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Impact of Audit Committee Quality on the Financial Performance of the Iraqi Banking Sector

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ABSTRACT

Purpose: The purpose of this study is to examine the impact of Audit Committee Quality on Financial Performance in the Iraqi Banking Sector to improve Financial Performance. The agency theory serves as the study's theoretical underpinning.

Design/methodology/approach: The major research design was a quantitative method employing Structural Equation Modelling (SEM). SmartPLS3 was utilized to examine data from a set of respondents who were chosen using a purpose random sampling technique which included the CEO, CFO, accountants, and auditors. The survey questionnaire was disseminated to 386 people, and the collected data were evaluated using a measurement model.

Findings: According to the findings, the Audit Committee Components have a considerable impact on financial performance. The relationships were found to be positive and significant whereby Expertise (β =7.422, $p<0.05$), Independence (β =4.549, $p< 0.05$), Size (β=3.736, $p<0.05$), and Meetings (β=3.064, $p<0.05$). The Audit Committee component of Expertise was found to have the most significant impact on financial performance.

Research, Practical & Social implications: Implications-wise, this study indicates the need for Iraqi banks to improve the quality of their audit committees towards enhancing their financial performance, also Central Bank should work side by side with Iraqi universities to continue research on the role of Audit Committees.

Originality/value: This study provides an overview of the impact of the quality of the audit committee on financial performance and the extent of its importance in the Iraqi banking sector to reduce cases of manipulation and errors in the financial statements of banks. The study recommends the use of independent audit committees to improve financial performance in the Iraqi liquidation sector.

KEYWORDS: Audit Committee, Financial Performance and Iraqi Banking Sector

1. INTRODUCTION

In the early 2000s, numerous employees, business employees, and stakeholders suffered substantial losses due to a series of high-profile corporate accounting controversies. Such controversies have led to calls for a greater focus on internal control. The Sarbanes-Oxley Act (SOX) was enacted by the United States Congress in July 2002 to alleviate consumer concerns about several notorious business fiascos in the US (COSO, 2013). Ashbaugh-Skaife and Lafond (2009) asserted that organizations which reported a weak state of internal control also demonstrate greater operational complexity. Exposure to accounting risks also increased due to the recent corporate systemic changes which led to lesser resources to be spent for internal control purposes. In comparison, companies with material vulnerability have a more inferior quality of earnings than those that do not disclose material weaknesses (Ibrahim, Diibuzie, & Abubakari, 2017; Bonvas, 2016).

Additionally, Prescott and Vann (2008) revealed a negative consumer response to organisations that had identified internal control material vulnerabilities. In 2008, the world witnessed a financial crisis which first started in the USA and then spread to European countries. Its effects spread worldwide and affecting most of the sectors in the economies. The financial crisis was a test of the soundness of financial performance in different countries, disclosing the strength and vulnerability of financial performance (Russo & Katzel, 2011).

Recently, Iraq has seen a fragmented financial system with a poorly structured regulatory system and ineffective agencies, a shortage of authority, and inadequate internal control. The role of restoring Iraq's stable and secure modern financial sector is a challenging one (Ammar Hamad Khalaf, 2018). The initial step should be taken in the banking sector as an integral part of the financial system, including all its legal and regulatory elements and its core organisations. This will be a lengthy process involving substantial capital, both technically and financially (Doski et al., 2013). In every robust economy, there is a sound banking system. Due to the primary role it possesses in the economy, such as intermediation, retaining financial discipline among borrowers, maturity transition, credit allocation, and facilitating payment flow, a safe banking system is essential. Banks offer crucial positive externalities for gatherers of savings, resources' allocators, providers of liquidity, and payment services (Omran, 2015).

Since the onset of the 20th century to this day, the Iraqi banking system has gone through various transformations. The succeeding governments had attempted to ascribe a major role to the banking system in financing the process of economic development (Ammar Hamad Khalaf, 2018). In July 1964, to expand credit facilities to all sectors of the economy and alleviate seasonal imbalances in their supply, 10 banks were nationalised, operating under the ownership of Rafidain Bank, the nation's largest state-owned commercial bank (Manhal et al., 2017).

