

**The quality of internal auditing and its role in reducing accounting information asymmetry: An applied study in the banking sector**

**Abbas Aadi Owaini(1)**

[abbas.oweini.ims@atu.edu.iq](mailto:abbas.oweini.ims@atu.edu.iq)

**Middle Euphrates Technical University/Al-Musayyib Technical Institute**

**Haneen Sami Hadi(2)**

[hanin.hadi.ims@atu.edu.iq](mailto:hanin.hadi.ims@atu.edu.iq)

**Middle Euphrates Technical University/Al-Musayyib Technical Institute**

**Abstract:**

The aim of this research is to analyze, study, and interpret the relationship between quality in internal auditing and inconsistency of accounting information. This study is an applied study conducted on a sample of banks listed on the Iraq Stock Exchange. The research sample included eight banks for the period 2024-2025. The researcher used a checklist for the independent variable, which is the quality of internal auditing and the extent of adherence to the professional practice standards issued by the Institute of Internal Auditors (IIA). The following model (Corwin & Schultz, 2012) was used to measure accounting information asymmetry.

The study concluded that there is a direct, positive effect of the internal audit quality variable on accounting information asymmetry. A one-unit increase in internal audit quality leads to a (-0.567) increase in accounting information asymmetry. This means that the quality of internal auditing contributes significantly to reducing inconsistencies in accounting information in banks. This is achieved through the application of the professional practice standards for the internal audit function issued by the Institute of Internal Auditors (IIA), specifically the attribute standards and performance standards. This, in turn, helps the internal audit function and tasks to be performed at a high level of quality for accounting information.

**Keywords:** Quality of internal audit, Asymmetric accounting information ,the banking sector.

**Introduction:** As a result of the separation of ownership from the management of the economic unit, a gap emerged in accounting information. This led to discrepancies and conflicts between the agent and the principal, as well as differences among all parties dealing with the economic unit, whether internal or external. This lack of consistency in accounting information negatively impacted the efficiency of investment decisions in the market. Therefore, accounting information is essential For all parties involved in the financial markets. This accounting information serves as a source of quantitative and qualitative data upon which financial, investment, and funding decisions are based. Cela rend l'information comptable utile aux utilisateurs internes comme externes, car elle reflète les transactions financières passées et présentes de l'entité économique. Le chercheur estime que, pour réduire les écarts dans l'information comptable et en améliorer la qualité au sein des entités économiques, il est

essentiel de mettre en œuvre des mesures visant à minimiser ces écarts et à renforcer la qualité de l'information comptable. under study, new and advanced methods and techniques should be developed to minimize this discrepancy through enhanced internal auditing, as internal auditing is a crucial oversight function. In economic units, and naturally, for the internal audit function to be effective and achieve its desired objectives, it must be of high quality in accordance with international internal auditing standards. This leads to significant progress in improving performance and raising the quality of accounting information in the banking sector. To achieve the research objectives, it has been divided into several sections, as detailed below:

## **Section One: Research Methodology and Previous Studies.**

### **First: The Research Problem.**

The business environment requires that the accounting information provided by company management be reliable, impartial, and useful to both internal and external stakeholders. This ensures its relevance to the decision-making process, enabling the economic entity's management to achieve its goals of expansion, growth, and securing funding from investors. However, management sometimes seeks to present a positive image of the company, which may contradict economic reality. This can lead to a lack of transparency regarding the entity's information, and consequently, to incomplete data. The researcher believes that applying internal audit standards for continuous improvement can significantly reduce the inconsistency of accounting information. Therefore, It is possible to formulate the research question:

- a) Does the internal auditing of the economic unit under study possess a certain level of quality?
- b) Is there a relationship between the quality of internal auditing and the inconsistency of accounting information in the company under study?

### **Second: The Importance of the Research.**

#### **The importance of this research stems from the following:**

1- Internal auditing is of paramount importance to economic units, as it enables process improvement, increased efficiency, effective risk management, transparency, and enhanced trust. It thus contributes effectively to reducing information asymmetry, which requires strict adherence to internal auditing standards and the avoidance of potentially opportunistic management practices.

2- In order to raise the quality of internal auditing and reduce the problem of accounting information asymmetry, efforts should be made to activate a set of improvement methods, including the application of the Auditing Standards II (AII), which aim for continuous improvement of audit processes and reducing errors and deviations in accounting information.

3- It enhances the reliability of financial reports, improves the level of transparency, and reduces the information gap between the entity's management and users of financial statements.

4- This topic is considered one of the important topics that complements the knowledge framework in the field of accounting scientific research, especially in the local environment, and builds upon the work of previous researchers in studying the factors that can contribute to reducing accounting information asymmetry in economic units.

### **Third: Research Objectives.**

#### **This research aims to achieve the following objectives:**

- 1- To study, analyze, and interpret the relationship between the quality of internal auditing and the asymmetry of accounting information.
- 2- To highlight the role of internal auditing in achieving quality.

3- To provide a theoretical framework for studying the asymmetry of accounting information and how to measure it.

#### Fourth: Research Hypotheses.

Based on the research problem, the following main hypothesis was formulated: (The quality of internal auditing contributes to reducing accounting information asymmetry).

The relationship between quality, internal auditing, and accounting information. asymmetry can be expressed statistically as (H0:H1).

