

# **The Role and Impact of Corporate Governance on Narrowing the Expectations Gap between the External Auditor and the Financial Community (A Practical Study of a Sample of External Audit Offices and Companies Invested in Iraq) (Case Study in Iraq)**

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## **Abstract**

The study aims at identifying the impact of application of the principles of corporate governance on the Expectation Gap between the external auditors and the users of the financial statements in the environment of the external audit profession in Iraq after increasing interest in the application of corporate governance in Iraq through the analytical study of the opinions of external auditors and investors in Iraq. The study concluded that the implementation of the principles of corporate governance in Iraq provides an appropriate level of confidence and confidence to investors and users of financial statements and their reliance on financial reports prepared and audited in accordance with the principles and technicality of corporate governance. This means narrowing the expectations gap in the external audit profession between external auditors and users. The financial statements in Iraq and the principle of disclosure and transparency are the most important principles that affect the narrowing of the expectations gap in the profession of external audit in Iraq. The study recommended the need to expand the application of the principles of corporate governance in Iraq to activate the good practices of corporate management in line with the local and international accounting and auditing standards and to work on legislation and amendment of some relevant local laws in Iraq in accordance with the principle of corporate governance.

**Keywords:** Corporate governance ; Expectations gap ; Quality of external audit ; Financial failure of companies ; Institutional controle ; External auditors responsibility.

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## **1. Introduction**

The external audit profession plays an important role in various sectors of society due to the economic importance of the profession and the multiplicity of the beneficiaries and the use of its reports. However, the external auditing profession in recent years faced a crisis of responsibility and credibility and loss of confidence as a result of financial and economic crises at the local level (Iraq) and the international level in the form that raised many parties benefiting from the reports of the profession (Current and potential investors, creditors, banks, etc.) who have been damaged by bankruptcy and financial collapses of many international companies without the external auditor indicating such risks in their financial reports.

The beneficiaries of the financial statements expect the external auditors to give the assurance in their audit financial reports of the audited companies in terms of technical competence, integrity, objectivity, independence and neutrality, in addition to discovering the fundamental errors and preventing the issuance of misleading financial statements about the companies [14]. The discrepancy between what the beneficiary parties believe for the financial statements regarding the duties and responsibilities of the external auditor and what the external auditor believes about that responsibility is what led to the emergence of the so-called Expectation Gap in the professional practice environment.

The expectations gap is a decline in the confidence of the beneficiaries of the financial statements of the services provided by the external auditor, which is reflected in the credibility of the financial statements, which represent the source of information for decision-making [18].

Many professional studies have focused on the profession of external auditing to determine the factors of the success of practitioners in meeting the expectations of the beneficiaries and the society in general and the need to increase attention to the application of professional systems and follow them to approximate what is in practice what must be so professional organizations have been interested to external audit local and international application of governance Companies Due to the multiple influences of the principles of corporate governance and their role in regulating the relationship between all parties representing the users of the financial statements, this study was adopted to measure the role and impact of applying corporate governance to the Expectation Gap Between the external auditors and the users of the financial statements. The structure of the study was divided into three axes. The first axis dealt with the theoretical framework of the study. This axis included the methodology of the study in addition to literary review of the study. The second axis dealt with the applied field study while the third axis dealt with the findings and recommendations of the study.

## **2. Theoretical side of the study**

### ***2.1 Methodology of the study***

#### **Problem of the study**

Financial meltdowns of many international companies lead to the loss of stakeholder rights and in particular existing investors, and the loss of potential investors' confidence in the accounting information contained in the

reports and financial statements of these companies was therefore interest in the application of corporate governance is the rapid exit integrated and effective solution to all these negatives, and thus won various writers and researchers interest in various accounting, economic, administrative, legal and other, The problem of the study is that there is a gap expectations between the expectations of the auditors and the users of the financial statements in the companies and the problem of the study can be formulated by asking the question: What are the possibilities of activating the mechanisms of corporate governance in narrowing the gap expectations between the auditors and users of financial statements.

### **Objectives of the study**

The study aims at identifying the role of corporate governance mechanisms in narrowing the expectations gap in the external auditing profession in order to enhance confidence in the profession of accounting and external auditing by surveying the opinions of external auditors and investors on the impact of corporate governance mechanisms on narrowing the expectations gap between the external auditor and the users of financial reports.

### **Methodology of the study**

The purpose of this study, the researcher follows some historical approach by giving an idea of the theoretical framework and previous studies of governance and the gap expectations and the method of deductive and extrapolation to determine the axes and the formulation of hypotheses for the study of hypotheses as well as the analytical approach to the case study.

### **Study Hypotheses**

According to the study problem and objectives, the hypotheses of the study will be formulated as follows:

1. There is a statistically significant relationship between the application of the principle of ensuring a basis for an effective corporate governance framework and narrowing the expectations gap in the external audit profession.
2. There is a statistically significant relationship between the application of the principle of protecting shareholders' rights and narrowing the expectations gap in the external audit profession.
3. There is a statistically significant relationship between applying the principle of the role of stakeholders in corporate governance and narrowing the expectations gap in the external audit profession.
4. There is a statistically significant relationship between the application of the principle of disclosure , transparency and narrowing the expectations gap in the external audit profession.

