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The Effect of Corporate Governance Mechanisms on the Quality of Financial Statements and Its Reflection on the Type of Auditor's Opinion

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Abstract

Corporate governance has become an important topic after the financial crises that occurred in many companies and led to their collapse in the nineties of the twentieth century, and technological developments affected accounting and the appropriateness of financial reports. Many corporations used corporate governance concepts to acquire the trust of investors who value transparency and information sharing. The goal of this research is to look at the impact of corporate governance structures on financial reports quality and how it relates to the type of external auditor.
The findings of the study show that institutional shareholder ownership has a positive and significant link with financial report quality, and that the auditor's view diminishes the relationship between institutional shareholder ownership and financial report quality. The study concluded that managers' ownership has a positive and important relationship with the quality of financial reports, and the auditor's statement has no effect on the relationship between managers' ownership and the quality of financial reports. The structure of the board of directors has a positive and important relationship with the quality of financial reports, and the auditor's statement has no effect on the relationship between the structure of the board and the quality of financial reports. Finally, the size of the council has a positive and important relationship. The auditor's comments reduce the relationship between board size and the quality of financial reporting.

Keywords: Corporate governance mechanisms; quality of financial reports; type of auditor's opinion.

أثر آليات حوكمة الشركات على جودة القوائم المالية وانعكاسها على نوع رأي المدقق

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المستخلص

أصبحت حوكمة الشركات موضوعاً مهماً بعد الأزمات المالية التي حدثت في العديد من الشركات وأدت إلى انهيارها، وأثرت التطورات التكنولوجية على المحاسبة وملاءمة التقارير

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المالية. استخدمت العديد من الشركات مفاهيم حوكمة الشركات لاكتساب ثقة المستثمرين الذين يقدرون الشفافية ومشاركة المعلومات. الهدف من هذا البحث هو النظر في تأثير هياكل حوكمة الشركات على جودة القوائم المالية ومدى ارتباطها بنوع رأي المدقق. تظهر نتائج الدراسة أن الملكية المؤسسية لها علاقة إيجابية وهامة بجودة التقرير المالي، وأن وجهة نظر المدقق تقلل من العلاقة بين الملكية المؤسسية وجودة التقارير المالية. كما ذكر أن الملكية لها علاقة إيجابية وهامة بجودة التقارير المالية، وأن رأي المدقق ليس له أي تأثير على العلاقة بين الملكية وجودة التقارير المالية. إن هيكل مجلس الإدارة له علاقة إيجابية وهامة بجودة التقارير المالية، وليس لرأي المدقق أي تأثير على العلاقة بين هيكل مجلس الإدارة وجودة التقارير المالية. أخيرًا، حجم مجلس الإدارة له علاقة إيجابية وهامة. وتقلل تعليقات المدقق من العلاقة بين حجم مجلس الإدارة وجودة التقارير المالية.

الكلمات المفتاحية: اليات حوكمة الشركات، جودة التقارير المالية، نوع رأي المدقق.

Introduction

The phrase corporate governance did not exist in English until since the nineties of the last century; yet, it has been increasingly relevant in the previous two decades, not only in academic literature but also in conversations among public sector policymakers (Nasman, 2009: 2). In the limited perspectives presented in the form of agency theory, corporate governance definitions are mostly limited to the connection between the corporation and its shareholders. Corporate governance, on the other hand, can be thought of as a network of relationships that exist not just between the firm and its owners, but also between the company and a wide range of stakeholders, such as employees, customers, and vendors. There are bondholders, for example. Such a view is presented in the form of stakeholder theory. Examining the definitions and reviewing the views of experts indicate that corporate governance is a comprehensive concept and its ultimate goal is to achieve items and goals such as accountability, justice, transparency and respect for the rights of stakeholders in companies (Shahi et al., 2014: 4).

