Auditing and banking industry, not enough academic research has been carried out to establish the procedure and the effect of Risk-based Auditing on bank management in Commercial banks in Iran.

1.1 Internal Audit

Risk based internal auditing is focusing on aims instead of internal controls. The IIA defines internal auditing as:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." (The Institute of Internal Audit, 2018)

So as internal auditors, we are to: Add value, develop the organization's operation, and help the organization accomplish its objectives. Auditors do this by being: Independent, Objective, Systematic, and Disciplined to our approach in the areas of: Risk Management, Controls, and Governance (Nelson & WAlters, NA). Auditor understanding is the only way auditors can assist businesses in achieving their goals. The auditor must create audit plans in order to determine if management's activities and controls are successful in assisting the business in meeting its goals. The overall picture of business, and how a company must manage performance, risk, and compliance to achieve its goals, aligns perfectly with the three categories outlined in the definition of internal auditing (risk management, controls, and governance) (De zwaan et al., 2011).

1.2 Risk-based Audit in Iran

In Iran, risk-based audit has not been widely welcomed. As studies, meetings and comments shows, several factors have contributed to the failure of this approach, which are:

- the need for wide training,
- the cost-effectiveness of using this approach for audit departments,
- the indifference of financial reporting shareholders on the use of this Approach.
- Low sensitivity of regulatory authorities to audit reporting quality; and
- Avoidance of Iran's audit profession from global developments in this field of audit.

According to Iranian auditing standards that provide risk-based audit requirements and standards, namely, Standards 200, 240, 315 and 330, the concept of risk-based auditing can be expressed in three basic steps: the first phase of risk identification or risk factors of distortion The second phase is the design and implementation of audit procedures for dealing with identified risk factors, and the third stage of reporting the findings (Momeni, 2016). In a risk-based audit approach, from the perspective of the auditor's responsibility for recognizing and evaluating internal controls, conceptually, there is no difference from a system-based audit model. However, Standard 315 focuses on recognizing the characteristics of the unit in terms of the economic environment, the legal and regulatory environment, the nature and nature of the activities, as well as the risk assessment method and the manner in which performance evaluation is conducted by management and the risk of distortion associated with those features. Therefore, the source of knowledge of the risks of material misstatement has evolved and is not exclusive to the control risk (Ghiyas Weblog, 2018).

Momeni (2016) examined the role of risk-based auditing in the value-added tax system. Risk-based Audit is a new field in Iran. Iranian National Tax Administration is the first Government organization to use the Risk-based Audit in order to control the bank accounts ,which are 20 million more that the country’s population. Tax revenues are one of the most important financial resources of governments to cover their costs.

During Applying this Audit, Organizations faced different problems such as:

- There has been a lack of management attitude change – management are not doing enough to send out a signal to employees that risk management is important for sound business principles. This could hinder the internal auditor’s task when trying to obtain information from said employees.
- The integration of the risk management process efforts into the planning of the organization as a whole is lacking, including in the annual plan of the internal audit function.
- The risk management process is approached qualitatively, producing major differences

in the outcome due to, inter alia, the capabilities of the organization, information quality and the probability theory's weaknesses; this results in unreliable information from the risk management process.

- Internal auditing sometimes plays a leading role in the implementation phase of the risk management framework, this means internal auditing may perform inappropriate activities, such as determining the risk appetite of the organization.
- Risk is being divided into and dealt with in segments (silo approach) instead of the organization focusing on the bigger picture including the ripple effect of a specific risk on other sections, activities and functions of the organization.
- Internal auditing sometimes does not have industry-specific knowledge and will therefore not understand the business process sufficiently to be able to make a meaningful contribution to the risk management process (Momeni, 2016).

Although the above is not a comprehensive list, it does include the most referred to aspects. The ‘tone-at-the-top’ or management’s attitude and philosophy is by far identified as the most concerning reason for the lack of a proper risk management framework, resulting in internal auditing also not implementing risks into their daily activities. However, two further concerns include the use of the qualitative approach when doing a risk assessment – either performed by a risk responsible body and the outcome being used by the internal audit function, or performed by the internal audit function, and the knowledge of the internal auditor with regard to risk-related aspects (Sabzro, 2010).