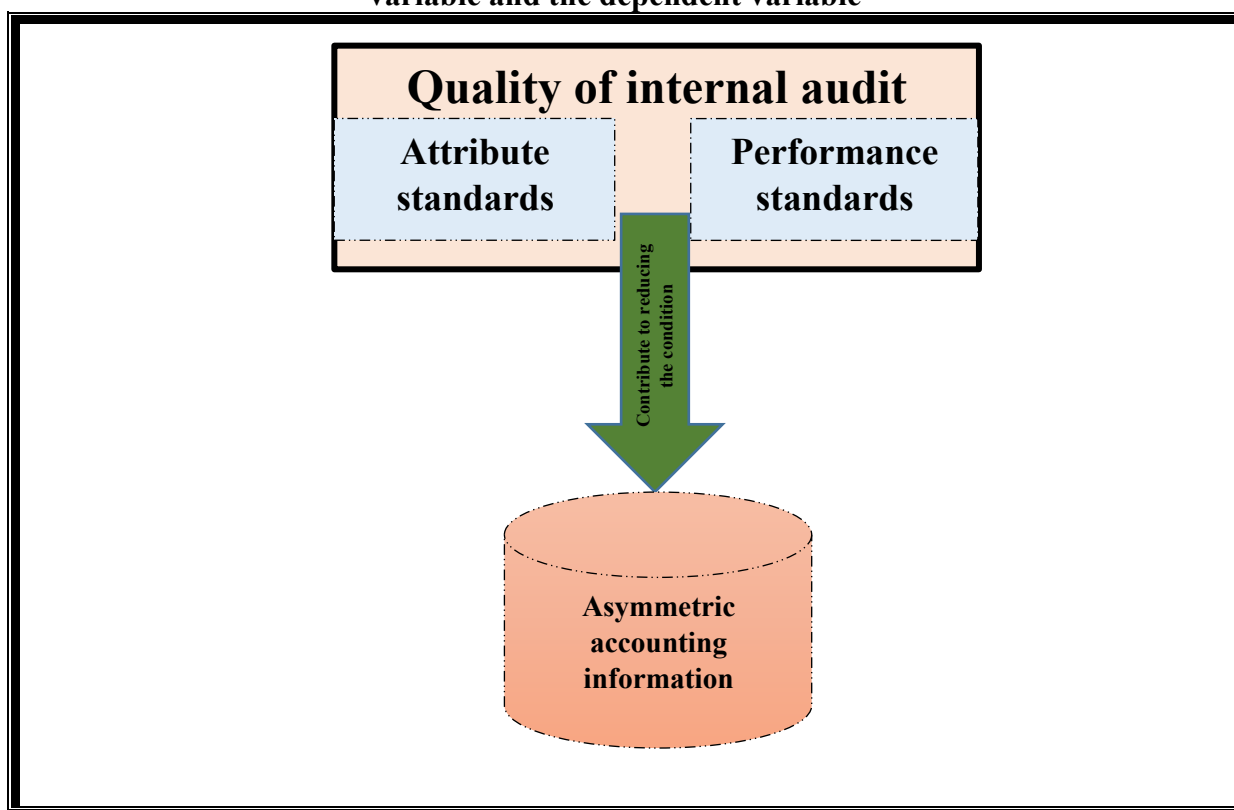
a) **H0:** There is no statistically significant relationship between the quality of internal auditing and accounting information asymmetry.

b) **H1:** There is a statistically significant correlation between the quality of internal auditing and accounting information asymmetry.

#### Fifth: The default research plan.

Figure (1)

The following figure represents the research model that illustrates the independent variable and the dependent variable



Source: Prepared by the researcher

#### Sixth: Research Community and Sample.

A- **Research Community:** The research community is represented by the group of Iraqi banks listed on the Iraq Stock Exchange during the research period of the year (2024-2025).

**B- Research Sample:** The research sample is represented by the various banks that were It was chosen from among the best Iraqi banks based on its larger capital and the availability of financial data listed on the Iraq Stock Exchange.

**Seventh: Previous studies:**

1- Study (Ahmed, 2017, Iraq)	
Study title	The role of Six Sigma methodology in activating and improving internal audit and its .impact on the quality of accounting information
Objective of the study	This study aims to generate high-quality information to support long-term management decisions. One successful approach is the application of the Cigna methodology. An exploratory study was conducted on a sample of 63 commercial bank employees in Sulaymaniyah Governorate, who were provided with a questionnaire.
The most important conclusions and recommendations	1. There is a statistically significant correlation between the application of Six Sigma principles and internal auditing. 2. There is a statistically significant relationship between the use of the Six Sigma methodology and internal auditing on the quality of accounting information. This means that using the Six Sigma methodology will improve the function of internal auditing, which in turn will contribute to improving the quality of accounting information. The researcher recommended that economic units involve employees in the systems processes and pay attention to human resources and employee suggestions.
2- (Kusumaningtyas.et.at,2019) Indonesia	
Study title	Information Asymmetry, Audit Quality, And Institutional Ownership On Earnings Management: Evidence From Mining Companies Listed On The Indonesia Stock Exchange
Objective of the study	The aim of this research is to investigate the effects of audit on the consequences of information asymmetry and audit quality on earnings management using institutional ownership as a moderating variable.
The most important conclusions and recommendations	The study found that audit quality has a major role in preventing profit management practices in the company and reducing the state of information asymmetry, which supports the auditor’s effective performance in reducing opportunistic administrative activities. The results also support the predictions of institutional theory that effective audit quality attributes reduce profit management practices.
3- (Makhlouf.et.at,2022) Jordan	
Study title	The moderating effect of audit quality on the relationship between information asymmetry and earnings management: evidence from Jordan