In fact, the ultimate goal of the corporate governance system is to not only reduce the problem of agency and align the interests of the employer with the interests of the broker, but also to ensure the interests of all stakeholders in companies and business units. Therefore, theoretically, the characteristics of a governance system are expected to affect the financial and economic performance of companies, because effective governance reduces the unintended consequences of conflicts of interest between managers and owners, such as abuse of Authority, reduction. One of the important issues that have been considered by researchers due to widespread financial scandals in recent decades and have been raised as one of the important issues for investors is corporate governance, which examines the need to monitor management, separate the economic unit from its ownership, and ultimately maintain paying the salaries of investors and stakeholders. An analysis of the causes and circumstances of these scandals revealed that in cases of lack of management oversight, corporate shareholders' insufficient control over how to run operations and the transfer of limitless powers to executives created an environment conducive to their abuse. The corporate governance process, which includes strong executive management control and regular auditing of organizations, is necessary to avoid such a situation. Corporate governance deals with the set of relationships between the executive management, the board of directors, shareholders, and other relevant parties in a company. According to the discussion of corporate governance and the quality of financial reporting in developed countries, specific corporate governance mechanisms such as ownership concentration, board independence (Petra, 2007, 134), ownership of managers and the quality of the auditor have been significantly emphasized. The importance of the quality of financial reporting and the role of corporate governance in improving it, which can ultimately lead to an atmosphere of trust and confidence in capital markets and thus the optimal allocation of resources, highlights the need to address this area. For example, widespread waves of recent accounting fraud in the international financial community have led to widespread criticism of the quality of financial reporting (Agrawal & Chandha, 2005: 391-393).

Several leading companies, including Enron, WorldCom, Marconi, Parmalat, etc., have been involved in accounting fraud, which has undermined investor confidence in the management team and financial reporting (Bushman & Smith, 2003, 67). Widespread failures in proper reporting and disclosure of information, the need to improve the quality of financial information and strengthening the control of managers through the development of strong corporate governance structures have become increasingly in focus. In fact, financial information and reporting are the basis for capital decisions provided by capital market participants. These reports are useful for owners, creditors, business partners and legislators to analyze a company's past performance, as well as to predict future profitability based on this information and to monitor the actions of managers (Bushman & Smith, 2003: 67), (Hussein, 2019: 1).

The quality of financial reporting has always been one of the topics of interest for users, standard developers, legislators and researchers, because it maintains and strengthens the position of information system and financial reporting in capital markets and reduces agency costs between managers, shareholders, financiers and other stakeholders. Although the quality of financial reporting has always been one of the most basic concepts in accounting, researchers do not agree much in defining it. In a broad definition defined quality from a profit perspective and in the form of providing more relevant information about the company's financial performance in terms of user decisions. In this definition, it is necessary to pay attention to three points. First, conceptual quality depends on the type of a decision that is, talking about quality without determining the subject of the decision is void. Secondly, the quality of information and reports provided depends on their ability to inform about the company's financial performance and reduce information asymmetry, while many dimensions of performance are not visible, and thirdly, the quality of reporting and financial information with two factors related to information. Their finances and reliability are determined by measuring performance. (Beyer et al., 2010: 298).

Theoretical Foundations of Research: The Collapse of large companies such as 1- Enron 2- Adefi 3- Seiko 4- Global 5- Leucent, etc., which caused huge losses to stakeholders and investors. And after research and investigation, it was found that weak systems of corporate governance have caused losses and these events have placed more and more emphasis on the need to promote and reform corporate governance at the international level. In recent years, corporate governance has become a major and dynamic aspect of business and attention to it is increasing exponentially. Globally, progress is being achieved in terms of enforcing corporate governance. In this sense, international organizations like the Organization for Economic Cooperation and Development (OECD) set internationally recognized standards. They continue to strengthen their corporate governance systems in the United States and the United Kingdom, paying specific attention to shareholders and their connections, responsibility, the performance of the board of directors, auditors, and accounting and internal control systems.

Companies are controlled and managed by these methods. In addition, component investors, institutional investors, accountants and auditors and other actors in the money and capital market are aware of the philosophy of existence and the need for continuous reform and improvement of corporate governance (Shahi et al., 2014: 6).

In today's world, changing needs of customers and people, sometimes different demands of stakeholders, the complexity of laws and regulations and technology to do work and providing the need to pay attention to the corporate governance structure through which the goals of companies are set and the methods to achieve those goals and how to monitor their performance are determined. In fact, corporate governance system refers to a set of laws, regulations, institutions and procedures that determine how companies are run and in whose interests. So, the purpose of corporate governance is to ensure a framework that is well balanced, provides management, accountability and interests of different stakeholders of the company (OECD) (Ali et al., 2019: 347). Now, due to the strong emphasis on corporate governance, managers should work harder than ever to improve the organization and protect the interests of shareholders, investors, because in case of poor management performance, the manager's reward may be reduced or even lead to the dismissal of the manager. In the meantime, on the one hand, shareholders and other investors will want strong corporate governance to protect their interests. On the other hand, with strong corporate governance and in case of unacceptable comment by the auditor, the management probably tries to select the auditor, which overshadows the corporate governance on the one hand, and the independence and professional ethics of the auditor on the other. It will be longer. Consequently, changing the auditor and consequently changing the audit report often reduces the confidence of investors and stakeholders in the reliability of financial statements and corporate governance, and naturally reducing the reliability of financial statements reduces the validity of the audit process. In addition, this effect can prevent the correct, efficient and effective flow of corporate governance, increase the company’s financing costs, and show the unfavorable situation of the company in a false positive way causing misleading for investors and creditors, etc. (Maher & Andersson, 2002: 387).