Until 1988, when the second-largest commercial state-owned bank (Rasheed Bank) was founded by dividing the Rafidain Bank's 218 branches, and it became the primary commercial bank. Since 1991, private sector banks have been permitted to run businesses after 28 years of restriction (Foote et al., 2004). Forty privately-owned banks were doing business in Iraq by the end of 2009, where 33 banks were commercial, and seven were Islamic banks. Directed interest rates on deposit and lending, exchange controls, and directed credit have changed now, with the government controlling these instruments until 2003. In the aftermath of the US invasion in 2003, these instruments are now operating according to the market's mechanism (Ammar Hamad Khalaf, 2018). Based on article 18, paragraph 3 of the Banking Act, No 94 of 2004, article 71 of the Instructions for Facilitating the Implementation of Banking Law No (4) of 2010, and as part of the efforts of the Central Bank of Iraq in developing the supervision of Iraqi banks, The Central Bank of Iraq decided to issue controls on compliance risks with those banks (Wheeb, 2018).

This challenge ultimately led to the development of banking control and keeping pace with successive developments in the banking industry. Attention was brought to the quality of control and avoidance of risks as one of the main approaches for increasing and developing banks' financial performance (Cerrone, 2013). Banks are required to continuously improve their financial performance by developing internal controls, avoiding risks, and adopting good policies and procedures (Ayagre et al., 2014). The experiences of developed countries have been clearly demonstrated (Samad & Glenn, 2012).

International Transparency, (2011) stressed that internal control is control established by the organization to kick against corruption and embezzlement. This malpractice and financial crimes are increased in every day and every year. The study has found that some banks have been closed down as a result of dearth of internal control mechanism. Kamau Caroline Njeri, (2014), contributed that inadequate controls have also led to corruption and collusion of management and external auditors leading to organizations failing to achieve their set objectives this serves as a gap to be filled, with audit committees in the banking sector.

2. LITERATURE REVIEW

2.1 Financial performance

Financial performance is a monetary indicator of a company's policies and activities. It is a broad indicator of a company's overall financial health over time. It can aggregate industries or sectors and compare similar firms in the same industry (Ondieki, 2013). A company's financial performance can be measured in a variety of ways. This could be represented in the company's Return on Assets (ROA) and Return on Equity (ROE), which are subjective measures of how a company can utilise assets from its primary business to create income (Hanoon et al., 2021). A large part of the company's operations and strategies results in financial performance (Al-Khero et al., 2019a). Financial performance measurement is essential for accounting and remains a critical topic for broad associations.

Grier (2007) indicated that FP estimation systems give the establishment a guide for creating vital plans and completing goals. Moreover, financial performance is also defined as the effectiveness of mobilising and using the financial resources available (Amirah et al., 2018). Meanwhile, Kaur and Kaur (2016) delineated financial performance as an organisation's ability to achieve its goals at the lowest possible level. The survivability of companies in competitive business settings largely rely on their financial performance. Management is willing to determine how service quality development is identified within an association's performance (Sousa & Voss, 2002). Financial performance is reflected regardless of whether benefit quality is acknowledged in a firm, and is conceptualised as the degree to which a firm increases deals, benefits, and profits for value (Almarah et al., 2019).

Emerging nations have begun to implement new public management (NPM), which consists of many fundamental features that delegate authority and give flexibility to foster competition, and which choose to provide responsive, customer-oriented, and efficiency-focused services (Tarawneh, 2006). In reality, many emerging nations have only adopted parts of the NPM model with the likes of downscaling and privatization (Kawas, 2016). Many countries have also tried performance management initiatives, but of which are restricted solely to the implementation of performance-oriented employee appraisal systems (Wanyonyi & Tobias, 2013) which have mostly failed. This is because such systems link promotion to performance, when a majority of developing countries still link promotion to seniority ranks or relations (Waal, 2007; Jeon, Miller, & Miller, 2005). Efforts in utilizing performance targets had resulted in mixed outcomes. Due to the magnitude of the developing world, a homogeneous deliberation of the viability of performance management and its implementation in this side of the world is unwarranted (Berger et al., 2009).

