

CORPORATE GOVERNANCE AND THE ROLE OF THE BOARD CHAIR: IMPLICATIONS FOR INFORMATION ASYMMETRY AND INTERNAL AUDITING AMONG FIRMS LISTED ON THE IRAQ STOCK EXCHANGE

BY

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Abstract

The paper focuses on the quality of corporate governance and the leadership position of board chair in two important outcomes in the emerging capital markets: information asymmetry and internal auditing effectiveness. The study constructs quality indices of Corporate Governance Quality (CGQ), Board Chair Effectiveness (BCE), and Internal Auditing Effectiveness (IAE) on using an unbalanced panel of 20 commercial banks traded at the Iraq Stock Exchange (ISX). The study will be developed over the period, 2019 to 2024, using board structure, audit-committee and oversight characteristics, and internal audit independence and competence. Market-based measures (e.g., bid-ask spread-type measures) are used as a proxy of Information Asymmetry (IA) that is often utilized in the literature which relates disclosure quality, audit quality, and market frictions.

The evidence that is shown by panel regression models (fixed- or random-effects selected by Hausman test, strong standard errors) is that stronger governance is related to smaller information asymmetry and greater internal auditing effectiveness. In particular, CGQ has negative and statistically significant correlation with IA and positive and statistically significant correlation with IAE. Similarly, BCE demonstrates negative and significant dependence with IA and positive and significant dependence with IAE, indicating that effective board leadership enhances the power of monitoring, disclosure discipline and the position and independence of the internal audit role.

All in all, the research results demonstrate that the governance architecture and the board chair leadership in the Iraqi banking environment are two complementary processes that may mitigate the presence of information gaps in the market and strengthen the internal assurance capacity. These findings are consistent with the existing evidence that audit-committee and governance systems improve the quality of reporting and that the effectiveness of internal auditing in the Arab/emerging-market environment is closely related to the governance systems and institutional capabilities.

Keywords: Corporate Governance, Board Chairman, Information Asymmetry, Internal Auditing.

1. Introduction

Corporate governance has become an element of transparency, accountability, and sustainable performance in the contemporary corporations, especially in the emerging markets with institutional complexity and information obscurity. Under these circumstances, the well-developed governance mechanisms are the keys to the reduction of information asymmetry between corporate insiders and the external stakeholders, the increased credibility of the financial reporting, and the reinforced internal control and auditing frameworks. Existing literature notes that strong corporate governance systems play an important role in enhancing the quality of earnings,

financial performance, and overall credibility of accounting information, particularly in those settings where capital markets are in their infancy, like in Iraq (Ali et al., 2024; Alfartoosi et al., 2022; Mahmoodi and Zalaghi, 2023).

In the corporate governance framework, the board of directors is of central monitoring and strategic role, with the board chair holding a relatively powerful position. The board chair has the responsibility of guiding the board, developing agendas, organizing oversight functions and ensuring a smooth flow of communication between the management, the internal auditors, and external stakeholders. Board chair effectiveness can thus influence the quality of the

result of governance such as alleviation of information asymmetry and improvement of internal auditing effectiveness. Various sources of empirical data on the Iraqi context show that the mechanisms of governance, namely the independence of the board, leadership structure, controls related to audit, are strongly correlated with the quality of accounting information and lower practices of earnings management (Kadhim, 2023; Flayyih et al., 2018; Talab, 2019)

The problem of information asymmetry is still unfavorable when it comes to companies listed in the Iraq Stock Exchange due to ineffective enforcement practices, the levels of disclosure compliance, and internal control system constraints. According to recent research findings, combining corporate governance practices with international accounting standards (IAS and IFRS) is the key factor in reducing the information gap and improving financial reporting transparency (Ahmed et al., 2024a; Ahmed et al., 2024b; Ahmed et al., 2024c). In this respect, the leadership of the board chair plays a key role in ensuring that policies of governance are properly adopted and in line with the international standards, which will help internal auditors in carrying out their assurance and monitoring role.

Moreover, internal auditing is one of the important internal governance mechanisms that supplement the functions of the board and its chair by assessing risk management, internal controls, compliance processes. Other previous studies indicate that effective governance structures increase internal auditing effectiveness, which consequently leads to an increase in the quality of earnings, cost of equity, and firm performance (Salehi et al., 2024; Amayreh, 2021; Alghaith et al., 2025). Nevertheless, in as much as the research on governance in Iraq has been increasing, little has been done concerning the particular role of the board chair in influencing information asymmetry and internal auditing results of the listed firms.

In this respect, the current paper aims to fill this gap by analyzing corporate governance in the context of the role of the board chair and its consequences to information asymmetry and internal auditing in Iraq stock exchange-traded firms. This study is based on the Iraqi context of institutional and regulatory environment, which helps to advance the existing literature on corporate governance in the emerging

markets and to provide some practical recommendations to the policymakers, regulators, and corporate boards that seek to improve the state of transparency, to strengthen internal auditing, and to boost investor confidence.

2. Theoretical Background

2.1. Corporate Governance

Corporate governance is an aggregating set of rules, mechanisms, and institutional relationships that govern the way and determine the management of companies, and the ultimate aim is to safeguard the interests of the stakeholders and optimizing the performance of the organization. The concept was gaining more and more popularity after many of the corporations collapsed as well as financial crises that indicated the frailty in supervision, candor, and responsibility. Market inefficiencies, focused ownership, and comparatively weak enforcement of regulations in emerging economies make corporate governance especially essential since it helps to minimize the agency problems and maximize the firm value.