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Theories of Corporate Governance: Changes and developments in the capital market have led to the evolution of theories of corporate governance. Before the corporate market developed, they relied on the property of wealthy people, usually relatives of entrepreneurs. The companies belonged to the same people who ran them. Small capital was not enough for economic growth and development, and their accumulation led to the establishment of large companies. Acceptance of limited risk in proportion to appropriate share and return led to the separation of ownership from management and the prosperity of the capital market (Shahi et al., 2014: 8). The following are three types of corporate governance theories:

Representation Theory: The beginning of corporate ownership through stock ownership had a significant impact on the way companies were controlled, and thus the owners delegated the management of the company to the managers. Separation of ownership from management (control) led to an organizational problem known as the "Representation Problem. (Shahab & Viallon. 2019: 556).

Transaction Cost Theory: The cost of transaction theory is based on the fact that companies have grown so large that they replace the market in resource allocation. In fact, companies are so large and complex that they guide price fluctuations in the manufacturing market and balance the trading market. Within companies, some transactions are eliminated and the production manager is coordinated (Rindfleisch, 2020: 95).

Stakeholder Theory: The basis of stakeholder theory is that companies have grown so large and their impact on society is so profound that they need to pay attention to and be more accountable to much more segments of society than shareholders. For stakeholder theory, there are several methods of definition based on different disciplines. The similarity of all of which is the confirmation of involvement in an exchange relationship (interaction). Not only are stakeholders influenced by companies, but they also influence companies. They have interests in companies instead of shareholders. Stakeholders include shareholders, employees, customers, creditors of neighboring companies, and the general public. In fact, each stakeholder represents part of a series of explicit and implicit contracts that make up a company, but many authors consider stakeholders to be those who companies have a legal interest in the broadest sense (Van der Laan et al., 2008: 301).

Reasons for the Importance of Corporate Governance: The following are some of the reasons why corporate governance is important:

- Provides a foundation for enterprises and foreign capital suppliers to create long-term confidence.
- Appoints strategic thinking to the top of the company by appointing managers who are the founders of new experiences and ideas.
- Manages and monitors the global risk facing the company.
- By dividing the decision-making process, it limits reliance on senior managers and their responsibilities (Meteb, 2015: 16).

Corporate Governance Mechanism and Quality of Financial Reports: In relation to corporate governance, several theories have been proposed which are: the theory of representation, the theory of stewardship and the theory of stakeholders, among which the theory of representation has had the most impact. According to this thesis, managers will not maximize shareholder returns unless major firms have suitable corporate governance mechanisms in place to defend stakeholders' interests. According to this theory, the owners and managers are both "agents" and there is a concept known as "agency losses" that exists between these two groups. Agency loss is a reduction in the residual salary return (owners) when part of the decision-making process is left to managers compared to when owners exercise direct control over the company themselves (Ahmad et al, 2021).

There was a discussion regarding the definition of corporate governance until recently, and unanimity on what constitutes strong corporate governance is a new phenomenon. Most national corporate governance rules aim to protect stakeholders' rights, defend the ideals of boardroom independence and balance of power, and emphasize the value of transparency and disclosure. Effective corporate governance principles are crucial to quality financial reporting, according to the International Chamber of Commerce (2005). In their study, (Byard, Li, & Weintrop., 2006: 617) found that the quality of disclosed information rises in tandem with the quality of corporate governance. They also discovered that stronger corporate governance levels were linked to lower absolute discretionary accruals and better profits quality. This means that businesses with poor corporate governance are more likely to manipulate profits to meet or exceed analyst forecasts. The failures of high-level companies in the United States, the United Kingdom, and other parts of the world have been largely due to their failures in the corporate reporting process. Most developed and developing countries, such as Canada, France, Germany, India, etc., have established corporate governance rules and guidelines with similar recommendations (OECD, 2004).