Profit is the most important criterion for a competitive financial organization and the lowest funding source at the micro level. It is not just an outcome, but also a requirement for effective banking in an era of increasing financial market rivalry. As a result, every bank's primary goal is to maximize profit as a condition for running a business (Aspal & Dhawan, 2014). Meanwhile, a healthy and prosperous banking industry may survive negative shocks and contribute to financial system stability at the macro level. Bank profits are a valuable source of capital, especially when re-invested in the company. As a result, safe institutions would emerge, and strong profits may help drive financial stability (Owusu-Boateng et al., 2017). The factors affecting the profits of banks are typically categorized as either internally or externally driven. Internally-driven determinants include managerial decisions, whilst externally-driven determinants entail macro-economic factors reflecting the economic setting in which the banks are operating like Gross Domestic Product (GDP), inflation rate, and so on (Gul et al., 2013).

Thus, banks in Iraq attempt to find a new method to improve their financial performance and services. Financial institutions have been receiving increased attention in the past few years, particularly the Iraqi Banking Sector, on financial performance analysis (Abbas Ali, 2016). While accounting and financial ratios can provide significant and relevant financial performance information, examining the link between various banking performance factors including assets, revenue, profit, market value, number of employees, investments, and customer internal control can help improve bank productivity. (Rady, 2017).

2.2 Audit committee

An audit committee is a working group made up primarily of members of the board of directors of a firm (Fakhari & Rezaei Pitenoei, 2017). Basically, an audit committee is a management oversight body that is in charge of internal controls and financial statements (Contessotto & Moroney, 2014). However, there is a need for the committee to ensure the operations of the main controls, enforcement of ethical practices, proper development of main accounting estimates and judgments, and effectiveness of internal and external audits in the best interests of the board and shareholders (Meagher, 2013). The audit committee serves the financial benefactors of a firm, such as investors, creditors, board members, management personnel, and various industries and economic sectors. A good audit committee can help improve efficiency, value generation, and profitability while also boosting investor confidence (Salehi et al., 2018).

Today, an audit committee is seen as a different culture of internal control, and it has garnered widespread publicity (Sabour & Al-Waeli, 2023). Government agencies, regulators, and international organizations all see an Audit Committee as a significant tool for improving the dependability and integrity of financial data (Kurniawan & Mulyawan, 2023). In addition, the audit committee is referred to as a monitoring instrument in accounting literature primarily for improving the provision of details regarding financial-related conditions, performance, flexibility, as well as the information setting (Kallamu & Saat, 2015).

Since they were first established about 50 years ago, audit committees and their tasks have developed substantially (A. J. Al-Waeli et al., 2020b). Following the McKesson and Robbins case, the SEC and NYSE promoted the formation of audit committees in the late 1930s. Nonetheless, Rotenberg and Nair (1994) pointed out that audit committees were first proposed by the AICPA as early as 1937 and have been endorsed by the SEC since 1940 (AL-Moataz, 2003). The previous studies dealt with the Audit Committee's characteristics, where it confirmed that the four main elements could be measured from those elements, as follows.

2.2.1 Independence of Audit Committee

Corporate governance activists, regulators, and academics typically believe that an audit committee with a higher share of external directors has a lower tendency of carrying out the functions and obligations of the sub-committee. Moreover, an audit committee with greater independence is likely to restrain the corporate management's opportunistic behavior (Rapani, 2015). The audit committee must evaluate the independence of the external auditor and set policies concerning their non-audit services (Sori et al., 2009). The external auditor's provision of certain types of audit-based advisory services may not be in line with the independence or the validation function (Bromilow et al., 2011).