## **2.2-Literary Review**

### **2.2.1 Previous studies**

Study [9]: "Institutional Governance and its Relationship to Auditing and the Accounting Profession": The study aimed to introduce the principles of Institutional Governance and the requirements of its effective system. The study recommended the development of high standards of accounting and auditing Focus on the interests of shareholders and the formation of measures that reflect how they meet the interests of different parties and others measure the extent of care The company to meet the challenges of the future through its organizational and human assets. Study [23], the researcher concluded his study with a number of recommendations, including: activating the role of the audit committees and granting them the necessary independence to perform their responsibilities and spreading the cultural awareness of the importance of the principles of corporate governance and external audit committees.

Study [11]) "The extent to which Palestinian public shareholding companies are committed to the rules of corporate governance, an analytical study of the views of internal and external auditors and directors of public shareholding companies." The study aimed at highlighting the commitment of Palestinian public shareholding companies to the rules of corporate governance. However, there are no audit committees in these companies, except for the banks under the Palestinian Monetary Authority. The researcher made a number of recommendations, the most important of which is to expedite the issuance of guidance on the necessity of approving audit committees. In these companies and the appropriate choice of internal and external auditors

Study [8] "External Audit as a Mechanism for Implementing Corporate Governance - Case Study": This study aimed to highlight the general framework As well as the role of the external auditor. The study concluded that there is a role for external audit as a control mechanism The relationship of the Agency and in reducing the gap expectations as well as the responsibility of external audit to know the extent of the company's ability to continue the activity.

Study [2] concluded that the presence of corporate committees leads to the proper application of corporate governance principles, compliance with corporate governance standards, the issuance of more credible and fair lists and reports, and reduced risk of financial and administrative performance.

### ***2.2.2. Corporate governance***

#### **Corporate Governance Concept:**

Until 2003, there are many definitions used in the translation of the term "corporate governance" varied widely. Good governance, prudent management, governance, or governance The Arabic Language Council in its statement of May 20, 2005 [19] English and corporate governance are the means by which trust is expressed that the management of a company is concerned with the interests of all stakeholders and that governance is a set of mechanisms and principles that are used to bridge the expectations gap [3].

The International Finance Corporation (IFC) defines governance as the system through which companies are managed and controlled [1]. The US Internal Auditors Association defines governance as processes through the use of procedures by stakeholder representatives to provide risk oversight, risk management and control, Adequate regulatory controls to avoid these risks, in such a way as to directly contribute to the achievement of

the objectives and plans of the company taking into account that the performance of governance activities are the responsibility of the stakeholders in the company to achieve the effectiveness of the Agency.

Salman [20] believes that corporate governance is an integrated system of financial and non-financial control through which institutions are managed and controlled. It is a set of ways in which investors can make sure that their investments are reasonably profitable. They are a set of rules, Between the management of the company on the one hand, and shareholders and stakeholders associated with the institution such as bondholders, workers, creditors, citizens, on the other hand, which guide the management of institutions to maximize the profitability of the institution and its value in the long term in favour of shareholders.

Corporate governance refers to the distribution of rights and responsibilities among the various participants in the company, such as the board of directors, directors, shareholders and other stakeholders. It also outlines the rules and procedures for making decisions about the company's affairs. It provides the structure through which to set the company's objectives, And performance control.

From the previous definitions we conclude:

As a result of disagreement on a common definition or concept of corporate governance.

- The common denominator between the different concepts of the term corporate governance is the interest in developing performance and achieving disclosure, transparency, discipline, justice and risk control to avoid them in order to maximize the profitability and value of the enterprise in the long term in favour of shareholders
- Governance A set of rules and regulations for monitoring the performance of institutions, with the emphasis that institutions must be managed for the benefit of stakeholders. - A set of rules, incentives and criteria by which investors can ensure that their investments are reasonably profitable.

### **Objectives and advantages of corporate governance:**

Good corporate governance achieves many of the most important objectives [12]

- 1) Achieving transparency, fairness and protection of shareholders' rights in the company and this is done through the establishment of rules, regulations and controls aimed at achieving transparency and justice.
- 2) The establishment of administrative controls, rules and structures that grant the right of accountability to the management of the company before the General Assembly and guarantee the shareholders' rights in the company.
- 3) Investment development and flow through deepening investor confidence in financial markets.
- 4) Work on developing savings, maximizing profitability and creating new jobs.
- 5) Work on good financial performance through accounting management to shareholders.

- 6) the imposition of good and effective control on the performance of economic units to develop and improve the competitiveness of economic units.
- 7) Work to combat unacceptable behaviour, whether on the material, administrator or moral side.
- 8) Provide new job opportunities.
- 9) Attract foreign or domestic investments and reduce the flight of national capital abroad.
- 10) Transparency in accounting procedures and financial auditing to reduce and control corruption in the company.
- 11) Develop, improve and assist decision-makers such as managers and boards to build an advanced strategy that serves the administrative and financial efficiency of the company.

