

## Effect Quality External Audit on Tax Evasion: Sample of Industrial Companies Listed on The Iraq Stock Exchange

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### Abstract

The research will be used to understand how the quality of external auditing is related to the reduction of tax evasion of industrial companies listed on the Iraqi Stock Exchange, with a sample of four companies in a 20-year period between 2005 and 2024 (80 observations). The search issue was that the tax evasion rate is too high, thus inhibiting the state revenue, and no prior research by Iraqi researchers was found to present the evidence of the external auditing as an effective tool of governance and control to prevent the accounting practices applied by the agents to evade paying taxes. The importance of work is that it offers certain quantitative measures that could be supplied to regulatory institutions and tax policies to become more transparent, efficient in compliance, and reliable in financial resources.

The research is based on a quantitative design and uses actual data from yearly reports and checked market databases. The quality of external audits was measured by the total audit

charge ratio (TACC\_RATIO); a lower ratio indicates better audit quality. The tax evasion ratio (BTD) was employed to assess tax avoidance, meaning that a higher tax evasion ratio suggests greater tax avoidance. The study included firm size and return on assets (ROA) as control variables to enhance the model's explanatory strength. The analysis involved descriptive statistics, Pearson correlation, simple and multiple regression, as well as analysis of variance (ANOVA), F-tests, and t-tests. Furthermore, there is a statistically significant relationship between evaluations of external auditors and tax evasion, although this is influenced by return on assets and firm size.

The findings indicated that the measure of the External Audit Quality Model (TACC) has a strong explanatory power to change the behaviour of tax evasion, which contributes to the validity of this measure in the application of the study in practice. This paper suggests that the regulators and taxation bodies should pay greater attention to the results of external audit as supportive information during the analysis of the performance of the companies in terms of adherence to the tax requirements and enhancement of the efficiency of the taxation system.

**Keywords:** Quality external audit, Tax avoidance, Industrial companies.

## **Introduction**

The study aims to examine one of the issues affecting the efficiency of the public financial system: tax evasion and its impact on public revenue. It achieves this by exploring the quality of external audit as a control mechanism that can be used to curb practices that may be employed to reduce tax liabilities. The literature defines the quality of external audit as the ability to detect and report material errors, which is considered a measure of independence and professional competence. This makes it a measure of the strength of professional oversight of financial reporting. Conversely, tax evasion is presented as a criminal activity aimed at reducing tax liabilities by concealing income, falsifying records, or overstating costs. To interpret the results, it is necessary to consider the extent of tax evasion. The research problem addressed in this study is the lack of local empirical research that directly examines the impact of external audit quality on tax evasion in the Iraqi business sector. The matter is further complicated by the fact that tax evasion is difficult to measure directly, and indirect measures must be used, particularly when dealing with industrial companies listed on the Iraqi Stock Exchange. Two hypotheses have been formulated on this basis: the first is that the quality of external auditing has a strong

negative effect on tax evasion (H1), and the second is that the relationship between the two variables changes when control variables (return on assets and company size) are included (H2). The study is significant as it addresses a relatively common phenomenon that is costly in both financial and institutional terms; furthermore, the results are presented quantitatively and can be used to enforce regulations and improve compliance. The results showed a strong negative correlation between the quality of external auditing and tax evasion ( $R = -0.78$ ;  $R^2 = 0.65$ ) and a stronger explanatory power when return on assets and firm size were included ( $R = -0.87$ ;  $R^2 = 0.742$ ). These results confirm the hypothesis that the quality of external auditing can be improved, leading to a reduction in tax evasion. The introduction concludes with a presentation of the study's structure and methodology, the problem statement, and the conceptual framework, followed by the empirical section testing the hypothesis, then a presentation and discussion of the results, and finally the conclusion.

## **Methods**

### **Problem of the Study**

Academic interest in the concept of tax evasion has grown due to its negative impact on government revenue and the economy. However, studies reveal a severe lack of empirical research on how the quality of external auditing affects tax evasion controls and oversight in developing economies. This gap is evident in industrial companies listed on the Iraqi Stock Exchange.

