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AN AUDITING QUALITY DETERMINANTS AND THEIR IMPACT ON IRAQI COMMERCIAL BANKS FINANCIAL PERFORMANCE-AN APPLIED STUDY ON A SAMPLE OF NINE BANKS FROM 2012-2018

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Abstract:

The study aimed to clarify the effect of the existing relationship between auditing quality determinants, which were represented in the bank's size subject to auditing, wages, size and age of the audit offices, and financial performance indicators such as return on stocks, ownership percentage and trading ratio. The study sample has taken (9) Iraqi banks operating in the Iraq Stock Exchange for the period from 2012 to 2018, With a total of (63) questionnaire, which were sufficient to apply the method of panel data, and through the comparison in the analysis process between each of the aggregate regression model and the fixed or random effects model. The comparison between these models was based on the Haussmann test to determine the best model in the analysis process. The most important results of the study nevertheless were a direct relationship to the variable of bank size subject to auditing and the financial performance indicators, the inverse relationship of the variable of audit services fees with financial indicators, and the absence of any significant impact for each of the size & age of the audit offices. The study recommended the necessity of having officially disclosed financial reports for the audit services offices in the Iraqi business environment. plus, the need of legal and legislative system that obliges the audit services offices to be adhere with.

Keywords: *Auditing quality determinants , Financial performance indicators, Panel data,*

INTRODUCTION:

The importance of an auditing quality appeared clearly in the economies of major countries after the collapses that made some financial companies in those developed countries such as the Enron Corporation had suffered, which gave an ambiguous picture of the procedures and quality of audit work at that time, where there was no note in their financial reports indicating that they might face financial setbacks or those reports were not expressed incorrectly, and did not indicate a conservative opinion by an audit committee. This led to the concentration of all professional, academic and legal institutions efforts to investigate and figure out the real reasons that led to huge losses in the financial and economic markets. The need therefore appeared on proper and effective application of international standards to address the potential gaps that could led to misleading information about the financial statements.

Consequently, an attention appeared to the auditing quality importance in giving enhanced credibility to those presented financial information with accompanying explanations. Whether at the local or global level, it is well known that the banking sector plays a major role in supporting economies of countries, as these banking financial institutions are the main tool to advance economic development by restoring investor confidence in these institutions. Hence, the paper tries to clarify what are audit quality determinants and demonstrating their relationship to an operational performance of Iraqi banking institutions.

The study problem and its objective

The study aims to explain an audit quality determinants and how could affect an operational performance of Iraqi banking institutions and thereby, the main questions of the study can be formulated as bellow:

1 - Is there a relationship between auditing office size and the Iraqi banks financial performance?
2 - Is there a relationship between auditing services fees and the Iraqi banks financial performance?
3 - Is there a relationship between auditing office age and the Iraqi banks financial performance?
4 - Is there a relationship between the corporation size subjected to auditing and Iraqi banks financial performance?

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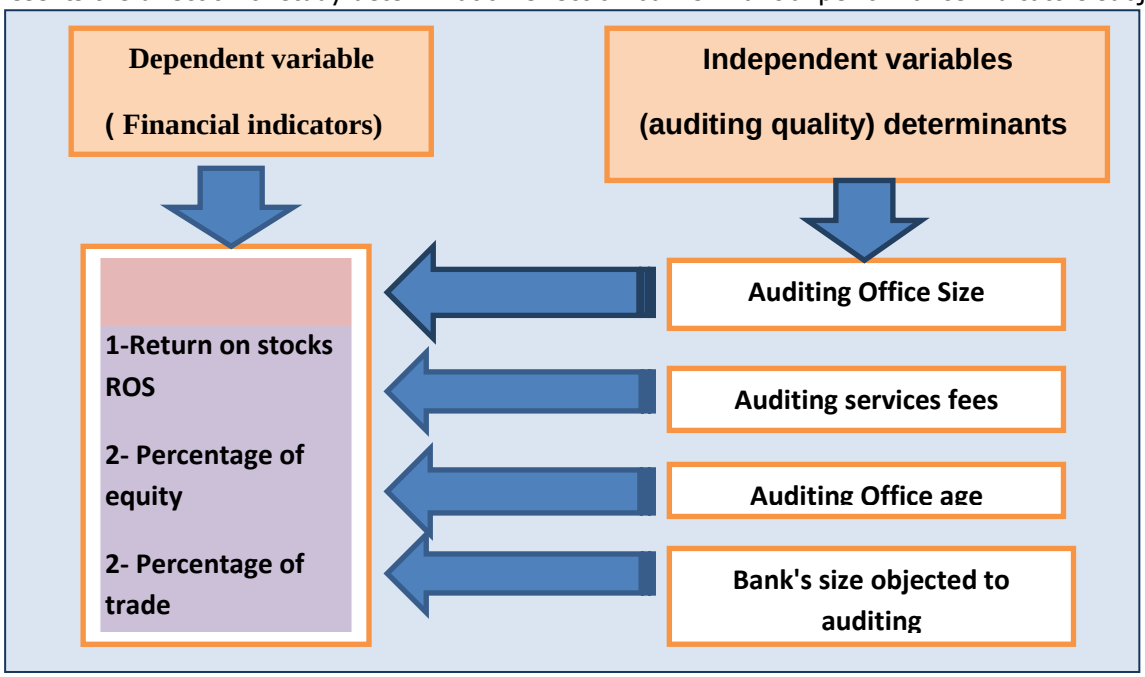
The importance of the study:
The importance of the study is evidenced by the attention increase in quality generally, and particularly the auditing quality. Therefore, the importance of the study is focused on identifying the auditing quality determinants in the Iraqi banking environment and relationship of operational performance to some selected banks.
Study Hypothesis: The study includes main hypotheses as follows:
1 - There is no a relationship between auditing office size and the Iraqi banks financial performance?
2 - There is no a relationship between auditing services fees and the Iraqi banks financial performance?
3 - There is no a relationship between auditing office age and the Iraqi banks financial performance?
4 - There is no a relationship between company size subjected to auditing and Iraqi banks financial performance?