Tavakkolnia et al.(2013),found out in n a research ,with the aim of analysing detailed corporate factors related to the use of risk-based internal audit, that the number of companies that use risk-based methods to plan an annual audit plan is higher in the financial industry than in non-financial sectors, and the number of companies that use risk-based methods for Planning for any auditing activity is more in the financial industry than in non-financial sectors,. In addition, they came out to conclusion that there is a meaningful connection between the role of the internal auditing in the implementation of enterprise risk management and the membership of companies in the financial industry.

Ghorbani et al. (2014) reviewed the failures of a system-based auditing model and the possibility of replacing it with a risk-based audit model. The results of the study showed that the risk-based audit model has more efficiency and effectiveness than the system-based auditing model, and audit managers can provide a more reliable audit report by conducting audit operations based on this model. Overall, the results obtained from the hypothesis test show that risk-based auditing can result in more effective audit and result in better reporting than system-based audits.

1.3 Banking Sector in Iran

Banking in Iran is one of the most prosperous professions and the most trusted industry on the Iranian stock exchange to earn profit. Sometimes a limited drop in the value of these stocks may be observed, but it is generally profitable. Banks in Iran have a very limited influence on global market volatility and price changes, which add to the benefits of investment.

Iran's banking industry has a 90-year history. In 1960 the Iran central bank was established. Banking laws limited foreign participation to 40 percent in any bank operating in Iran. Subsequently, the Central Bank limited foreign ownership in new banks to 35 percent. It also introduced new liquidity into its clients' account (Parveen et al., 2015).

Following the Islamic revolution in 1979, all banks, as well as several other financial and industrial institutions, were nationalized, and the central bank governor was appointed. The nationalization of banks, followed by their consolidation, prepared the ground for the introduction of Islamic banking. Iran's financial system is now 100 percent Sharia compliant (the highest of any country), greatly surpassing Saudi Arabia, Kuwait, and Brunei, all of which are less than 50% (Parveen et al., 2015).

Banks of Iran can be categorized in two major groups: the government-owned banks and the private banks. All private banks are commercial banks, but the state-owned banks are two types: commercial banks and specialized banks. Specialized banks are active in specialized fields like agriculture or housing. For example, “Agriculture Bank” provides loan and financial services for agricultural projects. There are currently 30 banks and 5 financial/credit institutions active in Iran. The most important weakness of Iranian banking sector is many of Iranian bank financial resources are invested in real estate market and depression in this market faces banks with liquidity and credit risks.

2. Methodology

The Qualitative method has been used. A structured questionnaire with 27 questions based on the approach to RBIA as per guidelines issued by RBI were sent via Email to 17 commercial banks in Iran, both public and private sectors.

2.1 Data Collection

The Questionnaire was arranged according to Risk-based Auditing Guidelines for financial institutions and central bank’s guideline and were sent to 20 commercial banks. 14 Banks sent back their replies.

A structured questionnaire designed according to Risk-based Auditing Guidelines for financial institutions was emailed two circulars dated 1 February 2019 and 31 March 2019 to 17 banks in Iran, both in the Public and Private sectors. The questionnaire is divided into six broad sections which are:

1. Implementation of Risk-based internal audit
2. Policy formulation
3. Risk Assessment
4. Audit Plan
5. Audit Report- Preparation and Follow up

6. Organizational aspects

2.2 Sample Size

The sample size for Questionnaire was expected to be all commercial banks in Iran which are 20 banks in total. Between these 20 banks, only 14 banks share their information fulfill the questionnaire.

3. Research Findings

A total of 14 banks have responded to the questionnaire emailed. Two of public banks didn't share the information due to bank's policy. One of private banks did not answer because their internal audit department has been under the Internal Control department and just get separated recently. Therefore, they do not use the risk-based audit method. However, they believe that it is necessary to use it due to the Guidelines. Based on analysis of the responses to the questionnaire and discussions with bankers and internal auditors, the findings of the study are as following:

3.1 Risk-based Audit Implementation

(a) 10 banks have produced a duty Force of higher-ranking executives to break out an operation plan for changing to risk-based internal auditing. A review of the existing system of internal audit has been undertaken.

