



The role of the Sarbanes-Oxley Act (SOX) in Reducing Agency Costs

Exploratory Study of a Sample of Auditors in the Kurdistan Region of Iraq

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ABSTRACT

The purpose of this research is to explain the role of the Sarbanes-Oxley Act (SOX) in reducing agency costs in the companies operating in the Kurdistan Region of Iraq. In order to achieve the objectives of the study, a ten questions questionnaire has been designed and distributed to sixty-eight professional auditors operating in the region. This analysis is based on sixty-three of them. The researchers reached the main conclusion that the implementation of the Sarbanes-Oxley Act (SOX) has



*Agency Theory,
Agency Costs,
Sarbanes-Oxley Act
(SOX).*

a significant role in reducing the costs of the agency in the companies operating in the region. The researchers also made a number of recommendations including the need to adopt the Sarbanes- SOX) in the Kurdistan Region of Iraq as the main tool for the control of companies.

Keywords: Agency Theory, Agency Costs, Sarbanes-Oxley Act (SOX)

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INTRODUCTION

Companies' management has the responsibility to prepare financial reports in the framework of international accounting standards. These standards aim at guaranteeing the integrity and objectivity of accounting measurements avoiding discrimination and favoring fairness in the presentation and disclosure of accounting information. However, these standards still give the company's management broad flexibility in selecting policies, procedures and accounting methods that may be used to achieve personal goals. This can lead to a misuse of the facts and to the deterioration of the quality of financial reporting information. The interests of the administration may harm the interests of other parties involved in the running of the company, for example the owners. In this case a contractual relation between the two parties (owners & agent) called Agency Theory has to be introduced. In this situation the second party is required to take care of the first party's interests in change of an agreed salary.

The application of the Agency theory requires the inclusion of agency costs as a result from the separation of management and ownership. These costs incurred by the owners include measures and control mechanisms. In order to reduce the agency cost, several countries adopted and the implementation of the Sarbanes-Oxley Act (SOX). This Act efficiently reduces agency costs by minimizing the misrepresentation of financial reports.

This research is divided into three parts. The first part addresses the Agency theory and Agency costs. The second part deals with the concept and content of the Sarbanes-Oxley Act (SOX) and its role in reducing the costs of the agency. The third part shows the empirical evidence for the inclusion of the Act in the Kurdish region of Iraq.

Research problem

There is considerable interest in developed countries in the role of the Sarbanes-Oxley Act (SOX) in reducing agency costs in companies. However, this role has not received enough attention in developing countries such as the Middle East in general and Kurdistan Region of Iraq in particular. In fact, most companies in the Kurdistan Region of Iraq do not apply the Sarbanes-Oxley Act (SOX). This research raise this question: Which role, if any, the Sarbanes-Oxley Act plays in reducing agency costs in KRG's companies?

Hypothesis Development

This research based on a main hypothesis:

H1: Statistically, there is no significant effect at the significance level ($\alpha \leq 0.05$) of Sarbanes-Oxley (SOX) law in reducing agency costs in companies operating in the Kurdistan Region of Iraq.

Research Questions

The question serves as a guide in shaping and directing the research to a logical conclusion. The research question of the study is:

What is the relationship between Sarbanes-Oxley (SOX) and reducing agency costs?

Research Aims

The research aims to achieve the following objectives:

- 1) To demonstrate in the frame of the Agency Theory the subsequent costs of supervision including the cost of missed opportunity, or cost of the agency, as a result of the separation of the ownership from the corporate management.
- 2) To introduce the Sarbanes-Oxley Act (SOX) and its role in reducing agency costs in companies.

Research importance

The importance of this research lies in highlighting the need for the implementation of Sarbanes-Oxley Act (SOX) in reducing agency costs in companies operating in the Kurdistan Region of Iraq.

Research Methodology

In order to achieve the objective of this research the researchers have applied the descriptive analytical approach based on the following sources:

1. Primary sources (practical side): through the distribution of an ad hoc questionnaire and the analysis of the answers to test the validity of the hypothesis.
2. Secondary sources (theoretical side): referring to articles, books and studies on the same topic.

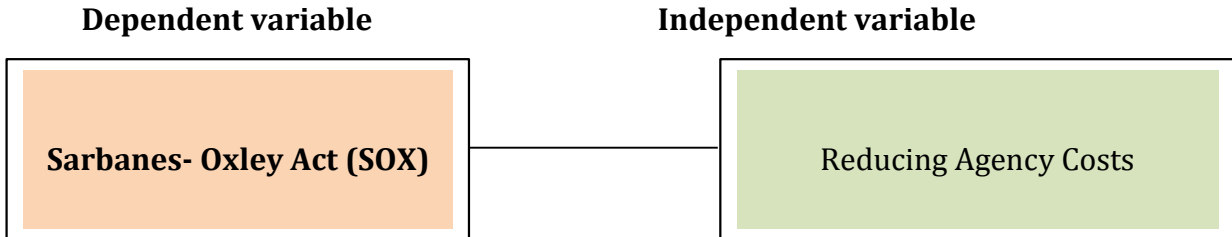
Population's sample

The research population consisted of professional accountants in Kurdistan Region. Due to their large number they were chosen randomly.