2.2.2 Size of Audit Committee

The size of an audit committee is critical to its ability to perform its tasks efficiently. Audit committee size varies in each firm because it is determined not only by the committee's responsibility and authority, but also by the size of the firm's board of directors (Setiany et al., 2017). A large audit committee is projected to demonstrate greater effectiveness since it provides more monitoring resources and a larger knowledge base (A. J. Al-Waeli et al., 2021). As a result, larger audit committees tend to uncover possible financial reporting issues, thus enhancing internal control and financial reporting quality (Vafeas, 2003; Raghunandan & Rama, 2007; Sharma et al., 2009).

2.2.3 The Expertise of the Audit Committee

Audit committees are also expected to have sound expertise. The types of expertise they should have include: external directorship (Beasley, 1996; Vafeas, 2005), industry expertise (Cohen et al., 2013), as well as financial and accounting expertise (Abbott et al., 2004; Krishnan & Visvanathan, 2008). External directorship refers to members of the audit committee that also hold a position in the board of another firm. Past research has indicated that outside directorship decreases the prevalence of earnings management and boosts financial reporting quality (Yang & Krishnan, 2005).

2.2.4 Meetings of Audit Committee

The regularity of audit committee meetings has been linked to financial reporting and audit quality in various studies (A. J. Al-Waeli et al., 2020a). Regulators and numerous others have regularly stated their preference for frequent audit committee meetings (A. Al-Waeli et al., 2022). Frequent audit committee meetings, as asserted by the Treadway Commission National Commission on Fraudulent Financial Reporting and Public Oversight Board, allow for enhanced communication between the audit committee members and external and internal auditors, hence boosting the effectiveness of the audit committee (Krishnan, 2005). Due to indiscernible metrics for diligence, past research had depended on the frequency of annual audit committee meetings as a representation of the diligence of the audit committee (Wright, 2009). Past works have shown that more frequent audit committee meetings lessen the chance of financial reporting disputes, such as SEC enforcement actions (DeZoort & Salterio, 2001).

2.3 Relationship between audit committee and financial performance

The Audit Committee Charter was signed by the Central Bank of Iraq (CBI) in 2017, and it indicates that the aim of the Audit Committee is to help the Board of Directors in carrying out public oversight for legislative authorities, the investors, and banks. These entail their financial statements' integrity and reliability (Central Bank of Iraq, 2017). An audit committee plays an important role in overseeing a bank's management. In executing the monitoring function, the audit committee's role largely affects financial performance as an integral aspect of the quality of the financial reporting (Merawati et al., 2013).

Qualified audit committees have been proven to be more efficient in delivering internal control over a firm's financial reporting procedure. Qualified, knowledgeable, and considerably experienced audit committees in the banking sector have been indicated to have the accounting abilities to halt the management's opportunistic behavior in banking management procedures and banking information disclosure practices. Banks with high quality audit committees are likely to engage in comprehensive and quality information reporting (Hanoon et al., 2020b).

Isa and Farouk (2018) examined the moderating role of Audit Committee in the link between Board Diversity and Earnings Management in the context of Nigerian banks. The study found a significant link between Audit Committee characteristics with the dependent and independent variables. Al-waeli et al. (2020) and Hanoon et al. (2020a) also found the significant moderating role of audit committee in affecting the corporate governance- corporate performance relationship in the context of listed Saudi Arabian firms.

Empirical works on the effects of Audit Committee have proven its ability in boosting corporate transparency. Rupley et al. (2011) asserted that an Audit Committee can improve the integrity of financial statements via the mitigation of errors and inconsistencies. During meetings, issues that emerge in the course of the financial reporting process are identified. Irregular meetings would not be able to detect such issues thus causing them to persist longer (Mohamad Naimi et al., 2010). Likewise, Allegrini and Greco (2013) revealed a significant link between Audit Committee and corporate reporting quality, whilst Khlif and Samaha (2016) found that Audit Committee lessens the lag in management reporting. Empirically, AC and IC have been proven to be positively and significantly related, such as in the study by Khlif and Samaha (2016).

