



THE IMPACT OF AUDIT QUALITY CHARACTERISTICS ON ENHANCING ACCOUNTING CONSERVATISM-AN APPLIED STUDY ON IRAQI COMMERCIAL COMPANIES

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Article history:		Abstract:
Received:	28 th June 2025	<p>The purpose of the study is to determine how audit quality attributes, such as the audit firm's size, affect, duration of the relationship between the auditor and the client) on enhancing accounting conservatism in Iraqi commercial companies. A quantitative research methodology was used to fulfill the goals of the study. A sample was given a questionnaire that was created. selected using an appropriate sampling approach, consisting of (248) accountants and auditors working in commercial companies in Iraq, specifically in Baghdad Governorate. The data resulting from the survey were subsequently examined with the SPSS software. The findings demonstrated that the overwhelming majority of participants think that the length of the auditor-client relationship and the size of audit firms play a positive role in enhancing accounting conservatism in Iraqi commercial companies. This was proven by hypothesis testing, with a statistically significant effect between the variables. This indicates that increasing the quality of auditing, whether in terms of the audit firms' sizes or the long-term connection between the auditor and the client, increases the likelihood of companies adopting conservative accounting policies, which enhances the financial stability of companies and improves transparency and trust with stakeholders, including investors and shareholders.</p>
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1-INTRODUCTION

The caliber of audit services is crucial since it shows the auditor's efforts to gather sufficient evidence, detect fraudulent activities, limit the manipulation of financial information, and ultimately issue an appropriate opinion on financial reports from all material aspects. At the same time, it enhances public trust in the reliability of the financial report creation and auditing procedure (Soliman, 2014: 352). The accounting conservatism principle is an important principle that aims to protect external users of financial reports by applying conservative policies that reduce the risks related to future financial estimates. It is a basic idea that in order to recognize revenues and assets, costs and liabilities should be recognized as soon as feasible when the outcome is unknown. only when their receipt is certain. This tends to result in more conservative reporting of profits and losses (Youssef & Hamid, 2017: 3).

Audit quality stands out as one of the key factors in promoting the effective application of this principle, as the characteristics of audit quality, represented by the size of audit firms and the duration of the auditor's association with the work, impact the degree of dedication to conservatism in accounting. Furthermore, the relationship between accounting conservatism and audit quality attributes within commercial companies is a vital area that requires careful examination, as it essentially constitutes the basis for their financial reports and decision-making processes. These multifaceted characteristics form the basis for ensuring the validity and reliability of auditing operations (Qasim, 2020: 35).

2- Research methodology and previous studies

2-1 Research Problem and Questions:



In light of the challenges and economic conditions facing Iraqi commercial companies, there is a need to improve the quality of financial reporting to enhance credibility and trust among stakeholders and investors. One of the most important accounting methods that helps achieve this goal is accounting conservatism, which contributes to presenting a realistic financial picture and reduces the risks arising from making decisions based on misleading information. Given the disparity in the extent to which companies apply this principle, questions arise about the role audit quality characteristics play in enhancing accounting conservatism in Iraqi companies. This is intended to reduce financial risks and enhance trust and credibility in the financial statements provided by these companies. Therefore, The following question serves as a representation of the research problem:

What is the impact of audit quality characteristics on enhancing accounting conservatism in Iraqi commercial companies?

The following questions branch out from this:

1. What is the impact of the size of the audit firm on enhancing accounting conservatism in Iraqi commercial companies?

2. What is the impact of the extent of the auditor-client relationship on enhancing accounting conservatism in Iraqi commercial companies?

2-2 Research importance

The following factors make the research significant:

1. Enriching scientific knowledge by studying the relationship between audit quality characteristics and accounting conservatism.

2. Expanding the accounting literature related to audit quality and its applications to commercial companies in Iraq, especially as they face regulatory and economic challenges.

3. Providing actionable recommendations to enhance accounting conservatism practices in commercial companies in Iraq.

4. Through this study, companies can improve their auditing processes after discovering their positive impact on accounting conservatism, leading to increased credibility and transparency in reporting.