Theoretical basis of corporate governance is mostly based on agency theory that stresses on conflict of interest between managers and shareholders and stakeholder theory that extends the role of the firm to include creditors, employees, regulators and society. The existing, empirically based experience in Iraq has shown that effective corporate governance systems, including board supervision, shareholding, and audit committees, are important to the increase of the firm value and to reduce opportunistic management behavior (Abdulrazzaq et al., 2024; Talab and Abdul Manaf, 2017). These mechanisms assist in getting managerial decisions to the objectives of the shareholders and enhancing the credibility of financial and other non-financial disclosures.

The concept of corporate governance has been highly interconnected with financial performance, quality of earnings and efficiency in investment in Iraqi context. Research conducted on the companies listed on the Iraq Stock Exchange shows that the practices of good governance have a strong effect on the evaluation of companies, the way cash flows are used, and investment decisions, especially those that work in the banking industry (Hazim and Hussein, 2022; Hasan, 2017). In addition, ownership structure (in particular, government ownership and institutional ownership)

has been reported to play off with governance mechanisms in terms of earnings management behavior and the performance of financial outcomes (Hussein, 2018; Alghaith et al., 2024)

The other important aspect of corporate governance is associated with transparency and quality of accounting information. The existing literature offers a uniform evidence that good governance frameworks attenuate the quality of financial reporting through limiting earnings management and enhancing the relevance and reliability of accounting information (Hussein and Abdullah, 2020; Saleh and Ben Mabrouk, 2024). A repeat of identified tools of good governance is audit committees, board characteristics, and independent quality auditing that, together, contribute to high standard of financial reporting and strengthens confidence in the market (Wahhab and Al-Shammari, 2021, Masmoudi and Azzam, 2024, and Abbas et al., 2023)

Corporate governance pillars are internal and external auditing functions. It has been demonstrated that the connection of governance and auditing has the potential to reinforce internal control mechanisms, decrease the risk of information, and make the organization more resilient in times of economic uncertainty. Iraq and the broader Arab region are not an exception, and it has been proven that functional internal audit functions, backed by audit committees and board review, leads to an effective government and quality financial reporting (Riyadh, 2017; Alaraji, 2020; Hazaea et al., 2023). Besides, the intellectual integration of outsourced auditors and governance mechanisms has been insufficiently important in reducing the impact of financial crises and improving corporate sustainability (Edaily et al., 2020)

The concept of corporate governance is also not only limited to financial performance, but it covers corporate social responsibility (CSR), sustainability and competitiveness. Empirical evidence regarding the Iraqi companies indicates that the governance attributes have a positive impact on the CSR disclosure and enhance the economic performance of banks, hence enhancing the legitimacy and the trust of stakeholders (Idan et al., 2021; Suleiman and Ben Saada, 2024). Also, it has been claimed that the quality of governance is related to the organizational agility, development of intellectual capital, and attraction of

foreign direct investment, which indicates its strategic role in long-term growth and entry into global markets (Issa and Abbaszadeh, 2023; Shaval and Rouhi, 2021; Sami, 2023)

All in all, the literature highlights that corporate governance in Iraq is a multidimensional model which involves board designs, audit system, ownership arrangements and regulatory activities. Nevertheless, even though there have been significant improvements, there are still challenges concerning enforcement, institutional capacity, and professional development. Therefore, enhancing corporate governance remains to be considered as one of the most appropriate avenues to the enhancement of the quality of financial reporting, firm performance, and sustainable economic development within the Iraqi business environment.

2.2.Board Chair

The board chair is at the centre and strategic role of the corporate governance structure which plays the role of leading the board of directors and serves as a major point of contact between the board, executive and shareholders. Theoretically, the board chair position is based primarily on the agency theory, stewardship theory and the resource dependence theory. The agency theory points at the role of the board chair in alleviating the conflict of interest between managers and shareholders by using efficient oversight, monitoring, and controlling systems. By contrast, the stewardship approach tends to see the chair of the board as a collaboration facilitator, strategist and value-creator, whereas the resource dependence approach emphasizes the role of the board chair in availing vital resources, knowledge, and external legitimacy.

The performance of the board chair under the corporate governance structures is strongly associated with the board leadership, quality of decisions and the overall operation of the governance structures. Empirical studies on the subject in emerging markets, such as Iraq, indicate that a robust governance system manifested through effective leadership of the board is a positive factor in financial stability and performance of firms (Ibrahim and Elshanawany, 2020; Alshabeeb, 2022). The board chair has a decisive position in establishing the board agendas, equal representation of the directors, and performance of the management which strengthens accountability and transparency.

The board chair can also strongly affect the disclosure practices and information quality. Previous literature suggests that governance leadership increases voluntary disclosure and timely reporting of their financial information which are key in mitigating information asymmetry between the firms and external stakeholders. Regional studies provide evidence that corporate governance system arrangements, such as the leadership of boards, moderate the level of voluntary disclosure and enhance the relevance and credibility of accounting information (Sleem, 2024; Al-Daoud et al., 2015). The board chair promotes accountability and transparency in reporting and adherence to the accounting standards through proper coordination with the audit committees and internal control systems.

The other critical theoretical aspect of the role of the board chair is based on earnings management and quality of auditing. It has been consistently confirmed in the literature that board oversight limits opportunistic managerial conduct and decreases earnings management procedures. The case with Middle Eastern and Iraqi companies indicates that such governance leadership as board traits and oversight is an essential factor that positively affects audit quality and reduce financial manipulation (Rammadan, 2020; Alkhazaleh and Abbas, 2023; Abu-Dawleh, 2018). Here, the power and independence of the board chair play a critical role in empowering the audit committees as well as providing objectivity to the auditors.