Research Format

In order to carry out the analysis the researchers designed a specific model to include all the variables. Figure (1) illustrates the relationships of these variables.

Figure (1) Research Format



Source: prepared by the researchers

Part one

Theoretical Framework of Agency Theory and Agency Costs

Agency Theory

Agency Theory was born in the late 1960s and early 1970s with the purpose to devise a theory which included the analysis of the market as well as the study of the economics and administration of the firm. This new, more comprehensive approach was called Economic Theory of Agency. The theory of Agency is an intellectual framework used as a research tool to explain the contractual relations that have been defined in many fields of work and human thought. The large size of the business organization, the complexity of its activities and the separation of its ownership from the administration all led to the emergence of the Agency's relations in the field of business. The first who mentioned the theory of the agency were the Americans Barl & Means in 1932, who noted that there is a separation between the ownership of the company's capital and the process of control and supervision within the companies and that this has implications on the level of performance of the company. Jensen & Meckling (1976) defined the agency's theory as a relationship whereby a principal person uses the capital to serve another person (agent) and replaces him/her in certain tasks. This task, or relationship, makes it necessary for the management to use the owner's powers (Debla and Jesus, 2007, pp. 1-3). Moreover, the agency theory is considered to be the main theory explaining the relationship among explanatory variables (Mohammad, 2015). The Agency's theory is concerned with resolving a set of problems that may arise when the agency is

involved; the first problem results from conflicting interests and objectives of both the owner and the agent. Another problem is the difficulty of the owner to verify the behavior of the agent whether he/she is behaving in an opportunistic manner with the only purpose to serve his/her interests. The final problem belongs to risk posed by the different response of the owner and the agent when facing a risk (Clarke, 2007, pp. 1-31).

Objectives of the Agency Theory

There are a lot of goals that the Agency theory seeks for and the most important of these goals are (Tamimi, 2008, p. 30):

- 1) The main objective of the Agency's theory is to clarify how different mechanisms can be linked (Align) incentives among contracting parties, and reduce the costs associated with this relationship.
- 2) Building a contractual relationship between the owners and the agent, under which the agent acts to maximize the wealth of the owners.
- 3) Address the difficulties that arise in the circumstances of the lack of integration and consistency of information.

In another study, the above researchers argue that the agency's theory aimed at examining the extent to which managers are associated with and characterize contracts. The fundamental principle of an agent's analysis is that managers have to act in accordance with the public interest of the business and thus protect the interests of the shareholders. On the other hand, these contracts should include the identification of the activities to be performed by managers as well as the definition of eventual remunerations, bonuses and benefits for corporate managers (Wiseman and 2012, pp. 205-212).

The researcher believes that the Agency theory aims at preventing the agent from acting to his/her own advantage and push him/her to work well to protect the interests of the owner. The agent must work for the interests of the company without neglecting his/her responsibilities concentrating every effort in carry out the work entrusted to him/her.



The concept of agency costs:

Kaplan defined it as "the amount of increase in the result of agents acting to maximize their wealth and to favor their own interests over the interests of owners" (Kaplan, 1989, p. 602).

Jensen & Meckling) is defined as: "the costs incurred by the commissioning of agents and carrying out acts that satisfy the interests of the company" (Jensen & Meckling, 1976, p. 308).

Another definition of the costs of the Agency includes the benefits lost due to the contracts between the agent and the shareholders in the event of a conflict of interests (Fama, & Jensen, 1983, p. 322).

Agency cost sources:

The Agency's costs are related to the existing of the Agency's relations within the Company. These agency relationships arise through the existence of contracts between two parties, the shareholders and the agent. Starks (1987, p. 1) considers that the Agency contract is not considered good unless there are no significant agency costs borne by the Company.

What is mentioned above is not the only reason for the Agency's costs; rather, it is a conflict of interest between shareholders and the agent to constitute one of the most important sources of agency costs. This conflict is the reason for the existence of the obstacles of the Agency's theory within the company, thus it can be said that the Agency's costs are a direct result of the obstacles or problems of the Agency.

Anderson (1989, pp. 5-6) considers that agency costs may arise when management allocates the company's resources in a way that does not maximize the wealth of the owners. Those management decisions are made because of different risk trends between management and owners. Moreover,

most of companies do not have a good incentive system that ensures the optimum use of management experience and their authority.

The period of the agency contract is also one of the causes or sources of agency costs. The short period of the Agency will result in the agent's tendency to short-term investments which coincide with the duration of his/her agency. These short investments may be having less benefit to the company comparing to other investments which need a longer period of time to achieve a return. This problem becomes more acute when the agent's incentive relates to short-term profits.

Elements of agency costs:

Agency costs can be divided according to the types of agency problems. Agency ownership problems are related to a range of costs. This paper will deal with all item separately, taking into account which party of these items will bear them, shareholders, agents or third-parties (the community as a whole). These costs arise as a result of a conflict of interest between the owners and managers (agent). Owners bear most of these costs, and managers may bear part of them, and sometimes the community who bears some of them. By reviewing Agency theory in terms of theory and practice, it can be said that the Agency's costs of ownership (Equity Agency Costs) takes one or more of the following elements.

