

Assessing the Effect of Audit Quality on Agency Dynamics: Evidence in Kurdistan

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ABSTRACT

The study's objective is to analyze how audit quality impacts the effectiveness of corporate governance mechanisms, the role of auditors in aligning the interests of shareholders and managers, and the reduction of the level of agency conflicts. The problem being that agency dynamics encompass the complex interactions and potential conflicts of interest that emerge when managers, acting as agents, make decisions on behalf of shareholders, who are the ultimate principals. 198 questionnaire responses were collected from accountants, auditors, finance managers and general managers of food and retail, banking, manufacturing, education and construction companies in Erbil city were analyzed using a single regression analysis approach. The results of the study demonstrated that improvements in audit quality significantly enhance the effectiveness of corporate governance mechanisms and the role of auditors in aligning the interests of shareholders and managers. Audit quality's

impact on the reduction of the level of agency conflicts was found to be insignificant. The study revealed positive effects spanning from audit quality, corporate governance mechanisms, auditors' roles to improved agency dynamics in Kurdistan-based companies. Auditors and auditing firms should prioritize continuous improvement in audit quality, investing in professional development and adherence to international auditing standards. Moreover, companies in Kurdistan should adopt and promote robust corporate governance practices that align the interests of shareholders and managers. Regulatory bodies in Kurdistan should consider reviewing and updating the regulatory framework governing audit quality and corporate governance to ensure alignment with best practices and international standards.

1. Introduction

In the ever-changing landscape of corporate governance, the quality of audit practices and the dynamics of agency relationships are pivotal elements that can significantly influence the stability and prosperity of businesses. This research embarks on a journey to investigate the interplay between audit quality, corporate governance mechanisms and auditors' role and agency dynamics, with a focus on the unique context of Kurdistan's corporate sector. Kurdistan is a region marked by rapid economic development and growing corporate activity. Additionally, we aim to incorporate the perspectives and insights of stakeholders within Kurdistan's corporate sector through a structured questionnaire.

Meanwhile, Kurdistan, nestled in the northern region of Iraq, has undergone a remarkable economic transformation over recent years. As an emerging economic hub, it has attracted substantial investments across various industries. Amidst these developments, it is imperative to examine the mechanisms that underpin corporate governance in the region. Specifically, we seek to understand how auditors, as external gatekeepers, and agency dynamics, the intricate relationships between shareholders (principals) and managers (agents), shape the corporate landscape. According to Zahid et al. (2023), audit quality, a cornerstone of corporate governance, pertains to the rigorous examination and validation of financial statements, internal

controls, and corporate practices by independent auditors. Elyasty and Elamer (2023) opine that elevated audit quality is associated with increased precision and reliability in financial reporting, fostering transparency and diminishing information asymmetry. Meanwhile, agency dynamics encompass the complex interactions and potential conflicts of interest that emerge when managers, acting as agents, make decisions on behalf of shareholders, who are the ultimate principals (Hu, Ren & Yang, 2023). As such, effective corporate governance endeavor's to align these interests, reduce agency-related costs, and enhance overall firm performance. Such has been the case with corporations in Kurdistan (Mitchell, 2020 & Qader, 2023). However, studies analyzing how these aspects are aligned through audit quality by altering agency dynamics are limited. In Kurdistan Region of Iraq (KRI), much like other emerging economies, there is a pressing need to scrutinize the quality of auditing practices and their consequences on agency dynamics. The unique economic, cultural, and regulatory context of the region adds an additional layer of complexity to this examination. While previous research has delved into audit quality and agency dynamics in more established markets, the Kurdistan context remains relatively underexplored. This research seeks to address these gaps in knowledge. Our research objectives include:

- 1) Investigating the nuanced relationship between audit quality and agency dynamics within the Kurdish corporate landscape,
- 2) Providing evidence-based insights that can serve as a foundation for refining corporate governance practices and shaping tailored policy recommendations specific to Kurdistan. To accomplish these objectives, we will employ a multiple regression approach that analyses audit quality's effects on corporate governance mechanisms, auditors' role on agency conflicts dynamics and the level of agency conflicts. It is through this approach that related hypotheses were tested.

Corporate management and auditors can benefit from the study's findings to understand how to improve audit quality, corporate governance practices, and the role of auditors in reducing agency conflicts. This knowledge can lead to more

effective governance and auditing practices in Kurdistan's corporate sector. The study can be used in academic and professional education to teach students, auditors, and corporate professionals about the significance of audit quality, corporate governance, and the role of auditors in minimizing agency conflicts. The findings can inform policymakers and regulatory bodies in Kurdistan. They may use the research outcomes to shape regulations and governance guidelines that enhance corporate transparency and accountability.

The structure of this research proposal encompasses the following sections: a comprehensive literature review in the second section, which summarizes previous research on audit quality, agency dynamics, and corporate governance globally and regionally. The third section outlines our research methodology, detailing the data collection process, sample selection, and statistical methods. Subsequently, the fourth section will present the findings and discuss their implications. By integrating the voices and experiences of stakeholders through the questionnaire, this research aims to illuminate the complex interplay between audit quality and agency dynamics within Kurdistan's evolving corporate landscape, offering valuable insights for scholars, practitioners, and policymakers alike.