**Reasons for the emergence of corporate governance:** One of the main reasons for the emergence of corporate governance is the following:

**-The theory of the agency :** The separation of ownership and management is a key factor in the emergence of the Agency's theory. The great expansion of economic institutions, especially in the context of globalization and growing global economic growth, necessitated that the institutions entrust the responsibility of managing them to an elected council, This created a conflict of interest and the emergence of the Agency's problem between the contracting parties of the institution (the agent and the original). Some managers may take advantage of the extensive powers granted to them to achieve their own returns and perform unethical actions that are incompatible with the legal basis, such as soliciting auditors to prepare financial reports desired by managers without third parties. This has led to increased interest in finding laws and rules governing the relationship between parties in institutions, There is also an urgent need to restore confidence and credibility to the capital markets and stimulate investment, because it represents a basic aspiration of the countries of the world to achieve it. So the importance of the concept of corporate governance and highlighted the importance of reducing or reducing the problems that may arise as a result of separation Ownership and management.

**-Financial collapses in some international companies:**

Financial meltdowns and administrative scandals giant companies have led in many of the world countries, which had and still of the economies of the countries to which they belong those companies to study and analyze the causes that lead to the emergence of financial and administrative corporate corruption, which leads naturally to those financial meltdowns occur which impact later it found that the defect is not accounting standards, but in the behaviors applied in the case of Enron appeared that the accounting standards were provided for certain mechanisms must be followed when creating a company with specific objectives, but that the company did not comply, The external auditor also looked at them, so these financial collapses led to the emergence of the corporate governance concept, which requires compliance with established standards for external audit quality and the avoidance of corporate financial collapses.

**Principles of Corporate Governance:**

To implement corporate governance there is a set of principles that represent the backbone of the application of governance. Many organizations have given wide attention to relevant organizations, researchers and academics. The (Organization for Economic Cooperation and Development) OECD has divided these principles into six main principles, as follows:

**Principle 1: Ensure that there is a basis for an effective corporate governance framework:**

The corporate governance framework should both enhance market transparency and efficiency, be consistent with the provisions of the law and clearly articulate the division of responsibilities among the various supervisory, regulatory and executive authorities.

**Principle 2: Protecting shareholders' rights:**

In accordance with this principle, corporate governance principles include shareholders' rights, which include, for example, securing the methods of recording, transferring and transferring equity, obtaining appropriate information about the company involved in the sale decisions or modifying the company's assets, including merger or new share issues [15].

**Principle 3: Fair and Equitable Treatment of All Shareholders:**

This principle includes equal treatment of all shareholders, including small shareholders and foreign shareholders, with compensation in case of violation of their rights.

**Principle 4: Protecting the rights of stakeholders:**

Protecting the rights of stakeholders includes bondholders, banks and employees as defined by the law, including ensuring respect for their rights and finding ways to share them while ensuring access to relevant information.

**Principle 5: Disclosure and Transparency:**

The principles of corporate governance include transparency and accurate disclosure in a timely manner in a manner consistent with accounting quality standards on all matters related to the establishment of the company and its objectives and the right of the majority in terms of contribution and voting rights and members of the board of directors and their remuneration, executive managers and privileges granted to them, financial and operating results of the company, performance and ownership, Employees and other stakeholders and the manner in which the administrative authority is exercised with the audit of the financial statements by an independent external auditor with the aim of providing an external confirmation of the method used in the Financial Statements.

**Accounting dimensions of corporate governance:**

Corporate Governance is practiced by four key stakeholders (Board of Directors, Audit Committee, External

Auditor, Internal Auditor [13]

- **Board of Directors and Management of Accounts:** The management of companies in the last container is very interested in financial management and accounts by focusing on the work according to accounting standards in addition to the role of the audit committees with the Board of Directors and external auditors in them and work on the positions of financial management and accounts persons with experience High knowledge of local and international accounting standards.