(b) Two out of 14 banks have another method, and they just implement it in branches levels: In the case of lack of data and records about risky situation, the identification will be based on interviews. In the first instance, high-risk branches will be identified, then high risk procedures or parts at the level of these branches, and at the next step, the related activities, and finally, between all the controls linked to activities, more important will be identified and ultimately risk-based audit operations will carry out.

(c) In 9 banks Internal Audit department is separated from the internal control department. The other 5 banks the internal audit and internal control department are known as same department.

(d) The percentages of Covered branches are as following:

Table1: Percentage of branches covered

Percentage of branches covered	No of banks
100%	3
Between 50%-75%	3
Between 30%-50%	6

Less than 20%	2
Total	14

Source: Author colleted data

e) The number of banks and the guidelines used during the Internal audit implementation are as following:

Table2: Guidelines used by banks

Guidelines / N of Banks	Central Bank Guidelines	Basel I	Basel II	Basel III	COSO	securities and Stock Exchange organization	ISO 31000	OCEG GRC
	14	10	6	6	5	12	-----	------

Source: Author colleted data

3.2 Policy formulation

(a)All banks have formulated a "Policy on RBIA" based on the Central banks Guidance Note.

(b) The "Policy on risk-based internal audit" in 10 banks has been developed "In House". Most of the banks have consulted each other in development of the Policy document.

(c) In 10 cases, the "Policy on risk-based internal audit" has been approved by the Board of directors and Audit Committee of the Board.

(d) In the case of 4 banks, the "Policy on risk-based internal audit" does not provide details on the preparation of the Audit plan.

3.3 Risk Assessment

(a) The methodology for risk assessment has been outlined in the Policy document for all banks. Nonetheless, in the case of 4 banks, it has not been associated to the finalization of the Audit plan.

(b) The various activities, which have been covered under Risk assessment in the 14 banks, are as follows:

Table 3: Activities involved in Risk assessment

Activities	**Yes**	**No**
Functional areas of branch e.g., Cash, deposits	14	0

Branch as a whole	8	6
Zonal/Regional offices	5	9
Investment department	11	3
Risk management department	14	0
Merchant banking & advisory services	10	4
Credit Department	14	0

Source: Author colleted data

(c) The risk assessment is being done separately for" Business risks" and "Control risks" in all the banks.

(d) The level of risk in all banks has been categorized as Low, Medium, and High separately for "Business risks" and "Control risks".

(e) All banks, except one, are identifying the Direction/Trend of risk into Increasing/ Decreasing/Stable. One bank is in the process of revising the formats to incorporate the same. The direction of risk is based on the development observed in the risk levels assessed over the previous audits and risk assessments.

(f) ration of scores based upon deviations is being used as indicators for evaluating the level of risk. Some banks are awarding maximum scores for Low risk and some others are on the reverse scale of scoring maximum for High risk. Some of the varied range of scores adopted by banks is as follows:

Table4: Risk percentage 3x3 matrix

Level of risk	% of score awarded	% of score awarded	% of score awarded	% of score awarded
Low	Above 70%	Above 75%	Below 40%	Below 45%
Medium	45%-70%	45%- 75%	40%-60%	45%-70%
High	Below 45%	Below 45%	Above 60%	Above 70%

Source: Author colleted data

(g) The composite risk matrix is being prepared for functional areas by 14 banks.

(h) The banks dovetail the scale of risk based on volume of business, Previous Internal Audit reports and Complexity of activities into the risk matrix.

(i) The sources of information being used by banks for risk profiling and assessment are as follows:

Table 5: Risk profiling sources

	Yes	No
Previous internal audit reports and compliances	14	0
Reports of External auditors	5	9
Significant changes in Key personnel/Management	5	9
Volume of business and complexity of activities	12	2
Change in business lines/focus	13	1
Industry trend &other environmental factors	10	4

Source: Author colleted data

(j) The quality check of the risk profile and the risk assessment has been done in 10 banks only.