<p>Population, study sample, and measurement of variables</p>	<p>An applied study. In determining a sample, the researchers relied on annual reports to extract appropriate data for the study For companies on the Amman Stock Exchange during the years (2015-2019), as the sample size was (355) annual observations of the company, while the sample included (200) annual observations after excluding (155) observations due to insufficient data. The researcher used the following model to measure the earnings management variable:</p> $\frac{TA_{it}}{A_{it-1}} = \alpha_{0,t} + \alpha_{1,t} \left( \frac{1}{A_{it-1}} \right) + \alpha_{2,t} \left( \Delta \frac{(Sales - REC)_{it}}{A_{it-1}} \right) + \alpha_{3,t} (PPE_{it} / A_{it-1}) + \alpha_{4,t} (ROA_{it} / A_{it-1}) + \epsilon_t$ <p>The dependent variable is measured by information asymmetry according to the following model:</p> $SPREAD = (ask_{i,t} - bid_{i,t}) / ((ask_{i,t} + bid_{i,t}) / 2) \times 100\%$
<p>Objective of the study</p>	<p>The study aims to determine the role of audit quality in improving the relationship between accounting information asymmetry and earnings management in Jordanian companies.</p>
<p>The most important conclusions and recommendations</p>	<p>The researchers found that there is a relationship of influence of audit quality on information asymmetry, which reflects positively on profit management, because audit quality plays a major role in reducing the state of information asymmetry and profit management for the companies in the research sample.</p>

## Section Two: Theoretical Framework

### First: The quality of internal audit

#### 1. The concept and definition of internal audit quality

The quality of internal auditing is of paramount importance and has received considerable attention in accounting literature and thought. It is the tool for verifying the accuracy and objectivity of financial information and enhancing confidence in all financial and non-financial data. Therefore, internal auditing is considered crucial for successful management because it is a source of information. The focus of internal auditing is on the comprehensive evaluation of the professional performance of internal auditors, which strengthens confidence in the financial reports they prepare and helps detect fraud, deception, and misuse of resources, thereby reducing waste. It is defined by some as the professional activities, practices, and procedures of internal auditors, through adherence to internal auditing standards, objectives, responsibilities, and policies. Quality in internal auditing increases the credibility of accounting information and enables management and shareholders to make more accurate estimates of the value of the economic entity (Zidan & Naama, 2021: 5).

While the quality of internal auditing is defined as the process of measuring the accuracy of disclosed data and information, it is determined by the quality of the audit report, including the absence of errors and bias, and the accuracy of accounting data. Audit quality also encompasses the level of adherence to the standards of the Institute of Internal Auditors (IIA), the ability to execute the audit plan, present the results positively, and communicate them to relevant parties. In other words, audit quality increases significantly due to continuous improvement and the

competence of auditors (Nurdiono & Gamayuni, 2018:428). Therefore, the quality of internal auditing is characterized by independence, objectivity, advisory function, and assurance that aims to provide a true and fair view of the economic entity's performance during the financial year. This is achieved through improved risk and operational management, the achievement of intended objectives, the protection of the economic entity's assets, and the provision of accurate information to users of accounting information. Furthermore, internal auditing is responsible for the successful implementation of strategies (Kwabena, 2017:4). As illustrated in the figure below, the components of internal audit quality in economic entities must be maintained.

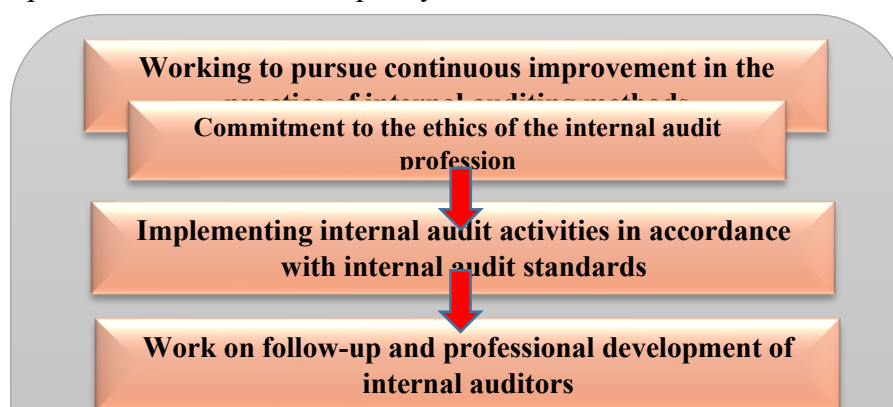


Figure (3)

Components of maintaining the quality of internal auditing in economic units

Source: Ajila, M., & Khaira, Z. (2017). Quality requirements of internal audit services A comprehensive vision. *Global Journal of Economic and Business*, 2(2), 61-73.

Izedonmi identified internal audit quality standards through quality maintenance factors, which are as follows (adapted from Izedonmi, 2021:20):

- 1- The internal auditor's competence, measured by their academic and professional qualifications.
- 2- Objectivity, measured by the entities that conducted the examination and evaluation of the internal auditor's report, as well as by the entity responsible for appointing them. The Institute of Internal Auditors (IIA) also added three further factors: the level of independence, objectivity, and competence of the internal auditors. Therefore, the management of the economic unit and external auditors typically determine the level of reliance on the work and report of the internal auditor by conducting an evaluation of the internal control system in place within the economic unit. The researcher believes that quality is the degree of perfection and distinction that characterizes the product or service provided according to the required specifications and the extent of its suitability in achieving customer satisfaction through use. As far as internal auditing is concerned, we find that the quality of internal auditing is achieved through the efficiency and objectivity of the internal audit. Therefore, we find that the efficiency of the auditors is represented by conformity to the specifications, which are represented by the internal audit standards that are related to scientific and practical qualifications. Suitability for use is objectivity, which is represented by the internal audit performing its tasks in accordance with the internal audit standards, which is consistent with

the requirements of the economic unit, and this is reflected through the evaluation of the internal auditor's report.



