

## THE ROLE OF EXTERNAL AUDITING IN EVALUATING THE IMPACT OF CASH FLOW STATEMENT ITEMS ON THE FINANCIAL POSITION OF BANKS

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### —Abstract—

Banks encounter numerous operational challenges in managing their activities, particularly in cash flow management, where inflows are frequently lower than outflows. This imbalance results in difficulties in financing their operational requirements and meeting obligations without incurring substantial losses, or in some cases, an inability to settle cash outflows. Such circumstances adversely influence financial performance. The study investigates the shortcomings of external auditing practices in assessing the implications of cash flow statement components on financial position. These shortcomings arise from reliance on inaccurate data detected during audit processes, as well as insufficient attention to the preparation methods of the cash flow statement and to the analysis of patterns and interrelationships among its activities. The research is guided by the assumption that external auditing should emphasise its critical role in examining preparation methods, evaluating statement items, and recognising prevailing trends. The study focuses on the banking sector in Iraq, using the Iraqi National Bank as the sample. Data were collected for the period 2022 to 2024, as these represent the most recent financial statements available during the research timeframe. The findings indicate that the Iraqi National Bank did not incorporate qualitative analysis results or examine interrelationships among activities within the cash flow statement, while external auditing procedures showed limitations in evaluating the influence of these activities on the financial position.

**Keywords:** External Auditing, Cash Flow, Financial Position, Banks, Iraq.

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## INTRODUCTION

The banking is one of the pillars of the modern financial systems, which allows the development of the economy by mediating the entrepreneurs and customers and provides financial stability in the world economies. Banks are subjected to very complex sets of regulations, which require the financial reporting to be transparent, accountable and reliable to protect the stakeholders and maintain the confidence of the masses. The financial institutions have a very daunting role of ensuring the necessary liquidity, credit risks, and regulatory requirements thus increasing the need to be accurate in the financial reporting to ensure continued viability of operations and credibility of the stakeholders (Chronopoulos et al., 2024). The cash-flow statement has become an influential document, which gives the stakeholders a strict structure to evaluate the ability of a bank to produce liquidity, utilize its cash reserves, and meet its liabilities.

External auditing is central to ensuring the credibility and accuracy of financial statements, including cash flow statements, which provide significant insights into financial health and operational performance. Independent audits serve to validate reported cash flows, assess internal controls, and examine accounting policies in line with financial standards, thereby offering assurance on the integrity of reported figures (Christensen & Seabrooke, 2022). However, the audit profession has faced major challenges resulting from corporate scandals, regulatory transformations, and the increasing complexity of financial instruments, particularly within the banking sector, where accurate liquidity assessment and risk management are vital.

Auditors have unique difficulties with cash flow statements as operating, investing, and financing activities of banks are strictly connected with the rules and policies of risk management. This declaration gives the important enlightenment on liquidity, source of funds and cash generation that is not easily obtained through balance sheets and revenues (Filippova et al., 2025). The auditors are mandated to make sure that cash flows are adequately categorised, confirm that all calculative processes are accurate and that the direct or indirect method supplies the most relevant information to the end users. The compliance of these obligations is the basis of the reliability and relevance of financial reporting. Theoretical models have a significant impact on the analysis of cash-flow dynamics in the banking industry, and these include the liquidity theory, agency theory, and stakeholder theory. Specifically, the liquidity theory highlights the urgency behind the necessity of prudent cash-flow management, thus allowing financial institutions to remain solvent during the current economic turbulence and fulfil the specified role of meeting the commitments (Drehmann & Nikolaou, 2013). The agency theory focuses on the effectiveness of the external audit in reducing information asymmetry between the management and the stakeholders, which is done by independent examination of the cash-flow reporting. The stakeholder theory

simultaneously enhances the importance of the cash-flow information to the depositors, regulators, and investors.

The Basel3 regulatory framework has increased the importance of cash-flow analysis as the tool of institutional stability measurement and adherence to the liquidity coverage ratio requirements. As a result, the regulators increasingly use systemic risk assessment and cash-flow policies to assess the resilience of banking, observe the systemic risks, and impose the macroprudential measures (Badev et al., 2025). The external auditors are therefore expected to have a thorough knowledge in these structures so that cash-flow statements become realistic in terms of both the regulatory and risk-management factors. The nature of operations of a modern banking institution is very complex and transposes significant pressure on auditors who are compelled to prepare cash-flow statements. Banks are engaged in a variety of business such as lending, investment banking, trade finance, and fee-based business, each of which produces a different cash-flow profile, which requires careful categorisation and analysis. Moreover, there are off-balance sheet exposures, derivative products and structured products that are problematic. Banking activities are interdependent, which means that the misstatements or misclassifications of one part of the statement may affect other parts.