One of the most essential functions of corporate governance, as previously stated, is to assure the quality of financial reporting. "The link between a company's executives and its financial reporting system has never been so critical," (Levitt, 2000: 16) in a speech addressed to executives. In addition, the (Blue Ribbon Commission, 1999: 1069) asked auditors to discuss the quality and not just the acceptability of alternative financial reporting options with audit committees.

According to (Francis et al, 2008: 279), accounting quality has numerous characteristics, they employed a two-dimensional strategy. The question first was whether there was an honest presentation, meaning that the earnings report was impartial. If there is an honest presentation, for shareholders the value is better reflected in stock prices. Second, they questioned whether the reports were timely. If all information is disclosed in the interim financial reporting in the interim period, it will provide more timely information to management and stakeholders compared to the end of the financial year.

Investors, creditors, and other users should be able to estimate amounts from financial reporting, and there should be some ambiguity regarding potential enterprises' net cash inflows. When compared to information about receipts and cash payments, information about profits and their components, which is quantified by accrual accounting, is a stronger predictor of enterprise performance (IASB, 2010). Information asymmetry and representational conflicts between managers and outside investors drive the demand for financial reporting and disclosure (Healy et al, 1992: 164). As a result, the goal of corporate reporting is to deliver data to a wide range of consumers so that they may make economically sound decisions. Quality financial information is reliable, useful, and relevant information for users to make financial statements that better reflects the economic fundamentals of companies.

(Healy et al., 1992) stated that companies disclose through financial statements including financial statements and accompanying notes, discussion reports, management analysis, and other reports. Furthermore, some businesses proactively publish information through management projections, analyst presentations and conferences, news releases, websites, and other corporate reports. Finally, information intermediaries such as financial analysts, industry specialists, and the financial press have the ability to reveal. As a result, financial statement quality is not solely determined by international financial reporting standards. Global standards are probably best when the institutions that administer them keep track of how well they are being followed (ibid. 2001). The quality of financial reporting standards, as correctly concluded, is a required but insufficient prerequisite for the quality of accounting information disclosure. Corporate governance has been increasingly emphasized in both practice and academic research (e.g., Blue Ribbon Committee Report, 1999: 10; Ramsey Report; Sarbins - Axley Act 2002; Bebchuck & Cohen, 2004, 411). The frequency of well-known and gross fraud. Such as amended profit and loss statements (Loomis, 1999; Wu, 2002, 5; Larcker et al., 2004, 13) (Ali et al., 2019: 348). And corporate management claims based on gross manipulation, has contributed to this focus (Krugman, 2002). In addition, academic research has reported a direct link between corporate governance weakness and poor quality of financial reporting, profit manipulation, financial statement fraud, and poor internal controls (e.g. Dechow et al., 1996, 203; Beasley, 1996, 452; McMullen, 1996; Carcello & Neal, 2000, 459; Krishnan, 2001 and Klein, 2002, 378). Given these developments, the need to improve corporate governance and thus improve the financial reporting process (e.g. Levitt, 1998, 1999, 2000) has been emphasized.

The relationship between corporate governance and financial reporting quality in developed countries is examined in greater depth. For example, emphasis on specific governance mechanisms such as ownership concentration, board independence (Petra, 2007: 135), and auditor credibility (Agrawal & Chadha, 2005: 394). Nevertheless, we can refer to recent research in recent years in developing countries that discusses the distinction between control tools, capital allocation, and existing regulations. Therefore, the governance environment of each company is subject to its environmental conditions, and this issue causes the researcher to pay special attention to this issue and examine the governance components and their relationship with the components of financial reporting quality.

Acquisition of company resources through this type of transactions regardless of the business role of the company. The opportunism of transactions with affiliates will directly affect the company's risk as well as the disclosure of company information. Managers seek to increase their profits by selling to affiliates (Jian & Wong, 2010: 84).

Backgrounds: In a study, (Nikbakht and Beigi., 2015: 437) (Mohaisen et al., 2021: 334) looked at the impact of corporate governance on financial reporting quality: an integrated approach. Their findings revealed that corporate governance has a positive and significant link with financial reporting quality and can anticipate changes in company financial reporting quality. These findings are in line with findings from studies undertaken in emerging markets. Also, among the studied dimensions of corporate governance on the quality of financial reporting, two dimensions of auditing and ownership structure have a significant effect on the quality of financial reporting.