The lack of evidence highlights the extent to which the quality of external audit, measured using the total merit model, can reduce tax evasion, which is measured using the BTM model.

Therefore, the present study is important as it clarifies the role of external audit as a governance tool that increases the transparency of financial reporting and reduces opportunities for tax evasion, thereby reinforcing governments' efforts to deter companies from tax evasion.

The study poses the following question: Does the quality of external audit affect tax evasion by industrial firms?

### **Importance of the study**

The importance of the research lies in the fact that it clarifies the impact of the auditing processes carried out by the auditor and demonstrates a cycle in reducing illegal practices in non-collection of taxes.

In practical terms, the research helps regulatory and tax specialists understand how to reduce tax evasion through high-quality external auditing. This shapes financial policies and reduces inaccurate accounting practices that undermine tax revenue collection.

### **Study objectives**

This study aims to:

1. Clarify the extent of the impact of external audit quality on tax evasion.
2. Identify the most important measures of the study variables through total receivables as an indicator of audit quality and BTD to assess tax evasion.
3. Test the extent of the impact of external audit quality on tax evasion in industrial companies and obtain knowledge of the direction and strength of the relationship between them.

### **Statistical methods**

With regard to statistical methods, statistical techniques such as analysis of variance (ANOVA) and regression estimation were used in the study to analysis and estimate the effect between the study variables and to determine whether the effect of external audit quality on tax evasion is statistically significant in terms of actual data at the company level.

### **Building Hypotheses:**

Research shows that one of the most important drivers of reducing behavioural and information risks within companies is the quality of external auditing. As stated in (Caprach et al., 2025) and (Lopes, 2018), the effectiveness of audit quality is aimed at preventing the manipulation of discretionary accruals, and therefore, high-quality auditing plays an important role in improving the credibility of financial reports. The other concern discussed by Bartov et al. (2000) is the discretionary items measurement; measurement errors, especially when a company has poor performance stability, can affect the capacity of the

earnings management and its relationship with the danger of issuing an overly conservative audit report.

Resting on such studies, the researchers understand that the challenge in isolating the role of audit quality on the intrinsic nature of the firm and the quality of financial statements, as well as the lack of attention to nominal indicators, which cannot be used to capture the specifics of the audit process, are among the most important recurrent methodological issues. Under this account, therefore, the TACC will be used as a measure of the quality of the audit outcome rather than simply nominal variables (the Big Four firms), and on the basis of the above, we have developed the following hypothesis:

H1: External audit quality has a large negative impact on tax evasion.

According to recent research, tax evasion depends on a number of factors, including executive characteristics, corporate social responsibility activities, tax changes, financial constraints, and tax disclosure due to reputational risks. A study by Obarolo et al. (2023) revealed the existence of executive traits associated with levels of tax evasion, whilst another study by Basco et al. (2023) found that as corporate social responsibility practices increased, the level of tax evasion decreased. Kong et al. (2021) examined the impact of credit facilities that Chinese small and medium-sized enterprises facing financial constraints might use to evade taxes. With regard to reputation and legitimacy, Arno and Giordano-Spring (2024) discussed GRI 207 tax disclosure as a tool for managing tax-related reputational risks. With regard to measurement, previous literature has used the effective tax rate (ETR) and the cash rate, but the former has been reported to be weak in identifying tax evasion compared to the difference between accounting income and taxable income (BTD). Using this measure, this study will treat the difference between accounting income and taxable income (BTD) as a better measure for identifying when tax evasion occurs, as the difference between these two incomes is the difference arising from earnings management or specific tax planning. Based on the above, the hypothesis can be formulated as follows:

H2: The quality of external audit and control variables has a negative effect on tax evasion.