The technological progress has profoundly changed the way of running the operations of the banking institutions and the methodological basis of the audit processes. Fin novation banking platforms and automated payment systems generate large volumes of transactional data, but new categories of risks emerge that require more complex audit approaches. As a result, auditors are progressively using computer-aided audit tools, perpetual audit techniques and AI systems to examine cash-flow dynamics, observe abnormal trends and support control testing processes. The research problem is based on the contrast between the critical nature of the cash-flow information in the banking industry and limitations facing auditors in providing proper assurance of its trustworthiness. Regulatory frameworks have been found to focus much on the liquidity management and cash-flow analysis; however, the current auditing standards fail to reflect the unique features of bank cash flows, thus limiting their ability to assess the financial status of a bank. As a result, this loophole affects the decision-making by the stakeholders who rely on audited cash-flow statements.

There is a tendency today to treat cash-flow statements as secondary to the disclosure of balance sheets and income statements and consequently the temporal aspect may not be properly addressed, misclassification may occur, and the impact of non-cash transactions on liquidity may not be addressed. Since the banking industry can be characterized by a rather clear set of rules and regulations, supported by the effective system of risk-control mechanisms, it is crucial that the auditors should have specific experience and can apply specific methodological frameworks, when assessing the concept of cash-flow dynamics in the context of financial health. Such difficulties are

also boosted by the changes of the bank business models which advance towards complicated financial instruments that are hard to capture in a traditional cash-flow statement. Companies operating in more than one jurisdiction are exposed to further complexities due to differences in accounting conventions, regulatory compulsions and complexities that accompany currency translation (Calvin & Eulerich, 2025). In these intricate situations, auditors are left to manoeuvre through different complexities to make sure that cash-flow reporting is accurate to depict the financial position of the entity.

This research paper aims at addressing the gap that exists in existing literature on the application of methodology that contributes to the ability of external auditors to determine the impact of aspects of cash flow statements on the financial positions of banking institutions. The research will strengthen the audit procedures with respect to the cash flow statements through a systematic investigation of the current audit practices, identification of the gaps, and offering of polished audit procedures. The study will therefore aim at improving stakeholder confidence and hence promote increased financial stability in the banking industry.

## RESEARCH OBJECTIVES

- This research is meant to determine how effective external auditing is in terms of verifying the accuracy of cash flow statement by critically evaluating the audit procedures used in relation to the classification, non-cash adjustments and possible reporting inconsistency.
- To explore the extent to which external audits evaluate six principal cash flow ratios and the reliability of these measures for assessing financial position and supporting stakeholder decision-making.
- To assess the capacity of external audits to identify major risks, including non-performing loans, credit loss provisions, compliance with regulatory requirements, and mismatches in asset-liability maturity.

## THEORETICAL ASPECT

### Cash Flow Statement Analysis in Banking

The role of cash flow statements in financial analysis of the banking sector has grown significantly in the last twenty years as researchers have come to appreciate the special issues that banks have when preparing and auditing these statements accurately. Initial scholarly literature indicated that banks do not run like any other form of a business and thus, require more specific methods of cash flow analysis and external audit (Dewi et al., 2025). The complexity of banking business, including taking deposits, lending, and

investment portfolios, makes the succeeding cash-flow patterns highly specific, which makes them require an extensive range of analytical tools and special audit procedures.

The recent empirical studies have highlighted the growing relevance of the cash flow statements to measure the financial health of the banks, especially in the aftermath of the world financial crises that revealed the ineffectiveness of the conventional profitability measures. Research using international accounting standards has explored the improvement in the quality and reliability of cash flow information as a supplement to the rigor of financial performance assessments and this proves the good of harmonizing the reporting of cash flows among banking institutions, which have strong financial positions. The results also show that standardized methodologies of preparation may enhance comparability and effectiveness of audit but there are still significant implementation barriers in the emerging market economies ([Nasimiyyu, 2023](#)).

### **Simple Cash Flow Indicators and Audit Assessment**

The literature initially considers fundamental cash flow measures commonly reviewed by external auditors when analysing the financial positions of banks. Among these, operating cash flow ratios represent the most basic yet critical indicators applied in audit evaluations. Research highlights the effect of cash flow analysis on financial efficiency, with simple operating cash flow measures being validated as reliable markers of institutional strength. An empirical investigation of Indonesian banks revealed that financially robust institutions consistently reported positive operating cash flows throughout the study period ([Silvia & Purwanto, 2025](#)).