Mazlina (2005) stated that regular AC meetings as well as internal auditing may offer the AC access to various accounting and auditing information and knowledge. Naiker and Sharma (2009) suggested a minimum of four AC and CI meetings annually to ensure the effectiveness of the AC. Mazlina (2005) sustained this claim based on the finding that the AC and IC are positively and significantly related to financial statement audit. The AC also holds responsibility in assessing the programs and plans of the IC in terms of scope, resources, and budget (BCR Report, 1999). The AC must also ensure that an effective internal control system is designed and implemented by the management by reviewing the scope of the internal audit program. As such, the BCR Report (1999), the Treadway Commisssion (1987) and the TSECCG (2001) acknowledged the oversight function of the AC in ensuring an effective internal control system. Hence, the AC's internal audit programs, plans, and coordination with external auditors must be reviewed to ensure the adequacy of the internal audit system's scope.

2.4 Agency theory

Jensen and Mekling (1976) proposed the definition of agency theory that the stockholders and bondholders require certain activities to be undertaken, merely from the fact that they had delegated their functions to the managers. Besides that, Harold Demsetz and Kenneth Lehn (1985), Myeong-Hyeon Cho (1998), Fama and Jensen (1983) and Chen et al. (2006) defined the agency theory as a contract between a person and several people who are the president or principal resort of the services of another person. It helps in entrusting the function of a specific job. Moreover, the agency theory refers to the relationship between the principals including the shareholders, bank executives, and managers. The theory states that the shareholders i.e. bank owners or principals hire agents for performing the related work. In short, the principals delegate the task of running the business to the bank directors or managers who act as the shareholders' agents (Westphal & Zajac, 2013).

The agency theory states that the shareholders anticipate the agents to make decisions which are in the principals' best interest. However, the agents may choose not to do so (Alexandre Padilla, 2002). According to the agency theory, the agent may engage in selfish and opportunistic behaviours, deviating from the principal's expectations. The agent may also have a different understanding of risks. But even with such drawbacks, the agency theory essentially separates ownership from control (Bhimani, 2008). According to Davis et al. (1997), the agency theory explores the link between the owner and managerial structure.

2.5 Conceptual Framework

The conceptual framework also presents various variables in the study. The conceptual framework, as shown in Figure 1 guides this study. The study's conceptual framework consists of the Audit Committee variables (Independence, Size, Expertise, and Meetings), and financial performance.