### **Study Population and Sample**

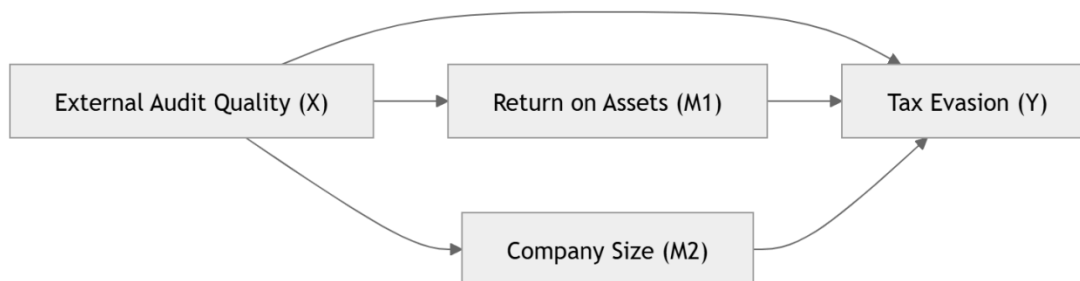
The sample was determined as the official financial reports of the industrial firms listed on the Iraq Stock Exchange, based on audited yearly reports as a credible source of data. The data was also on twenty financial years (2005-2024), which made it possible to conduct a

thorough analysis of the data as a matter of time, and this enforced the strength and importance of the findings.

The purposive sample consisted of four industrial firms, including Baghdad Soft Drinks Company, the Al-Kindi Company that produces Vaccines and Veterinary Medicines, the Iraqi Carpet and Furnishings Company, and the Modern Sewing Company. A series of methodological criteria were used to select the companies, and these were as follows: the availability of full and consistent financial data for the study duration, the quality of the sources of the data, and their applicability in quantitative measurement in accordance with the nature of the requirements of the research model.

The choice of these companies was also associated with their capability to reflect the research variables correctly and the feasibility of the same approach to the measurement methods applied to them, which helps to improve the validity and accuracy of the findings and provide a high level of correspondence between the data that are used and the purpose of the research.

### Study model



**This figure, prepared by the researcher, illustrates the study's variable diagram.**

### Study measures and data collection methods:

#### The independent variable included the following:

X:  $TACC\_RATIO = (Net\ Income - CFO) \setminus Total\ Assets\ (t-1)$  (Hribar and Collins, 2002; Ball et al., 2016; Rajgopal and Zheng, 2021).

#### The dependent variable addresses the following:

Y:  $BTD = (accounting\ income\ before\ tax - taxable\ income) \setminus total\ assets$  (Desai and Dharmapala, 2006; Frank et al, 2009).

**The following control variables were identified:**

M1: Return on assets (ROA)  $M1 = \text{Net profit} / \text{Total assets}$ .

M2: Company size (scale)  $M2 = \log (\text{Total assets})$ .

**Literature Review**

**Quality external auditing**

The quality of external auditing is one of the pillars in relation to the enhancement of the credibility of the financial reports and prevention of opportunistic management behaviour, since it helps to close the information asymmetry gap between the management and other parties in accordance with the assumptions of the agency theory, which assumes the existence of a conflict of interest between the management and other parties. The concept of external audit quality is one that explains the rate at which the auditor has a possibility of detecting any material misstatements in the financial statements and reporting them independently and objectively. This definition has been developed by using two dimensions, which include professional competence and independence. Competence is the ability of the auditor to detect the misstatements, and independence is the ability of the auditor to disclose the misstatements.

Quality of an audit is achieved through a combination of professional and institutional factors, where the adherence of the professional standards by the auditor, his technical knowledge, and use of good professional judgment are the key factors that contribute to the quality of the audit, specifically in setting the level of materiality on which the materiality of an error and misstatement is determined. At that, studies (Choudhary et al., 2019) indicate that high materiality determination strictness by auditors is associated with an increase in working hours and audit fees, whereas low materiality determination strictness is associated with an increase in the probability of financial statement restatement, which is why the direct role of professional judgement is involved in promoting the reliability of financial reporting. Audit quality is also institutional, i.e., in that the good governance mechanisms assist in supporting audit quality. In one research (Capraş et al., 2025), it became known that the existence of an independent audit committee, the financial abilities of the members of the audit committee, and the rotation of outside auditors lowers the probability of financial fraud. Furthermore, as research (Campa et al., 2025) indicates, it is possible to mitigate the threat of accounting fraud and instill more transparency through efficient

external controls and cooperation with regulators. Moreover, other audit qualities such as independence of the auditor and auditing fees may also influence the quality of oversight, and a study (Akiri and Jeroh, 2022) has found the two mentioned variables to have a positive effect on the effectiveness of financial reporting and the efficacy with which an auditor can exercise his or her duties.