A considerable body of auditing literature also focuses on liquidity ratios derived from cash flow statements. These indicators are argued to enhance investment decision quality in Iraqi companies, including those in the banking sector. Empirical studies proved the claim that elementary measures, the most significant of which is the ratio of cash flow to current liabilities, were informative of short-term liquidity, depending on the level of audit procedures. However, the findings were mixed: some institutions showed strong associations between audited cash-flow ratios and consequent performance, but others displayed strong dissimilarities thus increasing skepticism on measuring dependability. ([Yousef & Ojah, 2022](#)). Early detection of financial distress has always been linked to the cash coverage ratio which is an indicator that should be examined keenly by the auditors. However, there are still discrepancies as far as the assessment and interpretation of this ratio by auditors is concerned. Simple cash flow statements may contain misstatements or misclassifications and, as a result, deceive coverage ratios significantly, emphasizing the importance of more complex audit procedures, even with the help of allegedly simple pointers ([Khairani et al., 2025](#)).

## Intermediate Cash Flow Analysis and Audit Complexity

The scholarship of this field is beyond the elementary cash-flow ratios, and highly analytical methods that require high degrees of auditor competence. Intermediate measure Return on assets is based on operating cash flows and includes both dimensions of profitability and liquidity (Boustanifar, 2023). There is still an inconclusive empirical evidence of its predictive validity in the banking sector. Certain empirical studies can prove a strong relationship between audited operating cash flow returns and the later bank performances; on the other hand, other studies reveal discrepancies that are dependent on different economic cycles. External auditors have further difficulties in the evaluation of financial liquidity ratios. There are significant differences in calculation, interpretation and audit process of these ratios in dissimilar jurisdictions and regulatory systems. The research carried out on the liquidity risk in the emerging market banks, in the light of post-quantitative adjustments of monetary transmission, reveals that the traditional liquidity measures would require the substantial recalibration to reflect the new monetary environment. These findings demonstrate the need by the auditors to adopt updated methodologies and to undergo high-professional standards development in order to make the correct assessments of the changing liquidity parameters (Abdulla, 2024).

In recent years, the analytical focus has increasingly shifted toward operating cash flow ratios, recognised as both dependable and highly relevant for informing stakeholder decision-making. Nevertheless, the literature presents conflicting perspectives on their capacity to serve as stand-alone indicators of bank financial health. The results of empirical studies that employ advanced statistical techniques in the field of credit risk assessment have shown that these ratios are significant source of additional information, but cannot be used to assess risk comprehensively when a single ratio is present. The evidence suggests that auditors should include more than a single ratio as a cash flow measure, and hence provide a more detailed evaluation of the risk of credit (Lin et al., 2025).

## Sophisticated Cash Flow Analysis and Advanced Audit Techniques

Recent academic sources also emphasize more and more on advanced cash-flow analysis methods which require specific audit skills and methodology education. The assessment of anticipated credit-loss provisions offers significantly intricate issues to auditors who examine banking financial statements because these provisions directly affect disclosed cash flows. Empirical research studies indicate that there is a high degree of heterogeneity in how banks calculate and present such provisions, which implies a sensitivity of the level of accuracy and reliability of cash-flow reporting. Predicting credit risk using advanced data resampling methods, and ensemble has been demonstrated as an example of how high level data analytics may be used to improve the cash flow statement preparation and increase the effectiveness of external audit.

Results show that old audit methods are insufficient to identify small cash flow irregularities that can indicate the occurrence of financial risks, and thus require the auditors to use more advanced analytical methods to assess intricate cash flow relationships in the modern banking context (Aruleba & Sun, 2025).

Cash flow analysis becomes even more difficult due to regulatory compliance. The Basel III liquidity coverage ratio has certain conditions to liquidity auditors of bank cash flow statements. The liquidity risk being a relevant aspect of the asset-liability management is a risk that the traditional cash flow analysis tools do not fully tackle. The available empirical studies indicate that banks that comply with the regulatory requirements, still face serious cash flow challenges that can go unnoticed by the normal audit measures, which explains the need to introduce regulatory aspects of the judgments among auditors (Zeng et al., 2024).

### **Technology Integration and Modern Audit Approaches**

The use of technology in the recording of cash flow statements and external audit procedures is another fast emerging research field. According to literature, artificial intelligence has been used in the financial statement analysis with significant potential to improve the effectiveness of audit. According to the research findings, AI-based audit tools have the potential of enhancing accuracy and efficiency of evaluating cash flow statements, but research has still found it very difficult to implement (Shi, 2025). Digital transformation has presented opportunities as well as challenges to the auditors that review bank cash flow statements. Technological-aided audit methods and artificial intelligence have been shown to be more able to find cash flow anomalies than the conventional methods. The extent to which these tools are reliable is however, dependent on the context of the banking environment and the regulatory structure (Al Astal et al., 2025). Fears still exist over excessive dependence on technological remedies to be handled by humans. Although digital tools have the potential to enhance the efficiency of auditing, their effect on the effectiveness of the cash flow analysis in general is both positive and negative. Research has shown that human experience is still critical in deciphering complicated cash flows trends and their implications to the financial position of a bank even with current technological advances (Batchai, 2022).