3.4 Audit Plan

(a)The periodicity of audit is based on the level and direction of risk as per the Risk-based internal audit Policy document of 11 banks. Only 3 banks have not outlined the same process. This periodicity is based on the level and direction of risk for the branch as a whole in 9 banks and on functional areas in 2 banks.

(b) The Periodicity/Frequency of audit is on the following lines:

Table 6: Frequency of audit

Level and Direction of composite risk*	Time frame for audit (m =Months)
Low risk D/I/S	12 m – 18 m
Medium risk D/I/S	12 m – 15 m – 18 m
High risk D/I/S	6 m – 12 m
Very high risk D/I/S	9 m – 12 m
Extremely high risk D/I/S	6 m – 9 m – 12m

Source: Author colleted data *(D = Decreasing; I = Increasing; S = Stable)

(c) All banks have a scheme of certification ensuring that no area is left unaudited as per the legal necessities.

(e) Only 11 banks are using the Audit risk matrix to verify the areas that need priority in distribution of audit resources. Some of the areas are Credit risk, Operational risk, Liquidity risk, Control risk, Compliance risk, Earnings risk, Market Risk, Anti money laundering norms, Mortgage, Loan Documents, Bank Rating, etc.

(f) 8 banks tell the audit findings with the risk profile on an ongoing basis and 5 of them find this to be a useful exercise.

3.5 Audit Report – Preparation and Follow up

(a) Except from 3 banks, all banks have provided plan for reporting Risk-based internal audit findings. Only 3 of these banks are in different format which are:

1. Risk reductions proposed by auditors
2. Reported actions
3. Submit the last report

(b) The transcribe audit report system contains a few responses that include:

1. Direct tracking with branches
2. Track with control offices
3. Report on with branches and controlling offices
4. take notes with compliance unit
5. Track audit offices for High risk areas
6. Controlling offices responsible for risk management

(c) The performance of the system under Risk-based internal audit seems to have been featured in 8 banks. These are:

1. Risks are identified, understood and moderated
2. Controlled consciousness has been increased
3. Focusing more on hazardous areas and areas that are showing signs of increasing trend. These areas also have main concern for resources
4. Helping to identify areas and branches of high risk for successful control
5. identified areas that main concern should be given
6. Effective correction and close observation

(d) Six banks have determined that this system is new and only after some time it can be considered effective.

(e) 9 banks are planning convenient Action Plan for modification of deficiencies, which must be run at a specific time.

(f) 8 banks think that observation offices have a main role in monitoring and implementation of the audit plan and track audit findings. Some reasons for this thought are:

1. The results will be found quicker
2. Risk improvement will be effectual
3. Control offices are in charge of corrigendum
4. Control offices give assurance to Area Audit Committee

5. Guide branch and senior management are in charge for risk reduction
6. Progress monitored by compliance office
7. Zero tolerance level areas can be well observed
8. Control offices have a significant position in improving the risk profile of branch Supervision and management will be more successful

(g) A Manual containing the method for performing Risk-based internal Audit is provided in 8 banks. 4 banks are preparing, and it will be ready within 6-12 months. In two banks, the preparation will be until the decision to cover 100% branches under the Risk-based internal Audit.

3.6 Management Aspect

(a) duty Force of higher-ranking executives in banks in order to break out an operation plan for implementing the risk-based internal auditing has identified the subsequent intermediary and change management issues:

1. Application on risk management
2. procedures should be made more severe
3. Self-audit should be carried out
4. Better quality of expert and dedicated workforce required in audit department.
5. education required for Risk management and Risk-based internal audit
6. Cost-benefit investigation should be done
7. Outline steps for successful implementation of Risk-based internal audit in a phased way
8. Arrangement for risk assessment under Risk-based internal audit to be prepared
9. Identify breaks in Internal audit
10. Creation of a separate cell for RBS

(b) The steps taken by banks to resolve identification issues include:

1. Training of staff C branches, risk management department, audit unit and at control offices has been imparted through programs in Risk management and Risk-based internal audit.
2. Formats for risk assessment under Risk-based internal audit have been prepared. Some banks, based on the review have undertaken revision in formats.
3. Better quality of staff with domain skill and appropriately trained has been demand for audit units.