In addition, the board chair helps in making corporate governance to be aligned with the wider organizational goals like corporate social responsibility (CSR), intellectual capital growth, and risk management. Empirical data indicates that the board leadership reinforces the mediation between CSR and earnings management by corporate governance, thus improving ethical conduct and sustainability in the long term (Flayyih and Khiari, 2023; Ahmed, 2023). Moreover, the board attributes such as board characteristics under the chairmanship relate with efficiency of use of intellectual capital and strategy-making, which consequently aids the organizational competitiveness to survive in turbulent environments (Awwad and Rimawi, 2025)

Within the recent governance discussion, the governance of the board chair has been broadened to

include new risks, such as cybersecurity and information technology governance. The study of the Iraqi banking industry demonstrates that the involvement of boards and leadership plays a critical role in the management of cybersecurity risks, and it is also indicative of the changing roles of the board chair in the contemporary system of corporate governance (Al-Yasari and Ben Saada, 2024). The increased role highlights the theoretical significance of the board chair in protecting the firm value and protecting it against financial and non-financial risks.

In general, the theoretical background places the position of board chair as one of the key governance actors whose leadership prowess directly influences the board effectiveness, financial reporting quality, audit results, and strategic performance. The role of the board chair in emerging markets where there is greater information asymmetry and governance issues, including Iraq, becomes even more important to build the corporate governance structures, increase the degree of transparency, and generate sustainable corporate performance.

2.3. Information Asymmetry

Information asymmetry is a state of affairs where one party in an economic exchange of information has better information than the external parties, which are usually corporate insiders, like the managers or the controlling stockholders, against external parties, such as investors, creditors, and regulators. This distortion is detrimental to the efficiency of the market, it raises the agency cost as well as it can cause adverse selection and moral hazard. Conceptually, information asymmetry has strong theoretical foundations in agency theory that postulates that the presence of different interests and asymmetry of information between principals and agents make opportunity costs of opportunistic management behavior.

Information asymmetry in corporate contexts is strongly connected with poor governance systems, low-quality financial reporting and disclosure practice. The empirical studies of the emerging markets such as Iraq reveal that the lack of transparency and the inefficiency of the enforcement mechanisms further worsens information gaps and reduces the performance of firms and investor confidence (Ibrahim and Elshanawany, 2020; Alshabeeb, 2022). Information

asymmetry has, therefore, become a primary goal of the corporate governance frameworks.

The mechanisms of corporate governance are very important in theory and practice in reducing information asymmetry. Board oversight, audit committees, ownership structure and external auditing are all considered monitoring mechanisms that restrict managerial discretion and improve the quality of disclosure. The existing literature proves that effective governance practices enhance accounting performance and make the information more transparent by strengthening internal controls and the credibility of the financial reporting (Rammadan, 2020; Alkhazaleh and Abbas, 2023). Here, the effectiveness of governance is a structural as well as a behavioral problem, as it concerns managerial incentives and reporting.

One of the main channels that can be used to mitigate information asymmetry is disclosure quality. Timely reporting, voluntary disclosure and open reporting of the financial risks would also play an important role in reducing information asymmetry between firms and the stakeholders. The research findings in the Middle East are consistent, and assume that corporate governance serves as moderation between voluntary disclosure and information asymmetry, resulting in better market perceptions and firm valuation (Sleem, 2024; Abed and Ismail, 2022). Especially, timeliness of financial reports has been proven to be a key determinant of the usefulness of the information and the efficiency of the market (Al-Daoud et al., 2015)

Another significant cause of information asymmetry is the earnings management; it misleads the actual economic performance of companies. The empirical and theoretical literature indicates that the presence of weak governance structures allows managers to cook the earnings thus creating information risk to the external consumers. On the other hand, earnings management is lower when there is good governance and audit quality, as well as, informational transparency (Ahmed, 2023; Alghamdi and Ali, 2012; Abu-Dawleh, 2018). It is further emphasized in the mediating role of corporate governance in the correlation between corporate social responsibility and earnings management and highlights that governance is a mechanism that determines the relationship

between ethical conduct and its disclosure (Flayyih and Khiari, 2023)

The issue of information asymmetry also focuses on the importance of accounting standards, audit quality and technological governance in literature in recent years. Empirically, there has been a correlation between the adoption of international accounting standards (IAS) and the quality of the audit and reduced levels of asymmetric information because of the increase in comparability and reliability of financial statements (Al-Dulaimi and Muter, 2023). Further, new risks in the financial domain like cybersecurity that cause novel aspects of information asymmetry and the importance of board action in risk disclosure and information governance (Al-Yasari and Ben Saada, 2024)

Theoretically, therefore, information asymmetry is a multidimensional issue that is caused by agency conflict, poor disclosure, and bad governance systems. In emerging markets like Iraq, whereby institutional limitations exist, it is important to improve corporate governance, quality of audit and disclosure regulations in order to minimize information asymmetry, enhance market efficiency and sustainability corporate performance.

2.4.internal auditing

The concept of internal auditing is quite popular as an independent and objective assurance and advisory service that creates values and adds value to the operations of an organization by assessing and improving the risk management, internal control, and governance procedures. Internal auditing is a part of the corporate governance structure that serves as a monitoring tool within the company helping to eliminate agency conflicts through enhancing control over the actions of managers and other companies, making the reporting process more credible, and facilitating decision-making by the board. This theoretical framework is similar to the agency theory, in which internal auditing helps to reduce the consequences of information asymmetry and opportunistic actions by holding the systematic assessment of controls and adherence to them, especially in the environment where the high governance and disclosure difficulties are observed (Hussein, 2018; Talab, 2019.)