### **Empirical Evidence on Audit Quality and Cash Flow Accuracy**

Not every empirical research can explain sufficiently how the quality of audits and accuracy of the cash flow statements in the banking business are related. Probes into significant audit issues and earnings management imply that audit intervention could curb the manipulation of cash flows, but this is not always effective in organisational settings. It has been shown that, in those cases banks with better audits have more stable cash flow reporting, but not always and not always, in all metrics, and in all time periods

(Alshdaifat et al., 2025). There is inconsistent evidence on the effect of the audit firm characteristics on the quality of cash flow statements. Some researchers indicate that big audit firms in the banking audits have a positive impact on the quality of audit, but other studies argue that the size of a firm does not necessarily lead to high-quality audits. Ethically and regulation-wise, the relations between audit firm characteristics and regulatory surroundings would respond to construct the accuracy of cash flow reporting (Adejumo & Ogburie, 2025). The variation in auditing standards and regulation in various countries also makes assessments of the cash flow statement audit more difficult to achieve empirically. Studies that use failure effects mode analysis framework have investigated ways systematic auditing procedures can increase the accuracy of the cash flow statement in various regulatory environments. Results have shown that standardised audit methodologies have a potential of delivering similar cross-border bank cash flow statements, but there are major implementation hurdles (Askary et al., 2025).

### **Risk Management Integration and Cash Flow Assessment**

Consideration of risks in cash flow statement analysis and external auditing has been a highly discussed topic in the recent academic scholarship. The banks have a particular liquidity risk and credit quality as well as regulatory compliance risk, and these risks have a direct impact on the creation of cash and its sustainability. The external auditors have the responsibility of risk assessment and how it may affect the accuracy and reliability of reported cash flows. The assessment of credit risk poses a very difficult task to auditors of bank cash flow statements. There is a high degree of difference among the audit firms regarding how they calculate credit risk and the impact it has on cash flow forecasts. Certain researches indicate that superior credit risk analysis methods can enhance the quality of cash flow reports but other empirical results show that complete use of risk-adjusted audit programs could be limited by existing regulatory systems (Olanrewaju, 2025). The additional complexity to the auditing of bank cash flow statements is the market risk. The patterns of cash flows may be significantly affected by exposure to interest rate variations, the foreign exchange fluctuations, and other market conditions. The literature does not contain much empirical data on the effectiveness of the current audit procedures in assessing the influence of the market risk on the cash flows, which is a potential area of new research.

### **Regulatory Environment and Audit Practice Evolution**

Bank cash flow statements continue to face new challenges and opportunities that external auditors face due to the changing regulatory environments. The financial crisis regulations have encouraged the focus on liquidity management and cash flow sustainability, which is also becoming a growing focus in the audit processes. Irrespective of this emphasis, the empirical literature has conflicting information about

the effectiveness of available regulatory measures in enhancing the quality of cash flow statement audit (Bedford et al., 2023). Basel III has come with more stringent requirements to the liquidity coverage ratios and other measures that relate to cash flows that will be reviewed by external auditors. Although there are studies which indicate that these adjustments of regulations have enhanced access and disclosure of cash flow information, they have also made audit processes complex. Even though measures that are related to compliance can give an idea regarding the health of the short-term cash flows, their usefulness in assessing the financial stability of the overall state of finances is widely debated. International harmonisation works with the object of standardising the cash flow statements preparation and auditing in different jurisdictions with the aim of enhancing comparability. Nevertheless, there is conflicting empirical evidence on whether these initiatives are successful or not. According to some studies global standards have increased the quality of the cash flow statements and other studies reflect the lack of consistency in the application as well as the audit of international reporting standards in different countries and regulatory frameworks (Mavlyanova, 2025).

### **The Role of External Auditing in Evaluating the Impact of Manipulation in the Cash Flow Statement on the Financial Position**

Statements manipulation of cash flows is a form of accounting that is used to commit fraud, through inflating or deflating reported amounts so as to give a distorted picture of the financial position and liquidity of a bank. These can be the anomalies in the functioning of cash flow involving payment of income tax, paying current debts and inability to adequately recognise revenues (Khairani et al., 2025). One of the important factors that must be put into consideration when discussing financial statement manipulation is the variety of methods that are employed in manipulating the financial information. The complexity of the financial data and the difficulty of forensic accounting are the two reasons why such manipulations may go unnoticed. New products, such as AI-based auditing systems and other advanced financial analytics, have shown the capacity to detect misstatements. It has been indicated that the presence of frauds can be improved by the constant surveillance of the financial data which detects anomalous patterns (Adejumo & Ogburie, 2025).