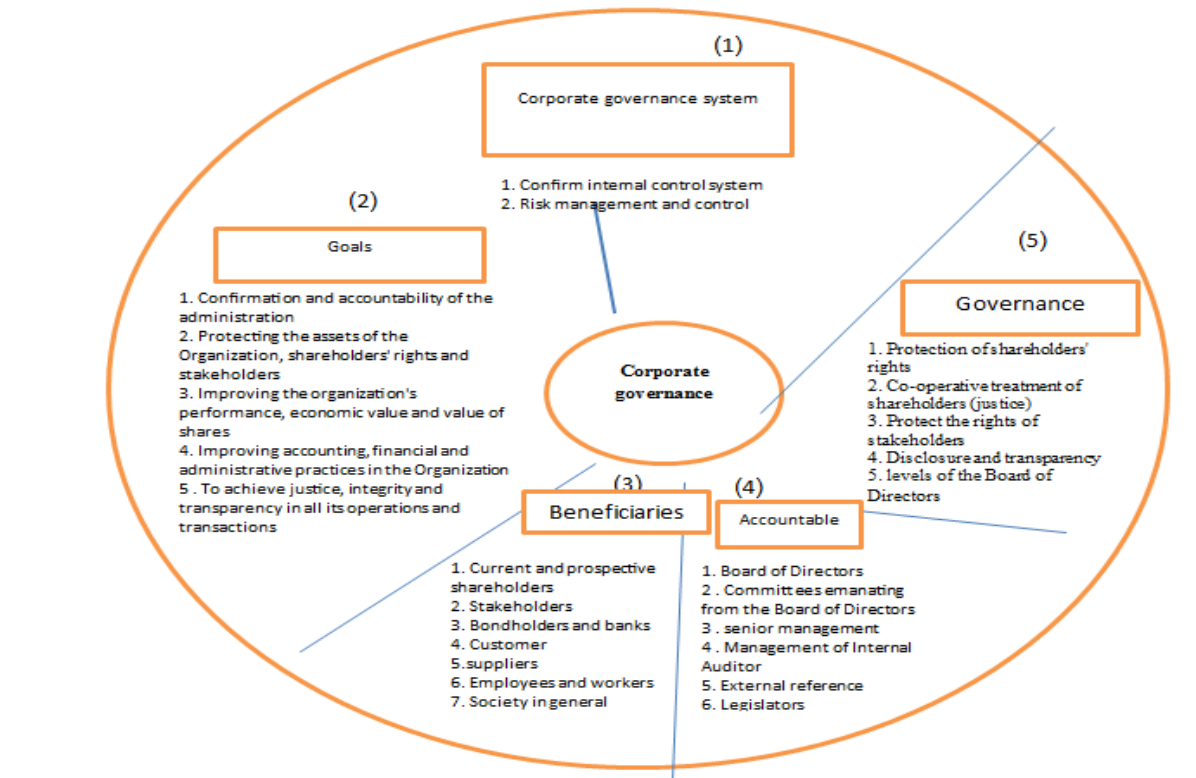


Figure 1

Source: Mohmmmed, 2005

- **Audit Committees:** There is consensus at the level of the profession on the importance of the role of audit committees in the work of the company and through giving this post to members of the highly experienced and integrity.

- **Internal Audit:** The internal audit of companies plays an important role in the success of the company's work as a whole by focusing on auditing and risk analysis and coordinating with the work of the external auditor.

**External Auditor:** Corporate Governance has made the external auditor focus on the audit process efficiently and with high quality through coordination and joint work with the Audit Committee within the company and reporting to these committees.

### 2.2.3. Expectancy gap in the external audit profession



**-TheConcept:**

Is the difference between the expectations of the users of the financial statements and the actual performance of the external auditor and others know that the difference between the duties of the auditors specified by different laws and professional organizations and those expectations envisaged by users of financial statements and lists [4]. Porter said in his report that the audit Expectancy gap in the review is the difference between the expectations of users of financial reports from external auditors and the actual performance of auditors [5] The gap was divided into two components [17]

**-Reasonableness gap:** - The gap between what the financial community expects the auditors to accomplish and what the auditors can reasonably accomplish.

. **Performance gap:** - The gap between what the financial community expects auditors to accomplish reasonably and what auditors do.

The performance gap was divided into two parts:

. **Deficiency gap (standards):** - The gap between the duties reasonably expected by the external auditor and the duties of the auditor according to the standards and publications of the external audit profession.

. **Deficiency gap(performance):** - The gap between the duties of the current auditor in accordance with the standards and publications of the external audit profession and the actual performance of the auditor.

**Reasons for the Expectations Gap:**

Some see it as one of the main reasons for the forecast for Expectations gap [6]

- Multiple expectations of the financial community with regard to the nature of the audit and its objectives and responsibilities of the auditor and the standards of auditing and independence and the report of the external auditor.

- Different perceptions of the actual performance of auditors.

- Reasonableness and unreasonableness of different perceptions of the financial community.

- Lack of actual performance of auditors.

- The different expectations of the financial community is linked to the tendencies of the owners of these expectations and tendencies, some of which may be realistic and some others unrealistic.

Others believe that the reasons for the expectations gap in the external audit profession are that although the expression of the expectations gap is common in the external audit profession, the causes of this gap have not been conclusively agreed upon in most external audit literature, The professional organizations and the role of external auditing in the community and the degree of independence of the external auditor and his responsibility for the discovery of errors and fraud in the audit and the existence of effective communication in the audit

environment, and we divide these reasons according to the studies to the reasons of the profession of accounting and external auditing and other reasons due to Users of financial statements.

The researcher believes that there are many factors that affect the expectations gap, due to the lack of quality performance resulting from the failure of the external auditor to carry out his duties as required by external auditing standards and the expectations of the financial community reasonable or due to lack of external auditing standards in meeting the expectations of society Reasonable. There is a gap in expectations that goes back to the unreasonable expectations of the financial community where their expectations are higher than the external auditor can reasonably perform. In light of this, we believe that the professional organizations concerned should strive to set standards that meet the reasonable expectations of the financial community and to monitor the quality of the external auditor's performance, monitor the auditor's compliance with the standards of professional conduct and educate the financial community through publications and seminars To inform them of the nature of the external audit.

**With regard to the factors or reasons for the profession of accounting and external auditing are as follows:**

**-Lack of clear definition of the role and responsibilities of the external auditor:**

This is one of the factors leading to the expectations gap, and it is often one of the most important reasons, and in most cases, which leads to the recourse of stakeholders against the external auditors. Some of the users of the financial statements believe that the external auditor is responsible for preparing the audited financial statements despite The Board of Auditors is responsible for disclosing the financial statements as they believe that The external auditor is responsible for the discovery of illegal acts.