2. Empirical literature review

The quality of auditing and corporate governance practices is a critical determinant of an economy's stability and efficiency. At their core, auditing and corporate governance ensures that companies are managed in the best interests of their stakeholders, including shareholders, employees, and the broader community. Within this framework, four essential elements, audit quality, auditors' roles, corporate governance mechanisms and agency dynamics play a pivotal role in safeguarding transparency and accountability. To establish a comprehensive understanding of these elements and their interplay, this literature review delves into the existing body of knowledge related to audit quality, auditors' roles, corporate governance mechanisms and agency dynamics, with a specific focus on the unique context of Kurdistan.

2.1 Theoretical foundation and research gap

Agency theory and its applications within various corporate governance frameworks have been extensively studied (Eisenhardt, 1989; Fama & Jensen, 1983; Hu, Ren & Yang, 2023). However, the application of agency theory to the context of Kurdistan, especially concerning the role of audit quality, has received limited attention. While existing literature provides a foundation for understanding audit quality and agency dynamics in a global context, there is a clear research gap regarding their specific implications within the Kurdistan region. Kurdistan's unique economic, cultural, and regulatory environment demands a nuanced examination that considers its distinctive characteristics. In relation to the principal-agent theory, audit quality serves to enhance accountability and transparency, which are essential in enhancing

2.2 Audit Quality and Agency Dynamics

According to Eldyasty and Elamer (2023), audit quality represents the extent to which an independent auditor provides an accurate and reliable assessment of a company's financial statements, internal controls, and corporate practices. High audit quality is associated with greater precision and credibility in financial reporting, which, in turn, reduces information asymmetry and strengthens investor confidence (DeFond et al., 2020; Braim & Mohammed, 2022).

Braim and Mohammed (2022) outlined that high-quality audits involve a rigorous examination of a company's financial statements and internal controls. This process ensures that the financial information provided to shareholders is accurate, reducing the potential for misleading or biased reports that could create agency conflicts. According to Behbahaninia (2022), when auditors provide independent and objective assessments, it holds management accountable for their actions. Knowing that their financial statements will be subject to scrutiny encourages managers to act in the best interest of shareholders, aligning their goals with those of the principal. Beasley et al. (2019), held that audit quality helps bridge the information gap between managers and shareholders. Investors often rely on audited financial statements to make informed decisions. Hence, a high-quality audit can reduce the information asymmetry that leads to agency conflicts.

In the global context, numerous studies have explored the dimensions of audit quality and their impacts on corporate governance (e.g., Beasley et al., 2019; Krishnan, 2018). However, the assessment of audit quality in emerging economies, particularly within Kurdistan, remains a relatively uncharted area.

Agency dynamics, on the other hand, refer to the complex interactions and potential conflicts of interest that emerge when managers (agents) make decisions on behalf of shareholders (principals). Effective corporate governance mechanisms, including auditing practices, are designed to align these interests, reduce agency costs, and enhance overall firm performance (Anastasopoulos & Anastasopoulos, 2012). Theoretically, agency dynamics are presumed to exist in various forms but dynamics linked to the effectiveness of corporate governance mechanisms, the role of auditors in aligning the interests of the shareholders and managers and reducing the level of agency conflicts are of paramount importance (Nehme, 2013). Studies are widely concentrated on the dynamics of agency costs (Behbahaninia, 2022; Elmarzouky, Hussainey & Abdelfattah, 2022) and their influence is extended to encompass aspects such as auditor industry expertise (Khaksar, Salehi & Dashtbayaz, 2022) and digitalization (Lugli & Bertacchini, 2023). As a result, agency dynamics like the effectiveness of corporate governance mechanisms, the role of auditors in aligning the interests of the shareholders and managers and reducing the level of agency conflicts are barely given attention in academic research. Hence, it is in the interest of this study to explore how audit quality influences such dynamics. Besides, the importance of agency dynamics is attached to various vital corporate activities like hedging on firm value (Das & Kumar, 2023), financing dynamics (Hackbarth & Sun, 2023) and firm financial performance (Kasbar et al., 2023). Consequently, the study's novelty is engraved in such attempts. Further gaps and empirical foundations supporting the study's arguments are presented in the next section.

2.3 Related studies

Nehme's (2013) study on the dynamics of audit quality that uses a behavioural approach and governance framework, corporate governance, accounting, and auditing were not as influencing the measuring of auditor behaviour and audit quality.

However, the possibility of audit quality influencing corporate governance, accounting, and auditing was overruled. As a result, this study develops these ideas with the sole of analyzing how audit quality influences agency dynamics. Rawi and Muchlish (2022) found that audit quality is positively linked to audit committees, media exposure, and corporate social responsibility. By the same notion, improvements in audit quality will be taken in the context of this study to have a profound effect on the effectiveness of corporate governance mechanisms. Amid such, the following hypothesis was tested:

- **Hypothesis 1:** Audit quality has a positive effect on the effectiveness of corporate governance mechanisms.