From the perspective of agency theory, monitoring mechanisms, particularly external audit procedures, are designed to align management actions with the interests of shareholders, thereby mitigating conflicts of interest and opportunistic behaviour. The primary function of external auditing is to strengthen the confidence of financial statement users. Within this framework, earnings management reports serve as instruments for auditors to communicate findings regarding managerial manipulation, reducing opportunistic tendencies while simultaneously signalling management to the focal points of audit attention (Alshdaifat et al., 2025). Assessing whether an entity utilises resources efficiently centres on fundamental financial indicators such as

liquidity and profitability, with the objective of enhancing the reliability of going concern evaluations for the audited institution (Askary et al., 2025; Manita et al., 2020).

### The Role of External Auditing in Evaluating the Items of the Cash Flow Statement

The evaluation of financial performance forms an integral component of control procedures, facilitating the review of annual accomplishments against predetermined standards to assess the efficiency of resource utilisation, identify deviations, and implement corrective measures. This process also entails the identification of accountable centres. According to International Auditing Standard ISA-520, auditors are required to compare financial data with relevant financial indicators. The application of such ratios provides a practical means of assessing materiality in the amounts reported within financial statements for auditing purposes, as illustrated in Table 1.

**Table 1: Financial Performance Measures**

Ratio	Equation
Operating Cash Ratio	$\text{Net Operating Cash Flow} / \text{Net Profit} \times 100$
Return on Assets from Operating Cash Flow	$\text{Net Operating Cash Flow} / \text{Total Assets} \times 100$
Cash Flow to Current Liabilities Ratio	$\text{Operating Cash Flow} / \text{Current Liabilities} \times 100$
Financial Liquidity Ratio	$\text{Net Operating Cash Flow} / \text{Long-term Debt} \times 100$
Operating Cash Flow Ratio	$\text{Cash Flow Before Changes in Assets and Liabilities} / \text{Net Operating Cash Flow} \times 100$
Cash Coverage Ratio	$\text{Net Operating Cash Flow} / \text{Cash Outflows from Operating Activities} \times 100$

Source: (Al-Fatlawi & Al-Baghdadi, 2017)

These auditing procedures improve the quality of work done by the auditor in that the financial statements are true representations of the financial standing and performance of the bank hence improving confidence to the stakeholders in the decision-making processes (Almasria et al., 2021). After calculating these ratios, the auditors should determine their implication by determining banking risks, such as the credit risk. The accurate measurement of credit risk is fundamental in allowing economic parties to know the losses that may happen, effectively invest capital, and ensure financial sustainability (Lin et al., 2025). The complexity of credit risk, which is determined by the economic environment and individual monetary practices of people, necessitates the attainment of sophisticated and dynamic evaluation approaches that go beyond mainstream approaches (Aruleba & Sun, 2025).

The manifestation of the liquidity risk is seen through the lack of funding and requires critical consideration of the way banks handle the short-term liabilities and renewal requirements. The idea of liquidity risk has been extended by post-crisis literature to

include the market situation and investor behaviour rather than just cash flow mismatches (Olanrewaju, 2025). One way of the liquidity risk is when an entity does not have sufficient cash or other liquid assets to meet its financial commitments, or its cost of obtaining liquidity is too high. An excellent illustration is the failure of Silicon Valley Bank in 2023, when the money flow out of the bank was so intense that it could not cover its own cash needs (Lazoğlu & Karabey, 2025). By examining correlations between financial and non-financial data, auditors aim to minimise the risk of inaccuracies in financial reporting to the lowest feasible level (Rose et al., 2020).

## CRITICAL ASSESSMENT AND RESEARCH GAPS

Despite extensive literature on cash flow statement analysis and external auditing within banking, numerous research gaps persist. Firstly, empirical investigations have yet to provide a thorough critique examining the relationship between diverse audit methodologies and the accuracy of cash flow statements across varied banking contexts. While certain elements of this relationship have been studied in isolation, comprehensive large-scale comparative studies remain scarce, limiting the generalizability of findings. The rapid pace of technological advancements in banking and auditing has outstripped the scope of existing academic research. Empirical data regarding the effectiveness of emerging technologies in auditing cash flow statements, particularly within complex banking environments where traditional methods may fail, remains limited. This gap is increasingly critical as banks implement sophisticated digital platforms and automated systems, necessitating corresponding adaptations in audit procedures.