**-Doubt in the independence of the external auditor:**

The independence of the external auditor is the focus of the external audit process, if it represents a fundamental principle in the external auditor's assurance process, and is considered an important external audit standard. It is also a source of confidence for the users of the financial statements. [21]. The external auditor provides other services besides the audit function (administrative and tax consulting). These services require special relationships that may be reflected in the auditor's independence in carrying out his task. The profession has recognized the impact of these services on a neutral, [22]. There are also some questions about the impact of competition between external audit offices on customer access and fee pressures and the attempts of some external audit clients to obtain opinions in support of their claims from these offices on the independence of external auditors [10].

**-Low quality professional performance:**

A decrease in the quality of professional performance increases the dissatisfaction of the community with the work of the external auditors. This leads to an increase in the expectations gap in the external audit. There are many factors that lead to a decrease in the quality of performance in external auditing such as intense competition between the external audit offices. In a variety of ways even if it violates the standards and is

reduced to the level of performance in the external audit if a gap is generated due to the dissatisfaction of the community on the work of these reviewers, which means increasing the gap expectations.

**-Lack of professional competence:**

That technical competence must be clearly defined, including lack of care and lack of knowledge[7], as well as lack of experience. In this sense, it is difficult to separate professional competence from independence as two main pillars of external auditing and the two main reasons for its existence, considering that professional competence is always assumed by auditors. Supposedly, there are many criticisms directed at external auditors. That they are working in areas where there is insufficient scientific qualification or training to do so [14]

**-Shortcomings in published financial reports:**

The lack of disclosure in the reports of all matters that are important and necessary to the users of the financial statements is a cause for the expectations gap in the external audit, although this factor is linked to accounting and financial reporting instead of external audit. The controversy has been raised since the mid-seventies to the present day about the purpose of the accounting reports and what is the party that is for which the investor or is it that these reports should be prepared for all users to serve all investors, suppliers and customers to the fact that the enterprise group of individuals interact with each other to perform better or the development of these reports and all members of society as a Enterprise are part of this society and should disclose reports on the extent of the organization's contribution to society.

**-The extent of the external auditor's responsibility for detecting fraud and errors:**

The External Auditor's Responsibility for the Detection of Fraud, Mistakes and Unlawful Behaviors is a component of the external audit gap, which is one of the most controversial areas of external audit. Financial information users believe that the external auditor should detect all significant fraud and illegal actions. Is not the primary objective of the external audit. The existence of the element of error and fraud is related to the importance of the element and its impact on decisions for users of financial information. If the element is important and affects the decisions, As such, if this element is not so important that it does not affect the decisions, it is not considered a priority for the performance of the external auditor. On this basis, the narrowing of the expectations gap should be done by trying to eliminate their causes by relying on the criteria that guide and identify errors and their degree of importance. Opinions of users of the financial statements [16].

**-Extent of External Auditor's Responsibility for Illegal Conduct:**

The users of the financial statements expect that the external auditor is responsible for the detection of all illegal actions during the performance of the audit function and this expectation is created for the expectation gap as the external auditor is linked to the liability parameters under the parameters of his work by taking reasonable care to activate the internal control system to try to reduce the possibility of committing the actions And to try to detect them in the event of their commission and the need to expand the responsibilities of external auditors to detect illegal acts and to try to control. And to narrow the outlook gap in external audit.

**-Clean the external audit report ensures the company's ability to continue activity:**

The users of the financial statements believe that the external auditor's report ensures the organization's ability to continue its activity, if this belief is the result of the forecast gap in the external audit and the reason that the failure of companies without warning despite the issuance of a clean report on their financial statements, To the external auditor with negligence and default, even if the reason for this is a sudden and unexpected result. The issue of Standard( No. 570) has been issued in this regard. The external auditor is encouraged to assess the institution's ability to continue if there is a substantial doubt that affects the institution's ability to continue in the near term no Exceeds one year from the date of issue of the external auditor's report. The standard also states that the external auditor is not responsible for forecasting the circumstances. And future events.

**User-specific factors:**

**-Lack of culture for accounting and external auditing of users:**

There is a lack of awareness of the concepts, principles and assumptions for accounting and external auditing among the user group, as this deficiency leads to a lack of familiarity with the objectives and objectives of the external audit, and this Generating more exaggerated expectations for the perceived and actual work of the external auditor, further widening the gap in external audit expectations.

**-Change in community expectations:**

The distinguishing feature of our time today is rapid and dynamic change. This is what distinguishes the expectations and demands of the community from the external auditor, which creates a significant interval between the emergence of new user expectations and the response of the profession, which is happening and widens the expectations gap. Under these changes, From the gap of reasonableness and this is a result of the growing realization of society, but it may be expanded. As a result of new expectations.

We conclude from this context that the expectations gap is a controversial phenomenon. It is not static and dynamic in nature because it is defined by two variables: the stakeholders' request for the services and responsibilities of the external auditor and the presentation of the services and responsibilities of the external auditor. , And therefore should try to control the components, and through good research on the reasons for existence and this to reduce the reduction to the minimum because it can not be eliminated completely in light of all these complications that we live today.

**-The responsibility of the external auditor for the detection of fraud and error:**

The financial community has the belief that the external auditor is responsible for detecting all types of fraud and error, while the external audit profession believes that its responsibility lies in good planning and that the external auditor has professional suspicion to be a reasonable expectation to detect fraud and material errors. Which resulted from this mistaken belief in the financial community about the role of the external auditor and his responsibility to detect fraud and error due to the expectations gap between the external auditing profession

and the financial community.