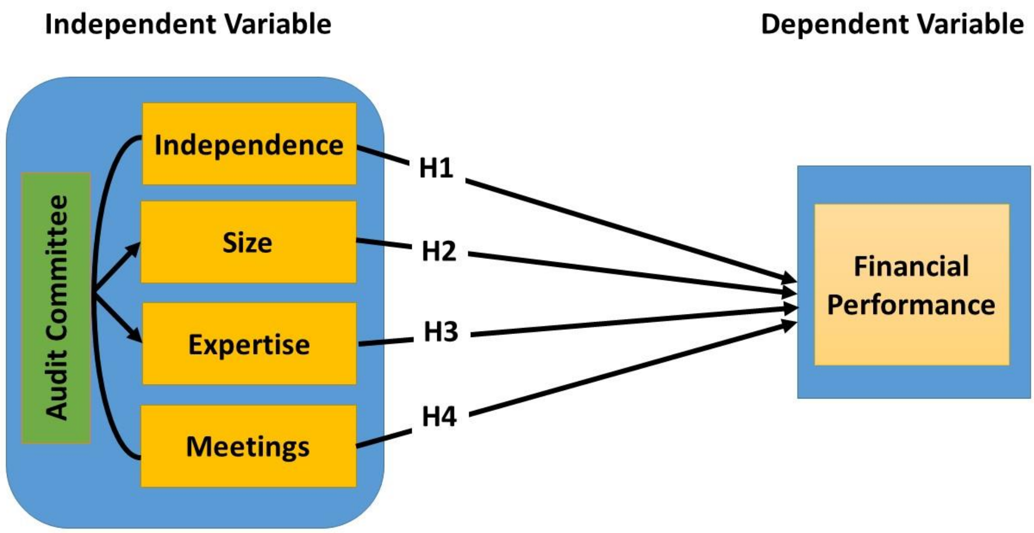

Figure No. (1): The conceptual framework for the study variables

2.6 Hypothesis

1- The Independence of the Audit Committee positively affects the Financial Performance of Iraqi banks.
2- The Size of the Audit Committee positively affects the Financial Performance of Iraqi banks.
3- The Expertise of the Audit Committee positively affects the Financial Performance of Iraqi banks.
4- The Meetings of the Audit Committee positively affects the Financial Performance of Iraqi banks.

3. METHODOLOGY

The questionnaire survey was utilized to collect data. Past research had created the elements for both constructs, with the addition of all the products' initial measurements. The questionnaires were distributed to the respondents in 77 banks in Iraq entailing the CEOs, CFOs, Accountants, Auditors, and Audit Committee members. Before the final questionnaire was applied, it firstly underwent a pilot study and expert assessment. To prevent uncertainties and hesitations, the questionnaires were distributed by hand. The questionnaire distribution and collection process took approximately 4 months. The sample was selected using the basic random sampling method. A total of 385 questionnaires were distributed, but only 365 were usable, denoting a 94% response rate. Data analysis was conducted utilizing SmartPLS.

4. RESULTS AND DISCUSSION

4.1 Assessment of Measurement Model

4.1.1 Convergent Validity

Table 4.1: ***Construct Reliability and Validity***

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Expertise	**0.981**	**0.983**	**0.983**	**0.856**
Financial Performance	**0.972**	**0.977**	**0.976**	**0.820**
Independence	**0.977**	**0.980**	**0.980**	**0.843**
Meetings	**0.987**	**0.996**	**0.988**	**0.904**
Size	**0.981**	**0.985**	**0.984**	**0.857**

In this study, convergent validity is assessed by examining its average variance extracted (AVE) value. According to Sharma and Kim (2012), convergent validity is assessed with individual items reflecting the comparison between items that measure different constructs. In PLS, convergent validity entails the measurement of the Average Variance Extracted (AVE). Convergent validity is confirmed with an average variance extracted of ≥ 0.50 (Fornell & Larcker, 1981). As shown in Table 4.1, all the constructs have AVE values between 0.820 and 0.904, demonstrating adequate convergent validity for the measurement model. Meanwhile, internal consistency is confirmed via composite reliability or CR (Chin, 1998). CR measures indicators with distinct loadings, whilst Cronbach's alpha underestimates the internal consistency reliability, presuming the equal weight of all the indicators (Chin, 1998). Therefore, this present study examines the CR rather than the CA. The researcher also adhered to the proposed guide of Nunnally (1978) i.e. that adequate internal consistency is achieved with a value of ≥ 0.70. Meanwhile, a value of < 0.60 denotes insufficient reliability. As shown in Table 4.1, the CR values for all the constructs are between 0.976 and 0.988 i.e. exceeding the cut-off value of 0.70. Hence, the constructs are confirmed to have internal consistency reliability.

4.1.2 Discriminant Validity

Table 4.2: ***Cross Loadings***

	Expertise	Financial Performance	Independence	Meetings	Size
Expertise	0.925				
Financial Performance	0.531	0.905			
Independence	0.392	0.405	0.918		
Meetings	0.368	0.358	0.221	0.951	
Size	0.288	0.311	0.109	0.214	0.926

According to Fornell and Larcker (1981), discriminant validity is determined by the correlation between the possibly overlapping measures of the constructs. Compeau et al. (1999) asserted that the shared average variance between each construct and its measurement must be higher than the shared variance between the constructs and other constructs. The results show that the AVE square roots are above the off-diagonal elements in the corresponding rows and columns. Table 4.2 tabulates the AVE square roots, showing all the off-diagonal elements being lower than the AVE square roots (bold on diagonal). Hence, discriminant validity is confirmed for the measure using Fornell and Larker's criterion.

