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THE ROLE OF CORPORATE GOVERNANCE MECHANISMS IN REDUCE THE RISK OF MICRO-FINANCE - FIELD STUDY ON SUDANESE FAISAL ISLAMIC BANK

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I. INTRODUCTION

Interest in the issue of corporate governance appeared as a logical consequence of the financial collapse in East Asian countries, and then interest increased after the emergence of cases of failures and scandals in major American companies such as Enron and Weil Crum. These collapses are mostly due to financial and administrative corruption in general, and financial corruption in particular, as well as the lack of proper management in control and supervision, lack of experience and skill, as well as imbalance in financing structures, so the concept of corporate wisdom has spread in various scientific fields(Jiang & Kim, 2020)**.**Corporate governance has developed as an important mechanism over the last decades. The recent global financial crisis has reinforced the importance of good corporate governance practices and structures(Almashhadani, 2021). It is now well recognized that corporate governance structures play an important role in enhancing firm performance and sustainability in the long term Good corporate governance is vital to companies across many business sectors as it enhances company image, boosts shareholders' confidence, and reduces the risk of fraudulent practices (Pandey et al., 2023).

Agency theory is an essential theory, it is the main economic theory persuading the corporate governance framework and attracts several researchers on corporate governance. The agency theory is important because it provides a contractual relationship between firm managers and shareholders. According to the agency theory, the prime responsibilities of the management are to effectively monitor the activities of the management to maintain company integrity, objectivity accountability and transparency(Aslam & Haron, 2020)**.** According to agency theory, governance mechanisms are needed to reduce agency costs by coordinating executives' fiscal interests concerning stakeholders by fixing their compensations and benefits, appointing an independent board of directors to monitor managerial behaviour, and appointing an independent to monitor managerial behaviour(Pollman et al., 2021)**.**

The microfinance industry has grown and matured significantly over the past decade. Recently, microfinance has received global attention from the United Nations. The financial community, politicians, and the media. It aims to reduce the number of poor people and provide support to small projects. The state in Sudan, represented by the Central Bank, has pursued policies aimed at raising the percentage allocated to microfinance, but the results of their implementation by commercial banks have been low, exceptfor the Savings and Social Development Bank and the Family Bank, which have achieved positive results in contributing in large proportions to providing microfinance to target groups.

This study seeks to test the validity of the following hypotheses:

First hypothesis: There is a statistically significant relationship between internal audit and reducing microfinance risks.

The second hypothesis: There is a statistically significant relationship between the efficiency of external auditing and reducing microfinance risks.

Third hypothesis: There is a statistically significant relationship between audit committees and reducing microfinance risks.

The study aimed to identify the mechanisms of corporate governance and the risks of microfinance in Sudanese banks, study the role of internal audit on the risks of Microfinance at Faisal Islamic Bank, study the role of external audit on the risks of microfinance at Faisal Islamic Bank, and study the role of the audit committee on microfinance risks at Faisal Islamic Bank.

II. LITERATURE REVIEW

2.1Corporate Governance

Corporate Governance (CG) is a set of rules and organizational structures that form the basis of the correct operation of a business and is understood as compensation for the interests of stakeholders - sometimes diverging. CG includes different areas of the company. It can refer to a series of activities and rules intended to make firms follow specific rules, as much as to the processes by which firms are directed and controlled; The rules include both the laws of the country in which the company operates and the company's internal operations**.**Also, a process and structure used to direct and manage the businessand the company’s affairs to maximize the wealth of shareholders, which includes ensuring the financial health of the facility, and that each of the processes determines the division of The authority shall establish mechanisms for investigating accounting issues among To shareholders and the Board of Directors**.**

It is also defined as a process and structure used to direct and manage the business and affairs of the company to maximize the wealth of shareholders, which includes ensuring the financial health of the facility. Both processesdetermine the division of authority and establish mechanisms for achieving accounting issues between shareholders and the board of directors(Zaman et al., 2022).

There are several advantages of corporate governance, including the following:

- Raising the level of performance of companies and the resulting advancement of the wheel of the dragon. The value and economic progress of the countries to which these companies belong.
- Transparency, accuracy, and clarity in the financial statements it issues. companies and the resulting increase in investors’ confidence in them and It is their responsibility to make decisions(Goergen, 2023).
- Fighting internal corruption in companies and not allowing it to exist. I brought it back one more time.
- Ensuring reassurance for investors and owners of establishments by achieving a high An appropriate return on their investments.(Alegre et al., 2022)
- Helping managers and the board of directors to develop a strategy for their establishments, improving their performance and ensuring rational decision-making.
- It leads to strengthening confidence on the part of investors in the management of an establishment to attract capital and increase the establishment’s capital (Ozili, 2021).
- Developing early warning systems to detect important risks.