- 1- **Internal Auditing Standards:** Internal auditing standards play a role in enhancing the efficiency and effectiveness of auditing. Adherence to International Standards of Professional Practice (ISAPs) is essential for It adds value to internal auditing. These standards are trusted by the Institute of Internal Auditors (IIA), the international organization that directly oversees continuing education standards and the general code of conduct for internal auditors as a profession. The IIA is responsible for research and development of practices and procedures designed to improve the work of internal auditors in every area. The standards These standards are applied by those who provide services related to corporate risk management and governance, as well as financial reporting. Furthermore, these standards require internal auditors to perform their assigned duties in accordance with the ethics of the auditing profession. (Zelnell, 2018: 42). The International Standards of Professional Practice fall into two categories:

**1- Attribute Standards**

**2- Performance Standards.**

The appropriately named attribute standards address the characteristics of internal auditors (such as independence and objectivity) that are applied to internal audit activities. As for performance standards, these are applied to internal audit activities and provide a quality benchmark by which the performance of these activities can be measured. The characteristics and performance standards apply to internal audit services in general. The internal audit standards developed by the Institute (IIA) recommended, encouraged, adhered to, accepted, adopted, and implemented by practicing internal auditors in economic units (Louwers, 2015:689).

**First: Attribute Standards:**

- 1- ((1000)) Purpose, Authority, and Responsibility: The purpose and authority of the internal audit activity must be formally defined in the internal audit charter, in accordance with the internal audit and its mandatory elements of the International Framework of Professional Standards. Practice (IFPPs, Code of Ethics, Standards, and Definition of Internal Auditing). The Chief Auditor must periodically review the internal audit charter and submit it to senior management and the board of directors for approval (IIA, 2018: 14).

- **Internal Audit Charter:** This is an official document through which the purpose, authority, and responsibility of the internal audit activity are defined. The internal audit charter also defines the position of the internal audit activity within the economic unit, including the nature and relationship of functional reports to the Chief Audit Executive with the company's Board of Directors. It also allows access to and review of records and access to employees and physical assets. It defines internal audit activities, and the final approval of the internal audit charter rests with the company's Board of Directors.

- 1 - **(1100) Independence and Objectivity:** The internal audit activity must be independent, and internal auditors must perform their work objectively (Gleim, 2020:8).

- ❖ **Independence** means freedom from all circumstances that threaten the internal audit activity when performing internal audit tasks and responsibilities in an unbiased manner. This is achieved by attaining the necessary degree of independence when effectively carrying out internal audit tasks and responsibilities. The CEO has access to senior management and the company's board of directors, and this can be achieved through a two-way reporting relationship with management and the board. Threats to independence must be managed at the individual auditor level, at the audit levels, and at the functional and organizational levels.
  - ❖ **Objectivity:** It is an unbiased mental attitude that allows internal auditors to perform their tasks in a way that makes them believe in the results of their work and not to make any compromises about the quality of their work. Objectivity also requires internal auditors not to subject their judgment on the audit issue to others. Threats to objectivity must be managed at the level of the individual auditor, at the level of internal auditing, and at the functional and organizational levels.
- 1- 1200 Required Professional Skill and Care: Contracts must be executed efficiently and with appropriate professional care (Federal Financial Control Bureau Guidance Manual, 2019:33).
    - ❖ **Skill:** This is a general term referring to the knowledge, skills, and other competencies that internal auditors need to effectively perform their professional responsibilities. This includes studying current emerging activities, trends, and issues to provide appropriate advice and recommendations. Internal auditors are encouraged to demonstrate their competence by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor (CIA) designation and other certifications offered by the Institute of Internal Auditors (IIA) and other relevant professional organizations.
    - ❖ **Required Professional Care:** Internal auditors must exercise the care and skill expected of an internal auditor and possess a reasonable level of discernment and competence. Required professional care does not imply infallibility, and internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.
  - 2- **(1300) Quality Assurance and Improvement Program:** The Chief Audit Officer (CAO) must develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity (AII, 2017:7).
    - ❖ **Requirements for the Quality Assurance and Improvement Program:** The Quality Assurance and Improvement Program is designed to enable the assessment of the conformity of the internal audit activity with the Standards and to evaluate whether internal auditors apply ethical rules. The program also assesses the efficiency and effectiveness of internal audit activities and identifies opportunities

for improvement. The chief executive officer should encourage the board to oversee the entire quality assurance program, which should include both internal and external evaluations.

❖ **Second: Performance Standards:**

1- **(2000) Managing the Internal Audit Activity:** The Chief Audit Officer must manage the internal audit activity effectively to ensure it adds value to the economic entity (Gleim, 2020:10).

❖ Internal audit activities are conducted effectively when:

1. They fulfill the purpose and responsibilities outlined in the internal audit charter.
2. They adhere to established standards.
3. Their members adhere to ethical principles and standards.
4. They consider emerging trends and issues that may affect the company. Internal auditing adds value to the company and its stakeholders when it considers strategies, objectives, and risks; seeks ways to improve corporate governance, risk management, and control processes; and provides relevant, objective assurance.

❖ **(2100) Nature of the Work:** The internal audit activity should evaluate and contribute to improving A structured, disciplined, and risk-based methodology is applied to governance, risk management, and control processes within the unit. The credibility and value of internal auditing are enhanced when auditors are proactive, their assessments provide new insights, and they consider future impact (Beit, 2014: 320).

❖ **Governance:** The internal audit department should evaluate the company's governance processes and provide appropriate recommendations for improvement, with the aim of:

1. Influencing strategic and operational decision-making.
2. Overseeing and monitoring risk management.
3. Promoting values and ethics within the organization.
4. Ensuring effective corporate governance.

\* **Risk Management:** The activity of the internal audit specialist should assess the effectiveness of risk management processes and contribute to improving them.

2- **(2200) Planning and Engagement:** Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocation. The plan should consider the economic unit's strategies and objectives and the risks associated with engagement (IIIA, 2018:28).

3- **(2300) Executing the Internal Audit Engagement:** Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement objectives (Gleim, 2020:12).