Owing to the fact that the audit quality may not be easily ascertained, the accounting literature has employed various forms of indirect measurement of audit quality, such as, but not limited to, audit fees, working hours, and the application of materiality, ex-post measures, which include the number of financial statement restatements and fraud detection. The use of accrual models is considered one of the most widespread measures of audit quality, one of the most important in this field, because it has the potential to recognize the practice of earnings management. The accrual total model is an effective analytical tool to estimate the amount of discretionary accruals since the smaller the accruals, the higher the quality of the audit, since through a high quality of auditor, earnings manipulation and accounting estimates can be easily curtailed.

Based on the above discussion, the current research paper applies the model of audit quality as total accruals, similar to the numerous other previous research studies that adopt this model as a proxy measurement of the external audit quality, as the model is closely related to the earnings management behaviour. The importance of this measure is that it introduces a quantitative instrument that will enable the measurement of the extent to which auditing is effective in preventing accounting manipulation, and thus would be applicable to the aim of the current research, which involves establishing the role of audit quality as a control against tax evasion and enhancing the effectiveness of the financial system.

### **Tax avoidance**

Tax evasion is currently considered one of the greatest problems of a contemporary financial system as a result of the discrepancy between the amounts of taxes due under the law and the amounts actually paid. It is possible to define tax evasion as an illegal activity in which a taxpayer hides his or her income, lies about his or her income, or exaggerates his or her expenses with the motive of evading the payment of a tax. This is in contrast to tax avoidance, which is based on taking advantage of the legal loopholes without necessarily violating the law, but they are both related to the question of tax justice and the legitimacy of the financial system (Scarpa & Signori, 2023).

Tax evasion has numerous causes, with the asymmetry of information being the primary one, since companies hold extensive information about their activities that the authorities cannot easily verify. As has been demonstrated in the literature of the field of public economics, the difference between the taxes specified under the law and those in fact collected is the fundamental nature of the tax capacity problem, and the capacity of a state to make this gap smaller with the help of efficient tools of tax control and administration is the measure of the efficiency of the state (Pomeranz and Vila-Belda, 2019). It was also shown that raising public revenue by increasing the tax rates is less effective than by improving the quality of tax administration and compliance (Basri et al., 2020).

There are also motivations of tax evasion that are associated with corporate features and financial behaviour, where profitability, asset intensity, and corporate governance structure are considered as factors shaping the adoption of aggressive tax planning behaviour (Pratiwi, 2019). Earnings management and tax behaviour are also intertwined, as they are complex because accounting reports overlap with the tax base (Delgado et al., 2023). The methods of tax evasion used in resource-dependent settings may include cost inflation or transferring profits between two countries; research on gold mines in Africa has demonstrated that tax rates and reported profits have an inverse relationship, and that companies react to tax incentives by changing their taxable income (Bertinelli et al., 2021).

The other factor that has led to tax evasion is the lack of financial sources, especially for small and medium-sized enterprises, which may have to lower their taxes to create internal liquidity, having limited access to sources of finance. It has been empirically demonstrated in China that an increase in access to formal credit decreases the resort to tax evasion behaviour, supporting the connection between financing pressures and tax behaviour (Kong et al., 2021). Moreover, taxation in the macroeconomic environment affects the decision to finance or invest, and firm valuation and tax variables are central to the reactions of firms to taxation (Fida and Thurm, 2021).

As the digital economy moves towards the cross-border nature of digital operations, the complexity of tax compliance is compounded as it creates new legal and procedural challenges and requires more international collaboration and building of regulatory frameworks (Adelakun et al., 2024). In addition, taxation is no longer a financial instrument, but it is included in the notion of corporate social responsibility, and research shows that high-performing companies in the domain of social responsibility are less prone to

aggressive tax behaviour (Pasko et al., 2023). Here, the GRI 207 standards highlight the significance of tax disclosure in the sustainability reports to promote the degree of transparency and accountability (Arnaud and Giordano-Spring, 2024). Moreover, the qualitative tax disclosures may give the precursors of future shifts in the effective tax rates, which allows investors and regulators to evaluate the tax risks more effectively (Ullmann and Wörle, 2024).