Anastasopoulos and Anastasopoulos (2012) conducted a study aimed at analyzing the evolutionary dynamics of audits. In their study, it is established that the auditing detection problem is a two-player game between the auditor and the auditee where the auditor aims at eliminating misstatements, reducing at the same time his audit efforts, while the auditee aims at benefiting from fraudulent financial reporting and defalcation. Indirectly, this reflects dynamics of the role of auditors in aligning the interests of the shareholders and managers. Though such vitality is nascent and mentioned in academic studies (Das & Kumar, 2023; Hackbarth & Sun, 2023; Kasbar et al., 2023), its importance of aligning the interests of the shareholders and managers is crucial and demands further examinations. However, lack of empirical validation has always been a major limitation of these studies. As a result, this study seeks to fill such voids by testing the following hypothesis:

- **Hypothesis 2:** Audit quality has a positive effect on the role of auditors in aligning the interests of the shareholders and managers.

Eldyasty and Elamer (2023) analysed the interactive connection between audit type and audit quality in emerging markets. Both auditing forms (internal and external) were viewed as having an instrumental role in improving audit quality. Their suggestions denoted that the overall measure should be based on auditing outcomes but the exact nature of such outcomes is often limited to shareholder value (Johnson & Davis, 2020), firm performance (Brown & Lee, 2018) and cost of debt (Krishnan, 2018). Of which, dynamics like the effectiveness of corporate governance

mechanisms, the role of auditors in aligning the interests of the shareholders and managers and reducing the level of agency conflicts were ruled out. Similar observations were made by Zahid et al. (2023) as observations were extended to the moderating role of audit quality in ESG performance and capital financing dynamics: insights in China. Most importantly, the significance and capacity of audit quality to improve organizational outcomes and activities was not ruled out. Thus, by the same principle, Zahid et al.'s (2023) and Sultan et al's (2020) studies show that audit quality can also improve audit dynamics. This entails that audit quality improvements are positively related to audit dynamics, which in this case is the effectiveness of the role of auditors in aligning the interests of the shareholders and managers and reducing the level of agency conflicts. With limited empirical validations, the following hypothesis were proposed to be tested:

- **Hypothesis 3:** Audit quality has a positive effect on reducing the level of agency conflicts.

2.4 Conceptual model

The developed hypotheses were used in developing a conceptual model that became a basis for determining the study's method. As such, Figure 1 shows the interactive connections linking audit quality with the identified three major agency dynamics.