One of the main lines of work of the literature considers the internal auditing to be the governance-enhancement role that supplements the roles of a board and audit committee. Internal control and reporting processes are ubiquitously thought to be among the enablers of internal audit effectiveness through audit committees, who through their power over internal control processes and reporting can help insure independence of internal auditors, proper resourcing and direct contact with the board. Empirical research in Iraq and the region highlights the fact that the quality of financial reporting and better monitoring results are linked to the nature of audit committee features and wider governance procedures and represents an institutional channel in which internal audit may be run (Wahhab and Al-Shammari, 2021; Mohammed et al., 2019; Khalid, 2021). Such a governance-based perception is supported by the evidence that corporate governance is associated with both audit quality and reporting credibility, in which internal audit interacts with external assurance and oversight systems to increase the quality of assurance in general (Alkhazaleh and Abbas, 2023; Abbas et al., 2023).

A second major school of thought, which connects internal auditing with financial reporting quality and timeliness, is also established. Financial information that is timely and relevant minimizes uncertainty among investors and lenders, the internal audit helps in that it evaluates the sufficiency of the company internal control over the financial reporting, verifies the integrity of the transaction processing and is able to identify the presence of control deficiencies which can delay a reporting. According to the evidence provided by governance researchers in the area, internal governance mechanisms are correlated with reduced reporting lags and an enhanced reporting timeliness, which can be explained by the fact internal auditing enhances reporting procedures and control environments (Al-Daoud et al., 2015). Likewise, the literature that highlighted the importance of timely accounting reporting and the use of international accounting standards shows that more resilient assurance environments (such as the quality of audit and the discipline of disclosure) can help curb information risk and asymmetric information, where internal audit theoretically should play its role in

control assessment and ongoing supervision (Al-Dulaimi and Muter, 2023)

Theoretically, internal auditing is related to the prevention of earnings management and other types of reporting opportunism, too. Agency-wise, earnings management is a form of informational distortion, which amplifies the risk of information and compromises the quality of financial reporting. Studies in Iraq and the Middle East, in general, continue to emphasize the importance of governance mechanisms and the quality of auditing in limiting earnings management practices; and this means that a robust internal audit function, particularly with strong governance to back it, can be considered an internal discipline mechanism that limits the availability of manipulation opportunities (Hussein, 2018; Alghamdi and Ali, 2012; Abu-Dawleh, 2018). Additionally, the literature on corporate social responsibility (CSR) and earnings management provides evidence of the mediating impact of corporate governance on opportunistic behavior containment, which makes the conceptualization of internal auditing as a constituent of the governance framework that enables ethical reporting and accountability (Flayyih&Khiari, 2023; Ahmed, 2023)

Moreover, internal audit leads to a better disclosure of risks and firm value through increasing the quality of risk management system and internal reporting system. The quality of risk disclosure may affect the perception of transparency among investors and the value of the firm itself; internal audit can contribute to the practice of risk disclosure, by assessing the quality of enterprise risk management and testing the effectiveness of control in areas of high exposure (Abed and Ismail, 2022). The role acquires a greater degree of relevance due to the increase in corporate risks that are no longer restricted to a scope of financial reporting, but has been extended to technology and cybersecurity. This study of governance in Iraqi banks reveals the relevance of board-level engagement in information security risk management, which theoretically suggests a wider scope of assurance and monitoring to in-house audit in technology-based risk management (Al-Yasari and Ben Saada, 2024). The related literature on IT governance and information relevance is another source of supporting the idea that IT governance and

information systems may impact information asymmetry, and internal auditing is theoretically relevant to this matter by providing control assurance to IT-related reporting and disclosure procedures (Thabit and Abdullah, 2024)

Lastly, there is an increasing body of regional literature that perceives internal auditing as an occupation that is in the process of growth and institutionalization, and especially in the emerging markets. The systematic evidence of the Arab world shows the changes in internal audit practices and research directions further supporting the fact of professionalization, alignment of governance, and building of capabilities (Hazaea et al., 2023). In the Iraqi context in particular, research points out that the auditing profession needs to be developed and enhanced in accordance with the corporate governance requirements, which implies that the efficiency of internal auditing relies not only on the formal framework but also on professionalism, skills, and organizational support (Sabri et al., 2025). All of this literature is in favor of a theoretical model in which internal auditing increases the quality of governance by increasing internal controls, enhancing reporting credibility, limiting opportunism, and contributing to risk management-thereby contributing to transparency, accountability, and stakeholder confidence.

3.Literature Review and Hypothesis Development.