Study sample:
The study sample represents a group of Iraqi banks, which is nine banks for period from 2012 to 2018.

Variables used in the study

Auditing office size (n)	Auditing services fees: Iraqi Dinar Million	Auditing office	Bank Size	Return on equity (Iraqi Dinar)	percentage of equity	Percentage of equity
X1	X2	X3	X4	Y1	Y2	Y3

Figure 1 represents the direction of study determination effect on banks financial performance indicators subjected to auditing.



Theoretical aspect:
The definition and concept of auditing quality: The importance of auditing quality concept appeared at the end of the twentieth century, and the focus on its details also appeared as a result of an expansion of financial and business companies and the intensification of competition which led to the need for auditing quality after the financial setbacks that occurred in some of major international companies in the financial and business market.
Auditing quality has been circulated with different viewpoints where (Palnrose, 1988) has defined it as "the degree of confidence provided by an auditor to the users of the financial statements." which means that opinions about financial statements presentation are expressed in a clear and fair manner and have not a fundamental misleading.
It was also addressed by (Aissa, 2008) as "the extent of the ability of those in charge of external auditing to identify potential accounting errors that have a material impact on the disclose of financial position statements, as well as

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reducing the variance in information between both of management and shareholders under the concept of separation of ownership from management.

International Standard No. (220) also defined audit quality as policies and methods used in audit offices to verify the audit work and procedures have been completed in accordance with international auditing standards (Al-Lahaibi, 2013). This concept is intended to examine the existing audit procedures to ensure that audit quality work carry out according to the recommendations and details of the approved standards. The International Accounting Standards Board (IASB) issued a report in which the concept of audit quality is clarifying through main paragraphs related to the members of the auditing staff as "The culture of audit institution, personal characteristics, skills, procedures, and reliability of audit reports " (Manika, 2016).

The importance of auditing quality:

The most important points related to audit quality could be summarized as following (Gibran, 2010) (Al-Ahdal, 2008):

- Giving a credibility that auditing work by professional audit offices is carried out in accordance with international standards. Therefore, the financial reports are likely free of material errors.
- Increasing the ability to detect errors and misstatements in the financial statements. Moreover, increasing the application of corporate governance procedures.
- Good auditing procedures and methods help to increase the trust of new and current clients for audit institutions and offices that could essentially serve the society as well.
- It is one of the important tools detect financial and administrative corruption especially if it was supported by legislation and laws.

Measuring Indicators for auditing quality:

There are many indicators and methods that have been used in measuring the quality of auditing. They however vary according to the different viewpoints related to the financial position that surrounding economic institutions. The main determinations will be disgusted through this study are as below:

1- **An audit office size:** a study made by (Abuhen, 2005) has considered that there is a direct relationship between audit office size and auditing quality, meaning the larger the size of those offices, the greater the quality of the audit. His study meant the size of audit office in terms of number of working individuals, specializations and the physical, technical and financial capabilities of those offices could have a major impact on audit process (Abuhien, 2005).

2- **An auditing services fees:** Some studies consider auditor's fees is one of audit quality determinations. Despite there is no a method or a fair basis for calculating these fees, Wooten sees auditing fees is one of the determinants of auditing quality. Also, he considered a direct relationship between each of the auditor's fees and auditing quality (Wooten, 2008).

3- **Audit office age:** This element has an effect of acquiring expertise and technical skills in the field of accounting audit. Thus, it increases the possibility of detecting errors and expressing a sound opinion regarding the company's financial statements. Hence, this means that there is a positively direct relationship between audit office age and the quality of the audit process (Al-Hamad, 2010).