2-3 Research Objectives

The primary objective of the study is to determine the impact of audit quality characteristics on enhancing accounting conservatism in Iraqi commercial companies.

This study has the following sub-objectives:

1. Evaluate the impact of audit firm size on enhancing accounting conservatism in Iraqi commercial companies.

2. Evaluate the impact effect the auditor-client relationship's longevity on strengthening accounting conservatism in Iraqi commercial companies.

3. Provide recommendations that benefit Iraqi commercial companies.

2-4 Research Hypotheses:

The following is a formulation of the research hypotheses:

- Main Hypothesis: There is a statistically significant effect of audit quality characteristics on enhancing accounting conservatism in Iraqi commercial companies.

This hypothesis branches into the following:

- First Sub-Hypothesis: There is a statistically significant effect of the size of the audit firm on enhancing accounting conservatism in Iraqi commercial companies.

- Second Sub-Hypothesis: There is a statistically significant effect of the duration of the auditor-client relationship on enhancing accounting conservatism in Iraqi commercial companies.

2-5 Research Methodology

This study employs a quantitative research methodology using a survey questionnaire as the main instrument for gathering data. The target population is managers from various Iraqi commercial companies. The philosophical stance of positivism underpins the research, seeking to establish empirical relationships between Characteristics of audit quality and accounting conservatism. A deductive approach guides the research process, using established hypotheses to frame data collection and analysis. The collected data is subjected to statistical analysis using SPSS, with the aim of quantitatively assessing the identified relationships and drawing conclusive insights from the empirical findings.

2-6 Research Limits

The scope of the research was limited, both spatially and humanly, to accountants and auditors working in commercial companies in Iraq, specifically in Baghdad Governorate. Temporarily, the research was conducted during the second half of 2024.

2-7 Research Model

Figure (1) shows the proposed research model.