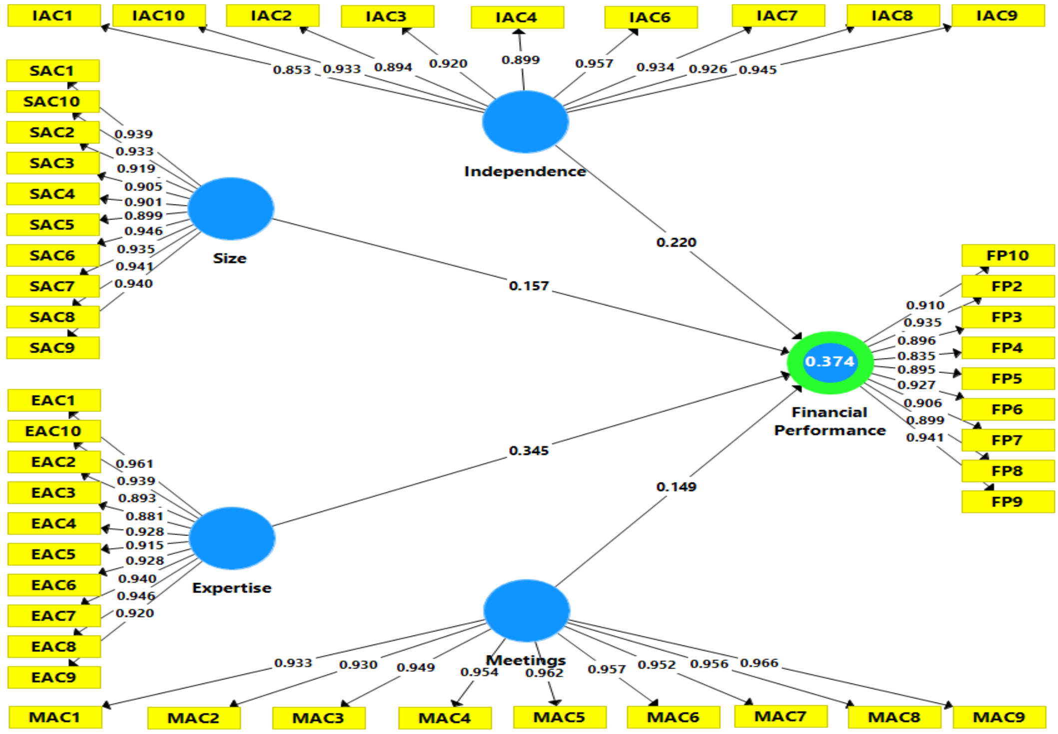

Figure: 4.1 The PLS model showing R-Square

Table 4.5: Outer Loadings

	Expertise	Financial Performance	Independence	Meetings	Size
EAC1	0.961				
EAC10	0.939				
EAC2	0.893				
EAC3	0.881				
EAC4	0.928				
EAC5	0.915				
EAC6	0.928				
EAC7	0.940				
EAC8	0.946				
EAC9	0.920				
FP10		0.910			
FP2		0.935			
FP3		0.896			
FP4		0.835			
FP5		0.895			
FP6		0.927			
FP7		0.906			
FP8		0.899			
FP9		0.941			
IAC1			0.853		
IAC10			0.933		
IAC2			0.894		
IAC3			0.920		
IAC4			0.899		
IAC6			0.957		