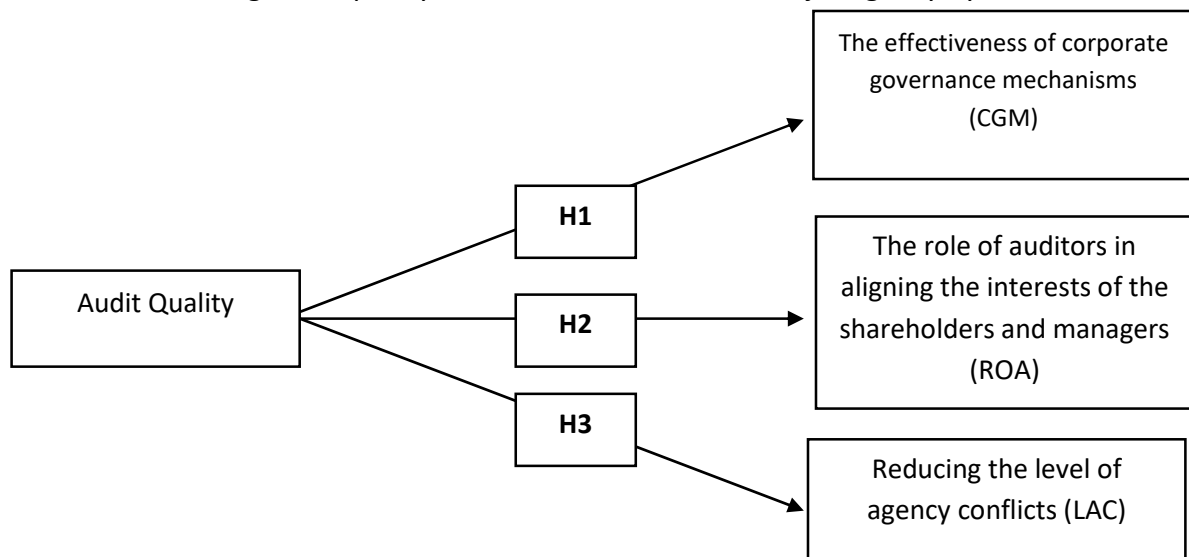


Figure 1: Conceptual model

3. Methodology

3.1 Method

The study applied a quantitative approach to the effect of audit quality, corporate governance mechanisms and auditors’ role on agency conflicts dynamics. Apart from a quantitative research approach supporting policy and decision-making, it is also objective and replicable (Apuke, 2017). By applying a quantitative approach, the study was able to test the relationships between audit quality, corporate governance mechanisms, auditors’ role and agency dynamics. Moreover, a quantitative research approach was applied so as to reduce ambiguity and conduct comparisons between variables. Besides, studies supporting the application of a quantitative approach cite advantages such as comparing the study’s validity with that of previous related studies as well as validating hypotheses (Apuke, 2017; Mehrad & Zangeneh, 2019). As noted, the decision to choose corporate companies in Erbil, Kurdistan was motivated by the lack of studies covering these corporate companies, especially in Kurdistan. Related examinations are confined to countries like China (Dang & Fang, 2011) and Turkey (Mustafa, Barwari & Mohammed, 2018).

Meanwhile, a single regression analysis approach was applied in assessing audit quality’s (AQ) effects on the identified three agency dynamics (the effectiveness of corporate governance mechanisms (CGM); the role of auditors in aligning the interests of the shareholders and managers (ROA); and reducing the level of agency conflicts (LAC)). Thus, by applying a regression analysis, approach, the study was able to separate audit quality’s effects on the distinct three agency dynamics. Gujarat (2022) also supports the application of a regression model citing that it enables the identification of the degree and significance of effects between two variables. As a result, the following 3 single regression models were estimated as follows;

$$ROA = \alpha + \beta_1CGM + \mu \dots\dots\dots (1)$$

$$ROA = \alpha + \beta_1ROAM + \mu \dots\dots\dots (2)$$

$$ROA = \alpha + \beta_1LAC + \mu \dots\dots\dots (3)$$

Where α is a constant, β_1 is the estimated parameter and μ is the error term. Additional tests involving correlation coefficient tests were applied. Diagnostics involved the application of the Durbin-Watson test to test for serial correlation and the Jarque Bera test for normality. The entire data analysis procedures were carried out using SPSS version 26.

Following discoveries made about the 4 major corporate sectors contributing to the development of Kurdistan's economy and their neglected importance in academic studies, the study focused on food and retail, banking, manufacturing, education and construction companies in Erbil city. The number of these companies in Erbil city is relatively higher compared to cities like Dohuk and Sulaymaniah. Hence, their examinations provided a nuanced understanding of audit quality's effects on agency dynamics. As such, questionnaires were distributed to accountants, auditors, finance managers and general managers of these companies. These professionals were selected by virtue of them being directly involved in the auditing activities of their respective companies.

3.2 Reliability and validity tests

The Cronbach's alpha test was used to examine the reliability of the variables AQ, CGM, ROA and LAC. As such, variables with Cronbach's alpha values of at least 70% were held as reliable (Tavakol & Dennick, 2011). Facial validity tests were conducted to check the questionnaire for errors while factor analysis was used to determine which constructs were related. As such, all the constructs were selected and none was removed. This implied that the constructs were highly related as their factor loadings were above 0.50 (Shretha, 2021).

3.3 Population, sampling procedures and data collection

The study attempted to draw insights from a cluster of corporate sector companies contributing to the development of Kurdistan's economy as well as those sectors that are highly sidelined in academic debates involving audit quality matters. As such, the study population was drawn from a sample of food and retail, banking, manufacturing, education and construction companies' stakeholders in Erbil city. In

order to ensure that correct participants with a relevant understanding of audit quality and agency dynamics sample, only accountants, auditors, finance managers and general managers of these companies with knowledge of auditing and corporate governance mechanisms were selected. To further enhance convenience and validity, a convenience sampling approach was applied. Studies cite that applying a convenience sampling approach saves time and resources, and ensures that only relevant individuals to the study are included (Etikan, Musa & Alkassim, 2016). As a result, a convenient sample of 200 participants was selected from food and retail, banking, manufacturing, education and construction companies in Erbil city (see Table 1). This entails that 40 questionnaires were distributed and collected by hand to each of the corporate sector companies. Specifically, accountants, auditors, finance managers and general managers of these companies were targeted.

Questionnaires were used in collecting data from the participants. The questionnaire was designed using a theoretical understanding of agency dynamics. As a result, new constructs were developed to measure the agency dynamics (the effectiveness of corporate governance mechanisms; the role of auditors in aligning the interests of the shareholders and managers; and the level of agency conflicts). 15 items were dedicated to measuring each of the three agency dynamics using a five-point Likert scale corresponding to 1 (strongly disagree) to 5 (strongly agree). The variable auditing quality was also measured using the same scale and measured by 15 items developed from prior related studies (Brown & Lee, 2018; Garcia, 2017; Johnson & Davis, 2020).

3 randomly selected participants were selected from a pool of accountants, auditors and finance managers as part of the focus group. Upon satisfactory responses with a few improvements, the questionnaires were finally distributed to the participants during the period obtained and questionnaires were distributed to participants.

In the following sections, we delve into the key findings and insights from prior research, both global and region-specific, to gain a deeper understanding of the complex interplay between audit quality and agency dynamics in the context of Kurdistan.