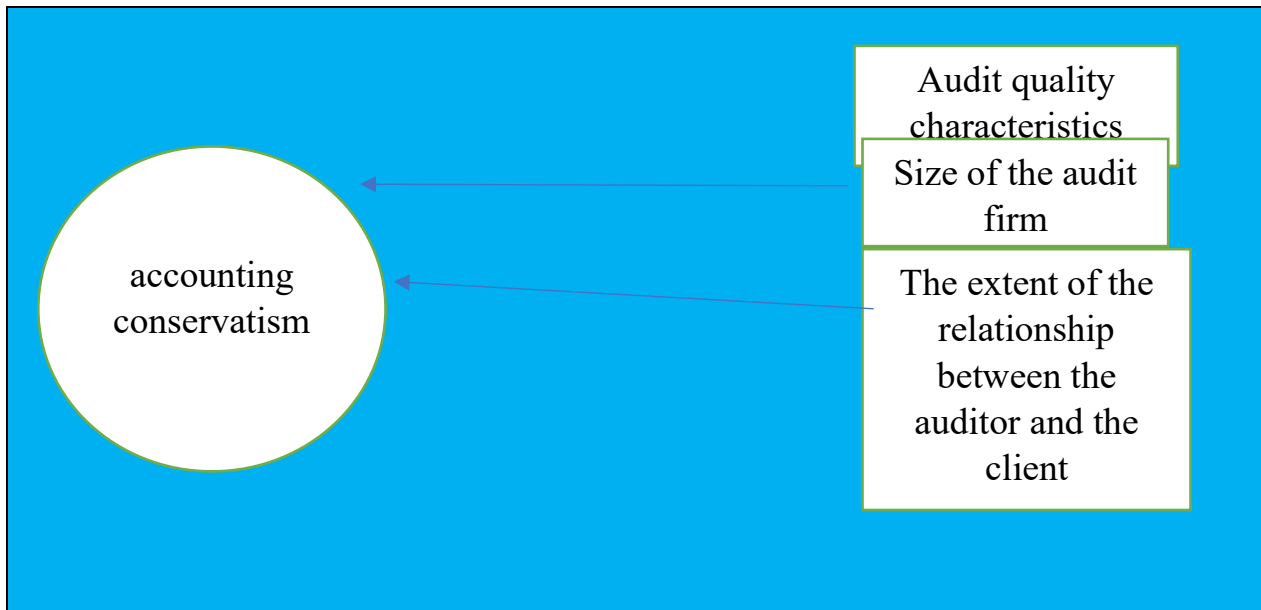


Figure (1) Proposed research model

2-8 Previous Studies

1- study Hamdan et al. (2012) aimed to confirm that accounting conservatism was present in the financial reports of industrial companies listed on the Amman Stock Exchange and to examine how audit quality attributes—such as firm size, relationships with other international audit firms, length of client retention, audit fees, and industry specialization—affect the improvement of accounting conservatism. Using a descriptive-analytical approach, the study produced important findings showing that Jordanian industrial companies' financial statements lacked accounting conservatism and that certain audit quality attributes influence the improvement of accounting conservatism.

2- A study Soliman,(2014) aimed to investigate the relationship between accounting conservatism and audit quality, which is defined by the size of the audit firm, the auditor's area of expertise, and the auditor's tenure, in the financial reports of over 50 active non-financial businesses listed on the Egyptian Stock Exchange. The results showed that the characteristics of audit quality (the size of the audit firm, the auditor's specialization, and the auditor's working period) have a significant positive relationship with accounting conservatism.

3- The study Ahmad, (2016) aimed to confirm the effect of audit quality, as determined by the audit firm's size and the auditor's tenure, on raising the degree of accounting conservatism in Egyptian companies' financial reports. The findings showed that accounting conservatism and audit firm size are significantly positively correlated. However, there is a little correlation between accounting conservatism and the auditor's term..

4- A study Mohammed et al,(2019) sought to investigate how audit quality affected Turkey's accounting conservatism.. The descriptive analytical method was used and it was concluded that audit quality in terms of the brand name auditor and the industry-specialized auditor is positively related to conservatism.

What distinguishes the current study about previous studies

In contrast to earlier research, this study looks at how audit quality attributes can improve accounting conservatism in Iraqi commercial enterprises. It was created to close the study's spatial gap.. Previous studies were applied to diverse companies in different countries, such as Jordan, Turkey, and Egypt, while the current study was applied to commercial companies in Iraq. The study also filled the time gap, as previous studies were applied in different years, while the current study is considered a recent study.

3- Theoretical aspect

3-1 Audit quality and its characteristics

The concept of audit quality has received significant attention from academics and researchers interested in the field of auditing (Al-Jawhar & Hussein, 2019: 16). However, a clear, specific definition has not been agreed upon (Salman, 2019: 537). (Jere R ,2024: 124) believes that audit quality is not a single concept or measure, and it is better to understand it as a multidimensional concept containing several characteristics that contribute to audit quality. Audit quality means that auditors perform their work in accordance with the quality standards issued by professional organizations (Mohammed, 2021: 31). This provides reasonable assurance that the audited financial statements and related disclosures are presented in accordance with these standards and are free from errors and misstatements (Al-



Qatamin & Salleh, 2020: 58). This enhances the accuracy of financial statements, informed investment decisions, and financial stability, thereby impacting corporate performance (Kalita & Tiwari, 2023: 354).

The researcher believes that audit quality is the process of providing a comprehensive and accurate review of information to enhance trust and transparency between companies and investors.

Examining the characteristics of audit quality is of paramount importance, as these characteristics serve as the cornerstone of assurance, which can impact the independence and objectivity of auditors (Jere R, 2024: 125). These include the following:

1. The size of the audit firm: Small firms can be distinguished from large firms by several factors, such as ownership standards and the size of the business (Basarda, 2017: 108). (Qasim, 2020: 33) also believes that the number of clients and workers of an audit business can be used to gauge its size., the firm's revenues, the extent of the firm's affiliation with international audit firms, and the number of its branches. According to (Al-Allaf, 2023: 40), large audit firms achieve high levels of specialization and diversity of expertise, which helps in providing High-quality services.