Corporate governance aims to enhance the credibility of the financial sectors at the local and international levels, attract investment in Foreign and local income, reduce capital flight, separate money Management, management and performance control, improve the economic efficiency of the Company, improve accounting, financial and administrative practices in the company, strengthening Fairness, integrity and transparency in all dealings And the company's operations(Naciti et al., 2022).

Corporate governance mechanisms are a set of means that are designed with the aim of rationalizing, directing, and controlling the behaviour of senior management to make decisions that lead to achieving the interests of the owners and then eliminating the severity of the agency problem between management to balance the interests of all members.

1- Internal Auditing

The Institute of Internal Auditors IIA, (2016) 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 above definition clarifies that the internal audit role is to assist in reporting on internal control and risk management(Rabóczki, 2018).

Furthermore, internal audit functions aresupervision of all activities that are difficult for top management to handle, Identification and minimising of risk, Report Validation to managers, Supporting and assisting management in technical areas, Assisting the decision-making process, analyzing the future and assisting managers in managing the company.(Fadilah et al., 2020) .The internal audit process begins with designing and preparing an audit report about the performance of the company. That means a strong internal control and effective internal audit can improve the company’s operations through a well-designed internal audit report which includes recommendations to the top management.(Jiang et al., 2020)

2- External Auditing:

The audit is defined as an examination of the financial statements prepared by the establishment by a person who has sufficient independence and professional qualifications, to determine whether these statements reflect the results of the establishment’s work, and it includes examining the records and other clues and evidence that strengthen the financial statements and examining the documents(Theodoridis & Kraemer, n.d.) . Auditing is also meant by Its verbal meaning is that it is an examination of data, financial values, or records to verify their authenticity, and its professional meaning indicates that it expresses the systematic examination of the accounting data recorded in the books, records, and financial statements of the facility to express an impartial opinion about the validity of that data and the extent of the possibility of relying on its meaning about the centre. The entity's financials, business results, and cash flows

The importance of reviewing the benefits is to discover errors and manipulation that could occur by employees in the facility. The review is the best way to judge the extent of the facility's commitment to maintaining books and records following international accounting standards and the laws and legislation in force in the facility's country. The facility can also benefit from the expertise of the auditor who constantly audits the accounts and can provide advice and advice regarding defects or weaknesses in the facility's accounting or administrative system.(Nieschwietz et al., 2000)

3- Audit Committee:

It is a subcommittee of the Board of Directors committees that does not have the authority to make decisions, and the outputs of its work consist of reports and recommendations from the Board of Directors. It carries out oversight activities and actions, but its role remains an advisory role, without the right to direct its reports to the General Assembly of Shareholders. "A committee emanating from the company's Board of Directors, whose membership is limited only to non-executive members who have experience in the field of accounting and auditing, and whose responsibility is to supervise the process of preparing financial statements, review the external and internal audit functions, and review compliance with applying corporate governance rules(Effectiveness, 2015).

The idea of forming an audit committee in companies and banks began as a result of some pressures that the management of those companies and banks may exert on the external auditor, which negatively affects his independence and impartiality, especially since the management has the authority to determine his fees and the power to dismiss him. It can be said that maintaining the independence of an auditor External accounts are the basis for the emergence of the idea of an audit committee (Committee, n.d.)

Many factors helped increase interest in the issue of audit committees, the most important of which are Increasing cases of financial failure of many companies and banks, and increasing cases of fraud and manipulation increasing the desire of these institutions to strengthen the process of monitoring their activities and ensuring their safety application of accounting principles, increased pressure from users of financial statements on companies and banks to show results, the contradiction that exists between the external auditor and the company's management, maintaining the independence of the auditor to express an impartial technical opinion, and need of shareholders in public joint-stock companies for an administrative mechanism that contributes to controlling and monitoring performance management as their agent, especially regarding financial and supervisory matters. (Kamolsakulchai, 2015)