The literature also indicates that the interplay between regulatory requirements and audit effectiveness has received insufficient attention. Although prior studies have separately examined regulatory compliance and audit quality, few have systematically investigated the influence of varying regulatory frameworks on the quality of external audit procedures in evaluating cash flow statements, a gap made more salient by ongoing regulatory changes in the global banking sector (Fan & Wong, 2005). Additionally, cross-cultural and institutional differences in banking and auditing practices have not been adequately explored. Most empirical research is confined to single-country or limited regional settings, leaving unanswered questions regarding the impact of cultural, institutional, and legal factors on the efficacy of cash flow statement audits in a globalized banking context. Finally, there is a paucity of literature providing comprehensive guidelines for assessing the cost-effectiveness of different audit methods. While audit quality and effectiveness have been examined, few studies address the trade-offs between the intensity of audit procedures and associated costs, limiting the practical applicability of findings for audit firms and regulatory authorities aiming to optimise audit resource allocation.

## RESEARCH METHODOLOGY

The Iraqi National Bank was founded in 1995 as a private joint-stock institution, offering a comprehensive range of banking services to individuals and various sectors throughout Iraq. In 2005, Capital Bank (Jordan) acquired a majority stake of 61.85% in the Iraqi National Bank, facilitating the expansion of the bank's product and service offerings, strengthening its international presence, and promoting financial inclusion nationwide. The bank holds a 51% ownership interest in the Iraqi National Installment Company, established in 2022 to provide integrated financing solutions tailored to the needs and preferences of diverse customer segments. It has been rated by major international financial agencies, including Capital Intelligence (BB), Moody's (B3), and has received an excellent rating from the Central Bank of Iraq in category B. The bank's current capital stands at 300 billion Iraqi dinars, supported by 23 branches across all Iraqi provinces and an additional branch in the Kingdom of Saudi Arabia. Plans are in place to inaugurate eight new branches within Iraq during 2024.

### Cash Flow Statement for the Iraqi National Bank

The bank compiles its cash flow statement employing the indirect method, wherein net profit calculated on an accrual basis is systematically adjusted to reflect actual cash movements. In this process, capital losses previously deducted are reinstated, while capital gains previously added are removed to accurately determine net cash flow. Furthermore, provisions for doubtful debts are incorporated subsequent to their deduction from accounts receivable, and similarly, provisions for personal advances are adjusted after their subtraction from outstanding loan balances. [Table 2](#) provides a detailed presentation of the cash flow statements for the period spanning 2022 to 2024.

The cash flow statement indicates that the Iraqi National Bank recorded positive net cash flows from operating activities throughout the three-year research period (2022–2024). This outcome reflects the net effect of operating revenues exceeding operating expenses, with depreciation added back each year, a situation largely attributable to increased customer deposits and the provision of direct credit facilities. The highest recorded expense balances were 35,109 million dinars in 2022, 43,086 million dinars in 2023, and 62,021 million dinars in 2024 for other expenses. Corresponding changes in assets were 2,416,088 million, 3,982,984 million, and 5,144,232 million dinars, respectively, while changes in liabilities amounted to 2,082,821 million, 3,477,894 million, and 4,446,727 million dinars. The positive movements in both assets and liabilities contributed to the overall positive net operating cash flow.