2. Duration of the auditor-client relationship: Improved audit quality results from fewer fraudulent acts by the client, which is mostly dependent on the auditor and client having a long-term relationship. Even while the auditor will be able to better comprehend the client's company features with a longer audit period, it should not exceed the period specified by the Association of Public Accountants (Salman & Setyaningrum, 2023: 93).

3-2 Accounting Conservatism

The accounting approach known as accounting conservatism foresees all losses rather than gains. This implies that more confirmation is needed to identify positive news as a gain rather than negative news as a loss due to the timing of earnings inconsistencies. (Hajawiyah et al., 2020: 2) argue that accounting conservatism is an important policy used to deal with uncertainty in business and economic activities. Conservatism relates to circumstances that could lead to losses and postpones circumstances that could generate profits. According to the Financial Accounting Standards Board (FASB), accounting conservatism is the cautious response companies take to the risks they face to ensure that These risks have been adequately taken into account (Hussein et al., 2020: 66). According to, accounting conservatism leaves its mark on financial reports and corporate behavior, as it enhances the quality and reliability of financial information, plays an effective role in controlling earnings management, supports effective risk management, builds trust among stakeholders, enhances credibility and transparency, promotes long-term vision, protects contractual agreements, and helps auditors perform their duties efficiently. These effects collectively help improve financial reporting' accountability and accuracy, which helps both businesses and stakeholders.. (Nur et al, 2023: 64).

Accounting conservatism aims to foster a sense of caution, care, and a pragmatic approach to accounting measurement and financial reporting (Christensen, 2023: 181), providing investors with more reliable financial information in financial reports (Zou & Othman, 2024: 2), which can provide additional protection to shareholders against the risk of reporting excessively high earnings (Lestari et al, 2024: 247). Accounting conservatism is a particularly useful principle in accounting measurement and valuation concepts, especially during periods of economic uncertainty and stress, as it is used to restrict opportunistic management behavior, protect shareholders' interests, and enhance the overall value of the company. It also contributes significantly to the improvement of the business's sustainability and financial stability. (Nur et al, 2023: 65).

Despite the advantages offered by accounting conservatism, there are some criticisms of it, including (Al-Abbasi & Al-Ajili, 2024: 212):

1. Applying accounting conservatism in preparing financial reports conflicts with the specific characteristics of accounting information.

2. Practicing conservatism facilitates the manipulation of accounting figures, which leads to negative effects in the information environment. Furthermore, financial statements are misleading and influence the decisions of users.

3. Accounting conservatism is not based on any scientific basis. Rather, it is a practice used by accountants to postpone the recognition of profits in order to avoid overstating the accounting income that will be disclosed in the statements. The researcher believes that despite the criticisms directed at accounting conservatism, the advantages and benefits gained from its use are greater than its negatives, and its positive effects continue to be reflected in accounting policies by adhering to this practice as long as there is a state of uncertainty facing the process of preparing financial reports.

4- Practical Aspect:

Statistical Methods Used:

With a significance level of 5%, or a 95% confidence level, SPSS was utilized to accomplish the research's goals. The statistical techniques listed below were applied:

- Percentages and frequencies
- Cronbach's alpha test to assess questionnaire questions' dependability
- Pearson's correlation coefficient to demonstrate internal consistency



- Simple regression to measure the influence of variables.