2.2 Microfinance:

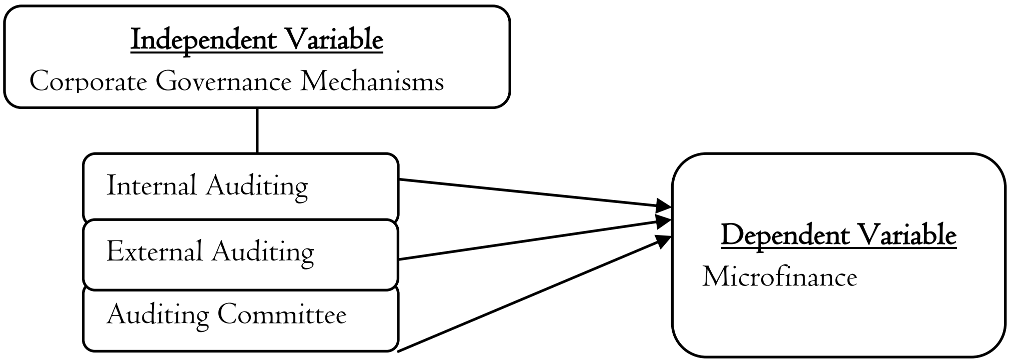
Poverty is one of the world's oldest and most persistent problems today, the absolute importance of fighting poverty is highlighted throughout the world as Goal 1 of the United Nations Sustainable Development Goals, which is formulated as "the eradication of poverty in its forms everywhere.". In the twenty-first century Adopting different solutions to alleviate poverty, such as global poverty interest rates have fallen by more than half, yet the world is still far from eliminating the poverty phenomenon. In the twentieth century, microfinance, often described as microfinance, emerged to cure poverty and experienced increased popularity(Di & Giorgio, 2021). One of the main reasons access to credit was widely believed to be the reason behind it is difficult for many people to escape poverty due to this series of factors causing poverty. Entrepreneurship opportunities, female empowerment and issues related to health, nutrition and education are all problems that can be solved by obtaining credit(Sengupta & Aubuchon, 2008).

Microfinance aims to reduce poverty. The purpose for which microfinance institutions exist is to reach the poor, whom financial and official institutions are unable to deal with. Microfinance institutions whenever they reach the largest possible number of poverty sufferers it is more successful, reaching the poor has several dimensions that can be looked at, such as spatial dimension and distance The qualitative(Shahe Emran et al., 2021). Contribute to economic development and create It provides opportunities to use the product and reduce the severity of poverty, as it aims to perpetuate C Economic for the poor and those with low incomes, as well as support for household management small money, contribution to health, capacity building, and modern technology and empowering women to manage and own projects(Shahe Emran et al., 2011)

III. METHODOLOGY

The study population consisted of employees of the Sudanese Faisal Islamic Bank in Khartoum State, and its vocabulary was chosen using the probability (random) sampling method, (80) questionnaires were distributed to All employees of the bank under study were eligible for analysis with a response rate of (100%).

Variables and Model of the Study:



IV. DISCUSSION

Test first hypotheses:
There is a statistically significant relationship between internal auditing in companies and reducing microfinance risks.

Table No. (1) Descriptive statistics for the first hypothesis:

Table No. (1) shows that the opinions of the sample members regarding the content of all statements are positive, as the arithmetic mean values reached between (4.37 - 4.71), which are all greater than the hypothesized arithmetic mean (3), which indicates that the sample members are moving in the positive direction. We also find that the standard deviation ranges between (0.50 - 0.71), all of which are greater than the correct one, which indicates the lack of homogeneity in the answers of the sample members. We also find that the level of significance associated with the value of the chi-square is less than (0.05), which indicates the agreement of the study sample members with all of the individual's statements. Damage. All of these indicators indicate the validity of the first hypothesis, which means that (there is a statistically significant relationship between The effectiveness of internal auditing and reducing microfinance risks.