Tax evasion is thus an intricate phenomenon; economical, institutional and ethical in nature; its reduction assists in enhancing the financial sustainability of the state devoid of raising the taxation levels, It also builds confidence between the state and the tax payers, minimizes competition distortions and enforces principles of justice and fairness, as well as solidifying the notion of tax compliance as a social responsibility towards the funding of sustainable development.

### **The relationship between the quality of external audits and tax avoidance**

One of the most critical governance mechanisms, the quality of external auditing is used to mitigate tax evasion through increased credibility and reliability of financial reports (Jaén et al., 2023).

1. An external auditor of high quality can assist in curbing tax evasion by:
  - a. curtailing the application of flexible accounting estimates which may be used to create unlawful tax savings.
  - b. subjecting tax-related items to a greater amount of scrutiny and examination.
  - c. improving adherence to accounting and tax regulations.
2. A better quality of audit reduces the difference between accounting profit and taxable profit (BTD), which indicates a reduced tax evasion (Pujilestari and Winedar, 2019; Kong et al., 2021).
3. Being an affiliate of the Big Four audit firms is also a major predictor of audit quality because their experience and reputation as professionals deter aggressive tax behaviour and encourage compliance (Murtina et al., 2022).
4. The quality of external audit enhances a more open financial disclosure environment and thus increased chances of identifying tax irregularities and curbing evasion practices (Ye et al., 2023).
5. Theoretically, increased audit quality will result in:
  - a. Higher credibility of supplied financial information.

- b. Less possibility to use the loopholes in the regulations in order to gain unreasonable tax exemptions.
- c. Limiting the managerial behaviours that are likely to evade taxes.
- 6. External auditing of high quality enhances control over the management of decisions of tax nature, especially due to the relationship between tax evasion and the strategic orientation of senior management (Obarolo et al., 2023).
- 7. High-quality auditing helps to reduce tax evasion which contributes to:
  - a. Tax justice and tax equality.
  - b. Building trust among the state, and taxpayers.
  - c. Enhancing the level of competition among businesses (Scarpa & Signori, 2023).

### Practical Aspect

In this section, the researcher presents the empirical results of the research based on statistical analysis conducted to test the research hypotheses and determine the nature of the relationships between the main variables. The research relied on real financial data derived from audited annual reports and the official database of industrial companies listed on the Iraq Stock Exchange, which enhanced the reliability of the results. The discussion begins by presenting the results of the analysis of variance and regression to estimate the magnitude and statistical significance of the effects, followed by an interpretation of the results in light of the theoretical framework and previous research (Abed et al.,2026).

Table (1) Illustrates the normal distribution test

<b>Tests of Normality</b>						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ll	126.261	75	.251	78.759	75	.191
a. Lilliefors Significance Correction						

Source: Compiled by the researchers, or based on the results of the SPSS programme.

From the table above, we can see that the Sig. value is greater than 0.05, which means that the data follow a normal distribution according to the Kolmogorov-Smirnova and Shapiro-Wilk tests.

**The First Hypothesis:** External audit quality has a large negative impact on tax evasion.

Table (2) Correlation and Explanation Rate between (External Audit Quality and Tax avoidance)

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.78 <sup>a</sup>	.651	.650	.045756881832747
a. Predictors: (Constant), x				
b. Dependent Variable: y				

**Source:** Compiled by the researchers, or based on the results of the SPSS programme.

From the table above, it is shown that the value of the coefficient of determination R-squared (external audit quality and tax avoidance) reached 0.650, meaning that the percentage of Tax evasion explained was 0.65 based on the quality of the external audit. The same applies to the corrected coefficient of determination, Adj. R-squared, and the value of the Pearson correlation coefficient (R) reached (-0.78), meaning there is an inverse correlation. The value of the standard error of the estimate reached 0.457.