4. Findings

The findings were drawn from 198 responses collected from 40 food and retail, 40 banking, 40 manufacturing, 40 education and 38 construction companies in Erbil city as shown in Table 1. According to the findings shown in Table 1, the study sample was equally represented by Accountants (25.25%), Auditors (25.25%), Finance managers (24.24%) and General Managers (25.25%) as shown in Table 1. This entails that the collected data provided a nuanced understanding of audit quality’s effects on agency dynamics. Among the participants were 102 male and 96 female respondents.

Table 1: Demographic results

		Frequency	Percentage
Gender	Male	102	51.51%
	Female	96	48.49%
	Total	198	100%
Age	18-24 years	2	1.01%
	25-31 years	18	9.09%
	32-38 years	56	28.28%
	39-45 years	72	36.36%
	46 years and above	50	25.25%
	Total	198	100%
Employment position	Accountant	50	25.25%
	Auditor	50	25.25%
	Finance manager	48	24.24%
	General manager	50	25.25%
	Total	198	100%
Educational Qualification	Diploma	4	2.02%
	Bachelor’s degree	64	32.32%
	Master’s degree	128	64.65%
	PhD degree	2	1.01%
	Total	198	100%
Corporate sector	Food and retail	40	20.20%
	Banking	40	20.20%
	Manufacturing	40	20.20%
	Education	40	20.20%

	Construction	38	19.19%
	Total	198	100%
Experience level	Less than 1 year	2	1.01%
	1-2 years	8	4.04%
	3-4 years	11	5.56%
	4-5 years	78	39.39%
	5 years and above	99	50.00%
	Total	198	100%

The respondents can be said to have been highly mature enough to comprehend the required understanding of audit quality’s effects on agency dynamics. This can be evidenced by the high number of participants whose age groups were 32-38 years (28.28%), 39-45 years (36.36%), and 46 years and above (25.25%). Their academic qualifications also support this idea (Bachelor’s degree: n=64; Master’s degree: n=128; PhD degree: n=2). In addition, their high levels of work experience also reinforce this notion (eg. 3-4 years: n=11; 4-5 years: n=78; 5 years and above: n=99).

4.1 Descriptive and factor analysis

Following the selection of variables with factor loadings of at least 0.50, 5 audit quality; 6 corporate governance mechanisms' effectiveness; 7 roles of auditors in aligning the interests of the shareholders and managers; and 8 level of agency conflict constructs were selected. The selected constructs were identified as related as their factor loadings were at least 0.50 as shown in Table 2 (Cheung et al., 2023).

Table 2: Descriptive and factor analysis

Construct	FL	MN	SD
Audit quality			
Communication of audit findings	0.67	4.43	0.65
Thoroughness of audit procedures	0.74	4.10	0.86
Compliance with auditing standards	0.76	4.00	0.97
Independence of the external audit team	0.62	4.28	0.84

Reputation and experience of the audit firm	0.68	4.09	0.91
Level of agency conflicts			
Alignment of executive compensation	0.56	0.71	0.63
Presence of independent directors	0.69	0.68	0.55
Shareholder activism	0.66	0.82	0.76
Transparency in financial reporting	0.78	0.74	0.72
Frequency of conflicts	0.62	0.76	0.74
Impact on long-term performance	0.65	0.64	0.81
Role of Auditors in Aligning Interests			
Ensuring financial information accuracy	0.54	4.44	0.76
Preventing financial statement manipulation	0.88	4.22	0.88
Verifying compliance with laws and regulations	0.76	4.08	0.69
Providing valuable recommendations	0.63	4.13	0.94
Mediating conflicts effectively	0.73	4.37	0.53
Impartiality and objectivity	0.77	4.49	0.65
Acting as a trusted intermediary		4.3	0.6
Corporate governance mechanisms' effectiveness			
Board of directors' monitoring	0.82	3.96	0.70
Presence of independent directors	0.80	3.82	0.76
Compensation structure alignment	0.81	3.64	0.91
Shareholder rights and protections	0.84	4.06	0.85
Audit committees' impact	0.78	4.19	0.48
Transparency and disclosure practices	0.80	4.32	0.54

FL: Factor loadings

MN: Mean

SD: Standard deviation

The respondents highly agreed to corporate governance mechanisms' effectiveness, role of auditors in aligning interests, audit quality and level of agency conflicts ideas as noted by their respective high mean values. This signifies their importance in companies, especially the selected food and retail, banking, manufacturing, education and construction companies in Kurdistan.

4.2 Correlation coefficient tests

The study proceeded further to analyze the correlations between the variables using the Pearson correlation coefficient test. Table 3 shows that audit quality is highly correlated with the effectiveness of corporate governance mechanisms ($r=0.513$) and the role of auditors in aligning the interests of the shareholders and managers ($r=0.314$) and in reducing the level of agency conflicts ($r=0.198$).