(Shahi et al., 2014: 11) in a study, examined the effect of corporate governance mechanisms on the selection of the auditor's opinion. The results of their research indicate that none of the variables of corporate governance has an effect on the selection of the auditor's opinion. That is, corporate governance mechanisms reduce the influence of the auditor's comments. This research increasingly demonstrates the auditor's independence in his professional opinion.

(Moustafa & Abd Elsalam, 2012: 1293) examined the effectiveness of corporate governance practices on audit quality. The results showed that the independence of the board of directors and the duality of the managing director and the audit committee have a positive and significant relationship with the quality of the auditor (senior auditors). However, there was no significant relationship between institutional investors and managers' ownership with audit quality.

Research Hypotheses

- ❖ The type of auditor's opinion has a big impact on the link between institutional shareholder ownership and financial reporting quality.

- ❖ The type of audit opinion has a big impact on the relationship between management ownership and financial reporting quality.
- ❖ The type of auditor's opinion has a major impact on the relationship between board structure and financial reporting quality.
- ❖ The type of audit opinion has a big influence on the relationship between board size and financial reporting quality.

Research Methodology: The data of this research is extracted from the audited financial statements of various companies. The statistical population of this study is all companies listed on Iraq Stock Exchange. The scope of this research was a six-year period based on the financial statements of 2014 to 2019 companies. The research sample includes those companies listed on Iraq Stock Exchange that have the following characteristics:

1. Companies that have been listed on Iraq Stock Exchange before 2019.
2. Companies whose transactions have not been interrupted during the years 2014 to 2019 and their shares are active in the stock exchange during these years.
3. Companies that have not changed their fiscal year from 2014 to 2019.
4. They are not investment companies, insurance companies or banks.

After considering the above criteria for sample selection, 35 companies were selected to review and answer the question of this research.

Research Variables and How to Measure Them: The following 4 models have been used to test the research hypotheses:

The First Hypothesis Model:

$$FRQ_{i,t} = \beta_0 + \beta_1 OIS_{i,t} + \beta_2 TOAO_{i,t} + \beta_3 (OIS_{i,t} * TOAO_{i,t}) + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \varepsilon_{i,t}$$

The Second Hypothesis Model:

$$FRQ_{i,t} = \beta_0 + \beta_1 OM_{i,t} + \beta_2 TOAO_{i,t} + \beta_3 (OM_{i,t} * TOAO_{i,t}) + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \varepsilon_{i,t}$$

The Third Hypothesis Model:

$$FRQ_{i,t} = \beta_0 + \beta_1 BODS_{i,t} + \beta_2 TOAO_{i,t} + \beta_3 (BODS_{i,t} * TOAO_{i,t}) + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \varepsilon_{i,t}$$

The Fourth Hypothesis Model:

$$FRQ_{i,t} = \beta_0 + \beta_1 BEDSZE_{i,t} + \beta_2 TOAO_{i,t} + \beta_3 (BEDSZE_{i,t} * TOAO_{i,t}) + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \varepsilon_{i,t}$$

Where in:

FRQ = quality of financial reporting;

OIS = ownership of institutional shareholders;

OM = ownership of managers;
BODS = board structure;
BRDSZE = board size;
TOAO = auditor's comment type;
SIZE = company size; and:
LEV = is financial leverage.

The Dependent Variable

FRQ = Quality of financial reporting, to calculate this variable, factor analysis model has been used using the following 5 models.

Juner Modified Accruals Model (Dichow et al., 1995, 203)

$$\frac{TA_{i,t}}{A_{i,t-1}} = \beta_1(\frac{1}{A_{i,t-1}}) + \beta_2(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}) + \beta_3(\frac{PPE_{i,t}}{A_{i,t-1}}) + \varepsilon_{i,t}$$

〖TA〗 _(i, t) = accruals;
A_ (i, t-1) = total assets of company i in year t-1;
V V REV〗 _(i, t) = revenue of business unit i for year t minus revenue for year t-1;
EC EC REC〗 _(i, t) = Accounts receivable of business unit i in year t minus accounts receivable in year t-1;
〖PPE〗 _(i, t) = gross tangible fixed assets of Company i in year t;
ε_ (i, t) = the remaining component of the model.