(c) In 6 banks, evaluation has been made about the employment requirements of the internal audit department in terms of both number and skills. The report has been put up to Board of Directors, though in some cases implementation is pending.

(d) The selection of the audit team for conduct of on-site Risk-based internal audit differs across banks and depends on factors such as:

1. Evaluation of present obligations
2. Business profile, size, and complexity of branch business

3. Branch's risk assessment
4. knowledge field and expertise of officers in Risk-based internal audit
5. Experience as branch manager, good track record and training in Risk-based internal audit

(e) All banks have replied that branch employees are aware of the risk management practices accepted by their bank in the following areas:

1. Credit management
2. Deposit segment
3. Cash management
4. Operational risk management
5. Services in safe deposit lockers
6. Advisory services (10 banks negative)

(f) Education has been taught to branch functionary to charge the implementation of risk management methods at branch in 9 banks.

(g) Officers have been trained to prepare the Composite risk matrix to arrive at the level of risk in various segments of the branch business. This is observed in 9 of the 14 banks.

(h) 10 banks assumed that they are facing definite limitation in the implementation of Risk-based internal audit. These include:

1. Existence of Knowledge and skills gaps in performing Risk-based internal audit.
2. audit staff incentive level is low
3. Differences in perception of risk, understanding of risk
4. Drawing up of audit plan and its implementation
5. Model formats is required for Risk assessment and reporting.
6. Insufficiency of Data base, difficulty in data collection, reliability of data should be strengthened
7. Risk assessment methodology
8. Direction of risk not being determined
9. Risk assessment has been done only on Quantitative factors. Qualitative factors should be incorporated. Risk assessment should be done dynamic.

(i) 8 banks have fully switched over to Risk-based audit. Another 3 banks are expected to switch over by this year and the remaining ones may take one or two more years. One bank has yet not decided on this.

(j) The persistence of internal audit in 8 banks and delay in switch over to RBIA fully, is principally on account of the following reasons:

1. Lack of skills
2. Lack of material and education
3. Stabilization of Risk-based internal audit didn't happen yet
4. Scope of internal control is wider than Risk-based internal audit

5. examination report forms basis for risk profiling and evaluation
6. Lack of accepting of the Risk-based internal audit process

Auditing is one of the most important methods of controlling the health and credibility of banking operations. The main purpose of supervision is to maintain the stability of the financial system and trust by reducing the risk and loss for depositors and other creditors. Auditing is a tool for assessing the correctness of bank's operations (Görenler, 2017). The existence of monopoly conditions leads to the elimination of competitive incentives and, as a result, the effectiveness and efficiency of the resources used will be lost. On the other hand, some researchers state that the existence of competitive conditions will increase the risk of banking activity and, conversely, reduce the efficiency of banks. Consequently, as far as the management of the bank uses a stronger system, the risk of bank auditing is reduced, and the bank becomes more desirable (Sadvandi, 2018).

4. Conclusion

Risk-based auditing has become a critical concern for businesses, particularly banks, not just for their own profitability but also for the entire security of the financial system. Risk-based auditing is more useful than traditional auditing in developing countries due to technological advancements and benefits, and auditors must embrace risk-based auditing as a regular and popular practice. Despite the fact that the issue has been debated in Iran since 2010, the risk-based audit has been met with scepticism. Iranian auditors and management resist using the risk-based auditing approach for a variety of reasons, including cost and a lack of resources. Because they lack the skills or drive to develop and enhance their managed firms, the majority of managers continue to follow the traditional way. The fundamental purpose of supervision is to ensure the financial system's stability. The term "audit" refers to the process of assessing whether a bank's operations are correct. When monopolistic conditions exist, competitive incentives are absent, and resource effectiveness and efficiency decline as a result.

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