❖ **Interpretation:** Sufficient information should be true, adequate, and persuasive enough that a prudent and knowledgeable person could reach the same conclusions as the auditor. Reliable information is the best information that can be obtained through appropriate engagement methods. Relevant information supports the mission's observations and recommendations and aligns with its objectives. Useful information helps the organization achieve its goals. Internal auditors must base their conclusions on rigorous analysis and evaluation. They must also document sufficient, reliable, relevant, and useful information to support the mission's conclusions. Engagement must be properly supervised to ensure that objectives are met, the quality of services is maintained, and staff skills are developed.

4- **(2400) Communicating Results:** Internal auditors must report the results of their audits, and these reports must include the objectives, scope, and findings of the audit. These reports must also be accurate, objective, clear, concise, constructive, complete, and timely. (IIA, 2018:32).

5- **(2500) Monitoring Workflow:** Ing Director ning Internal Audit (DIA) dapat yang mitatag at magmaintain sistema para keng pamagmonitor keng pamagprosesu kareng findings na mireport keng management. (IIA, 2018:35).

6- **(2600) Reporting Risk Acceptance:** When the board of directors concludes that management has accepted an unacceptable level of risk for the organization, it must discuss the matter with senior management. If the board finds that the problem persists, it must report it to the board of directors. (Federal Financial Control Bureau Guidance Manual, 2019:35).

❖ **Explanation:** The risks that management accepts during an assurance or consultation engagement can be identified by monitoring management's actions following previous engagements, or by other means. The responsibility for mitigating these risks does not lie with the audit manager.

### **3. Qualitative dimensions of internal audit performance:**

American Institute (AICPA), established in 1991, identifies the essential elements for ensuring the quality of internal auditing, as outlined below.

1- **Efficiency:** Internal audit performance is most effective when internal auditors possess sufficient experience, knowledge, and skills to perform the audit function according to high standards. Competence is related to an individual's ability to perform audit duties effectively based on their professional and educational level. Employee experience and effort, continuous professional development, and competence all contribute to improving the effectiveness of internal auditing by enabling employees to perform the task with high quality (Zidan & Na'meh, 2022: 6)

2- **Independence:** The internal audit unit must be independent and perform its duties with complete integrity and without any external interference throughout the audit and reporting process. The independence of the internal auditor is crucial to the

quality and effectiveness of the internal audit unit, and the auditor must occupy an appropriate hierarchical position within the economic entity to fulfill their responsibilities. The independence of the internal auditor is only fully realized when they report to the board of directors. (Krichene & Bakrichene, 2016:6).

- 3- **Quality of task performance:** The quality of internal auditing refers to how well tasks are performed. operational activities are performed and then evaluated according to standards and procedures. Performance quality also includes a review of planning, supervision, fieldwork, reporting, results, recommendations, and monitoring of the economic unit's internal activities (Zaidan & Neamah, 2022:7).

#### **4. Factors Affecting Internal Audit Quality:**

There are many factors that affect the quality of internal audits in economic units, including (Welay & Norkholis, 2019:118).

**1- Internal Auditor Competence:** Internal auditors must be able to apply their knowledge and experience during internal audits. This enables them to perform their duties and conduct internal audits accurately and objectively. The audit process requires highly qualified and experienced individuals. The more competent the auditor, the better the quality of the audits and the services provided. In other words, competence directly impacts the quality of internal audits. Therefore, internal auditors must be competent, which contributes positively to achieving the objectives of internal auditing.

**2- Internal Auditor Independence:** The internal auditor must be independent, impartial, and free from any conflict of interest. Their opinions and conclusions must not be influenced by any external factors, thus ensuring their integrity and objectivity. Independence is a crucial factor affecting the quality of the internal audit and the findings presented in the audit report. A lack of independence means that the information in the report does not accurately reflect the company's reality. This discrepancy between the auditor's report and the company's actual situation has a negative impact on decision-makers.

**3- Experience:** The internal auditor must possess practical experience and continuously develop their behavioral skills and interactions with the tasks they perform throughout the audit process. The greater the internal auditor's experience in their field, the more positively it impacts the quality of the audit.

- 4- **Integrity:** Dania adds a fourth dimension: internal auditors must adhere to the principle of integrity when performing audit tasks to achieve audit objectives with high quality. Integrity requires the internal auditor to carry out all his tasks based on internal attributes by adhering to the principle of honesty, not violating agreed audit controls, and avoiding self-interest (personal interest), as this commitment is reflected positively in improving the quality of audit results (Dania:2019:126).

## **Second: Accounting Information Asymmetry**

### **1. Definition of Accounting Information Asymmetry Accounting**

Information is essential for all stakeholders in financial markets. It allows us to assess the economic entity's situation, determine the optimal use and investment of its resources, and thus contribute to a clear financial outlook. This accounting information serves as the foundation for all financial, investment, and funding decisions, making it beneficial to all internal and external users. It translates the economic entity's past and present financial transactions and is used to forecast and correct past decisions. (Abad.et.at, 2017:194).

Komalasari and Airlangga argue that the concept of accounting information asymmetry arises when one party possesses significantly more information than the others. Information asymmetry is discussed within the framework of agency theory. Problems do not arise in this theory when information between the agent and the principal is identical, meaning the principal knows everything the agent knows. However, when information is asymmetrical, the problem arises because the agent controls specific information unknown to the principal. This leads to conflict and what is known as information asymmetry, meaning there is an imbalance in the information between the participants (Komalasari & Airlangga, 2020:2).

The problem of information asymmetry refers to the fact that one party can obtain more information than the other before a transaction takes place. To clarify more precisely, it is the information that the seller possesses about a particular good or service compared to the buyer. In other words, the party with more knowledge can use it to make sound decisions that serve their interests (Rymar, 2016:14).