Prospective model (Barwa, 2006)

$$\frac{TA_{i,t}}{A_{i,t-1}} = \beta_1(\frac{1}{A_{i,t-1}}) + \beta_2(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}) + \beta_3(\frac{PPE_{i,t}}{A_{i,t-1}}) + \beta_3(\frac{OCF_{i,t}}{A_{i,t-1}}) + \beta_3(\frac{BM_{i,t}}{A_{i,t-1}}) + \varepsilon_{i,t}$$

Where in:
〖TA〗 _(i, t) = accruals;
A_ (i, t-1) = total assets of company i in year t-1;
V V REV〗 _(i, t) = revenue of business unit i for year t minus revenue for year t-1;
EC EC REC〗 _(i, t) = Accounts receivable of business unit i in year t minus accounts receivable in year t-1;
〖PPE〗 _(i, t) = gross tangible fixed assets of Company i in year t;
〖OCF〗 _(i, t) = operating cash flows for year t;
〖BM〗 _(i, t) = ratio of book value to market value of equity of company i in year t;
ε_ (i, t) = the remaining component of the model.

Unusual model of working capital accruals (Barva, 2006).

$$\frac{WCA_{i,t}}{A_{i,t-1}} = \beta_1(\frac{1}{A_{i,t-1}}) + \beta_2(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}) + \varepsilon_{i,t}$$

Where in:

〖WCA〗 _ (i, t) = Equity working capital of Company i in year t;

A_ (i, t-1) = total assets of company i in year t-1;

V V REV〗 _ (i, t) = revenue of business unit i for year t minus revenue for year t-1;

EC EC REC〗 _ (i, t) = Accounts receivable of business unit i in year t minus accounts receivable in year t-1;

ε_ (i, t) = the remaining component of the model.

Basso Model (1997)

$$\frac{E_{i,t}}{P_{i,t-1}} = \beta_0 + \beta_1 R_{i,t} + \beta_2 DR_{i,t} + \beta_3(R_{i,t} * DR_{i,t}) + \varepsilon_{i,t}$$

Where in:

E_ (i, t) = profit before contingencies and discontinued operations;

P_ (i, t-1) = capital market value at the beginning of the period;

R_ (i, t) = annual return of the company;

〖DR〗 _ (i, t) = is a virtual variable such that if the company's return is negative, the number 1 is otherwise zero.

ε_ (i, t) = the remaining component of the model.

Model Giuli and Hein (2000)

$$NA_{i,t} = TACC_{i,t} + OPACC_{i,t}$$

$$TACC_{i,t} = NI_{i,t} + OCF_{i,t}$$

$$OPACC_{i,t} = \Delta Inventory_{i,t} + \Delta Debtors_{i,t} + \Delta Othercurrent\ assets_{i,t} - \Delta Creditors_{i,t} - \Delta Othercurrent\ liabilities_{i,t}$$

Where in:

〖NA〗 _ (i, t) = non-operating accruals;

〖TACC〗 _ (i, t) = sum of accruals;

AC OPACC〗 _ (i, t) = operational accruals;

〖NI〗 _ (i, t) = net profit;

〖OCF〗 _ (i, t) = operating cash flow;

Vent 〖Inventory〗 _ (i, t) = Inventory of company i for year t minus inventory in year t-1;

B 〖Debtors〗 _ (i, t) = Company's accounts receivable in year t minus accounts receivable in year t-1;
C 〖Othercurrent assets〗 _ (i, t) = other assets of Company i in year t minus other assets in year t-1;
Red 〖Creditors〗 _ (i, t) = Company's accounts payable in year t minus accounts payable in year t-1;
C 〖Othercurrent liabilities〗 _ (i, t) = other liabilities of Company i in year t minus other liabilities in year t-1;

Independent Variables

OIS = Institutional shareholder ownership, in this study, to calculate the percentage of institutional ownership in each company, the number of institutional ownership shares is divided by the total number.

OM = amount of ownership of managers, in this research, the total percentage of shares owned by the owners of the company (board) has been used to measure the percentage of ownership of management.

BODS = Board structure is the ratio of non-executive members to total board members.

BRDSZE = Board size, number of directors (mandatory and non-executive) who are members of the board.

Modifier Variable

TOAO = Auditor's comment type, if the auditor's publication statement is acceptable, it is shown with the number 1 and otherwise with zero.

Control Variables

SIZE = Company size, to calculate this variable, the natural logarithm of the total assets of the company has been used.

LEV = financial leverage, used to measure financial leverage by dividing total liabilities by total corporate assets.