1- Agent acquisition costs:

The cost of selecting and acquiring the agent is the financial or monetary cost borne by the owners in order to acquire an efficient professional manager or agent to manage the company's business. This financial cost includes a set of elements which include the calling, selection, and the introduction of the agent into the agency's membership (Mahmoud, 1993, p. 143).

2- Costs of contracting with the agent:

After selecting the agent the second stage is the agreement on the terms of the contract between the owners and the agent. Contract costs are the costs

incurred by shareholders for the design and execution of contracts that govern the relationship between the owners and the agent. This type of cost is different from the costs of the agent's acquisition. The agent may be chosen but the terms of the contract are not agreed upon.

3- Control and discipline costs

These costs include the costs of designing and implementing monitoring systems, evaluating performance, insurance costs of the Company's assets, the expenses of the independent members of the Board of Directors, as well as the fees of the external audit performed by the External Auditor. The owners use an independent external auditor to assess management performance and the external auditor's fees for management control are considered as control costs borne by the shareholders. It can be noted that these fees increase with the increasing the problems of the agency, especially in companies that have an increase in free cash flows and lack of investment opportunities and growth (Griffin, et al, 2010, p. 342).

Ittonen (2010, p. 6) confirmed that the Stewardship theory is working hard to solve problems arising from the ethical dilemmas related to the different interests and the lack of integration of information between the owner and the agent due to the clear separation between the management and the owner's roles. Owners try to obtain enough information and data to complement what is available by designing control systems. The primary task of a control system is to send data and information to the owner about the efficiency of the agent's behavior in the management of the company's business.

4) Remuneration, administrative compensation and incentives obtain by the agent:

Owners face many agency problems with the company's managers. One of these problems is that the owners often have a portfolio of well-diversified investment assets, which always makes them supportive of higher-risk

investment strategies than managers. On the other hand when owners give the management freedom in implementing the company strategy, this freedom may harm the interests of the owners because it allows managers to maximize their self-interest instead of owner's interests by entering into investment strategies with a lower risk and less return.

This is not in line with the preferences of risk-averse owners and as a result, the company's market value declines, followed by a decline in owners' wealth.

All of this leads owner to try to design a range of incentives and bonuses that encourage managers to accept high risk investments in their interest. Providing managers with such incentives and rewards may reduce agency problems between owners and agents. (O'Connor and Rafferty, 2010, p. 432).

5) Overspending by managers

This kind of cost may hold owners more costs than monetary sacrifices, especially if the agency's contract cannot obtain the cash benefits that satisfy their wishes may resort to increasing its non-monetary benefits, to satisfy the desires. This obliges the owners to pay attention to the supervisory activities that monitor and control the agent's actions and to reduce the non-monetary benefits to the appropriate extent. Last Decade, has seen raising issues regarding accounting, reporting practices, societal, legal, and regulatory bodies. This was further increased due to competition between the firms (Mohammad, 2015). This increases the non-monetary benefits that the agent tries to obtain whenever the agent's control and follow-up are less than the agent's actions. (Elston and Goldberg, 2003, p. 1392).

6) Residual Loss:

Jensen & Meckling (1976, p. 308) mentioned that Residual Loss is the amount of the decrease in the market value of the company resulting from the company's failure to achieve the maximum profits or benefits that could have been achieved if the company's resources were directed entirely to the company's main activities, and not directing the company's resources towards or satisfying the non-monetary benefits of the agent and maximizing his/ her personal benefit.



7) Losses resulting from misuse of management rights by managers:

The maximum that management rights can achieve is the control over the allocation of the resources of the owners, but as a start, managers can exploit the owners' equity for their own interests. The exploitation of owners' money can take several forms, the most obvious and simplest of which is the seizure of the owner's money. In a more complex way, the managers establish their own firm and sell the products of the company they manage to the company owned by them at prices that are lower than those prevailing in the market. In a more extreme manner, managers sell the assets of the company they manage - not just products - to the company they own at prices which is below the market price. Economic reports in June 1995 indicate that Korean Chaebol sometimes sells some of its subsidiaries to the relatives of the founder of Chaebol at low prices (Shleifer & Vishny, 1997, p. 751).

8) Costs for senior owners:

Senior owners' costs are very clear since these investors' primary interest is to recover their money. On the other hand, they have the leverage to claim these funds, but in terms of benefits, the most significant of these costs lies in the area of risk because senior owners or consultants suffer from the risks of non-diversification in their investments (Demsetz, & Lehn, 1985, p. 1157).

9) Agency costs arising from overstatement of the company's shares:

In its interpretation of Agency costs resulting from overvaluation of the Agency Costs of Overvalued Equity, Jensen (2004, p. 556) argues that the overvaluation of the stock occurs when the share price of the company is higher than its real value in the market, meaning that the company will not be able to provide sufficient performance to justify the significant increase in the share value.