### **2. Theories explaining the problem of accounting information asymmetry**

- 1- **Agency Theory:** This theory This theory is considered one of the important theories that explain the problem of inconsistency in accounting information.economic unit when the economic unit is separated from the owners in terms of consideration and legality. Agency means authorizing a person by contract, the “principal,” or several people to one person, who is called the “agent,” to make financial decisions on behalf of the owners. According to this mechanism, certain costs or fees are paid for carrying out the agency, or what is called “agency costs.” The main objective of it is to separate ownership from management (Camilleri, 2018:4).
- 2- **Signaling Theory:** This theory emerged in 1956, developed by Linter. It focuses on increasing an economic unit's chances of obtaining financing from the financial market based on the trust it gains through signals it sends to users of its financial statements. These signals are presented in a way that enhances its reputation and gives investors a positive impression of the low risk associated with financing the economic unit. This theory is useful in describing the behavior of either investors or users of the economic unit when they have access to various information (Mavlanova et al., 2012: 240-243).
- 3- **Stakeholder Theory:** This theory describes economic units as having the ability to influence society in general and stakeholders in particular. At the same time, stakeholders influence the economic unit's activities. Therefore, the economic unit

needs to maintain a continuous presence to support stakeholders and should gain their support to bolster its activities (Mohsen, 2021: 23-24).

3. **Causes and Factors of Accounting Information Asymmetry:** Numerous studies and research conducted in this field have shown that all transactions undertaken by economic units involve the problem of information asymmetry, sometimes referred to as information failure, when one party possesses more information about a financial transaction than the other. Some of these causes are listed below (Khayoun, 2021: 94):

- 1- Inappropriate timing in publishing accounting information leads to a reduction in the importance and usefulness of this information for decision-makers, thus widening the information gap between shareholders and management.
- 2- Insufficient knowledge on the part of the economic unit's management due to the complexity of operations and the diversity of tasks delegated by owners to the executive management.
- 3- Conflict of interest between the economic unit's management and shareholders and users of financial reports, which leads management to conceal information in order to maximize its interests and achieve its objectives.
- 4- Lack of awareness among owners regarding the actions of the agent (management) and the weakness or complicity of the regulatory body that prevents or limits manipulation or the issuance of asymmetric information.

4. **The relationship between the quality of internal audit and the level of accounting information asymmetry:**

The quality of internal audit has a significant impact on the level of accounting information asymmetry. The quality of internal audit is demonstrated by internal auditors performing their tasks with transparency, independence, and a high level of efficiency. That is, economic units where the quality of internal audit is at a high level experience a decrease in accounting information asymmetry, as this positively impacts the quality of financial reports and increases the transparency of the information contained in the reports. This leads to attracting investment and increasing the volume of trading in financial markets, in addition to the commitment of economic units to applying international accounting standards and focusing on disclosure processes so that all stakeholders can obtain information to enable them to make sound decisions (Makhlouf, 2022:166). Economic units seek to increase the growth of their business activities by relying on external financing and increasing their market value. However, the situation of accounting information asymmetry is the separation of ownership from management, and this negatively affects the value of the economic unit and the expansion of its business, especially when management resorts to practices to maximize its personal interests at the expense of other parties, as it is responsible for preparing the financial statements, and stakeholders rely on these statements and the information disclosed by the unit's management to evaluate and judge the management's performance. This is because the financial statements do not reflect the true reality of the unit, and this is known as information risk. Here, the role of internal auditing becomes clear in conducting continuous improvement of information and

making it more reliable and dependable by other parties who use accounting information (Bilal and Al-Asdawi, 2020:92).

It should be noted that accounting information asymmetry is an imbalance of information between management, as the owner, and other stakeholders. This leads to numerous problems and irregularities in the preparation of financial statements and the monopolization of accounting information. The management of the economic entity seeks to address these problems, and the entity must adhere to specific controls and procedures. An effective control system is essential, and internal auditing facilitates this process. The quality of services provided by the internal auditor is crucial, as they apply professional standards specific to internal auditing. This enables internal auditors to improve the efficiency of the economic entity's operations and increase its value to shareholders and the market. When internal auditing is conducted professionally and objectively, it has a significant impact on risk assessment, enhances internal controls, and helps achieve objectives. Economic entities with deficiencies in internal auditing processes face increased inconsistencies in accounting information. Their data does not accurately reflect the entity's true financial position, resulting in inaccurate, unreliable, and unusable information for decision-making. This reduces the accuracy and quality of analysts' forecasts, impacting them in the management's favor. Therefore, internal auditing plays a vital role in mitigating and reducing information inconsistencies. Accounting (Jasman & Amin, 2017:97).

### **Third section: The practical aspect:**

#### **Testing the relationship between the quality of internal auditing and its impact on the level of asymmetry in accounting information**

- 1- Description of the Research Population and Sample:** The research population and sample consisted of economic units operating in the banking sector. The banking sector is a vital developmental and financial sector in Iraq, aiming Private sector financing for the environment in Iraqi businesses, which operates in diverse economic fields. Banking economic units hold a majority of the shares issued on the Iraq Stock Exchange compared to other listed economic sectors.
- 2- Measuring, Analyzing, and Interpreting Quality in internal auditing:** To measure the quality of internal auditing, the researcher used an assessment form developed based on the professional standards for internal auditing issued by the Institute of Internal Auditors (2018). The assessment form was divided into two axes: (attribute standards axis, and performance standards axis). The aim was to determine the extent to which these standards are applied in the banks included in the research sample Listed on the stock exchange, this reflects the level of quality in internal auditing. A detailed analysis of the assessment model, based on the banks' responses to the research, is provided below.
- 3- Measuring the Dependent Variable: Accounting Information Asymmetry:** In line with many previous studies that used the price range metric to measure accounting information asymmetry based on bid-ask spreads, as this metric is the most accepted and reliable for measuring asymmetry, in addition to addressing the problem of reverse

selection that arises from asymmetric information between market participants and management, this metric measures transactions in real time based on daily data. Therefore, this metric is unsuitable for the Iraqi context due to the lack of necessary data. For this reason, the researcher used the price range metric developed by Corwin & Schultz (2012), known as the High-Low Spread, which indicates the relative difference between the highest and lowest prices of a company's stock after the release of its annual reports.