Descriptive Statistics: The results of Figure 1 show that the average financial leverage is equal to (0.423), the average size of the company is equal (22.501). The results show that the mean of the research dependent variable in the period under review is positive and this indicates that companies have had a growing trend during the period under review. Also, the average ownership of institutional shareholders is equal to (0.793), which indicates that on average 79% of the companies' capital is in the hands of institutional shareholders. The structure of the board of directors with an average of 91.6% indicates that most of the board members are non-executive members and that most of the company's shares (61.1) are held by the board members of the companies. According to the average type of auditor's comment, 36% of companies had an acceptable report. The average financial leverage of companies showed that more than 42% of assets were acquired on credit and the size of the company with a dispersion of 1.359 had the most fluctuations:

Table (1): Descriptive Statistics of Variables

Variable Type	Variable	Mean	Standard Deviation	Minimum	Maximum	Number
Dependent	financial reporting quality	0.095	0.901	-1.813	1.731	210
Independent	Institutional shareholder ownership	0.793	0.099	0.592	0.942	210
	Ownership of managers	0.611	0.146	0.288	0.831	210
	Board structure	0.916	0.101	0.714	1.000	210
	Board size	0.971	1.123	5.000	9.000	210
Equalizer	Type of auditor comment	0.362	0.482	0.000	1.000	210
Control	size of the company	22.501	1.359	19.105	26.723	210
	Financial Leverage	0.423	0.508	0.018	0.969	210

Source: Prepared by the researcher based on the results of statistical analysis

Results of How to Fit Research Models: Table 2 below shows how each of the research hypotheses fits.

Table (2): How to Fit Research Hypotheses

Test	Number	The first Hypothesis		The Second Hypothesis		The Third Hypothesis		The Fourth Hypothesis	
		Statistics	Significant	Statistics	Significant	Statistic	Significant	Statistics	Significant
FLimer	210	78.22	0.000	63.63	0.002	66.71	0.001	65.27	0.001
Haussmann	210	0.000	1.000	0.000	1.000	0.000	1.000	0.000	1.000

Source: Prepared by the researcher based on the results of statistical analysis

According to Figure 2, the L-Fier test and its significance level in all research hypotheses is less than 0.05, which indicates the use of panel data method versus integrated data method (OLS). Haussmann test also shows that using random effect method over fixed effect is preferable. As a result, the panel data method has been used as a random effect to test the research hypotheses.

Hypothesis Test Results and discussion: Table (3) Below shows the results of the research hypotheses tests:

Table (3): Hypothesis Test Results

Variables	Symbol	The First Hypothesis		The Second Hypothesis		The Third Hypothesis		The Fourth Hypothesis	
		Coefficient	Significance	Coefficient	Significance	Coefficient	Significance	Coefficient	Significance
Width of Origin	β	-2.23	0.335	-0.86	0.579	-0.93	0.461	1.39	0.425
Institutional Shareholders	OIS	*4.53	0.001	-	-	-	-	-	-
Auditor Comments	TOAO	*4.67	0.017	1.04	0.233	2.63	0.102	*2.13	0.038
Mediator	OIS* TOAO	-*5.33	0.028	-	-	-	-	-	-
Ownership of Managers	OM	-	-	*2.71	0.024	-	-	-	-
Mediator	OM* TOAO	-	-	-1.16	0.352	-	-	-	-
Board Structure	BODS	-	-	-	-	*3.18	0.003	-	-
Mediator	BODS* TOAO	-	-	-	-	-2.82	0.116	-	-
Board Size	BRD	-	-	-	-	-	-	*0.22	0.039
Mediator	BRD* TOAO	-	-	-	-	-	-	-*0.29	0.041
Size of The Company	SIZE	-0.06	0.523	-0.03	0.676	-0.06	0.257	-0.09	0.224
Financial Leverage	LEV	-0.22	0.002	-0.22	0.061	-1.47	0.000	-1.61	0.014
Fisher F Statistics		(0.000) 5.24		(0.000) 5.41		(0.000) 9.83		(0.000) 8.56	
Coefficient R2		0.19		0.14		0.23		0.15	
Dorbin – Watson		1.96		1.64		2.18		1.75	

Source: Prepared by the researcher based on the results of statistical analysis

Through the above table, the researcher can discuss the results of the research hypotheses tests as follows:

The Results of the First Hypothesis Test: The first hypothesis of the research is stated as follows:

H0 = The type of auditor's opinion does not have a significant effect on the relationship between institutional shareholder ownership and the quality of financial reporting.

H1 = The type of auditor's opinion has a significant effect on the relationship between institutional shareholder ownership and the quality of financial reporting.