10) Social Agency costs:

This category of costs is borne by society as a whole, not a particular group within the economic unit. This type of cost occurs largely within public sector units, and it is called the Social Agency Costs. The costs of the social agency, which are often caused by the management or the external auditor, but which are the responsibility of the auditor as an agent of the society, are varied in reviewing the company's work and expressing its opinion on the validity of its work and financial position. Ismail (1998, p. 123) mentioned some examples of these costs:

- The board of directors of a company tries to use accounting information to show the company that it is making profits and has a good financial position. The costs of the agency borne by society in this case are represented by the excess incentives received by the members of the Board of Directors as well as the loss resulting from the continuation of corrupt management. This has more impact on the community if the corruption is taking place in public sector enterprises than in private companies.
- If one of the managers of a public sector enterprise seeks to exploit his/her information and data to show that the financial position is too weak with the purpose of reducing the efficiency of the company's board of directors in order to improve his/her position.
- Partial tax evasion resulting from the exploitation of accountants legal gaps in reducing the amount of tax.
- The costs resulting from the non-disclosure by the external auditor of any fraud within the company regarding tax evasion from customs or evasion of any kind of fees or taxes.

11) Costs of the agent's effort:

It is the first type of costs borne by the agent in his/her effort to implement the Agency's contracts in the execution of the tasks entrusted to him/her.

According to the contract the owners of the company and the owners of the capital should be separated. The owners of the company are the ordinary shareholders. The owners of the capital are shareholders and lenders. The company's contract is the relationship between owners and management, with the management acting in the interests of owners.

Creditors may be able to provide protection for their investments, but at an additional cost called **Agency Cost of Debt**. The most important elements of this type of agency cost are:

1) Costs resulting from changing the level of risk: Recent studies have shown that creditors rely not only on the profitability of companies in the past, or on the characteristics of the issuance of bonds for these companies in order to deduce the expected cash flows they may receive in the case of lending their money to these companies. In fact, the expected investors in general and the creditors in particular often assess the governance structure within the company in which they invest their money, which is essential to the company's success and to its ability to repay money to creditors.

This is closely related to the extent of agency conflicts within the firm, particularly creditors facing two major problems: the abusive behavior of managers and expropriation by dominant owners (Boubakri & Ghouma, 2007, p. 7).

2) Losses resulting from lower investment: The problem of investing too low can be seen when owners refuse investment opportunities with positive current values, especially if their cash flows will go in full to pay creditors' dues. This behaviour can be seen often by owners when the company is approaching bankruptcy, where mortgage finance generates owners' motivation to avoid new profitable investments, especially when the previous debt is secured by existing assets.

Therefore, debt financing has a significant impact on the investment policy followed by the company in the case of a large proportion of external financing in the capital structure of the company.

3) Bankruptcy Costs: This type of cost relates to the resolution of the dispute and competition between the bondholders and the shareholders if the downsizing occurs. These costs are borne by both the shareholders and the bondholders and if the largest burden is on the shareholders. The company's performance is seen as an effective way for shareholders to assess their efforts and self-determination. For that purpose, everyone uses all the tools that help them, including reducing agency costs to improve profitability (Fadl, 2013, p. 129).

Part Two

The role of the Sarbanes-Oxley Act (SOX) in reducing agency costs

Sarbanes-Oxley Act (SOX): Is an American law that requires companies to ensure and adopt financial information through internal control systems. Under this law, a Chief Executive Officer (CEO) and a Chief Financial Officer (CFO) will be personally responsible for providing any false financial statements. The law follows the serious financial irregularities that led to the collapse of Enron and World.Com.

In July 2002, as a result of the financial corruption of some large companies, the US Congress passed the Sarbanes Oxley Act, which emphasized that companies should follow periodic monitoring and clear mechanisms to achieve transparency in providing financial information which help internal auditors to achieve efficiency performance. This law states the establishment

of a supervisory body to monitor the performance of legal auditors who audit the financial statements of public companies. It also stipulates that an audit committee should be established in every public company. Management of the company must publish in their annual financial reports a report called the internal control report. This law requires the board of directors to have the internal control system and that system must apply effectively (Dugji and Sayed Ali, 2011, p. 8). This law also requires the US Capital Market Authority to require the corporations to disclose whether the company has adopted the Code of Professional Conduct and the ethics of practicing the work of the company's executives and to disclose the rules adopted by the company (Smith & Minter, 2005, p. 205). The SOX Act was known as the Senate Title Reform and Protection Act, and the Accountability and Audit Responsibility Act in the White House. One of the main provisions of this law is the establishment of the Public Company Accounting Oversight Board (PCAOB), which was established by the US Congress to oversee public companies in order to protect the interests of investors and improve the accuracy of independent audit reports (King & Carl, 2014, p. 11).

The law also requires the company's legal auditor to present a report called confirmation examination report to be used to clarify the auditor's opinion on the assertion made by the board of directors about the company's internal control. On the other hand, there is a direct relationship between SOX and institutional control which called Corporate Governance. The function and responsibility of senior management will include asserting the validity and integrity of the financial statements of US public corporations. The US Congress has passed this law so that the CEO and CFO can be held accountable if there is corruption in the information or financial statements. Previously, they were not held responsible for their claims of lack of knowledge about irregularities and corruption. This law will give the power to imprison and impose fines on the chief executive and the head of the financial sector or their assistants if found guilty about lists which signed by them if included corruption or manipulation (Khadr, 2017, p. 23).