**-External Auditor as guarantor of the accuracy of financial statements:**

The financial community's erroneous belief that clean reporting gives absolute security to the financial statements and is free from any material misstatement. The financial community requires the auditor to provide him with insurance on the financial statements as a result of commercial growth and industrial progress. The development of the audit profession has not been able to keep abreast of the rapid development of industry and commerce. Fraud detection has become less effective, and the emergence of shareholders and other parties is becoming increasingly dependent on external audit reports, Acceptable external auditing standards have become a focus on the reasonableness of the guarantees provided in the financial reports.

The expectations gap is one of the main challenges facing the auditing profession. One of its main dimensions is the ability of the entity to continue its successful business. It is one of the main axes in which the audit profession faced great cash. The users of the financial statements do not have the ability to access the entity's accounting records. The financial center, therefore, depends primarily on what information management provides to them. The financial community expects the independent auditor to provide it with early warning of failures that may occur to the entity. This expectation by the financial community was one of the dimensions of the gap between the auditors and the financial community as evidenced by many studies on this subject. The auditors' criticism was not limited to the auditor's responsibility to detect fraud and error, but also to the auditor's responsibility to issue an early warning about the possibility of continuing the work of the entity in the event of an entity approaching failure.

**3. Applied field study**

In order to achieve the study objective of studying the impact of the implementation of corporate governance on the expectations gap in the external audit profession in Iraq, the analytical descriptive method was used by obtaining the data through the distribution of a sample questionnaire on a sample of the study community and the data collection, compilation and analysis using SPSS ). The study society consists of two main categories: the first (100) independent external auditor to work in Iraq, as well as investors and users of financial statements through the selection of (7) listed companies in the stock market operating in Iraq The questionnaire was divided into four axes to test the four study hypotheses to survey the opinions of external auditors, investors and users of the financial statements on the impact of applying corporate governance on the expectations gap in the external audit profession in Iraq. The answer to each of the four axes covering the hypotheses of the study ,according to the fivefold Likert scale in table (1)

**Table 1:** Scale of response to paragraphs

Category	Very OK	OK	neutral	not agree	Strongly Disagree
Class	5	4	3	2	1

**- Credibility the internal consistency of the paragraphs of the resolution:**

The internal consistency of the questionnaire sections was calculated by applying to the sample of the study by calculating the correlation coefficients of each paragraph and the total score of its axis as follows:

**-Internal credibility of the first hypothesis paragraphs:**

The extent to which the application of the principle of ensuring a basis for an effective corporate governance framework has contributed to narrowing the expectations gap in the external audit profession:

Table (2) shows the correlation coefficients between each paragraph of the first hypothesis, which shows that the correlation coefficients shown are a function at the level of significance (0.05) where the significance level for each paragraph is less than 0.05 and the calculated r value is greater than the r division of 0.396. The paragraphs of the first hypothesis are true to what has been put to measure.

**Table 2:** Internal Credibility of the first hypothesis paragraphs

T	Paragraph	Correlation coefficient	Level of significance
1	The applicable governance framework is effective and flexible.	0.675	0.000
2	The existence of transparent and highly efficient markets.	0.738	0.000
3	There are transparent and enforceable governance laws and regulations.	0.685	0.000
4	Effective and fair legal and regulatory mechanisms for governance.	0.746	0.000
5	The responsibilities are distributed according to a legislative specialty that serves the public interests.	0.604	0.000
6	Supervisory, regulatory and executive bodies shall be given adequate authority to carry out their duties.	0.773	0.000
7	Supervisory, regulatory and executive bodies enjoy integrity and objectivity	0.860	0.000
8	Decisions of supervisory, regulatory and executive bodies shall be issued in a timely and transparent manner	0.821	0.000

Values R Table At level 0.05 degree Freedom 23 is equal to 0.396

**- Internal credibility of the second hypothesis clauses: The extent to which the protection of shareholders' equity contributes to narrowing the expectations gap in the external audit profession:**

Table (3) shows the correlation coefficients between each of the paragraphs of the second hypothesis (the principle of protection of shareholders' equity) and the total rate of its paragraphs. The correlation coefficients shown are at the significance level (0.05). Of the division of the table r, which is equal to 0.396, and thus the paragraphs of the second hypothesis are true to what was put to measure.

**Table 3:** Internal credibility of the second hypothesis paragraphs

T	Paragraph	Correlation coefficient	Level of significance
1	Sufficient information is provided to the shareholders about the Company's fundamental changes.	0.502	0.009
2	The shareholders discuss the report of the External Auditor during the sessions of the General Assembly.	0.516	0.007
3	Shareholders share their opinion on remuneration policies for senior staff and the Board of Directors.	0.642	0.000
4	Shareholder agreements that give greater control to the shareholder are disclosed.	0.487	0.012
5	It is prohibited to use anti-takeover measures to protect the management from accountability.	0.588	0.001
6	The rules and procedures for controlling companies in financial markets are disclosed.	0.672	0.000
7	Founding investors and agents are responsible for disclosing their own governance	0.533	0.005
8	Founding investors and as proxies have disclosed their conflicts of interest	0.722	0.000

Values R Table At level 0.05 degree Freedom 23 is equal to 0.396

**- Internal credibility of the three hypothesis sections:** The extent to which the role of stakeholders in corporate governance contributes to narrowing the expectations gap in the external audit profession: Table 4 shows the correlation coefficients between each of the paragraphs of the third hypothesis and the total

rate of its paragraphs.