4- **Corporation size**: Many studies have stated that there is a relationship between auditing quality and the economic unit size subject to auditing. The larger the size of the economic unit subject to auditing, the lower auditor possibility is manipulating or acting improperly in the auditing work entrusted to him/her in other word. Therefore, it could provide a misleading opinion to the users of these financial statements and vice versa (Abu Riash, 2013).

Financial performance concept:

Several definitions were mentioned about the concept of financial performance concept including (Daden and Jaafy, 2011) definition, which they considered "the extent to which activities contribute to create value or effectiveness in using available resources through achieving financial goals at the lowest financial costs."

Another definition by (Al-Kanzi, 2015) as a process through which indicators can be identified, whether quantitative or qualitative, about the activity of the firm to help demonstrate the importance of each of operational and financial activities by obtaining data and financial statements information in order to use them as indicators in process of evaluating its performance In order to finally make rational decisions.

consequently, it can be concluded that financial performance concept is the extent of economic unit ability to exploit its available resources to achieve its goals in the best way.

Financial Performance Indicators: The used percentages in the analysis process have been reviewed and they are:

Return on Shares (ROS): This ratio helps to measure the company's ability to convert the invested money into profits. This indicator is calculated by dividing the company's net income by the total values of shares traded in the market during that period and then multiplying the result by 100, where it is represented as a percentage.

Ownership percentage: This percentage measures what financing sources provide to own assets used by a corporation. it expresses the extent of management's dependence on the owners' capital and other reserves (Karajah, 2006).

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Trading ratio: This ratio measures cash liquidity as it clarifies the relationship established between current assets and current liabilities in order to demonstrate the extent of the economic institution's ability to fulfill its obligations. Total current assets are usually preferably to be double the total current liabilities to confidentially saying that the company ensures its ability to meet its liabilities or debts (Maqal, 2006).

Previous studies.

This study aimed to demonstrate the impact of audit quality on the cost of the owners 'shares. The sample of that study included (226) companies present in the London Stock Exchange guide for the period from 2005 to 2008. This study has taken the direct auditing costs and any other costs obtained by the auditor, in addition to particular type of industries and its impact on ownership's share. This study concluded that the audit firms have an impact on profit's management and investors consider the auditing as an active tool that could help them to detect any operation could affect the company's profits.

This study aimed to demonstrate relationship strength between an audit office size and the other non-audit services that those offices provide in Nigeria. in addition to the relationship between audit fees and the extent of auditor's independency. The study adopted the descriptive and analytical method, and it has a sample included the commercial banks in the Nigeria Stock Market. The sample size reached (18) banks with (150) questionnaires. The most important results of the study moreover were that audit office size has an obvious positive relationship with auditing quality. Plus, that other non-auditing services enable the auditor to achieve a full understanding of the company subject to audit in order to achieving a higher level in auditing quality.

A study by (Gibran, 2010) entitled "Factors Affecting Auditing Quality from the Viewpoint of Certified Public Accountants". The study aimed to explain the factors related to auditing Quality and its extent of reliability in business' environment of Republic of Yemen, and the sample size was (109) questionnaire. The study found that scientific qualification, scientific experience and the extent of auditors' knowledge of international standards are important tools that influence auditing quality, a company's reputation also plays a positive role in auditing quality process.

Another study by (Al-Tuwaijri and Al-Nafabi, 2008), titled "The Quality of the Audit Service: An analytical study from the Auditors' Point of View ", this study aimed to identify the auditors' views on factors related to audit quality that may have an effective potential impact by the audit offices, In addition to studying the factors affecting the preference of an audit office over another.

The sample size had (95) questionnaires distributed to audit offices in the city of Jeddah in Saudi Arabia. The study concluded that there are three factors most influencing on auditing service from the point of auditors' view were the scientific experience, university degree of the members of the audit office, and objectivity in the process of examination and evaluation of the financial statements. As for the factors related to the preference of one office over another, the most important of which were the fees for auditing services and the reputation of audit office.

Scientific aspect:

the study sample was included (9) Iraqi banks for the time period from 2012 to 2018, and some factors and determinants related to the audit quality services were identified, namely, auditing office size, auditing services fees, auditing office age, bank's size to be audited. Then, explaining the effect of these determinants on the financial performance indicators of the banks subject to the audit.

The size of banking institution: to calculate the targeted banks size, the author has divided total deposits on total assets based on a study made by (Ishak and Al-Ebel, 2018) as explained into the following figure.