This law emphasizes the importance of adopting periodic and rapid mechanisms for effective disclosure and transparency, in order to strengthen the bonds of trust and responsibility between all parties in order to provide better protection for shareholders or investors. Moreover, it has the advantage

of restoring trust in accounting information in the financial markets. According to Ghoneim (2013, p. 29), this law has several principles:

- 1) Validity and integrity of the accounts from any manipulation or wrong practices.
- 2) Provision of timely and accurate information:
- 3) The Executive Director shall be fully accountable to the General Assembly.
- 4) Achieve complete independence of internal and external auditors to ensure effective control.

This law emphasizes that the responsibilities and functions of senior management will include confirming the validity and integrity of the financial statements of corporations in the United States of America, so that the CEO of the company and CFO will be held responsible in the event of corruption or false information in financial statements. Previously, they were not held responsibilities if they were not known aware of irregularities or corruption. This law gave force to impose prison sentences or fines. The law also included several key points to ensure the proper application of corporate governance (Sarbanes-Oxley Act, 2002, p. 4).

The researchers believe that all these recommendations and events are ultimately in the interest of the company through the provision of effective mechanisms to protect its assets and preserve the rights of shareholders and all parties and other stakeholders within the company. The Sarbanes-Oxley Act states that the auditing committees are responsible for everything related to the external auditor; their appointment, the determination of their wages, their expulsion, and the performance evaluation of these auditors. Audit committees should be aware of all matters relating to their relationship with the external auditor, so that they can carry out the responsibilities entrusted to them with a high degree of effectiveness and efficiency.

The Importance of the Sarbanes - Oxley Act

Prior to the Sarbanes-Oxley Act (SOX), investors suffered significant losses as a result of misuse of financial statements by companies due to fraud in financial information by using so-called creative accounting. Since the problem of accounting fraud has worsened the apprehension among investors about the accuracy and reliability increased. This led to numerous requests for the disclosure of financial reports as well as to the need of holding corporate managers responsible in the wake of the series of financial scandals that shook companies and financial markets, and the emergence of financial crises that led to the collapse of many big companies. Those corruption events took place because of the corruption of major international accounting and auditing companies responsible for the collapse of many companies in the United States in the late 2001 and the first half of 2002, such as Enron Energy, WorldCom, and Zerox. Auditors who worked for Arther Anderson on financial statements that did not reflect the fact of the company or what was going on in those companies at the time were held responsible. Moreover, other companies' investors from 1997 until 2004 lost about 900 billions dollars. Sarbanes-Oxley Act contains eleven articles that directly or indirectly affect the accounting and auditing profession. Each item consists of several parts and each part contains several sections. These items are considered as an integrated legislative system to achieve a state of balance in the global financial environment, including the accounting and auditing profession, as follows (Khadr, 2017, p. 3029).

- 1) The Board of Supervision of Public Company Accounting (PCAOB).
- 2) Independent auditor.
- 3) Effectiveness of internal control system in companies (corporate responsibility).
- 4) Enhanced disclosure of financial statements.
- 5) Analysis and conflict of interest.
- 6) Resources and authority of the Commission.
- 7) Studies and reports.
- 8) Fraud and criminal accountability of companies.

- 9) Strengthening the penalty and crimes of financial managers.
- 10) Corporate tax returns.
- 11) Fraud and manipulation in the company's records.

The goals of the Oxley Act:

The Oxley Act includes a set of objectives to promote the accounting environment and to gain investors trust, including (Coates & John, 2007, pp. 102-103).

- 1) Transparency in the provision of financial information; transparency is achieved by examining the annual and preliminary financial statements prior to their publication in order to reach the conclusion that they do not contain any incorrect information or data and to ensure that they did not delete any data, information or amounts that would make financial statements incorrect.
- 2) To verify the correctness and efficiency of the internal control system in the company, and its effectiveness in reducing fraud, errors, discovery as soon as they occur and their ability to carry out the implementation of control activities in a manner that enables the verification of the quality of implementation of these activities and stability in their implementation.
- 3) To consider the accounting policies adopted by the company, any change in these policies and to take into account the appropriateness of these policies to the nature of the company's business, its impact on the financial position and income statement.
- 4) Supervising the processes of investigation and search for fraud or errors that would occur in the company.

- 5) Verifying the independence of the internal auditors, establish a system of internal audit in the company, the scope of the examination and reports issued by it.
- 6) Taking the necessary measures in the event that if a company violated the laws and regulations, where the most severe penalties imposed on managers and presidents as well as impose strict and accurate procedures on all services provided by auditors.

Sarbanes-Oxley Act provides a set of applicable provisions to achieve the above-mentioned objectives and the law contains eleven sections that discuss the requirements of financial reporting, as follows (Sarbanes-Oxley Act, 2002, pp. 5-6):

- 1) The formation of the control board on general accounting companies.
- 2) Auditor independence.
- 3) Corporate responsibilities.
- 4) Enhance the disclosure of financial statements.
- 5) Conflict of interest analysis.
- 6) The resources and authority of the Committees.
- 7) Studies and reports.
- 8) The extent of corporate responsibility for criminal fraud.
- 9) Punishing the crimes of officials.
- 10) Tax income of companies.
- 11) Corporate responsibility for fraud.