The correlation coefficients are shown to be a function at the level of significance (0.05) where the significance level of each paragraph is less than 0.05 and the calculated r value is greater than the r division 0.396 and thus the paragraphs of the fourth axis are true to what was put to measure.

**Table 4:** Internal credibility of the three hypothesis paragraphs

T	Paragraph	Correlation coefficient	Level of significance
1	The rights of stakeholders are protected by documented contractual relations.	0.563	0.002
2	The law guarantees compensation to stakeholders.	0.756	0.000
3	There are mechanisms to enhance performance for the participation of decision makers.	0.841	0.000
4	Stakeholders are provided with the necessary information to carry out their responsibilities.	0.660	0.000
5	Mechanisms are followed to communicate and research staff complaints.	0.857	0.000
6	The Department develops effective mechanisms and procedures to address insolvency cases.	0.858	0.000

Values R Table At level 0.05 degree Freedom 23 is equal to 0.396

**- Internal credibility Paragraphs The fourth hypothesis:** the principle of the contribution of the paragraphs of the fourth hypothesis The principle of disclosure and transparency to narrow the expectations gap in the external audit profession.

Table (5) shows the correlation coefficients between each of the four hypotheses (the principle of disclosure and transparency) and the total rate of its paragraphs, which shows that the correlation coefficients shown are at the significance level (0.05).

Of the division of the table r, which is equal to 0.396, and thus the paragraphs of the fifth axis is true for what was put to measure.



**Table 5: Internal credibility of the fourth hypothesis**

T	Paragraph	Correlation coefficient	Level of significance
1	The financial results and operating results are fully disclosed.	0.729	0.000
2	Major shareholders and related party operations are disclosed.	0.576	0.002
3	The expected risk factors are disclosed.	0.811	0.000
4	There are high and high standards for the preparation and disclosure of information.	0.697	0.000
5	A qualified external auditor is qualified and qualified.	0.819	0.000
6	External auditors are accountable and accountable to shareholders.	0.869	0.000
7	Equal access to information is provided.	0.871	0.000
8	Methodology is followed for analysis and evaluation to prevent conflicts of interest	0.778	0.000

**Test hypothesis of the study:**

The first hypothesis: There is a statistically significant relationship between the application of ensuring that there is a basis for an effective corporate governance framework and narrowing the expectations gap in the external audit profession in Iraq.

The Pearson test was used to find the relationship between the application of the principle of ensuring a basis for an effective corporate governance framework and narrowing the expectations gap in the external audit profession at a significance level of  $\alpha = 0.05$ . The results are shown in Table 6, which shows that the value of the significance level is 0.000, The calculated value of  $r$  is 0.716. It is greater than the value of  $r$ , which is equal to 0.211. This indicates a positive relationship at statistical level 0.05 between applying the principle of ensuring an effective framework for corporate governance and narrowing the expectations gap in the external audit profession in Iraq.

**The second hypothesis: There is a statistically significant relationship between applying the principle of protecting shareholders' rights and narrowing the expectations gap in the external audit profession.**

Pearson test was used to test the second hypothesis at 0.05 level. The results of Table (7) show that the value of

the significance level is 0.000 which is less than 0.05 and the calculated r value is 0.642 which is greater than the value of  $r = 0.212$  indicating a positive relationship At a statistical level 0.05 between the application of the principle of protection of shareholders' rights and narrow the expectations gap in the profession of external audit in Iraq.

**Table 6:** Correlation between the application of the principle of ensuring a basis for an effective corporate governance framework and narrowing the expectations gap in the external audit profession in Iraq

The axes	Statistics	Narrowing the expectations gap in the external audit profession in Iraq
Apply the principle of ensuring the basis for an effective corporate governance framework	Correlation coefficient	0.717
	Level of significance	0.000

The value of r calculated at degree of freedom 84 and the level of significance 0.05 equals 0.212

**Table 7:** Correlation between the application of the principle of protecting shareholders' rights and narrowing the expectations gap in the external audit profession in Iraq

The axes	Statistics	Narrowing the expectations gap in the external audit profession in Iraq
Apply the principle of protecting shareholders' rights	Correlation coefficient	0.642
	Level of significance	0.000

The value of r calculated at degree of freedom 84 and the level of significance 0.05 equals 0.212

**The third hypothesis: There is a statistically significant relationship between the application of the principle of the role of stakeholders in corporate governance and the narrowing of the expectations gap in the external audit profession in Iraq.**

Pearson test was used to test the third hypothesis at significance level 0.05 and the results shown in Table 8 show that the value of the significance level is 0.001, which is less than 0.05 and the calculated r value is 0.513, which is greater than the value of r, A positive relationship at the level of statistical significance 0.05 between

the application of the principle of the role of stakeholders in corporate governance and narrowing the expectations gap in the external audit profession in Iraq.