#### 4- Testing hypotheses, analyzing and interpreting results

a- Investigating the correlation between the quality of internal auditing and the asymmetry of accounting information using the statistical program (SPSS vr. 24). The researcher found the correlations between the quality of internal auditing and the asymmetry of accounting information, and the researcher obtained the results included in the following table:

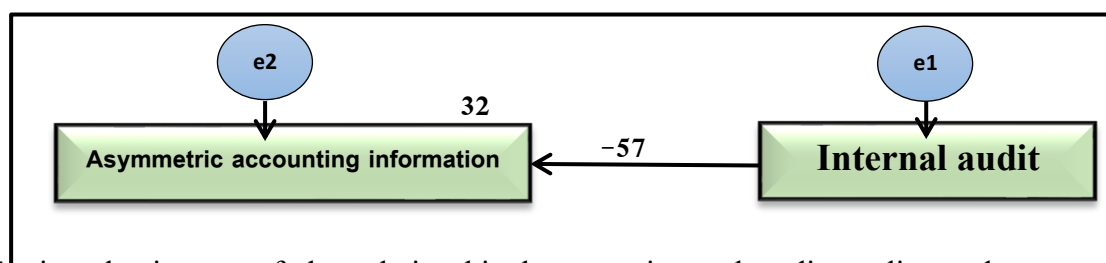
Table No. (2)

#### Correlation coefficients between internal audit quality and accounting information asymmetry

Correlations			
		Quality of internal audit	Asymmetric accounting information
Quality of internal audit	Pearson Correlation	1	-.567**
	Sig. (2-tailed)		.001
	N	32	32
Asymmetric accounting information	Pearson Correlation	-.567**	1
	Sig. (2-tailed)	.001	
	N	32	32
**. Correlation is significant at the 0.01 level (2-tailed).			

The correlation hypothesis to be tested is: There is no significant correlation between the quality of internal auditing and the asymmetry of accounting information. The results in the table above show that the correlation coefficient between The quality of internal auditing and inconsistencies in accounting information were noted.a value of (-0.567) with a significance level of (0.000). This value is less than the significance level of (5%), which indicates the rejection of the null hypothesis. We conclude that there is a significant negative correlation between the quality of internal auditing and the asymmetry of accounting information.

1- **The impact of the relationship between internal audit quality and accounting information asymmetry:** The researcher used the statistical program (AMOS vr.24) to build a model that determines the significance of the direct and indirect effects of the variables included in the research. This model was formulated as follows:



Testing the impact of the relationship between internal audit quality and accounting information asymmetry can be statistically formulated from the above hypothesis to the null hypothesis and the alternative hypothesis: H0: There is no impact of the relationship between internal audit quality and accounting information asymmetry. H1: There is an impact of the relationship between internal audit quality and accounting information asymmetry. The researcher presents the following table, which includes the direct impact and its t-test results:

Sig.	T test	S.E.	Estimate		
0.000	-3.828	.048	-.567	Asymmetric accounting information	←--- Quality of internal audit

There is a significant direct adverse effect of the quality of internal auditing on asymmetry of accounting information, as the effect value reached (-0.567) with a t-test value of (-3.828), which is a statistically significant value below the significance level of (5%).

This value indicates a one-unit improvement in internal audit quality through increased compliance with the Institute of Internal Auditors (IIA) Standards of Professional Practice for Internal Auditing. auditing leads to a decrease in the asymmetry of accounting information by (-0.567) because the higher quality of internal auditing makes it more careful to fully disclose accounting information in the financial statements without management being able to hide any information from users and increase the quality of accounting information.

#### The fourth section: conclusions and recommendations

##### First: conclusions

1. Banks conduct the job search and internal audit in accordance with professional standards. The results indicate that the internal audit units enjoy high quality, and that increasing the quality of internal audits through the application of professional practice standards issued by specialized organizations and bodies, such as the Institute of Internal Auditors (IIA), plays a significant role in adding value to the bank by reducing discrepancies in accounting information.

2. This results in relatively consistent information between management and other parties, as high-quality internal audits lead to greater transparency in the disclosure of accounting information in financial statements, preventing management from concealing any information from users. This also increases the quality of accounting information, as indicated by the direct inverse relationship, which reached (-0.57).

3. The banks in the research sample operate Internal audit function according to professional standards. The results indicate that the quality of internal audits is primarily based on the application and support of the independence of the internal auditor, without interference from management during audit processes.

4. It becomes clear to us that there is a case of variation in the ratios of the level of asymmetry of accounting information in the banks in the research sample, as the case of asymmetry of accounting information occurs due to cases of non-compliance with the disclosure of accounting information of importance to investors, creditors and other users.

## **Second: Recommendations**

1. The researcher recommends that listed banking units on the Iraq Stock Exchange be required to implement the professional standards for internal auditing issued by the Institute of Internal Auditors (IIA) to achieve a high level of performance in internal control. This can be accomplished by developing the capabilities and skills of internal audit staff through training courses in internal auditing and improving operational efficiency.

2. The researcher recommends that professional organizations and bodies concerned with accounting and internal auditing monitor the application In addition to accounting standards, internal auditing standards were included, in order to enhance the quality of disclosure of accounting information. This contributes effectively to reducing accounting information asymmetry.

3. The researcher recommends giving greater attention to issues related to Application of standards in internal auditing and researching the most important factors affecting quality levels. This can be achieved by enriching the research field in accounting and auditing and attempting to bridge the local gap in the study of accounting asymmetry. The researcher also suggests a number of future research projects.

4. The researcher recommends improving the tools of the Iraq Stock Exchange in publishing information and financial statements of companies by using electronic programs and other supporting office programs in a way that allows market participants to save time and effort in dealing with accounting information.