Table (3) Analysis of variance between variables

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	156	1	156	229.749	.003 <sup>b</sup>
	Residual	53	78	.679		
	Total	209	79			
a. Dependent Variable: y						

b. Predictors: (Constant), x

**Source:** Compiled by the researchers, or based on the results of the SPSS programme.

The table above shows differences between the studied variables based on Fisher's F-test, where the significance level (Sig) was less than (0.05). This means the calculated F-value (229.749) is greater than the tabulated value, indicating the model's suitability for hypothesis testing; that is, there is an effect of external audit quality and tax avoidance.

Table (4) Regression Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.040	.005		7.725	.000
	x	-9.659E-5	.000	-.078-	-.695	.003

a. Dependent Variable: y

**Source:** Compiled by the researchers, or based on the results of the SPSS programme.

The table above shows the regression coefficients, where the constant value is 0.040 and the value of B is (-9.659E-5). This is called the slope of the regression, meaning that for every one-unit change in the external audit quality variable, the dependent variable, tax avoidance, decreases by -9.659E-5. This indicates an inverse relationship between external audit quality and tax avoidance. Table (3) above illustrates the linear regression equation:

$$Y_1 = 0.040 - 9.659E-5 X \quad \dots (1)$$

Based on the findings of the statistical analysis tables, researchers find the following overall findings:

1. The inverse relationship implies that the quality of external audits helps to deter tax evasion.

2. This is the supervisory aspect of auditing to add credence to the financial information and diminish accounting manipulation.
3. The strong explanatory power of the model suggests that audit quality is an important consideration in describing tax evasion behaviour.
4. The importance of the F-test validates the statistical validity and reliability of the model to test the relationship.
5. The negative value of the regression coefficient means that an increase in the quality of audits results in a decline in tax evasion.
6. It is not surprising given the accounting view that auditing is a means of taming opportunistic behaviour by the management.

**The Second Hypothesis:** The quality of external audit and control variables has a negative effect on tax evasion.

Table (5) Correlation and Explanation Rate between (External Audit Quality and the Mediating Variable on Tax avoidance)

<b>Model Summary<sup>b</sup></b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	- .87 <sup>a</sup>	.742	.740	.046072111419096
a. Predictors: (Constant), m1, x , m2				
b. Dependent Variable: y				

Source: Compiled by the researchers, or based on the results of the SPSS programme.

Table (5) above shows the relationship between the quality of external auditing through the mediating variable on tax avoidance, as shown in the Model Summary, that the value of the coefficient of determination, R-squared (quality of external auditing through the mediating variable on tax avoidance), reached 0.7420, meaning that the percentage of explanation of the mediating variable and Tax evasion reached (74.2) based on the quality of external auditing. The same applies to the corrected coefficient of determination, Adj. R-squared, and the value of the Pearson correlation coefficient (R) reached (-0.87), meaning there is a

strong negative correlation, and the value of the standard error of the estimate reached (0.740).

Table (6) Analysis of variance between research variables

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	262	3	87.333	41.233	.002 <sup>b</sup>
	Residual	161	76	2.118		
	Total	423	79			
a. Dependent Variable: y						
b. Predictors: (Constant), m1, x , m2						

Source: Compiled by the researchers, or based on the results of the SPSS programme.

The table above shows differences between the studied variables based on Fisher's F-test, where the significance level (Sig) was less than (0.05). This means the calculated F-value (41.233) is greater than the tabulated value, indicating the model's suitability for hypothesis testing. Specifically, the quality of external auditing and the mediating variable have an effect on tax avoidance.

Table (7) Regression Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant )	.057	.060		.949	.002

	X	.020	.000	-.083-	-.723-	.003
	m2	-.002	.006	-.042-	-.363-	.000
	m1	.042	.045	.106	.929	.001
a. Dependent Variable: y						

Source: Compiled by the researchers, or based on the results of the SPSS programme.