4-1 Research Community and Sample

The study community includes all accountants and auditors working in commercial companies in Iraq, specifically in Baghdad Governorate. An appropriate sampling approach was used, chosen for its practical nature and feasibility within the research context. The sample consists of (248) participants who were surveyed to gather valuable insights and data related to the research objectives. A questionnaire was distributed, including general information about the sample and three axes: the size of the audit firm, the duration of the relationship between the auditor and the client, and accounting conservatism. The questionnaire included statements distributed according to a five-point Likert scale and was given the following weights:

Table (1) Research Questionnaire Weights

Strongly disagree	Disagree	Neutral Agree	Agree Strongly	agree
1	2	3	4	5

4-2 Description of the research sample

Table (2) shows that the sample consists of 54% males and 46% females, as shown in the following table:

Table (2) Description of the sample according to the gender variable

gender	percentage
Male	54%
Female	46%

Source: Based on SPSS program

Table (3) shows that the percentage of workers with less than one year of professional experience reached (21.8%), the percentage of workers with (6-10) years of experience reached (20.6%), and the percentage of workers with (11-20) years of experience reached (14.9%), while the largest percentage was for those with (1-5) years of experience, at a rate of (31%), as shown below:

Table (3) Description of the sample according to the professional experience variable

professional experience	percentage
Less than 1 year	% 21.8
1-5 years	% 31
6-10 years	% 20.6
11-20 years	% 14.9

Source: Based on SPSS program

4-3 Validate the Tool

A. Validate the Arbitrators

A group of expert and expert arbitrators were consulted to review the questionnaire's phrases and express their opinions regarding the tool's suitability for the purpose for which it was designed. Some modifications were made in accordance with their instructions, and the final questionnaire form was produced.

B. Validation of the Internal Consistency of the Items

The objective of the questionnaire's internal consistency items is to measure the extent to which each item relates to the axis to which it belongs. This is to ensure that the questionnaire measures what it was designed for and nothing else. The Pearson correlation coefficient was used, with a value ranging between -1 and +1 (Muhammad Saeed, 2023: p. 63). The data of the internal consistency test indicate a significant correlation between the items belonging to the main axes in the study tool. This is illustrated in the following Table (4):

Table (4) Validation of Consistency Test for the Study Axes

Axes	Correlation coefficient	p-value
Audit firm size axis	0.855	**0
Audit-client relationship axis	0.870	**0
Accounting conservatism	0.935	**0

Source: Based on SPSS program

4-4 Reliability Test (Cronbach's Alpha)

The study instrument's item homogeneity is estimated using the Cronbach's alpha coefficient., which contributes to ensuring a balanced representation of all necessary aspects. Researchers usually rely on an alpha coefficient value of at least 0.60 or higher. As the alpha coefficient value increases, the reliability of the instrument increases, making the data reliable and highly trustworthy (Muhammad Saeed, 2023: p. 61). Table (5) demonstrates that the value of the Cronbach's alpha coefficient for every research axes exceeds 70%, indicating that the results of the questionnaire can be relied upon and the desired outcome can be achieved when analyzing the results.

Table (5) Reliability Coefficients for the Study Instrument

Axes	Number of paragraphs	Cronbach's alpha
Audit firm size axis	3	0.773
Audit-client relationship axis	3	0.785
Audit quality characteristics	6	0.813
Accounting conservatism	4	0.823

Source: Based on SPSS program

4-5 Descriptive Analysis of Study Variables

1- Descriptive Analysis of Audit Quality Characteristics Axes

A. Audit Firm Size Axis

Table (8) shows that the average score for all statements falls between 4.29 and 4.46, which corresponds to the response (strongly agree) at a rate exceeding 80% of responses. Thus, there is agreement that Accounting conservatism is positively impacted by the audit firm's size. in Iraqi commercial companies. Furthermore, according to the opinions of the research sample, the paragraph that stated, "Large audit firms influence their client companies to adopt conservative accounting practices compared to smaller audit firms in Iraq" received a higher weight and relative importance of 89%.