According to the above, the researcher finds that the Sarbanes-Oxley Act (SOX) has a significant impact on the auditing profession, and gives the credibility and transparency of the financial statements if applied. The implementation of the Oxley Act will play an active role in raising the efficiency of the auditing profession, which will reassure and validate the reports of financial reporting users. This law has an effective effect on preventing agents from manipulating financial lists and hiding facts from stakeholders. The application of this law strengthens the position of the company to investors and users of financial statements so that the agent will be the most beneficiary. These effects can be briefly summarized as follows:

- 1) The Act strengthened the supervision of audit offices and the prevention of cases of collusion with corporate departments.
- 2) Reduce risks if misappropriations and irregularities are discovered in a timely manner.
- 3) Reduce the size of financial irregularities.
- 4) It is a tool for balance in the relationship between auditors, senior management and audit committees in companies.
- 5) The application of this law limits the manipulation of financial statements and prevents the misuse of the financial statements by the agents to maximize the profits of the company and thus they became biggest beneficiary of this process and become a burden on the company because in this case agents are demanding an increase in salaries from the company owners.

SOX requirements

Many studies and research are concerned with the SOX Act; the federal law of the United States of America, which has led to a legislative rule in the formulation and development of new standards for public companies because they do not comply with disclosure and transparency standards and fail to

disclose aspects of fraud and financial manipulation in major international companies and accounting firms. Many of these studies and research have focused on the impact of the SOX Act on the performance of public accounting firms and the accounting profession in general, both in the United States and in different countries of the world. (Khadr, 2017, p. 44).

According to Kleckner & Jackson analysis, accounting information lost importance to financial reporting users due to the mistrust of audited information. Their study resulted in a set of recommendations (Kleckner & Jackson, 2005, p. 55):

- 1- Perform the audit service exclusively without providing other services prohibited by law.
- 2- Recycling of external auditors.
- 3- Submit audit reports to audit committees.
- 4- Avoid conflicts of interest.

Both researchers believe that the application of the Sarbanes-Oxley Act (SOX) is a necessary requirement to protect the various parties, whether shareholders, owners of companies or stakeholders. Furthermore, both researchers consider that disclosure of accounting information leads to increased confidence and credibility in information which is contained in the financial reports prepared for all users, whether are internal or external.

Part three

Practical side of the research

Description of the study population and the sample

The population studied consists of professional accountants in Kurdistan Region of Iraq. Sixty eight questionnaires were distributed. The number of respondents was 65 or (95.5%) and accepted was (63) or (92.6%) as shown in Table (1) below.

Table (1)

Distribution of study sample and percentage of respondents

Function	No. Questionnaires		Percentage of returned	No. Questionnaires		Net percentage of respondents
	Distributed	Returned		Acceptable	Unacceptable	
accountants professionals	68	65	95.5%	63	2	92.6%

Source: prepared by the researchers

Description of the characteristics of the study sample:

This section deals with the characteristics of the study sample in terms of scientific certificate and practical experience. The results reached through tables can be summarized as follows:

Question No (1) Scientific Certificate:

Table (2)

Distribution of the study sample by scientific certificate

scientific certificate	Frequent	Percentage
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Bachelor	59	93.6%
Master Degree	4	6.4%
PhD	0	0%
Total	63	100%

Source: prepared by the researchers

The data from Table (2) indicate that the sample of the study was divided in terms of scientific certificate in three categories. The category of those who have Bachelor ranked first were 59 which is (%93.6) of the study population. The groups that have Master Degree ranked second were 4 and (%6.4). The groups those have PhD ranked third were 0 and (0%).

Question No. (2) Years of experience:

Table (3)

Distribution of study sample by experience

Years of experience	Frequent	Percentage
From 1 year - 5 years	13	20.6%
From 6 years - 10 years	20	31.7%
From 11 years - 15 years	12	19%
From 16 years - 20 years	8	12.7%
21 years and more	10	16%
Total	63	100%

Source: prepared by the researchers

The data from Table (3) indicate that the sample of the study was divided in terms of years of experience in five categories. The category of those who have 6 -10 years of experience ranked first were 20 which is (%31.7) of the study population. The group that have 1 to 5 years of experience ranked second were 13 and (%20.6). The group those have 11-15 years of experience ranked third were 12 and (19%). The group that have more than 21 years experience have been ranked as fourth which were 10 and (%16). Finally, the category of those have experience between (16 - 20 years) ranged as fifth place, were 8 members and covered (%12.7) of the study population.

Methods of data analysis:

The descriptive statistical method was used to analyze the data and test the hypothesis using the statistical program (SPSS). The following statistical methods were used:

1- Arithmetic mean. 2- Standard Deviations. 3- One sample T-Test.

Questionnaire scale: The Five-Likert scale has been used.

Table (3)

Scale to determine approval level

Class	Level of impact
1	Very low
2	Low
3	Medium
4	High
5	Very high

Source: prepared by the researchers

An ordinal scale of these figures is used to give the arithmetic mean, using the ordinal scale of significance, to be used later when analyzing the results, as shown in Table 4:

Table (4)

Values and criteria for each weight of the fifth-dimensional weights adopted by the study

Arithmetic mean	Relative importance
From (4.5) to (5)	Very high
From (3.75) to lower (4.5)	High
From (3) to lower (3.75)	Medium
From (2) to lower (3)	Low
Lower than (2)	Very low

Source: prepared by the researchers

View the results and test the hypothesis of the study

The main hypothesis; there is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) of the Sarbanes-Oxley Act (SOX) in reducing agency costs in companies operating in the Kurdistan Region of Iraq from the point of view of the auditors. The hypothesis of this study was analysed in eight questions. Table (5) shows the mean, standard deviation, variance coefficient and order of important sections.