Figure n (1): The date of banks subject to audit:

Amounts in million								
Bank's name	**Account's name**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Baghdad Bank	**Deposits**	**1432449**	**1491533**	**1393584**	**834615**	**790048**	**743597**	**782173**
	Assets	**1759988**	**1764904**	**1827505**	**1479042**	**1200424**	**1090587**	**1113538**
Bank size		**0.813**	**0.845**	**0.763**	**0.564**	**0.658**	**0.682**	**0.702**
Iraqi commercial bank	**Deposits**	**95822**	**96691**	**121063**	**89784**	**117737**	**134225**	**134549**
	Assets	**338425**	**334843**	**449272**	**390117**	**423819**	**460616**	**443945**
Bank size		**0.283**	**0.289**	**0.269**	**0.230**	**0.279**	**0.291**	**0.303**
Middle East bank	**Deposits**	**527743**	**551856**	**358117**	**368521**	**361729**	**477233**	**533282**

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	Assets	**785490**	**774180**	**683076**	**630945**	**633833**	**748131**	**800749**
Bank size		**0.671**	**0.713**	**0.524**	**0.584**	**0.571**	**0.638**	**0.666**
Iraq gulf bank	**Deposits**	**453242**	**476167**	**469176**	**485902**	**484288**	**282425**	**263863**
	Assets	**784453**	**781479**	**816478**	**800108**	**802022**	**603312**	**578336**
Bank size		**0.578**	**0.609**	**0.575**	**0.607**	**0.604**	**0.468**	**0.456**
Iraq Investment bank	**Deposits**	**308224**	**329502**	**268942**	**270472**	**288077**	**290623**	**323983**
	Assets	**521447**	**520596**	**558655**	**550025**	**577870**	**573706**	**607084**
Bank size		**0.591**	**0,633**	**0,481**	**0.492**	**0.499**	**0.507**	**0.534**
Iraq Investment bank	**Deposits**	**308224**	**329502**	**268942**	**270472**	**288077**	**290623**	**323983**
	Assets	**521447**	**520596**	**558655**	**550025**	**577870**	**573706**	**607084**
Bank size		**0.591**	**0,633**	**0,481**	**0.492**	**0.499**	**0.507**	**0.534**
International development bank	**Deposits**	**331524**	**352708**	**478055**	**520781**	**381887**	**381339**	**396865**
	Assets	**548663**	**539846**	**760073**	**792954**	**654596**	**650770**	**660960**
Bank's Size		**0,604**	**0,653**	**0,629**	**0,657**	**0,583**	**0,586**	**0,600**
Almansur Investment Bank	**Deposits**	**103546**	**114233**	**160107**	**84617**	**102091**	**122662**	**141111**
	Assets	**318254**	**311033**	**420615**	**365439**	**351697**	**390176**	**409535**
Bank's Size		**0,325**	**0,367**	**0,381**	**0,232**	**0,290**	**0,314**	**0,345**
Summer commercial Bank	**Deposits**	**498845**	**508981**	**601212**	**787120**	**816529**	**1026254**	**1269081**
	Assets	**795147**	**789087**	**883005**	**1075589**	**1104063**	**1316459**	**1566367**
Bank's size		**0,627**	**0,650**	**0,681**	**0,732**	**0,740**	**0,780**	**0,810**
Iraqi Privet Bank	**Deposits**	**349554**	**373926**	**351805**	**327879**	**291008**	**318261**	**267907**
	Assets	**548550**	**542405**	**615235**	**592231**	**578847**	**603981**	**525757**
Bank's size		**0,637**	**0,689**	**0,572**	**0,553**	**0,503**	**0,527**	**0,510**

The date of auditing quality determinants: the details have been explained into figure n.(2), which included the size, age, fees and the institute subject to auditing as bellow:

Figure, n (2) : The date of auditing quality determinants

Banks names	**Determinants of auditing quality**	**Years**						
		2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	Auditing Office size: number	**6**	**6**	**6**	**7**	**7**	**5**	**5**

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Baghdad Bank	Auditing service fees: in million	80	82	142	162	148	158	150
	Auditing Office age	11	12	13	14	15	10	11
	Bank's size	0,813	0,845	0,763	0,564	0,658	0,682	0,702
Iraqi commercial bank	Auditing Office size: number	4	5	5	6	6	4	4
	Auditing service fees: in million	25	28	36	38	59	62	65
	Auditing Office age	8	9	10	11	12	13	14
	Bank's size	0,283	0,289	0,269	0,230	0,279	0,291	0,303
Middle East Bank	Auditing Office size: number	3	5	5	4	4	3	3
	Auditing service fees: in million	60	64	110	100	82	75	70
	Auditing Office age	14	18	19	15	12	10	11
	Bank's size	0,671	0,713	0,524	0,584	0,571	0,638	0,666
Gulf Bank	Auditing Office size: number	4	5	5	4	4	3	3
	Auditing service fees: in million	70	76	80	82	91	193	180
	Auditing Office age	11	17	14	10	11	9	10
	Bank's size	0,578	0,609	0,575	0,607	0,604	0,468	0,456
Iraq Investment bank	Auditing Office size: number	3	4	4	4	3	3	3
	Auditing service fees: in million	48	53	62	61	72	107	100
	Auditing Office age	12	14	15	10	9	10	11
	Bank's size	0,591	0,633	0,481	0,492	0,499	0,507	0,534
International Development Bank for Investment and Finance	Auditing Office size: number	4	6	6	5	5	3	3
	Auditing service fees: in million	45	52	63	80	85	130	125
	Auditing Office age	14	17	14	10	11	8	9
	Bank's size	0,604	0,653	0,629	0,657	0,583	0,586	0,600
Al Mansour investment bank	Auditing Office size: number	3	4	4	4	3	4	4
	Auditing service fees: in million	37	40	36	40	60	55	50
	Auditing Office age	12	15	10	11	12	13	14
	Bank's size	0,325	0,367	0,381	0,232	0,290	0,314	0,345