**Table 8:** The correlation coefficient between the application of the principle of the role of stakeholders in corporate governance and the narrowing of the expectations gap in the external audit profession

The axes	Statistics	Narrowing the expectations gap in the external audit profession
Implement the principle of the role of stakeholders in corporate governance	Correlation coefficient	0.512
	Level of significance	0.000

The value of r Calculated At Degree Freedom 84 level 0.05 equals 0.212

**Fourth hypothesis: There is a statistically significant relationship between applying the principle of disclosure and transparency and narrowing the expectations gap in the external audit profession.**

Pearson test was used to test the hypothesis at 0.05 level. The results shown in Table (9) show that the value of the significance level is 0.001, which is less than 0.05, and the calculated r value is 0.719, which is greater than the r value of 0.212, The existence of a positive relationship at the level of statistical significance 0.05 between the application of the principle of disclosure and transparency and narrow the expectations gap in the profession of external audit in Iraq.

**Table 9:** The correlation coefficient between the application of the principle of disclosure and transparency and narrowing the expectations gap in the external audit profession in Iraq

The axes	Statistics	Narrowing the expectations gap in the external audit profession in Iraq
Apply the principle of disclosure and transparency	Correlation coefficient	0.0717
	Level of significance	0.000

**All axes:**

The use of t-test and table (10) shows the views of the study sample members in the study axes regarding the role of applying corporate governance to the expectations gap in the external auditing profession where the

arithmetic average of all the axes was 4.13, The relative weight is 75.2, which is greater than the relative neutral weight of 60%, and the calculated t value is 29.141, which is greater than the t-value of 1.99, and the significance level is 0.000 which is less than 0.05, Indicating that the application of corporate governance has had an impact on narrowing the expectations gap in the external audit profession in Iraq.

**Table 10**

The axis	Axis title	Average	Standard deviation	Relative weight	t value	Level Significance
The first	The extent to which the principle of ensuring the existence of a basis has been applied For an effective corporate governance framework to narrow the expectations gap	3.30	0.532	80.1	23.133	0.000
The second	The extent to which the protection of shareholders' equity contributes to narrowing the expectations gap	5.09	0.390	69.2	19.13	0.000
The third	The role of stakeholders in narrowing the expectations gap in the external audit profession	4.65	0.689	71.9	9.61	0.000
The forth	The extent to which the principle of disclosure and transparency contributes to narrowing the expectations gap	3.48	0.395	86.12	26.212	0.000
All axis		4.13	0.074	75.2	29.141	0.000

The t value at a significance level of 0.05 and a freedom degree is 85 equal to 1.99

#### 4. Conclusions and Recommendations

##### Conclusions:

Through the study and theoretical and applied analysis of this study, the following results were obtained:

1. There is an agreement in the opinion of the external auditors, investors and users of the audited financial statements approved by the external auditor that there is an impact that has a direct relationship between the principles of corporate governance, narrowing the expectations gap in the external audit profession and the importance of a general and effective framework for corporate governance.
2. The impact of the application of the principles of corporate governance on narrowing the expectations gap varies from one principle to another in the external audit profession.

3. There is agreement between external auditors, investors and users of financial statements that the application of the principles of corporate governance enhances the confidence and confidence of investors and decision makers based on the financial reports certified by external auditors and prepared in accordance with the principles and frameworks of corporate governance.
4. The principle of disclosure and transparency of the most important principles of corporate governance influenced the expectations gap in the external auditing profession, where the average was 4.47 and the relative weight was 89.67. This indicates the importance of this principle in narrowing the expectations gap which is related to the availability of the financial statements submitted to the users of the financial statements .
- 5 - The existence of effective control systems supervised by the Board of Directors and the public opinion will enhance confidence in the financial statements and the report of the external auditor, who has verified and ratified these financial statements and sent reassurance of the fairness and objectivity of those lists and narrow the expectations gap in the profession of external audit.
6. The principle of equal treatment of shareholders and the role of stakeholders is the least of the principles of corporate governance that have the effect of narrowing the expectations gap in the external audit profession.
- 7 - The granting of sufficient powers to the supervisory bodies in companies and the impartiality and objectivity of these entities will strengthen and support the internal control system in companies and generate the confidence of shareholders in the certified financial statements of those companies.
8. Empowering corporate shareholders with accountability and accountability for both the Board of Directors and the external auditor and discussing their work and reports contributes to creating trust between the parties and narrowing their expectations gap.

### **Recommendations:**

#### **The study reached several recommendations as follows:**

1. To review relevant Iraqi legislation required to implement corporate governance by enacting new laws, regulations and instructions, or to amend existing laws, regulations and instructions and to adapt them legally to comply with corporate governance requirements.
2. To legislate the laws, regulations and instructions binding on the application of corporate governance in Iraq to Iraqi companies in conformity with international standards and ensure that these companies provide financial reports of high quality and transparency in accordance with the accounting and auditing standards in force.
3. Official governmental parties, trade unions and professional organizations shall work to strengthen the

principles of the independence of the external auditor by activating the role of the audit committees in supervising the process of appointing external auditors in companies.

- 4 - Raising the awareness of the community about the importance of corporate governance and its mechanisms and the necessity of implementing it and the benefits resulting from this application through holding seminars and professional conferences related to the importance of applying corporate governance.
- 5- To raise awareness of the importance of the role of the external auditor, his role, the nature of his work, his duties, and the limits of these duties, and to adjust the expectations of the users of the financial statements certified by the external auditor, in accordance with the limits of the duties and responsibilities of such auditor, And to reduce the expectations gap by users of financial statements.

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