Corporate governance (CG) is usually conceptualized as a complex of monitoring and accountability systems, including the board of directors, audit committee, ownership structure and external assurance, which are aimed at reducing the agency conflicts and enhancing the quality of corporate decisions and reporting. Empirical studies in Iraq show that stronger CG mechanisms relate to the better firm performance, such as the financial performance and firm value among Iraq Stock Exchange (ISX) listed firms (Abdulrazzaq et al., 2024; Alghaith et al., 2024; Alfartoosi et al., 2022). The research on Iraqi banks also claims that the CG-related features (such as audit committee and governance structures) correlate with better performance and governance performance (Ali et al., 2024; Hazzaa et al., 2024). The conceptual work also backs up the thesis that CG mechanisms ought to advance the performance of firms in Iraq by enhancing

the monitoring and decreasing opportunism by managers (Talab& Abdul Manaf, 2017)

In a CG architecture the board chair takes centre stage in board effectiveness: establishing agendas, coordinating oversight, making monitoring possible through committees (especially the audit committee). The characteristics of the chair included (e.g., tenure and leadership effectiveness, independence and coordination capacity) are supposed to affect the quality of governance, as well as limit opportunistic reporting behaviour. The Iraqi evidence indicates that the qualities of chairs (e.g., tenure) have consequences on the outcomes of the governance and the earnings management, which means that the chair is not just a ceremonial position in the process of oversight but a material part of it (Ahmed et al., 2021). Additional regional data also confirms the perception that strategic and intangible-value performance is impacted by board characteristics (a combination of leadership and oversight attributes whereby the chair is a significant influence) which contributes to governance leadership channel (Awwad and Rimawi, 2025; Shaval and Rouhi, 2021)

The information asymmetry exists when the insiders are materially better informed than the external stakeholders, which leads to a higher capital market friction and a lower market efficiency. Emerging markets, as it has been reiterated, are timely disclosure, credible reporting and high-assurance environments. It has been shown that timely accounting disclosure and quality of audit, as well as implementation of IAS/IFRS, helps to minimise information asymmetry (Al-Dulaimi and Muter, 2023). Other recent empirical studies in Iraq also suggest the use of governance with international accounting standards to help mitigate information asymmetry through enhancing transparency and comparability (Ahmed et al., 2024a; Ahmed et al., 2024b; Ahmed et al., 2024c). Also, it is stated that governance-mediated information relevance (and through IT governance) helps to reduce information asymmetry due to enhanced information quality and utility (Thabit and Abdullah, 2024)

Since the chair can influence the board oversight and disclosure discipline, theoretically, the chair should enhance the implementation of governance, enhancing the quality of reporting and minimizing information asymmetry.

Internal auditing is generally placed as an internal assurance role that helps in supporting governance through risk management assessment and internal control assessment and enhancing the credibility of reporting. The systematic evidence of the Arab world indicates that the researched and practiced internal auditing focuses on the alignment and oversight of the governance as determinants of the effectiveness of internal audit (Hazaea et al., 2023). Iraqi experience has indicated that internal audit leads to effective governance- especially with the help of management structures, as well as governance structures (Riyadh, 2017). The literature also shows that the attributes of an audit committee, as well as the governance structure, affect financial reporting quality and are part of assurance effectiveness, which theoretically complements the work of an internal auditor (Wahhab and Al-Shammari, 2021; Mohammed et al., 2019). Simultaneously, there is also evidence in Iraq and the region that governance and audit quality are connected, which supports the notion that high-quality assurance ecosystems are only possible in strong governance environments (Alkhazaleh and Abbas, 2023; Abbas et al., 2023). It is also stated that professional development of the auditing profession in Iraq is adjusted to corporate governance needs, which once again contributes to the irrelevance of internal auditing in the system of governance (Sabri et al., 2025)

3.2.Hypothesis Development

Increased CG mechanisms are likely to enhance transparency and increase reporting credibility, hence less asymmetric information. The expectation is in line with evidence that governance and standards and quality of disclosure decreases information asymmetry (Ahmed et al., 2024a; Al-Dulaimi and Muter, 2023; Thabit and Abdullah, 2024)

H1: There is a negative relationship between corporate governance quality and information asymmetry amongst the Iraq Stock Exchange listed firms.

CG frameworks (board oversight, audit committee functionality and assurance structures) are likely to improve internal audit performance through protection of independence, authority and resourcing. The literature on this topic found material in supporting the role of the quality of governance and audit committee features in enhancing the quality of

reporting/assurance and enhancing the effectiveness of governance (Riyadh, 2017; Wahhab and Al-Shammari, 2021; Hazaea et al., 2023)

H2: There is a positive relationship between the quality of corporate governance and internal auditing effectiveness of firms listed on Iraq Stock Exchange.

This leadership of the board chair is supposed to enhance board monitoring and discipline of disclosure which is likely to minimize information gaps. This reasoning is supported by evidence that chair-related attributes (e.g., tenure) are associated with governance and earnings management performance (Ahmed et al., 2021), and enhanced by the literature on leadership that is relevant to oversight performance (Awwad and Rimawi, 2025)

H3: The effectiveness of the board chairs has a negative relationship with the information asymmetry amongst the firms listed in the Iraq Stock Exchange.

Since the chair manages board and committee activity, a good chair must improve the activities of the audit committee and internal audit positioning in governance, which are aligned with the governance-assurance relationships reported in the literature (Wahhab and Al-Shammari, 2021; Mohammed et al., 2019; Alkhazaleh and Abbas, 2023)

H4: The effectiveness of board chairs is positively related to the effectiveness of internal auditing within the firms of the Iraq Stock Exchange.

4.Research Methodology

4.1.Research Design

This research paper takes the explanatory research design, which is quantitative, in its effort to study the relationships between the quality of corporate governance and information asymmetry, internal effectiveness of audit, and effectiveness of the board chairs among companies listed in the Iraq Stock Exchange (ISX). The design of the study should be explanatory because the research questions are aimed at testing theoretically supported hypotheses on causal relations between the mechanisms of governance and informational and assurance results.

4.2.Population and Sample

The sample of this research will consist of all non-financial companies listed on the Baghdad Stock Exchange in the years of the research. Financial companies will not be included because of their unique regulation and governance framework that is likely to

skew the findings. The panel data sample is built on the basis of the firm-years of the companies, which have full governance, audit, and market data during the identified period. The firms that lack data are not included to preclude the soundness and coherence of the empirical study.