Table 3: Correlation coefficient tests

	AQ	CGM	ROA	LAC
AQ	1			
CGM	0.513**	1		
ROA	0.314**	0.437**	1	
LAC	0.198	0.266**	0.404**	1

Where AQ: Audit quality; CGM: The effectiveness of Corporate Governance Mechanisms; ROA: Role of auditors in aligning the interests of the shareholders and managers; LAC: Level of Agency Conflicts. ** Significant at 0.01 level.

Both correlations are significant at 0.01 level and this entails that improvements in audit quality are accompanied by significant improvements in the effectiveness of corporate governance mechanisms and the role of auditors in aligning the interests of the shareholders and managers. This entails that audit quality plays a significant positive role in dealing with agency dynamics experienced by corporate sector companies in Erbil city. To add further, the agency dynamics (CGM, ROA and LAC) are positively and significantly correlated with each other. For instance, ROA is positively and significantly correlated with CGM and LAC by 0.437 and 0.404, respectively while CGM is positively and significantly correlated with LAC by 0.266. Such correlations denote that improvements in one agency dynamic enhance other agency dynamics.

Again, this reiterates positive developments in auditing standards and measures implemented by corporate sector companies in Erbil city.

4.3 Reliability test

Internal consistency checks were conducted using Cronbach’s alpha test. As provided in Table 4, both variables AQ, CGM, ROA and LAC are highly reliable in providing explanations about audit quality’s effects on agency dynamics. This is because Cronbach’s alpha values are higher than the required 0.70 benchmark (Tavakol & Dennick, 2011). In addition, the model has an overall reliability of 79.8%, which is highly reliable.

Table 4: Cronbach’s alpha

Variable	Cronbach’s alpha
AQ	0.823
CGM	0.766
ROA	0.791
LAC	0.810
Overall Reliability	0.798

4.4 Serial Correlation

Amid highly reliable observations, the study proceeded to test the model for serial correlation. The provided Durbin Watson value of 1.984 shown in Table 5 is close to 2 and this indicates that there were no serial correlation problems observed (Gujarati, 2022). In addition, the estimated model was normally distributed and denoted by the Jarque Bera statistic of 0.083. Given such satisfactory results, the study went further to interpret the single regression analysis results.

Table 5: Serial correlation

	Serial correlation
Durbin Watson	1.984

4.5 Regression analysis results

From the provided regression analysis results, it can be noted that improvements in audit quality by 1 unit significantly enhance the effectiveness of corporate governance mechanisms by 0.513 units. As a result, hypothesis 1 was accepted. Such findings validate the theoretical propositions made by Garcia (2017) denoting a positive interactive connection between audit quality and CGM that was yet to be verified. In comparison to other studies, these findings had not been validated, especially in the context of a combined sample of food and retail, banking, manufacturing, education and construction companies (Beasley et al., 2019; Garcia, 2017). This shows the study’s originality and contributions with regard to the understanding of audit quality’s effects on agency dynamics in Erbil city. However, a possible reason could be that high levels of transparency and highly reviewed and effective regulatory frameworks governing audit quality and corporate governance ensure alignment with the best practices and international standards. Such outcomes are in support of the principal-agent theory’s propositions (Hu, Ren & Yang, 2023). Drawing further, the findings also show that a 1 unit improvement in audit quality significantly enhances the role of auditors in aligning the interests of the shareholders and managers by 0.314 units. These findings are in support of Johnson and Davis’s (2020) findings that demonstrated the existence of a similar positive effect. However, our findings show a higher effect of 0.314 which is greater than Jusoh and Ahmad’s (2013) established effect of 0.129. This possibly indicates that the quality of auditing measures and practices implemented in Erbil are effectively higher and significant in dealing with agency dynamics. This can be attributed to high levels of trust among stakeholders and managers and mirrors the principal-agent theory’s objectives (Hu, Ren & Yang, 2023). In that regard, hypothesis 2 was accepted.

Table 6: Regression analysis results.

Regression analysis results							
	Coefficients		Model summary			ANOVA	
	Estimate	p. Value	R	R ²	Adj. R ²	F-stat.	Sig.
CGM	0.613	0.000	0.513	0.64	0.63	12.107	0.000
ROA	0.314	0.000	0.314	0.42	0.41	11.086	0.000

LAC	0.198	0.071	0.198	0.55	0.54	14.218	0.000
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The findings demonstrate that there are insignificant effects of 0.198 spanning from audit quality to reducing the level of agency conflicts. Higher effects of 0.223 and 0.318 were observed in prior studies (Brown & Lee, 2018; Johnson & Davis, 2020). This possibly shows the ineffectiveness of Erbil’s corporate sector companies in reducing agency conflicts. With that in mind, hypothesis 3 was not validated and the findings directed attention to high information asymmetry in Erbil’s corporate sector companies. Changes in audit quality were individually explained by CGM, ROA and LAC by 64%, 41% and 54%, respectively. Both models were highly and correctly specified as noted by the significant F-statistic values of 12.107, 11.086 and 14.218.