Table (5)

The role of the Sarbanes-Oxley Act (SOX) in reducing agency costs

No	Phrases	Arithmetic mean	standard deviation	Relative importance	Ranked	Level of importance
1	The application of the Sarbanes-Oxley Act reduces audit and control costs	3.964	0.928	%79.28	6	High
2	The implementation of the Sarbanes-Oxley Act reduces the Agency's social costs	4.163	0.807	83.26%	2	High
3	The application of the Sarbanes-Oxley Act reduces the costs of administrative compensation and incentives to the agent	4.219	0.828	84.38%	1	High
4	The implementation of the Sarbanes-Oxley Act reduces the costs of over-spending by managers	4.113	0.820	%82.26	3	High
5	The application of the Sarbanes-Oxley Act reduces agency costs resulting from overvaluation of the company's shares	3.971	0.810	%79.42	7	High
6	The implementation of the Sarbanes-Oxley Act reduces costs resulting from changing the level of risk	4.014	0.827	80.28%	5	High

7	The application of the Sarbanes-Oxley Act reduces the costs of losses resulting from misuse of management rights by managers	3.950	0.99	%79	8	High
8	The application of the Sarbanes-Oxley Act reduces the costs of the remaining loss	4.021	0.797	80.42%	4	High
General rate of all		3.950	0.600			High

Source: prepared by the researchers

Table (5) shows that the arithmetic mean of the Sarbanes-Oxley (SOX) role in reducing agency costs ranged between 3.950-4.219 and standard deviations (0.797 and 0.99). This means that the sample of the study agrees with the items that measure the role of the Sarbanes-Oxley Act (SOX) in reducing the costs of the Agency at high level, since all these averages are higher than the hypothesis average (3).

Table (5) also indicates:

The statement (3) which shows: "The application of the Sarbanes-Oxley Act reduces the costs of administrative compensation and incentives to the agent". Was ranked first and was the most important among the rest of the statements, with a relative importance of 84.38% and the arithmetic average (4.219). As shown in statement (2): "The application of the Sarbanes-Oxley Act reduces the costs of social agency" ranked second with an arithmetic average of 4.163 and a relative importance of 83.26%. Statement 4, which states: "The implementation of the Sarbanes-Oxley Act reduces the costs of over-spending by managers" is ranked third with an arithmetic average of 4.113 and a relative importance of 82.26%. Statement 8, which states: "The application of the Sarbanes-Oxley Act reduces the cost of the remaining loss" has been ranked as fourth place with an arithmetic average of 4.021 and a relative importance of 80.42%. Statement (6), which states: "The implementation of the Sarbanes-Oxley Act reduces costs resulting from changing the level of risk" ranked fifth

with an arithmetic average of 4.014 and a relative importance of 80.28%. Statement (1) which states: "The application of the Sarbanes-Oxley Act reduces audit and control costs" ranked sixth with an arithmetic average of (3.964) and a relative importance of 79.28%. Statement (5), which states: "The application of the Sarbanes-Oxley Act reduces agency costs resulting from overvaluation of the company's shares" ranked seventh with an arithmetic average of 3.971 and a relative importance of 79.42%. Statement (7) states: "The application of the Sarbanes-Oxley Act reduces the costs of losses resulting from the misuse of management rights by managers." ranked as last position with an arithmetic average of 3.950 and the relative importance of 79%.

Hypothesis Testing

The (T. test) was used to test the hypothesis by simple regression analysis as shown in table (10) below:

Table (6)

Results of the hypothesis test under the test (T. Test)

The result of the Null Hypothesis	t - calculated	t - tabulated	Statistical significance (Sig)	Arithmetic mean
Refusal	18.787	1.655	0.000	3.950

Source: prepared by the researchers

The results in Table (6) indicate that the value of (t - calculated) is greater than the value of the (t - tabulated) value below the level of significance (0.05) and since the rule of decision provides for rejection of the null hypothesis if the value of (t - calculated) is greater than the value (t - tabulated). This research rejects the nihilistic assumption that there is no statistically

significant effect at the level of significance ($\alpha \leq 0.05$) of the Sarbanes-Oxley Act (SOX) in reducing agency costs in companies that operating in the Kurdistan Region of Iraq from view of the accountants.

However, this research accepts the alternative hypothesis that there is a statistically significant effect at the level of significance ($\alpha \leq 0.05$) of the Sarbanes-Oxley Act (SOX) in reducing the costs of the agency of companies that operating in the Kurdistan Region of Iraq from view of the auditors.