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Sumer commercial bank	Auditing Office size: number	3	5	5	5	4	4	4
	Auditing service fees: in million	40	46	48	50	69	68	65
	Auditing Office age	16	22	15	12	13	14	15
	Bank's size	0,627	0,650	0,681	0,732	0,740	0,780	0,810
Iraqi privet bank	Auditing Office size: number	4	5	5	5	4	3	3
	Auditing service fees: in million	26	30	66	83	78	105	100
	Auditing Office age	12	16	17	14	15	16	17
	Bank's size	0,637	0,689	0,572	0,553	0,503	0,527	0,510

Financial performance Indicators: These information have included return on shares, ownership ratio, and trade ratio as illustrated into figure n.(3).

Financial performance Indicators								
Banks names		2012	2013	2014	2015	2016	2017	2018
Baghdad Bank	Return on share	0,125	0,130	0,111	0,023	0,081	0,024	0,020
	Ownership ratio	16,41	16,50	16,00	17,33	23,56	25,40	23,21
	% of Trade	1,12	1,16	1,15	1,17	1,14	1,16	1,14
Iraqi Commercial bank	Return on share	0,050	0,059	0,037	0,033	0,030	0,040	0,038
	% of ownership	52,60	58,71	63,30	70,35	66,52	34,96	33,87
	% of Trade	2,35	2,41	2,72	2,94	2,95	4,90	4,50
Middle East bank	Return on share	0,131	0,139	0,014	0,022	0,047	0,048	0,042
	% of Equity	26,08	26,19	44,95	41,02	42,93	43,75	43,01
	% of Trade	1,17	1,20	1,57	1,46	1,34	1,36	1,31
Golf Bank	Return on share	0,179	0,190	0,120	0,033	0,020	0,021	0,018
	% of Equity	36,7	38,9	42,37	39,66	39,62	39,82	37,51
	% of Trade	1,42	1,55	1,63	1,56	1,57	1,62	1,40
Iraqi investment bank	Return on share	0,168	0,173	0,116	0,070	0,041	0,016	0,012
	% of Equity	33,71	35,80	50,79	1,12	1,16	49,34	47,35
	% of Trade	1,45	1,51	1,97	1,98	1,95	1,90	1,82
International Development	Return on share	0,031	0,036	0,025	0,069	0,066	0,009	0,002

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Bank for Investment and Finance	**% of Equity**	**86,01**	**90,06**	**66,11**	**33,98**	**41,66**	**40,17**	**39,12**
	% of Trade	**9,48**	**10,03**	**2,87**	**1,38**	**1,51**	**1,53**	**1,41**
Almansour bank for investment	**Return on share**	**0,97**	**0,100**	**0,068**	**0,079**	**0,058**	**0,059**	**0,032**
	% of Equity	**33,17**	**35,50**	**31,91**	**26,84**	**26,04**	**0,11**	**0,08**
	% of Trade	**1,41**	**1,53**	**1,45**	**1,35**	**1,32**	**1,26**	**1,22**
Summer commercial bank	**Return on share**	**0,004**	**0,007**	**0,008**	**0,014**	**0,150**	**0,002**	**0,01**
	% of Equity	**61,10**	**63,25**	**61,91**	**71,33**	**77,00**	**68,56**	**65,31**
	% of Trade	**2,49**	**2,57**	**2,50**	**3,23**	**3,90**	**0,26**	**0,14**
Iraqi Privet Bank	**Return on share**	**0,85**	**0,090**	**0,030**	**0,010**	**0,094**	**0,012**	**0,09**
	% of Equity	**29,10**	**31,07**	**42,76**	**48,60**	**47,31**	**47,31**	**44,01**
	% of Trade	**1,10**	**1,43**	**1,7**	**1,86**	**1,93**	**1,85**	**1,80**

Statistical methods: The study relied on (panel data) as statistical analyzing method by using the (E Views) program in the process of analyzing data statistically, and depending on the concept of the panel data and its models, as shown below:

The concept of panel data: This concept has many names as mentioned by (Gil-Garcia and Puron-Cid 2013) cross-sectional data, collected data, long data, or grouped time series, which are intended for cross-sectional observations during a period. Furthermore, (Wooldridge, 2012) has mentioned that grouped time series describe the behavior of a single item during specific period of time, while cross-sectional data is intended to describe the behavior of a certain number of items during one time period. Also (Park, 2019) added that observations when they are measured for an equal time period, they are called parallel cross-sectional data, but if observations were measured for different time periods, they are called as non-parallel cross-sectional data.