5. Conclusions

The main emphasis of the study was to investigate the nuanced relationship between audit quality and agency dynamics within the Kurdish corporate landscape. The study also sought to provide evidence-based insights that can serve as a foundation for refining corporate governance practices and shaping tailored policy recommendations specific to Kurdistan. Our study revealed that:

- An improvement in audit quality by 1 unit causes an improvement in corporate governance mechanisms in Kurdistan-based companies by 0.613.
- Audit quality significantly impacts the role of auditors in aligning the interests of the shareholders and managers by 0.314
- Audit quality plays a significant positive role in reducing the level of agency conflicts by 0.198.

Overall, this research has shed light on the interplay between audit quality and agency dynamics within the corporate governance framework of Kurdistan. Our findings, based on a comprehensive questionnaire administered to stakeholders in the Kurdistan corporate sector, provide valuable insights into this underexplored area of research.

5.1 Theoretical contributions

Applying agency theory to a specific context, such as Kurdistan, can contribute to the theoretical development of the agency theory itself. By examining how agency conflicts play out in a unique cultural, regulatory, and economic environment, the study can offer insights into the generalizability and adaptability of the theory.

5.2 Practical implications

This research contributes to the broader understanding of corporate governance in emerging economies, with a specific focus on the unique context of Kurdistan. By addressing the scarcity of research in this region, we have advanced the dialogue on audit quality and agency dynamics. Businesses in Kurdistan can benefit from the study's findings by understanding how external audit quality can influence agency conflicts. This knowledge can guide them in selecting high-quality audit services and implementing corporate governance measures that align with best practices. The study can offer practical insights for policymakers and regulatory authorities in Kurdistan, helping them make informed decisions about corporate governance regulations and external audit practices to mitigate agency conflicts and promote transparency.

The study is without limitations and one of the limitations is the study's reliance on self-reported data and the cross-sectional nature of the study. This entails that self-reported data can be subject to various biases, such as recall bias or social desirability bias, which may affect the accuracy and reliability of the information collected. The cross-sectional nature of a study means that data is collected at a single point in time. This approach does not allow for the examination of changes over time or the establishment of causality between variables. As a result, longitudinal or experimental data might be more appropriate to address certain research questions. Moreover, future research could explore these dynamics in more depth, accounting for industry-specific variations and employing longitudinal analyses.

6.Recommendations

Based on our findings, we offer the following recommendations for stakeholders, policymakers, and practitioners in Kurdistan:

- **Strengthening Corporate Governance Practices:** Since audit quality positively impacts corporate governance mechanisms by 0.613, companies in Kurdistan should adopt and promote robust corporate governance practices that align the interests of shareholders and managers. This includes transparent disclosure practices and effective board oversight.
- **Enhancing Audit Quality:** By observing that audit quality significantly enhances auditors' roles by 0.314, auditors and auditing firms should prioritize continuous improvement in audit quality, investing in professional development and adherence to international auditing standards. This will strengthen the credibility of financial reporting.
- **Regulatory Framework:** Following the observation that audit quality reduces the level of agency conflicts by 0.198, regulatory bodies in Kurdistan should consider reviewing and updating the regulatory framework governing audit quality and corporate governance to ensure alignment with best practices and international standards.
- **Education and Training:** Investing in education and training programs for auditors, managers, and board members is essential. These programs can keep stakeholders informed about evolving best practices in corporate governance.
- **Research Collaboration:** Encourage collaboration between academia, industry, and regulatory bodies to foster ongoing research on audit quality, agency dynamics, and corporate governance in Kurdistan. This collaboration can lead to a more comprehensive understanding of these critical issues.

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هه‌سه‌نگاندنی کاریگه‌ری کوالیتی وردبینی له‌سه‌ر به‌لگه‌کانی داینامیکی ده‌زگا له کوردستان

پوخته:

ئامانجی تووژینه‌وه‌که شیکردنه‌وه‌به که چون کوالیتی وردبینی کاریگه‌ری له‌سه‌ر کاریگه‌ری میکانیزمه‌کانی حوکمرانی کۆمپانیاکان هه‌یه، رۆلی وردبینی‌که‌ران له رێکخستنی به‌رژه‌وه‌ندییه‌کانی خاوه‌ن پشکه‌کان و به‌رپۆه‌به‌ران، و که‌مکردنه‌وه‌ی ئاستی مملانیی ده‌زگا‌کان. کێشه‌که ئه‌وه‌یه که داینامیکی ده‌زگا‌کان ئه‌و کارلیکه ئالۆزانه و مملانیی به‌رژه‌وه‌ندییه ئه‌گه‌رییه‌کان له‌خۆده‌گریته که کاتیک سه‌ره‌لده‌ده‌ن که به‌رپۆه‌به‌ران که وه‌ک بریکار کارده‌که‌ن، برپار به‌ناوی خاوه‌ن پشکه‌کانه‌وه ده‌ده‌ن، که سه‌ره‌کییه‌کانی کۆتایین. 198 وه‌لامی پرسپارنامه له ژمپیریان، وردبینی‌که‌ران، به‌رپۆه‌به‌رانی دارایی و به‌رپۆه‌به‌ره‌گشتیه‌کانی کۆمپانیاکانی خۆراک و فرۆشتنی تاکه‌که‌سی، بانکی، به‌ره‌مه‌پێنان، په‌روه‌رده و بیناسازی له شاری هه‌ولێر شیکرانه‌وه به به‌کاره‌پێنانی یه‌ک رێبازی شیکاری پاشه‌کسه. ئه‌نجامی تووژینه‌وه‌که ده‌ریخست که باشتربوونی کوالیتی وردبینی کاریگه‌ری میکانیزمه‌کانی حوکمرانی کۆمپانیاکان و رۆلی وردبینی‌که‌ران له رێکخستنی به‌رژه‌وه‌ندییه‌کانی خاوه‌ن پشکه‌کان و به‌رپۆه‌به‌ران به شپۆه‌یه‌کی به‌رچاو به‌رز ده‌کاته‌وه. کاریگه‌ری کوالیتی وردبینی له‌سه‌ر که‌مکردنه‌وه‌ی ئاستی مملانیی ده‌زگا‌کان که‌م بوو. تووژینه‌وه‌که کاریگه‌رییه ئه‌رێنییه‌کانی ئاشکرا کردوه که له کوالیتی وردبینی، میکانیزمه‌کانی حوکمرانی کۆمپانیاکان، رۆلی وردبینی‌که‌ران تا باشتکردنی داینامیکی ده‌زگا‌کان له کۆمپانیاکانی کوردستاندا ده‌گریته‌وه. وردبینی‌که‌ران و کۆمپانیاکانی وردبینی پپووسته‌پشکه‌وتنی به‌رده‌وام له کوالیتی وردبینی، وه‌به‌ره‌پێنان له په‌ره‌پێدانی

بیشهیی و پابه‌ندبوون به ستاندارده نیوده‌وله‌تییه‌کانی وردبینی له پێشیننه بن. جگه له وه‌ش کۆمپانیاکان له کوردستان پێویسته پراکتیکی به‌هێزی حوکمرانی کۆمپانیاکان بگرنه‌به‌ر و به‌ره‌و‌پیش به‌ن که به‌رژه‌وه‌ندی خاوه‌ن پشکه‌کان و به‌پێوه‌به‌ران هاوته‌ریب بکه‌ن. ده‌زگا‌کانی پێکخه‌ر له کوردستان پێویسته بیر له پێداچوونه‌وه و نوێکردنه‌وه‌ی چوارچێوه پێکخستنه‌کان بکه‌نه‌وه که کوالیتی وردبینی و حوکمرانی کۆمپانیاکان به‌پێوه‌ده‌به‌ن بۆ دنیابوون له هاوئا‌هه‌نگی له‌گه‌ڵ باشتترین پراکتیکه‌کان و ستاندارده نیوده‌وله‌تییه‌کان.

تقييم تأثير جودة التدقيق على أدلة ديناميكيات الوكالة في كردستان

المخلص:

الهدف من الدراسة هو تحليل كيفية تأثير جودة التدقيق على فعالية آليات حوكمة الشركات، ودور المدققين في التوفيق بين مصالح المساهمين والمديرين، والحد من مستوى تعارض الوكالات. تكمن المشكلة في أن ديناميكيات الوكالة تشمل التفاعلات المعقدة وتضارب المصالح المحتمل الذي يظهر عندما يتخذ المديرون، الذين يعملون كوكلاء، قرارات نيابة عن المساهمين، الذين يمثلون المديرين النهائيين. تم جمع 198 استبياناً من المحاسبين والمراجعين والمديرين الماليين والمديرين العمامين لشركات الأغذية والتجزئة والبنوك والتصنيع والتعليم والبناء في مدينة أربيل، وتم تحليلها باستخدام نهج تحليل الانحدار الفردي. وأظهرت نتائج الدراسة أن التحسينات في جودة التدقيق تعزز بشكل كبير من فعالية آليات حوكمة الشركات ودور المدققين في التوفيق بين مصالح المساهمين والمديرين. تبين أن تأثير جودة التدقيق على الحد من مستوى تعارض الوكالات غير مهم. وكشفت الدراسة عن آثار إيجابية تمتد من جودة التدقيق، وآليات حوكمة الشركات، وأدوار المدققين إلى تحسين ديناميكيات الوكالة في الشركات التي يوجد مقرها في كردستان. يجب على المدققين وشركات التدقيق إعطاء الأولوية للتحسين المستمر في جودة التدقيق، والاستثمار في التطوير المهني والالتزام بمعايير التدقيق الدولية. علاوة على ذلك، يجب على الشركات في كردستان أن تتبنى وتعزز ممارسات حوكمة الشركات القوية التي تتوافق مع مصالح المساهمين والمديرين. ينبغي على الهيئات التنظيمية في كردستان النظر في مراجعة وتحديث الإطار التنظيمي الذي يحكم جودة التدقيق وحوكمة الشركات لضمان التوافق مع أفضل الممارسات والمعايير الدولية.