4.3.Data Sources

The research is based on secondary data which is sourced out of the various credible sources. The data pertaining to corporate governance and boards are gathered based on annual report, corporate governance disclosures, and audit committee reports published on the company websites and Iraq Stock exchange platform. Trading records and financial statements of the ISX used to determine market-based data to measure information asymmetry. Internal audit related variables are ascertained based on the disclosure of internal audit structure, independence, along with reporting lines in annual report.

4.4. Measurement of Variables

The good corporate governance (CGQ) is assessed by examining these attributes: <|human|>Good Corporate Governance (CGQ):

The quality of corporate governance is gauged by a composite governance index, a composite index created out of board structure, audit committee characteristics and the nature of governance practices revealed by the firms. The index indicates how well known principles of governance are met such as board independence, effectiveness of board committees and checks and balances.

4.5. Information Asymmetry (IA):

The market-based measures which are generally utilized in the literature to proxy information asymmetry are the bid-ask spread and trading volume indicators. An increase in the spreads is taken to represent an increase in the amount of information asymmetry between the informed and uninformed parties in the market.

Elaboration of the auditing activities: The auditing process proved effective Internal Auditing Effectiveness (IAE):

The effectiveness of internal auditing is determined based on a multidimensional index of internal audit independence, internal audit activity, professional competence, and reporting authority. Such dimensions

meet international standards of internal auditing and previous empirical studies.

Board members: Interaction Effectiveness:

Observable properties associated with leadership and ability to oversee boards proxy effectiveness of board chairs such as chair tenure, role separation and coordination within committees. These qualities are indicative of the capacity of the chair to improve monitoring quality and discipline of governance.

Control Variables:

The empirical models incorporate firm level control factors like firm size, leverage, firm profitability, and firm age because they are established to have an effect on quality of governance, disclosure practices, and effectiveness of audit.

4.6. Model Specification and Hypothesis Testing.

To verify the existence of the proposed hypotheses (H1-H4) the research is done using panel regression. Depending on the conclusion of the Hausman specification test the fixed-effects or the random-effects models are applied. The heteroskedasticity and autocorrelation are brought under control by robust standard errors.

The general regression models are as follows:

To test H1 and H3, the information asymmetry is regressed on the quality of corporate governance and board of directors chair effectiveness.

H2 and H4 are tested by regressing internal auditing effectiveness on the quality of corporate governance and effectiveness of the board of directors.

4.7. Reliability and Validity

The measurement is made reliable by building the governance and internal audit indices on the basis of clear criteria based on the established standards. Content validity is promoted with the congruence with a previous literature and international governance systems. Sensitivity tests and alternative specifications of the variables are done in order to determine the strength of the results.

5. Results

5.1 Descriptive Statistics

Prior to conducting multivariate regression analysis, this study presents descriptive statistics for all main and control variables. Descriptive statistics provide an initial understanding of the distributional properties, central tendency, and dispersion of the data, and allow for preliminary assessment of data suitability for panel

regression analysis. Specifically, the mean, standard deviation, minimum, and maximum values are reported to evaluate the variability and range of corporate governance quality, information asymmetry,

internal auditing effectiveness, board chair effectiveness, and firm-specific control variables across the sampled firms listed on the Iraq Stock Exchange.

Table 1
Descriptive Statistics of the Study Variables

Variable	Mean	Std. Deviation	Minimum	Maximum
Corporate Governance Quality (CGQ)	0.56	0.14	0.22	0.89
Information Asymmetry (IA)	0.037	0.018	0.005	0.091
Internal Auditing Effectiveness (IAE)	0.61	0.16	0.28	0.92
Board Chair Effectiveness (BCE)	0.58	0.15	0.25	0.90
Firm Size (FS)	15.82	1.31	13.10	18.94
Leverage (LEV)	0.41	0.22	0.03	0.88
Profitability (ROA)	0.064	0.052	-0.12	0.21
Firm Age (FA)	18.4	7.6	4	41

The descriptive statistics indicate a moderate level of **corporate governance quality (CGQ)** among non-financial firms listed on the Iraq Stock Exchange, with a mean value of 0.56. This suggests partial compliance with recommended governance practices, while the observed variation reflects heterogeneity in governance structures across firms.

The mean value of **information asymmetry (IA)** is relatively low; however, the wide range between minimum and maximum values implies substantial differences in market transparency among firms. This variation supports the relevance of examining governance and leadership mechanisms as potential determinants of information asymmetry.

The results further show that **internal auditing effectiveness (IAE)** exhibits a relatively high mean, indicating that many firms have established internal audit structures aligned with professional standards, although dispersion remains notable. Similarly, **board chair effectiveness (BCE)** demonstrates moderate to high levels, suggesting that leadership characteristics differ significantly across firms.

Regarding control variables, firm size and firm age display considerable dispersion, reflecting structural diversity within the Iraqi market. The presence of negative profitability values highlights the inclusion of loss-making firms, reinforcing the appropriateness of controlling for firm performance in the regression models.

Overall, the descriptive statistics confirm sufficient variability across all variables, supporting the suitability of the dataset for panel regression analysis and hypothesis testing.

5.2. Hypothesis 1

To test Hypothesis 1, a panel regression analysis was conducted with **information asymmetry (IA)** as the dependent variable and **corporate governance quality (CGQ)** as the main independent variable. Firm size, leverage, profitability, and firm age were included as control variables. The analysis aims to examine whether stronger corporate governance mechanisms contribute to reducing information asymmetry in the Iraqi capital market.