The fundamental samples used to analyze Panel Tata: the general equation of panel data analysis sample as below (Mannus,2011).

$$y_{it} = \beta_{o(i)} + \sum_{j=1}^{k} 1\,\beta_j\, X_{j(it)} + \varepsilon_{it} \ \dots\dots\dots\dots\dots\dots (1)$$

Where y_{it} = Dependent variable

$\beta_{o(i)}$ = The intersection point in viewing (i)

β_j = the slope value of the regression

$X_{j(it)}$: The explanatory variable value at time (i) in observation (t)

ε_{it} : Random error

Based on that, there are three samples of panel data which are:

Pooled Regression Model PM: This model is considered one of the easiest panel data models, in which all transactions β_j and $\beta_{o(i)}$are fixed over a period of time, meaning this model neglects the effects of time, and after reformulating the equation, we will have the following equation

$$y_{it} = \beta_o + \sum_{j=1}^{k} \beta_j\, X_{j(it)} + \varepsilon_{it} \ \dots\dots\dots\dots\dots\dots (2)$$

Where, $E(it) = 0$

$var(it) = \sigma_{\varepsilon}^{2}$

Fixed Effects Model: This model shows that the parameter (β_o) is constant in all sectional data sets, meaning it does not change over time and sectional data sets will only be changed. This model aims to know the behavior of any group separately through the difference of the parameter β_o with the constant of slope coefficients' $\beta_{(i)}$ for each group of the

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cross-sectional data (Borenstein et al, 2010) and (Rashid et al, 2020). Therefore, Fixed effects model would be as below (Caffrey et al, 2012).

$$y_{it} = \beta_{o(i)} + \sum_{j=1}^{k} \beta_j X_{j(it)} + \varepsilon_{it} \ \dots\dots\dots\dots\dots (3)$$

Where, $E(it) = 0$

$var(it) = \sigma_{\varepsilon}^{2}$

To estimate the fixed effects model parameters, segment parameter β_o will be freely changing between the sectional sums. We then use dummy variables of (n-1) in order to avoid the process of complete linear multiplicity, and then the usual least squares method is used (Seddighi, 2012). After adding this dummy variable to equation No. (3) we have equation No. (4):

$$y_{it} = a_{1+\sum_{d}^{n}=2} a\, D_d + \sum_{j=1}^{k} \beta_j X_{j(it)} + \varepsilon_{it} \ \dots\dots\dots\dots\dots (4)$$

Where, $\beta_o a_{1\cdot+\sum_{d}^{n}=2} a_d D_d$ represents the change between the sectional sums.

Random Effects Model: This model differs from the fixed effects model where it deals with sectional and temporal effects at the same time in which considered parameters are random, not fixed. This assumption is based on the fact that the sectional and temporal effects are independent random variables, with an average equals to (zero) with a specified variance, with random components within the limits of the random error of the model. based on that sample, parameter $\beta_{o(i)}$ is considered as a random variance that has rate of μ value (Al Dulimy,2018).

$$\beta_{o(i)} = \mu + V_i \ \dots\dots\dots\dots (5)$$

Hence, after replacing equation (5) with equation (4), we will obtain a random effects model according to the following equation form:

$$y_{it} = \mu + \sum_{j=1}^{k} \beta_j X_{j(it)} + V_i + \varepsilon_{it} \ \dots\dots\dots\dots (6)$$

Where V_i = Limits of error in sectional groups

Determination the comparison between the aforementioned models is according to the (F) test, as the test works between the combination method and fixed & random effects methods, and the Hausman Test is used for the comparison between the fixed & random effects method. Below however are the tests for the three models:

The first model: the determinants of the audit quality on return on stocks, symbolized by Y1

Table (1) shows the results of the aggregate regression model for the impact of audit quality determinants on return on shares for a group of nine Iraqi private banks for the period 2012-2018, so a sample of 63 observations is a sufficient to apply the method of the panel data, as illustrated bellow:

Table (1) The aggregate model for the ROS equation

Dependent Variable: Y1
Method: Panel EGLS (Cross-section weights)

Sample: 2012 2018
Periods included: 7
Cross-sections included: 9
Total panel (balanced) observations: 63
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.026102	0.048551	0.537623	0.5929
X1	-3.020349	0.007520	-0.046348	0.9632
X2	-0.000578	0.000222	-2.605138	0.0116
X3	1.101430	0.003081	0.464077	0.6443
X4	0.118889	0.060059	1.979540	0.0525

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R-squared	0.157697	Mean dependent var	0.130195
Adjusted R-squared	0.099607	S.D. dependent var	0.140010
S.E. of regression	0.130490	Sum squared resid	0.987600
F-statistic	2.714714	Durbin-Watson stat	0.809405
Prob(F-statistic)	0.038431		

The source: Authors by using Eviews 10.