Conclusions

Based on the theoretical and practical aspects, both researchers reached a number of conclusions:

The results of the empirical side confirmed that the implementation of the Sarbanes-Oxley Act (SOX) has a significant role in reducing the costs of the agency in the companies operating in the Kurdistan Region of Iraq according to the view of the auditors. Proper application of Sarbanes-Oxley Act (SOX) leads to effective disclosure and transparency, and strengthens the bonds of trust and responsibility among all parties which they have interests with the company. Furthermore the Sarbanes-Oxley Act (SOX) provides protection to shareholders and investors, returns trust in accounting information and reduces agency costs.

Recommendations

Based on previous findings and conclusions, we propose the following recommendations:

- 1- The need to adopt the Sarbanes-Oxley Act (SOX) in the Kurdistan Region of Iraq because of its importance in monitoring companies.

- 2- The necessity of combining the efforts of professional organizations in the Kurdistan Region of Iraq (the Association of Accountants and Auditors) and the relevant governmental bodies (State Financial Audit Control Bureau) to raise awareness among shareholders and investors by highlighting the role of the Sarbanes-Oxley Act in balancing the conflicting interests among all parties both internal or external.

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Appendix(1)

Questioner list

Greetings respect and appreciation.....

This questioner is part of the research completion entitled "**The role of the Sarbanes-Oxley Act (SOX) in Reducing Agency Costs, Exploratory Study of a Sample of Auditors in the Kurdistan Region of Iraq**".



According to your scientific knowledge and experience in accounting fields, please give accurate answer to the questions of this questionnaire. Thank you for your cooperation in advance... Yours sincerely

The first part. General Information: Please kindly put the reference (√) in the designated place for it:

Scientific Certificate:

	Bachelor	
	Master Degree	
	PhD	

Years of Experience:

	From 1 year – 5 years	
	From 6 years – 10 years	
	From 11 years – 15 years	
	From 16 years – 20 years	
	21 years and more	

The second part: The role of the Sarbanes-Oxley Act (SOX) in Reducing Agency Costs

No	Phrases	Totally agree	Agreed	Not sure	I do not agree	Totally not agree
1	The application of the Sarbanes-Oxley Act reduces audit and control costs					
2	The implementation of the Sarbanes-Oxley Act reduces the Agency's social costs					
3	The application of the Sarbanes-Oxley Act reduces the costs of administrative compensation and incentives to the agent					
4	The implementation of the Sarbanes-Oxley Act reduces the costs of over-spending by managers					
5	The application of the Sarbanes-Oxley Act reduces agency costs resulting from overvaluation of the company's shares					
6	The implementation of the Sarbanes-Oxley Act reduces costs resulting from changing the level of risk					

7	The application of the Sarbanes-Oxley Act reduces the costs of losses resulting from misuse of management rights by managers					
8	The application of the Sarbanes-Oxley Act reduces the costs of the remaining loss					

پوختە

رۆلی یاسای ساریبیز ئۆكسلی له كەم كردنهوهی تیچوونی وهكالهت

مه بهست له م تۆیژنه وهیه رونکردنه وهی رۆلی یاسای ساریبیز ئۆكسلی له كەم كردنه وهی تیچوونی وهكاله له و كۆمپانیانهی كه له ههریمی كوردستانی عیراق كاردەكەن. بۆ گهیشتن به ئامانجی ئەم تۆیژینه وهیه، دوازدە پرسیار ئاماده كرا وه له سهه شهست و ههشت وردبینی ژمیریاری شارهزا دابهش كراوه كه له م ناوچهیه كاردەكەن. شیکردنه وه بۆ شهست و سیان ئەنجام درا. دهرئه نجامی ئەساسی ئەم لیكۆلینه وهیه ئەوه بوو كه جیبه جی كردنی یاسای ساریبیز ئۆكسلی رۆلیکی كاریگهری ههیه له سهه كەم كردنه وهی تیچوونی وهكالهت له و كۆمپانیانهی كه له م ناوچهیهن. تۆیژه رهوان هه ندیک پيشنیا ریان خسته روو وهك پيوستی جیبه جی كردنی یاسای ساریبیز ئۆكسلی له ههریمی كوردستانی عیراق وهك ئامرازی كۆنترۆل كردنی كۆمپانیان.

كلیلی وشه كان: تیۆری وهكالهت , تیچوونی وهكالهت, یاسای ساریبیز ئۆكسلی.

ملخص

الغرض من هذا البحث هو توضيح دور قانون ساربينز أوكسلي (SOX) في تخفيض تكاليف في الشركات العاملة في إقليم كردستان العراق. من أجل تحقيق أهداف الدراسة، تم تصميم استبيان من عشرة أسئلة وتوزيعه على ثمانية وستين من مدققي الحسابات المحترفين العاملين في المنطقة. ويستند هذا التحليل على ثلاثة وستين منهم. توصل الباحثون إلى الاستنتاج الرئيسي بأن تطبيق قانون ساربانيس أوكسلي (SOX) له دور مهم في تخفيض تكاليف في الشركات العاملة في المنطقة. قدم الباحثون أيضًا عددًا من التوصيات بما في ذلك الحاجة إلى اعتماد Sarbanes-SOX في إقليم كردستان العراق كأداة رئيسية للسيطرة على الشركات.

الكلمات المفتاحية: نظرية الوكالة ، تكاليف الوكالة ، قانون ساربينز أوكسلي (SOX)