**Table 2: Cash Flow Statement of the Iraqi National Bank for the Years 2022-2024 (Amounts in Thousand Iraqi Dinars)**

Details	2022	2023	2024
Operating Activities			
Profit Before Tax for the Year	34,598,437	228,985,801	293,924,710
Depreciation and Amortization	10,778,657	14,471,062	23,264,778
Provision for Impairment and Expected Credit Losses	1,216,667	1,953,669	31,390,381
Impairment of Acquired Assets in Debt Settlement	1,395,386	12,519,120	3,332,528
Expenses of Various Provisions	7,318,858	209,234	842,781
Losses (Gains) on Sale of Property and Equipment	144,845	13,181	- 188,521
Cash Flows from Operating Activities Before Changes in Assets and liabilities	55,452,850	275,252,067	352,566,657
Changes in Assets and Liabilities			
Direct Credit Facilities	- 96,540,025	- 389,234,100	- 492,407,835
Other Assets	- 24,335,063	14,879,347	- 63,586,148
Restricted Balances Held with the Central Bank	1,475,807	- 401,879,573	- 64,828,420
Customer Deposits	393,469,162	1,387,864,708	536,125,160
Cash Guarantees	38,864,172	94,474,041	389,375,118
Other Liabilities	6,242,929	22,082,496	18,483,698
Paid Various Provisions		- 5,840,256	- 1,089,851
Net Cash Flow from Operating Activities Before Taxes Paid	387,714,532	997,598,730	674,138,379
Income Tax Paid During the Year	- 6,198,310	- 8,133,071	- 38,701,640
Net Cash Flow from Operating Activities	381,516,222	989,465,659	635,436,739
Investing Activities			
Sale or Purchase of Financial Assets at Fair Value through Other Comprehensive Income	4,755,230	- 466,721	- 181,340
Proceeds from Sale of Financial Assets at Fair Value through Other Comprehensive Income	- 84,074	66,281,419	40,930
Purchase of Financial Assets at Amortized Cost	- 55,859,733	- 257,486,620	- 556,886,718
Purchase of Property and Equipment	- 24,939,119	- 13,624,053	- 16,038,991
Proceeds from Sale of Property and Equipment	2,859,041	2,942,259	367,443
Purchase of Intangible Assets	- 11,688,655	- 7,345,983	- 13,364,672
Net Cash Flow used in Investing Activities	- 84,957,310	- 209,699,699	- 586,063,348
Financing Activities			
Proceeds from Borrowed Funds	79,230,302	24,898,355	89,333,803
Repayment of Borrowed Funds	- 29,778,848	- 57,953,625	- 45,134,004
Cash Dividend Distributions	- 99,035	- 43,359	- 56,248,042

Non-Controlling Interests in Subsidiary Capital	4,900,000		
<b>Details</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Lease Contract Obligation Payments – Asset	- 2,796,032	- 6,429,382	- 5,276,281
Net Cash Flow used in Financing Activities	51,456,387	- 39,528,011	- 17,324,524
Net Change in Cash and Cash Equivalents	348,015,299	740,237,949	32,048,867
Translation Differences at the Bank Branch in the Kingdom of Saudi Arabia		354,440	
Cash and Cash Equivalents at the Beginning of the Year	416,240,043	764,255,342	1,504,847,731
Cash and Cash Equivalents at the End of the Year	764,255,342	1,504,847,721	1,536,896,598

Source: (Al-Iraqia, 2025)

This sustained positive operating cash flow enhances the bank's capacity to generate liquidity, thereby influencing creditor and investor decision-making, improving creditworthiness, and strengthening overall financial stability. Conversely, net cash flows from investing activities were negative due to increased allocations to short-term financial investments, reflecting strategic deployment of funds to enhance liquidity with expected future returns. The cumulative effect of these activities resulted in a consistent increase in the bank's cash balances at year-end relative to the opening balance, signalling healthy cash growth. The insights derived from the cash flow statement provide critical information for financial and credit-related decision-making. They enable management to assess banking liquidity, ensure the ability to meet obligations without resorting to asset liquidation, and identify opportunities for extending credit or expanding financial investments. Such evaluations can be further refined through comparative financial analyses with other banking institutions, employing horizontal analyses over the three-year period alongside a series of financial ratios, as illustrated in Table 3.

**Table 3: Financial Ratios Calculated from Cash Flow Statement Items for the Iraqi National Bank for the Years 2022-2024**

Ratio	2022	2023	2024
Operating Cash Ratio	1103%	432%	216%
Return on Assets from Operating Cash Flow	16%	25%	12%
Cash Flow to Current Liabilities Ratio	20%	31%	14%
Financial Liquidity Ratio	254%	844%	393%
Operating Cash Flow Ratio	85%	72%	45%
Cash Coverage Ratio	413%	355%	108%

Source: Compiled by the researcher from the financial statements of the Iraqi National Bank.

Based on the analysis presented in [Table 3](#) and the computed ratios, several observations can be made:

1. Operating Cash Ratio: For all years under study, this ratio exceeded 100%, reflecting the bank's robust capacity to generate cash from its operating activities.
2. Return on Assets of Operating Cash Flow: This ratio has been maintained at a level of more than 10 percent every year which shows that the bank utilised its assets well to create operating cash flow and this has a positive significance.
3. Cash Flow to Current Liabilities Ratio: The results revealed that current liabilities surpassed operating cash flow due to increases in current accounts, deposits, and creditor obligations.
4. Financial Liquidity Ratio: The ratio indicated favourable liquidity for the bank throughout the examined period, supported by increased net cash flow and reductions in long-term debt arising from received loans.
5. Operating Cash Flow Ratio: Positive ratios for all years signalled adequate levels of operating cash flow, reflecting the efficiency of the bank's debt collection policies.
6. Cash Coverage Ratio: Results consistently demonstrated that operating cash flows were sufficient to cover cash outflows, indicating the bank's strong liquidity management.