Table (2) Test of differentiation between the aggregate model and fixed or random effects model of the ROS equation.

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.406080	(8,50)	0.2172
Cross-section Chi-square	12.783878	8	0.1195

After performing the F-test for the comparison between the aggregate model and the fixed effects model - and since the F-test is not significant at a level less than (0.05), then in such a case the results of the cumulative model should be adopted. The results of Table (1) however show the following:

- There was no significant effect of the variable of auditing office size on the return per share in the banks subject to the study.
- The variable of audit services fees on the other hand negatively affects the return on share, meaning that an increase in audit fees by (1) million leads to a decrease in the return on share (-0.0005) dinars.
- The bank's size variable directly affects the return on share, meaning that an increase of (1) million leads to an increase by (0.118) dinars in the return on share.

Table (3) shows the aggregate regression model results on the ownership percentage, as shown below.

Dependent Variable: Y2
Method: Panel Least Squares
Periods included: 7
Cross-sections included: 9
Total panel (balanced) observations: 63

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.27365	15.12877	2.001065	0.0501
X1	0.438403	2.393527	0.183162	0.8553
X2	-0.129688	0.067958	-1.908355	0.0613
X3	0.949774	0.934309	1.016553	0.3136
X4	12.24652	16.92865	0.723420	0.4723

R-squared	0.100652	Mean dependent var	41.10921
Adjusted R-squared	0.038628	S.D. dependent var	19.72884
S.E. of regression	19.34405	Akaike info criterion	8.838685
Sum squared resid	21703.14	Schwarz criterion	9.008775
Log likelihood	-273.4186	Hannan-Quinn criter.	8.905582

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F-statistic	1.622787	Durbin-Watson stat	0.539861
Prob(F-statistic)	0.180748		

Table (4) shows an examining the comparison between the aggregate model and the fixed and random effects model of the ownership ratio equation:

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.077886	(8,50)	0.0000
Cross-section Chi-square	52.266454	8	0.0000

Table (5) illustrates a comparison test between the fixed effects model and the random effects model for the ownership percentage equation:

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.995209	4	0.4067

by looking at table (4), it appears that it is better to estimate fixed or random effects model of ownership percentage equation because the value of (F) is significant at a level less than (0.05), as table (5) shows the likelihood of random effects model for determinants estimation of auditing quality impact on the ownership percentage according to Haussmann's test, so table (6) is reflecting the random effects model as in more persuasive and accurate way.

Table (6) results of the random effects model of the ownership percentage equation

Dependent Variable: Y2
Method: Panel EGLS (Period random effects)
Periods included: 7 0.755310
Cross-sections included: 9
Total panel (balanced) observations: 63
Swamy and Arora estimator of component variances
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.27365	5.806943	5.213353	0.0000
X1	0.438403	1.966670	0.222916	0.8244
X2	-0.129688	0.054074	-2.398325	0.0197
X3	0.755310	0.433348	2.191715	0.0324
X4	0.949774	19.30968	0.634217	0.5284

Effects Specification	S.D.	Rho
Period random	0.000000	0.0000
Idiosyncratic random	20.16226	1.0000

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R-squared	0.100652	Mean dependent var	41.10921
Adjusted R-squared	0.038628	S.D. dependent var	19.72884
S.E. of regression	19.34405	Sum squared resid	21703.14
F-statistic	1.622787	Durbin-Watson stat	0.539861
Prob(F-statistic)	0.180748		

By following the results of table (6) it could be conclude following:
● There is no significant effect of the variable of auditing office size on the ownership percentage of the banks subject to study.
● There is an obvious effect of audit services fees on the ownership percentage, meaning that an increase in audit fees by one million leads to a decrease in the ownership percentage by (-1,129).
● There is no a significant effect of the age of auditing office age on the ownership percentage.
● The bank's size subject to audit directly affects the ownership percentage, which means a potential increase in the size by (1) million leads to an increase in the ownership percentage by (0.949).

The third model:

Table (7) nevertheless shows the results of aggregate regression model of audit quality effect determinants on trading ratio.