Table (8) Descriptive Interpretation of the Audit Firm Size Axis

First Axis Statements	Mean Average	Standard Deviation	Relative Weight	Likert-Scale Response
The size of an audit firm significantly impacts the degree of accounting conservatism practiced by Iraqi commercial companies.	4.35	0.57	%87	Strongly agree
Large audit firms influence their client companies to adopt more conservative accounting practices compared to smaller audit firms in Iraq.	4.46	0.60	%89	Strongly agree
The size of an audit firm impacts its ability to provide expertise and guidance that encourages accounting conservatism in Iraqi commercial companies.	4.29	0.65	%86	Strongly agree

Source: Based on SPSS program

B. Duration of the Relationship Between the Auditor and Client:

From Table (9), we note that the average score for all statements falls between 4.17 and 4.32, corresponding to the response (agree - strongly agree), with more than 80% of responses. Thus, there is agreement that the duration of the relationship between the auditor and client positively impacts accounting conservatism in Iraqi commercial companies. Furthermore, according to the opinions of the research sample, the paragraph stating, "The extended relationship between the auditor and client encourages trust and cooperation, thus enhancing accounting conservatism in financial reporting practices" received a higher weight and relative importance of 86.4%.

Table (9) Descriptive interpretation of the axis of the duration of the relationship between the auditor and the client

Second Axis Statements	Mean Average	Standard Deviation	Relative Weight	Likert-Scale Response
A longer auditor-client relationship is likely to lead to more accounting conservatism in Iraqi commercial companies.	4.23	0.61	%85	Strongly agree
The extended relationship between auditor and client encourages trust and cooperation,	4.32	0.61	%86.4	Strongly agree

thereby enhancing accounting conservatism in financial reporting practices.				
The short duration of the auditor-client relationship may reduce auditors' influence on accounting conservatism decisions in Iraqi commercial companies.	4.17	0.68	%83.4	Strongly agree

Source: Based on SPSS program

2. Descriptive Analysis of the Accounting Conservatism Axis

As shown in Table (10), the average score for all statements ranges between 4.12 and 4.36, corresponding to a response of "agree - strongly agree," representing more than 80% of responses. Furthermore, according to the opinions of the research sample, the paragraph stating, "The company places greater emphasis on caution and prudence in preparing financial reports, even if this means understating assets or overstating liabilities," received a higher weight and relative importance of 97%.

Table (10) Descriptive Interpretation of the Accounting Conservatism Axis

Third Axis Statements	Mean Average	Standard Deviation	Relative Weight	Likert-Scale Response
The company tends to recognize losses and liabilities conservatively in its financial statements.	4.28	0.70	%86	Strongly agree
The company places greater emphasis on prudence in preparing financial reports, even if it means understating assets or overstating liabilities.	4.36	0.63	%87	Strongly agree
The company tends to be more risk-averse when making financial reporting decisions, preferring lower earnings volatility.	4.24	0.63	%85	Strongly agree
The company's financial reporting culture leans toward conservatism, where maintaining shareholder confidence and financial stability are top priorities.	4.12	0.61	%82.4	agree

Source: Based on SPSS program

4-6 Hypothesis Testing

1. Main Hypothesis Testing

There is a statistically significant effect of audit quality characteristics on enhancing accounting conservatism in Iraqi commercial companies.

To determine the degree to which audit quality attributes have a statistically significant impact on promoting accounting conservatism in Iraqi commercial enterprises, the researcher employed basic regression analysis.

Table (11) Main Hypothesis Analysis

(X)	(Y)	(B)	(T)	(sig)	(R)	(R ²)	(F)	(sig)
Audit Quality Characteristics	Accounting Conservatism	0.934	21.035	*0.00	0.802	0.643	442.5	*0.00

Source: Based on SPSS program

Table (11) shows that the correlation coefficient (R) between accounting conservatism and audit quality attributes is (0.802), indicating a positive relationship between the two variables. The table also shows the "determination coefficient" (R²), whose value was estimated at (0.643), indicating that accounting conservatism can be explained by audit quality characteristics by (64.3%). Additionally, the table indicates that the value of the slope parameter (P value) for the regression coefficient related to the independent variable is less than (0.05). Accordingly, It can be concluded that audit quality attributes have a statistically significant impact on strengthening accounting conservatism in businesses. commercial from Iraq.

2. Testing Sub-Hypotheses

A. Sub-Hypothesis 1: There is a statistically significant effect of the size of the audit firm on enhancing accounting conservatism in Iraqi commercial companies.