## **Reference:**

- 1- Guidance Manual for Internal Audit Units in the Republic of Iraq – Baghdad, (2019), Federal Board of Supreme Audit.
- 2- Bilal, Sayed Hassan Salem, and Al-Asdawi, Mustafa Sayed Mustafa Ali, (2020), "The Impact of Disclosing Key Audit Matters on Information Asymmetry and Audit Report Delays," a selective study on Saudi joint-stock companies, Scientific Journal of Financial and Commercial Studies and Research, Faculty of Commerce, Damietta University, Volume 1, Issue (2), Part 2.

- 3- Khayoun, Ali Mohammed, and Al-Muaini, Saad Salman, (2021), "The Role of Integrated Reporting in Reducing Information Asymmetry," an analytical study of a sample of Iraqi banks listed on the Iraq Stock Exchange, *Journal of Financial and Accounting Studies*, (89-103), Volume (16), Issue (56).
- 4- Mohsen, Fouad Mohsen, (2021), "The Impact of Accounting Information Asymmetry on Stock Prices and its Reflection on Investment Decisions in Companies Listed on the Iraq Stock Exchange," Thesis submitted to the University of Baghdad - College of Administration and Economics.
- 5- Ahmed, Jia Karim, (2017), "The Role of Using Six Sigma to Activate and Improve Internal Auditing and its Reflection on the Quality of Accounting Information," Exploratory Research on a Sample of Commercial Banks in Sulaymaniyah Governorate, *Journal of the University of Human Development*, Volume (3), Issue (3).
- 6- Institute of Internal Auditors, (2018), "Standards for the professional practice of internal auditing".
- 7- Institute of Internal Auditors, (2017), "Standards for the professional practice of internal auditing".
- 8- Kusumaningtyas, M., Chariri, A., & Yuyetta, E. N. A. (2019). Information asymmetry, audit quality, and institutional ownership on earnings management: Evidence from mining companies listed on the Indonesia stock exchange. *International Journal of Engineering and Advanced Technology*, 8, 126-139.
- 9- Makhoulf, M. H., Soda, M. Z., Oroud, Y., & Ramadan, A. H. (2022). The moderating effect of audit quality on the relationship between information asymmetry and earnings management: evidence from Jordan. *Afro-Asian Journal of Finance and Accounting*, 12(2), 165-177.
- 10- Zaidan, A. M., & Neamah, I. S. (2022). The Effect of the Quality of Internal Audit Function to Improve the Operational Efficiency of Companies: An Empirical Study. *Webology* (ISSN: 1735-188X), 19(1).
- 11- Nurdiono, N., & Gamayuni, R. R. (2018). The effect of internal auditor competency on internal audit quality and its implication on the accountability of local government. *European Research Studies Journal*, 21(4), 426-434.
- 12- Kwabena, K. A. (2017). The effects of internal audit quality on financial performance of firms listed at the Nairobi securities exchange (Doctoral dissertation, University of Nairobi).
- 13- Ajila, M., & Khaira, Z. (2017). Quality requirements of internal audit services A comprehensive vision. *Global Journal of Economic and Business*, 2(2), 61-73
- 14- Izedonmi, F. I. O., & Olateru-Olagbegi, A. (2021). Internal Audit Quality and Public Sector Management in Nigeria. *European Journal of Social Sciences Studies*, 6(5).
- 15- Izedonmi, F. I. O., & Olateru-Olagbegi, A. (2021). Internal Audit Quality and Public Sector Management in Nigeria. *European Journal of Social Sciences Studies*, 6(5).
- 16- Louwers , T. J, Ramsay , R. J, Sinason , D. H, Strawser , J. R, Thibodeau , J. C, (2015), "Auditing & Assurance Services", Sixth edition, Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121.



- 17- GLEIM, I. N, (2020), "Essentials of Internal Auditing", Copyright © (2020), Gleim Publications, Inc. All rights reserved. Duplication prohibited.
- 18- Pitt, S. A. (2014). Internal audit quality: Developing a quality assurance and improvement program. John Wiley & Sons.
- 19- Krichene, A., & Baklouti, E. (2021). Internal audit quality: perceptions of Tunisian internal auditors an explanatory research. *Journal of Financial Reporting and Accounting*, 19(1), 28-54.
- 20- Welay, P. A., Rosidi, R., & Nurkholis, N. (2019). Analysis of factors affecting internal audit quality: Study at the inspectorate of Maluku Province, Ambon City and West Seram District. *International Journal of Multicultural and Multireligious Understanding*, 6(6), 116-126.
- 21- Dania, S. P., Wardayati, S. M., Wahyuni, N. I., Arianto, A. C., & Ningsih, N. (2019). Analysis of Factors Affecting the Quality of Audit Results at Internal Control Unit of University of Jember. *Proceeding UII-ICABE*, 123-132.
- 22- Abad, D., Lucas-Pérez, M. E., Minguez-Vera, A., & Yagüe, J. (2017). Does gender diversity on corporate boards reduce information asymmetry in equity markets?. *BRQ Business Research Quarterly*, 20(3), 192-205.
- 23- Komalasari, P. T., & Nasih, M. (2020). Information asymmetry in capital market: What, why and how. In *Advances in Business, Management and Entrepreneurship* (pp. 347-352). CRC Press.
- 24- Rymar, I. E. (2016). Information asymmetry and its impact on cost of equity capital: Volkswagen case.
- 25- Mavlanova, T., Benbunan-Fich, R., & Koufaris, M. (2012). Signaling theory and information asymmetry in online commerce. *Information & management*, 49(5), 240-247.
- 26- Jasman, J., & Amin, M. N. (2017). Internal audit role on information asymmetry and real earnings management. *Jurnal Akuntansi dan Auditing Indonesia*, 21(2), 95.