Table (7) Results of the aggregate model for trading ratio equation:

Dependent Variable: Y3
Method: Panel EGLS (Period SUR)
Periods included: 7
Cross-sections included: 9
Total panel (balanced) observations: 63
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.380167	0.283875	4.861877	0.0000
X1	6.825420	0.026823	6.816242	0.0000
X2	-0.005337	0.001902	-2.806816	0.0068
X3	0.038110	0.015167	2.512671	0.0148
X4	-0.659068	0.419880	-1.569657	0.1219

Weighted Statistics

R-squared	0.566358	Mean dependent var	0.291160
Adjusted R-squared	0.536452	S.D. dependent var	2.258190
S.E. of regression	0.959974	Sum squared resid	53.44989
F-statistic	18.93773	Durbin-Watson stat	1.935207
Prob(F-statistic)	0.000000		

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Table (8) shows a comparison test between the aggregate model and the fixed or random effects model of trading ratio equation.

Redundant Fixed Effects Tests
Equation: Untitled
Test period fixed effects

Effects Test	Statistic	d.f.	Prob.
Period F	5.187450	(6,52)	0.0003

Table (9) Examining the comparison between the fixed effects model and the random effects model for the equation of trading ratio as below:

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.692775	4	0.0693

By reviewing table (8), it is obviously better to estimate the fixed or random effects model of the ownership percentage equation instead of the aggregate model because (F) values are significant at a level less than (0.05). as well as, table (9) shows the likelihood of the fixed effects model for estimating the determinants of the audit quality impact on the trading ratio because the value of Haussmann's test is significant at a lower level (0.1) and as in table (10) showing below.

Table (10) fixed effects model for trading percentage equation

Dependent Variable: Y3
Method: Panel EGLS (Period SUR)
Date: 10/12/20 Time: 14:40
Sample: 2012 2018
Periods included: 7
Cross-sections included: 9
Total panel (balanced) observations: 63
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.440161	0.340495	4.229612	0.0001
X1	2.157824	0.071259	2.214803	0.0312
X2	-0.005388	0.001530	-3.522185	0.0009
X3	1.235401	0.016343	3.303282	0.0017
X4	0.670851	0.384627	-1.744160	0.0870

Effects Specification

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Period fixed (dummy variables)

Weighted Statistics

R-squared	0.577670	Mean dependent var	0.209826
Adjusted R-squared	0.496453	S.D. dependent var	3.372712
S.E. of regression	0.967788	Sum squared resid	48.70392
F-statistic	7.112654	Durbin-Watson stat	1.808816
Prob(F-statistic)	0.000001		

The main comments on table (10) are as in the following:
- There was no significant effect of the variable of audit office size on trading ratio.
- there is a significant effect of the auditing office fees on the trading ratio, meaning that an increase in the fees of audit services by one million leads to a decrease in the circulation ratio by (-0.005) times.
- No significant effect was shown for a variable of the age of the audit office on the percentage of trading.
- The bank's size is affecting directly the trading ratio, meaning that an increase in the bank's size by (1) million leads to an increase in the trading ratio by (0.670) times.

RESULTS :

Concerning the first hypothesis: There is no relationship between the auditing office size and financial performance in Iraqi banks, as there was no significant effect of this variable on each of the financial performance indicators used in this study (return on share, ownership percentage and circulation ratio). Therefore, this variable can't be considered as one of the auditing quality determinants because there is no relationship with indicators of financial performance in the Iraqi banking environment.

With regard to the second hypothesis: Also, there is no relationship between auditing services fees and financial performance in Iraqi banks. in fact, there is an inverse relationship between this variable and the financial performance indicators (return on the share, ownership percentage and the trading ratio), and consequently any increase in this variable will lead to a decrease in those indicators.

The third hypothesis' conclusion: which states that there is no relationship between the age of the audit office and the financial performance in Iraqi banks, as the results haven't shown any significant relationship among the auditing office age and the financial performance indicators, return on share and percentage of ownership And the current ratio. Hence, this variable cannot be adopted as one of the determinants of the auditing quality in the banking environment. Finally, the fourth hypothesis: which states that there is no relationship between bank's size subject to auditing and the financial performance of Iraqi banks, where it was found that there is a direct relationship between bank's size and financial performance indicators that mentioned above.

RECOMMENDATIONS:

1 - Given the existence of a positive relationship between banks' size subject to auditing and each of the earnings per share, the ownership percentage and the trading rate, the study recommends the necessity to increase banking institutions size by increasing and diversifying their banking operations due to its positive impact on these dependent variables in Iraqi business banking environment.

2 - Given the existence of an inverse relationship between the auditing services fees and the variables of the dependent study, the study recommends the necessity of an united legal system that obliges audit offices to adopt specific frameworks and principles in the process of determining the fees for audit services and these wages are not subject to personal judgment, in order to be a reliable basis In the determinants of the quality of auditing in the Iraqi business environment.

3 - Given the lack of a significant relationship between the size and age of the auditing offices and the variables of the subordinate study, the study does not recommend to adopting it as one of the audting quality determinants auditing in the Iraqi business environment.

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4. Conducting more studies in the Iraqi banking environment to clarify the most important determinants of quality auditing in their business environment.

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