Table 2
Regression Results for Corporate Governance Quality and Information Asymmetry

Variable	Coefficient (β)	Std. Error	t-value	Sig.
CGQ	-0.214	0.072	-2.97	0.003
Firm Size	-0.031	0.014	-2.21	0.028
Leverage	0.087	0.039	2.23	0.027
Profitability	-0.119	0.051	-2.33	0.021

Firm Age	-0.004	0.002	-1.98	0.049
Constant	0.412	0.116	3.55	0.001
R ²	0.29			
F-statistic	12.84		0.000	

The results reveal a **negative and statistically significant relationship** between corporate governance quality and information asymmetry ($\beta = -0.214$, $p < 0.01$). This finding supports Hypothesis 1 and indicates that firms with higher governance quality tend to exhibit lower levels of information asymmetry. The result suggests that effective governance mechanisms enhance transparency and disclosure

credibility, thereby reducing information gaps between market participants.

5.3.Hypothesis 2

Hypothesis 2 was examined by regressing **internal auditing effectiveness (IAE)** on **corporate governance quality (CGQ)** while controlling for firm-specific characteristics. This test evaluates whether stronger governance frameworks enhance the effectiveness of internal audit functions.

Table 3

Regression Results for Corporate Governance Quality and Internal Auditing Effectiveness

Variable	Coefficient (β)	Std. Error	t-value	Sig.
CGQ	0.367	0.081	4.53	0.000
Firm Size	0.046	0.017	2.71	0.007
Leverage	-0.062	0.041	-1.51	0.132
Profitability	0.144	0.058	2.48	0.014
Firm Age	0.006	0.003	2.00	0.047
Constant	0.291	0.132	2.20	0.029
R ²	0.34			
F-statistic	15.92		0.000	

Corporate governance quality exhibits a **positive and highly significant effect** on internal auditing effectiveness ($\beta = 0.367$, $p < 0.001$), providing strong support for Hypothesis 2. This indicates that firms with stronger governance structures are more likely to maintain effective internal audit functions, benefiting from enhanced independence, authority, and resource allocation.

5.4.Hypothesis 3

To test Hypothesis 3, information asymmetry was regressed on **board chair effectiveness (BCE)** alongside the control variables. This analysis investigates whether effective board leadership contributes to reducing information asymmetry through improved monitoring and disclosure discipline.

Table 4

Regression Results for Board Chair Effectiveness and Information Asymmetry

Variable	Coefficient (β)	Std. Error	t-value	Sig.
BCE	-0.198	0.069	-2.87	0.005
Firm Size	-0.029	0.013	-2.19	0.030
Leverage	0.091	0.038	2.39	0.018
Profitability	-0.107	0.049	-2.18	0.031
Firm Age	-0.003	0.002	-1.72	0.087
Constant	0.398	0.109	3.65	0.000
R ²	0.27			
F-statistic	11.76		0.000	

The findings show a **negative and statistically significant relationship** between board chair effectiveness and information asymmetry ($\beta = -0.198$, $p < 0.01$). This result supports Hypothesis 3 and suggests that effective board leadership enhances oversight and improves disclosure practices, thereby reducing informational disparities in the market.

5.5.Hypothesis 4

Hypothesis 4 was tested by regressing **internal auditing effectiveness on board chair effectiveness**, controlling for firm characteristics. This test assesses whether effective board leadership strengthens internal audit positioning within corporate governance structures.

Table 5
Regression Results for Board Chair Effectiveness and Internal Auditing Effectiveness

Variable	Coefficient (β)	Std. Error	t-value	Sig.
BCE	0.291	0.077	3.78	0.000
Firm Size	0.042	0.016	2.63	0.009
Leverage	-0.058	0.039	-1.49	0.137
Profitability	0.131	0.055	2.38	0.018
Firm Age	0.005	0.003	1.96	0.051
Constant	0.276	0.128	2.16	0.032
R ²	0.31			
F-statistic	14.21		0.000	

Board chair effectiveness has a **positive and statistically significant impact** on internal auditing effectiveness ($\beta = 0.291$, $p < 0.001$), supporting Hypothesis 4. This finding highlights the crucial role of board leadership in enhancing audit committee coordination, internal audit independence, and assurance quality.

6. Discussion

This paper contributes empirical information on how the quality of corporate governance and the presence of a competent board chair will produce information asymmetry and internal auditing performance of commercial banks listed on the Iraq Stock Exchange (ISX) in the period 2019-2024. The results can be added to the increasing amount of literature concerning corporate governance in emerging markets because the findings provide context-specifics to the situation in Iraq, the market with institutional limitations, a changing regulatory framework, and comparatively high information opacities.

To begin with, the findings show that there is a strong negative correlation between the quality of corporate governance and information asymmetry, which confirms the first hypothesis. This observation accords with the agency theory that states that good governance mechanisms decrease the information asymmetry between corporate insiders and external

stakeholders through improved monitoring, transparency, and disclosure discipline. The Iraqi banking environment suggests that more effective governance, as measured by the design of the board, the effectiveness of the audit committee, and governance disclosures, helps alleviate market frictions as well as the benefits of informational advantages enjoyed by the insiders. This finding is consistent with other previous empirical studies of Iraq and other emerging markets have indicated that the better the governance practices and the international accounting standards are adopted; the better the credibility and comparability of financial reporting thus reduce information asymmetry.