The researcher used simple regression analysis to test this hypothesis, as Table (12) shows that the correlation coefficient (R) The correlation coefficient between accounting conservatism and auditing firm size is 0.692, indicating a positive relationship between the two variables. The table also shows the "determination coefficient" (R²), whose value was estimated at (0.478), indicating that accounting conservatism can be explained by the size of the auditing firm by (47.8%). Additionally, the table indicates that the value of the slope parameter (P value) for the regression coefficient related to the independent variable is less than (0.05). Accordingly, The size of the auditing company has a statistically significant impact on increasing accounting conservatism in Iraqi commercial enterprises, it can be concluded.

Table (12) Analysis of the first sub-hypothesis

(X)	(Y)	(B)	(T)	(sig)	(R)	(R ²)	(F)	(sig)
Audit firm size	Accounting Conservatism	0.714	15.023	*0.00	0.692	0.478	225.70	*0.00

Source: Based on SPSS program

B. Second Sub-Hypothesis: There is a statistically significant effect of the duration of the auditor-client relationship on enhancing accounting conservatism in Iraqi commercial companies.

The researcher used simple regression analysis to test this hypothesis, as Table (13) shows that the correlation coefficient (R) There is a positive association between accounting conservatism and the length of the auditor-client relationship, as indicated by the value of (0.691).. The table also shows the "determination coefficient" (R²), whose value was estimated at (0.477), indicating that accounting conservatism can be explained by the duration of the relationship between the auditor and the client by (47.7%). The table also shows that the value of the slope parameter (P value) for the regression coefficient related to the independent variable is less than (0.05). Accordingly, it can be said that there is a statistically significant effect of the duration of the relationship between the auditor and the client on enhancing Accounting conservatism in Iraqi commercial companies.

Table (13) Analysis of the second sub-hypothesis

(X)	(Y)	(B)	(T)	(sig)	(R)	(R ²)	(F)	(sig)
Duration of the relationship between the auditor and the client	Accounting Conservatism	0.714	15.023	*0.00	0.692	0.478	225.70	*0.00

Source: Based on SPSS program

4-7 Results

In light of the results of the hypothesis testing, the study reached the following conclusions:

- 1 - Characteristics of audit quality have a statistically significant impact on improving accounting conservatism in Iraqi commercial enterprises.
- 2 - The overwhelming majority of participants think that Iraqi commercial companies' accounting conservatism is strengthened by the size of audit firms. By evaluating the first sub-hypothesis, it was shown that the size of the audit firm had a statistically significant impact on improving accounting conservatism in Iraqi commercial enterprises.
- 3 - The majority of participants think that a longer relationship between the customer and the auditor fosters trust and collaboration, which in turn strengthens accounting conservatism, and that a short relationship may reduce auditors' influence on accounting conservatism decisions in Iraqi commercial companies. This was demonstrated by testing the second sub-hypothesis, which demonstrated a statistically significant effect of the duration of the auditor-client relationship on enhancing accounting conservatism in Iraqi commercial companies.
- 4 - Most participants believe that companies tend to recognize losses and potential liabilities in a conservative manner and focus on maintaining trust and stability in the preparation of financial reports.

4-8 Recommendations

The researcher provides a list of suggestions based on the results in order to fulfill the intended goal of the study. Among these suggestions are:



1- Iraqi commercial companies should contract with large audit firms with a good reputation and experience. Companies can analyze the performance and reputation of audit firms before contracting with them and select firms with a good reputation.

2- It is important for companies to strengthen long-term relationships with auditors. This can be achieved by adopting clear policies that allow auditors to remain in the company for extended periods provided their performance is satisfactory while maintaining professional independence.

3 - Companies must adopt a conservative accounting policy when recognizing liabilities and potential losses, by preparing accounting guidelines that outline how to handle liabilities and anticipated events.

4- Commercial companies must provide training programs in accounting and auditing to ensure a comprehensive understanding of accounting conservatism and its importance.

5- Companies must adhere to international accounting standards related to accounting conservatism to ensure transparency and reliability in financial reporting.

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