Table (7) of the regression coefficients for the model shows that the independent and controlling variables are statistically significant (Sig. > 0.05), meaning there is an inverse relationship between the quality of external auditing and the controlling variables on tax avoidance. Table (8) above shows the linear regression equation.

$$Y_2 = 0.057 + 0.020 X + 0.042 M_1 - 0.002 M_2 \quad (2)$$

The findings of the statistical analysis tables provided by the researchers help to reach the main findings, which may be summarised as follows:

1. The gain of the coefficient of determination with the addition of the control variables is an indication that the explanatory power of the model has improved.
2. This implies that internal factors in the form of financial performance and the size of the company affect the relationship between the quality of audit and tax evasion.
3. The control variables make audits more effective in the mitigation of tax evasion since the level of oversight and transparency is amplified.
4. The F-test ensures the appropriateness of the extended model in making the relationship between the variables.
5. The inconsistent tendency of certain coefficients indicates the intricacy of the tax decision-making process as well as the number of factors that affect the decision making process.
6. The analysis reveals that the impact of audit quality is not only direct, but also indirect using the characteristics of firms.

Table (8) shows the arithmetic mean of the companies in the research sample

Details	External Audit Quality	Tax avoidance	Return on Assets	Company Size
The arithmetic mean of companies	- 0.95975	0.039627498	0.101796334	10.51690045

The table above shows us that the arithmetic mean of the independent variable, the quality of external auditing, is negative (-0.95975). This reflects the quality of the external auditor's operations, while the dependent variable, which is tax avoidance, appeared positive (0.039627498). This reflects the companies' avoidance of tax evasion. The results also showed a high return on assets, indicating that the companies achieve a high return and that the size of the company contributes to the transparency of its financial data disclosure. This indicates support for the research's hypotheses and measurement model.

**Results:**

1. The study revealed that the quality of external auditing is inversely related to tax evasion behaviour, a relationship that is statistically significant, thereby undermining the claim that higher quality external auditing leads to a reduction in tax evasion behaviour amongst industrial companies listed on the Iraqi Stock Exchange.
2. The results indicated that the External Audit Quality Model (TACC) as a measure has a high explanatory power for changes in tax evasion behaviour, thereby supporting the validity of the measure in the practical application of the study.
3. The study showed that the difference between accounting profit and taxable profit (BTD) is an effective (albeit indirect) measure for assessing tax evasion behaviour, as it indicates the difference resulting from earnings management and tax planning activities.
4. The results revealed that the model adds value to the explanatory power of Tax evasion behaviour when control variables such as return on assets (ROA) and firm size are included in the model, and that behaviour is determined not only by audit quality but also by the nature and structure of firms' operations.
5. The study demonstrated that the quality of external auditing restricts management's ability to exploit flexibility in accounting estimates and, as a result, reduces the (accounting/tax) earnings gap, thereby positively affecting the degree of tax compliance.

6. The results confirm the study's hypothesis that external audit is an effective governance mechanism that helps to curb opportunistic behaviour relating to tax evasion.

### **Recommendations:**

1. There is a best interest in formulating professional standards and further examining audit firms because they have been effective in preventing tax evasion in the quality of external audits.
2. The study recommends that regulatory and tax authorities ought to rely more often on the results of external audits as auxiliary information when analysing corporate tax compliance and improving the tax system efficiency.
3. This is due to the fact that companies should be encouraged to adopt the practices of good governance, like the appointment of external auditors who are highly qualified and independent, in an effort to enhance the credibility of financial reports.
4. These are not to say that the profitability (ROA) and size of the company are not worthy of consideration in the design of either the tax policies or models employed to forecast tax evasion, given their apparent impact on the tax behaviour.
5. The study recommends that future researchers need to make use of additional measures of tax evasion, including real information on tax audit, fines, and tax disputes, whereby the indirect measures, such as the BTD, will be kept to a minimum.
6. Future studies should take into consideration the nature of the external auditor (including experience, independence, and term of contract) since it determines the quality of audit and reduces the degree of tax evasion.
7. Conduct more comparative studies (sectoral studies or regional studies) on the external validity of study outcomes, particularly because of institutional and economic differences in the context.

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