Test second hypothesis: There is a statistically significant relationship between external auditing in companies and reducing microfinance risks

Phrase	mean	Chi-square value	standard deviation	Degree of freedom	Significance level
Internal auditors' commitment to standards of professional conduct contributes to reducing The risks of microfinance	4.71	64.2	0.50	2	0.000
Increasing good interaction between the internal auditor department and corporate governance parties will reduce One of the risks of microfinance	4.37	58.2	0.66	3	0.000
The internal auditor's provision and control of the facility's financial performance contributes to ensuring D of the risks of microfinance	4.46	26.4	0.71	2	0.000
The internal auditor's participation in designing the company's procedures and policies contributes to reducing the risks of microfinance	4.51	31.8	0.61	2	0.000
Paying attention to implementing internal control quality standards contributes to reducing financing risks. Not the smallest	4.43	60.7	0.67	3	0.000

Table No. (2): Descriptive statistics for the second hypothesis:

Phrase	mean	Chi-square value	standard deviation	Degree of freedom	Significance level
The external auditor's commitment to international auditing standards contributes to reducing the risks of Microfinance	4.53	75.1	0.67	3	0.000
The use of policies and procedures for qualitative control over the quality of audit work contributes to reducing the risks of microfinance	4.32	17.5	0.67	2	0.000
Designing external auditors for fraud and error detection programs in financial statements. This contributes to reducing the risks of microfinance	4.31	42.3	0.78	3	0.000
Determining the level of relative importance of financial statement items by... See external	4.33	46.3	0.82	3	0.000
The external auditor's use of analytical procedures contributes to completing the review process. Helpful in reducing the risks of microfinance	4.32	17.5	0.67	2	0.000

Table No. (2) above shows that the opinions of the sample members regarding the content of all statements are positive, as the arithmetic mean values reached between (4.31 - 4.53), which are all greater than the hypothesized arithmetic mean (3), which indicates that The sample members are moving in the positive direction. We also find that the standard deviation ranges between (0.67 - 0.82), all of which are greater than the correct one, which indicates the lack of homogeneity in the answers of the sample members. We also find that the level of significance associated with the value of the chi-square is less than (0.05), which indicates the agreement of the study sample members with all the individual statements. Damage. All of these indicators indicate the validity of the second hypothesis, which means that (there is a statistically significant relationship between the efficiency of the (External review and risk reduction of microfinance).

Testing the third hypothesis: There is a statistically significant relationship betweenauditing committees and reducing microfinance risks.

Table No. (3): Descriptive statistics for the third hypothesis

Phrase	mean	Chi-square value	standard deviation	Degree of freedom	Significance level
The audit committees supervise the organization's compliance with regulations and laws. The source contributes to reducing the risks of microfinance	4.63	50.5	0.57	2	0.000
Familiarity of audit committee members with	4.22	46.1	0.71	3	0.000

financial and accounting issues contributes to reducing the Microfinance method					
Periodic audit committee meetings contribute to reducing the risks of microfinance	4.27	9.7	0.74	2	0.000
The audit committees' continuous evaluation and examination contribute to reducing the risks of Microfinance	4.20	39.1	0.76	3	0.000
Applying oversight procedures to the institution's work by audit committees contributes to Reducing the risks of microfinance	4.16	32.5	0.80	3	0.000

Table No. (3) above shows that the opinions of the sample members regarding the content of all statements are positive, as the arithmetic mean values reached between (4.16 - 4.63), which are all greater than the hypothesized arithmetic mean (3), which indicates that The sample members are moving in the positive direction. We also find that the standard deviation ranges between (0.57 - 0.80), all of which are greater than the correct one, which indicates the lack of homogeneity in the answers of the sample members. We also find that the level of significance associated with the value of the chi-square is less than (0.05), which indicates the agreement of the study sample members with all of the individual's statements. Damage. All these indicators indicate the validity of the third hypothesis, which means that (there is a statisticalrelationship betweenauditing committees and reducing microfinance risks).

V. CONCLUSION

This study addressed the role of professional corporate governance mechanisms in reducing microfinance risks by applying it to the Faisal Islamic Bank of Sudan in Khartoum State. The study used the descriptive analytical approach to analyze data and test hypotheses. The questionnaire was used as a primary source of data, in addition to other secondary sources. The study concluded that all the study's hypotheses were correct. The role of internal and external auditingisvery important in reducing the risks of microfinance, and the internal auditor evaluates and monitors microfinance transactions. Contributing to reducing the risks of microfinance. The limitations of the study are that it was conducted on employees at Sudanese Faisal Islamic Bank in Khartoum State only and does not cover the rest of the Sudanese banks. Also, the questionnaire was used to collect sample data, due to the difficulty of obtaining quantitative data.The study recommends activating risk management in Sudanese banks and conducting further studies on the risks of microfinance in Sudanese banks.

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