### **External Audit Report in Light of Evaluating the Impact of Cash Flow Statement Items on the Financial Position of the Iraqi National Bank**

The study highlights the critical role of the cash flow statement in providing essential information to both the bank and its customers. Analytical review of this statement, alongside the financial ratios and indicators derived from it, enables banking decision-makers to accurately assess the institution's liquidity, its capacity to fulfil obligations to customers, and its potential for expanding credit facilities. The external audit of cash flow statement items revealed key factors influencing the bank's financial position. Notably, the presence of amounts associated with non-performing credit facilities, as detailed in [Table 4](#), coupled with management deficiencies in monitoring, collecting, and addressing delayed repayments, adversely affects the financial position. This situation necessitates the allocation of provisions for doubtful debts to mitigate potential financial losses. Moreover.

**Table 4: Non-Performing Credit Facilities for the Iraqi National Bank (Amounts in Thousand Dinars)**

Year	Non-Performing Credit Facilities	Percentage of Total Direct Credit Facilities
2022	39,333,674	3.91%
2023	37,646,620	2.7%
2024	92,336,113	4%

**Source:** Compiled by the researcher from the financial statements of the Iraqi National Bank.

**Table 5** illustrates an increase in provisions for expected credit losses over the research period. This escalation affects the bank's financial position, as it necessitates the allocation of realised profits to augment these provisions.

**Table 5: Provision for Expected Credit Losses for the Iraqi National Bank (Amounts in Thousand Dinars)**

Year	Increase During the Year	Balance
2022	13,359,778	40,397,207
2023	18,427,765	58,824,973
2024	21,049,793	79,874,093

**Source:** Compiled by the researcher from the financial statements of the Iraqi National Bank.

During the research period, the bank-maintained Liquidity Coverage Ratios (LCR) of 157%, 152%, and 151%, respectively, as per Basel III regulations, exceeding the Central Bank of Iraq's minimum requirement of 100%. This demonstrates the bank's capacity to fulfil short-term obligations using high-quality liquid assets. However, the bank extends long-term cash credit funded by short-term deposits, which introduces significant risk and results in a negative cash liquidity gap. This arises from the mismatch between the maturity of granted cash credits, typically ranging from one to five years, and customer deposits, which are primarily payable on demand. **Table 6** presents the total balances of demand current accounts and savings accounts for the research period. The cash flow statement revealed negative cash flows from investing and financing activities, signifying the utilisation of funds without equivalent inflows. The bank adheres to a comprehensive strategy guided by an optimal risk management framework to safeguard its financial position and profitability, with realised profits exhibiting substantial growth throughout the research period.

**Table 6: Account Balances for the Iraqi National Bank (Amounts in Thousand Dinars)**

Year	Demand Current Accounts and Savings Accounts
2022	891,242,102
2023	2,340,826,495
2024	2,674,918,606

**Source:** Compiled by the researcher from the financial statements of the Iraqi National Bank.

## CONCLUSION

This study has examined the critical role of external auditing in evaluating the impact of cash flow statement items on a bank's financial position, with the Iraqi National Bank serving as the case study covering the period 2022-2024. The results provide important

details about the effectiveness of the modern external auditing practices in the banking industry and point out the current gaps. The analysis highlights the fact that external auditing is important in determining important financial indicators by conducting an extensive analysis of cash flow statements. The audit procedures were able to identify several problems that impacted on assessing financial position in the 2024 period, such as non-performing credit facilities increased by 4% and expected credit loss provisions increased to 79.9 billion dinars and large asset-liability mismatches leading to liquidity risk in the Iraqi National Bank, which has recorded positive operating cash flows throughout the study period. Cash flow statement items analysis in terms of financial ratios provided mixed results. The Operating Cash Ratio remained above 100% which indicates high cash generation whereas Cash Coverage Ratio decreased in the year 2024 as compared to 2022 as it is 108% which means that the company has a low ability to meet outflows. The Financial Liquidity Ratio was very dynamic and it cast doubts on reliability. Even though non-performing loans, compliance breaches, and operational risks were detected through external audits, existing audit practices might not be effective to deal with the complexity of the modern banking and the interdependence of cash flow risks. The paper underscores the importance of cash flow analysis being incorporated into a broader risk examination as a banking audit. Demand deposits create susceptibility to liquidity risks when it comes to funding long-term credit facilities, and it takes sophisticated audit techniques. The increasing provisions to expected loss of credit and the changes in the non-performing loans point to the necessity of the enhancement of the audit processes. Although cash flow statements provide information on financial positions, they are subject to the quality and completeness of audits as positive net cash flows may hide the fact that there are underlying risks that need to be scrutinized.

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