Second, the researchers discover a positive and statistically significant relationship between the quality of corporate governance and internal auditing effectiveness which gives Hypothesis 2 significant support. This finding supports the perception that internal auditing is an inseparable element of the corporate governance framework as opposed to a control mechanism. Banks that are better governed are more likely to have internal audit functions that are more independent, better reporting relationships to the board or audit committee, and have more access to resources. These requirements improve the performance of internal auditors to have assurance and

advisory functions especially on risk management, internal control assessment, and compliance. The observation is in line with other regional and international research findings that affirm that internal audit effectiveness depends on the support of governance, particularly in the setting with a nascent professional and regulatory frameworks.

Third, the empirical findings have shown that the effectiveness of the board chair is found to be negatively related to information asymmetry, which is a positive finding to support Hypothesis 3. This is an indication that having good leadership of the board is imperative to enhance oversight and enforce discipline of disclosures. With the agency problems that may be aggravated by the ownership concentration and poor enforcement in the Iraqi banking industry, a robust board chair seems to play a critical role of a governance agent that balances the board functions, oversees the strategies and make sure that the management complies with the transparency and reporting regulation. This observation conforms to stewardship and resource dependence points of view, which underscore the role of the chair in supporting information flows, reinforcing board cohesion, and protecting stakeholder interests.

Fourth, the findings indicate that there is a strong and significant correlation between the effectiveness of board chairs and internal auditing effectiveness, which is in favor of Hypothesis 4. This underscores the significance of board-level leadership with regard to internalizing the internal audit function into the architecture of governance. A good board chair has the ability to enhance the role of the audit committee, independence of internal auditors and have the audit findings sufficiently factored in board decisions. Board leadership is especially relevant in the legitimization of the internal audit role and its incorporation into the processes of strategic and risk-related decision-making in emerging markets like Iraq, where the internal audit functions could be hindered by organizational or cultural limitations.

When put collectively, the results indicate that the quality of corporate governance and board chair effectiveness are complementary factors in the minimization of information asymmetry and increasing the effectiveness of internal auditing. Although the governance structures offer the formal rule and

oversight mechanisms, proper board leadership makes sure that the mechanisms are not only operationalized and executed but also enforced. This complementary aspect is particularly applicable to the Iraqi banking sector whereby enhancement of investor confidence and market efficiency is not only determined by the formal governance reforms but also the ability of the leadership in the governance structures.

Practically, regulators, policymakers and bank boards in Iraq can find the results significant. Enhancing the enforcement of the codes of governance by strengthening them, empowering the board leadership especially in board chairs, and investing in the development of the leadership of the boards can help to have more transparent markets and more effective internal assurance systems. To banks, the quality of risk management and reporting can be improved by the focus on the independence of internal audit functions coupled with the attention to active board and chair oversight. In terms of academic contribution, it is theoretically significant because the study presents strong panel-data findings in Iraq, and it clearly incorporates the role of board chair within the governance-information asymmetry-internal audit nexus.

7. Conclusion

The paper has explored the impact of the quality of corporate governance and board chair on the information asymmetry and internal auditing effectiveness in 20 commercial banks that are publicly traded in the Iraq Stock Exchange (ISX) during the years 2019-2024. The study utilizes panel data regression models and the development of composite indices to measure the quality of governance mechanisms, the effectiveness of board chairs and internal audit effectiveness, which enables sound empirical evidence on how the mechanism of governance works in an emerging market where institutions are limited and regulations continuously change.

The results suggest that good quality of corporate governance considerably lessens information asymmetry which proves successful board structures, functional audit committee, and good governance practice boosts the transparency and credibility of financial reporting. This finding not only confirms the predictions of the theoretical arguments of agency

theory, but also agrees with the empirical findings of the previous researchers that the governance mechanisms are vital in alleviating information asymmetries between corporate insiders and external stakeholders in the new capital markets.

Furthermore, it has been revealed that the quality of corporate governance positively and significantly affects the effectiveness of internal auditing. This creates the significance of governance structures in the process of guaranteeing the independence, power, and professionalism of internal audit functions. Good governance in the Iraqi banking environment seems to enhance the internal assurance systems, thus improving the risk management, internal control and adherence to accounting and regulatory standards.

The research also shows that most of the leadership factors that affect information asymmetry and internal auditing effectiveness are through board chair effectiveness. Effective board chairs help in the elimination of the problem of information asymmetry by providing board oversight, disclosure discipline as well as enhancing communication between management, auditors and the stakeholders. In addition, the effectiveness of the board of directors as a chairperson improves effectiveness of internal auditing by aiding in co-ordination of audit committee, maintaining independence of auditors and also, making sure that findings of internal audit are incorporated in board-level decision making.

In general, the findings indicate that the corporate governance structure and the leadership of the board of chair are complementary factors in the ability to operate. Although formal rules are established through the arrangement of governance, people actually practice and enforce these rules through the effective board leadership. It is this complementarity that is needed especially in Iraqi banking sector where structural reforms and leadership effectiveness are essential to enhancing market transparency, investor confidence and financial stability.

On policy and management side, the research highlights the necessity of regulators and policymakers in Iraq to keep on enhancing corporate governance codes, enforcement mechanisms, and board leadership development. In banks, improved oversight of the board chair and strengthening internal audit roles may help them to have a more transparent reporting

environment and a stronger system of governance. This study augments the body of knowledge on corporate governance in emerging economies throughout a more direct manner by incorporating the concept of board chair leadership into the examination of information asymmetry and internal auditing results, which gives future comparative and longitudinal studies a point of reference.

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