In Table 3, the ownership of institutional shareholders has a positive and significant relationship with the quality of financial reporting with a coefficient of 4.53, and according to the negative and significant coefficient of adjustment variable (5-33), the auditor's opinion reduces the relationship between institutional shareholder ownership and the quality of reporting becomes financial. Therefore, the first hypothesis is accepted at the 95% confidence level and the statistical null hypothesis H0 is rejected and the opposite hypothesis, i.e. H1 hypothesis, is confirmed. Additionally, the value of the adjusted coefficient showed that 19% of the changes in the quality of financial reporting were explained by the independent variables of the model.

The Results of The Second Hypothesis Test

The second hypothesis of the research is stated as follows:

H0 = Auditor's comment type does not have a significant effect on the relationship between managers' ownership and the quality of financial reporting.

H1 = The type of audit opinion has a big impact on the relationship between management ownership and financial reporting quality.

In Figure 3, the ownership of managers with a coefficient of 2.71 has a positive and significant relationship with the quality of financial reporting, and given that the variable of the regulator is not significant with a coefficient of (-1.16), the auditor's comments have an effect on the relationship between managers' ownership and quality. There is no financial reporting. Therefore, the second hypothesis is not accepted at the 95% confidence level. For this reason, the statistical null hypothesis H0 is confirmed and the opposite hypothesis, i.e. H1 hypothesis, is rejected. Moreover, the value of the adjusted coefficient showed that 14% of the changes in the quality of financial reporting were explained by the independent variables of the model.

The Results of The Third Hypothesis Test

The third hypothesis of the research is stated as follows:

H0 = The type of auditor's opinion does not have a significant effect on the relationship between the structure of the board and the quality of financial reporting.

H1 = The type of auditor's opinion has a significant effect on the relationship between the structure of the board and the quality of financial reporting.

In Table 3, the board structure has a positive and significant relationship with the quality of financial reporting, with a coefficient of 3.18, and given that the aggressor variable is not significant with a coefficient of (-2.82), the auditor's statement has an effect on the relationship between the board structure and the quality of financial reporting. It also lacks the necessary financial reporting quality. As a result, at the 95 percent confidence level, the third hypothesis is rejected. As a result, the statistical null hypothesis H0 is confirmed, whereas the alternative hypothesis, H1, is rejected. In addition, the corrected coefficient revealed that 23% of the changes in the quality of financial reporting were explained by the independent variables of the model.

Fourth Hypothesis Test Results

The fourth hypothesis of the research is as follows:

H0 = Auditor's comment type does not have a significant effect on the relationship between board size and financial reporting quality.

H1 = The type of audit opinion has a great influence on the relationship between board size and financial reporting quality.

In Table 3, the size of the board with a coefficient of 0.22 has a positive and significant relationship with the quality of financial reporting and due to the negative and significant coefficient of the adjustment variable (-0.29). The association between the size of the board and the quality of reporting is reduced by the auditor's view. As a result, at a 95% confidence level, the fourth hypothesis is accepted. Consequently, the statistical null hypothesis H0 is rejected, whereas the alternative hypothesis, H1, is confirmed. Furthermore, the corrected coefficient of determination revealed that the independent variables in the model explained 15% of the changes in financial reporting quality

Conclusion: The purpose of this study is to identify (the effect of corporate governance mechanisms on the quality of financial reports and its reflection on the type of auditor). The statistical population of the study is

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the companies listed on Iraq Stock Exchange. The financial information research period is related to the performance of companies listed on Iraq Stock Exchange from 2014 to 2019 for a period of 6 years. After applying the restrictions, the company was selected as a sample. The present study includes independent variables (institutional shareholder ownership, management ownership, board structure and board size) and financial leverage and company size as control variables and the type of auditor's comment as a moderator with financial reporting quality as a variable. The hypothesis examines the mechanisms of corporate governance over the quality of financial reports and the type of auditor's comments. The results indicate that in the first hypothesis, the ownership of institutional shareholders has a positive and significant relationship with the quality of financial reporting and the auditor's opinion reduces the relationship between the ownership of institutional shareholders and the quality of financial reporting. In the second hypothesis, the auditor's statement has no effect on the relationship between the ownership of managers and the quality of financial reporting, and the ownership of managers has a positive and significant relationship with the quality of financial reporting. According to the third hypothesis, board structure has a positive and significant link with financial reporting quality, and the auditor's statement has no effect on the relationship between board structure and financial reporting quality. Finally, in the fourth hypothesis, the size of the board has a positive and significant relationship and the auditor's comments reduce the relationship between board size and the quality of financial reporting.

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