IAC7			0.934		
IAC8			0.926		
IAC9			0.945		
MAC1				0.933	
MAC2				0.930	
MAC3				0.949	
MAC4				0.954	
MAC5				0.962	
MAC6				0.957	
MAC7				0.952	
MAC8				0.956	
MAC9				0.966	
SAC1					0.939
SAC10					0.933
SAC2					0.919
SAC3					0.905
SAC4					0.901
SAC5					0.899
SAC6					0.946
SAC7					0.935
SAC8					0.941
SAC9					0.940

The next discriminant validity assessment measures the indicator's loadings for all the correlations between the constructs. Cross-loading compares between the indicator's outer loadings on the relevant constructs, which should be higher than all the other constructs' loadings (Härdle, 2011). Table 4.2 shows that all the measurement items have higher loadings than their corresponding variable than with the other variables. Hence, the second discriminant validity assessment for the measurement model is confirmed, and discriminant validity is established as shown in Table 4.5.

4.2 Structural Model Assessment

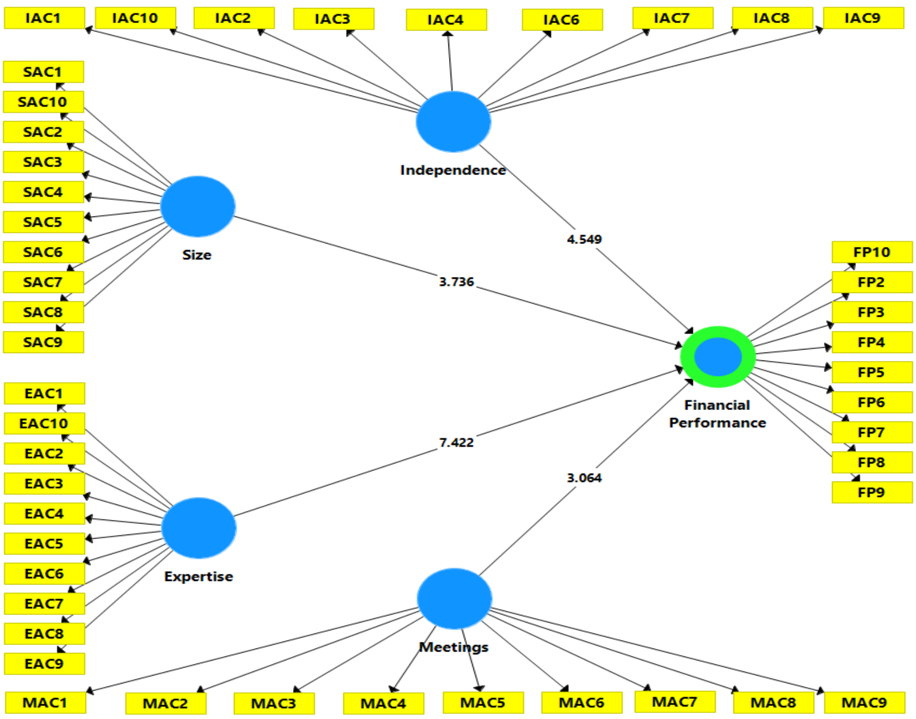

Figure: 4.2 The PLS model showing T- Statistics

4.2.1 Coefficient of Determination (R2)

PLS analysis mainly emphasizes on the variance confirming the path significance of all the estimates. The R^2 value can be between 0 and 1, with 1 denoting greater predictive accuracy (Hair et al., 2017). Likewise, Urbach and Ahlemann (2012) asserted that the minimum explanatory power should be achieved thus requiring an adequately high value. This current study utlizes the Smart-PLS algorithm to attain the values. Figure 4.1 shows the structural model assessment results entailing the values and path coefficients. The results show that Expertise, Independence, Meetings and Size, could explain 37% of the financial performance variance. Table 4.3 depicts the R-Square.

Table 4.3: ***R-Square***

Dependent Variable	R Square
Financial Performance	0.374

4.2.2 Path Coefficient of Hypothesis Testing

Table 4.4: ***Path Coefficient Assessment***

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**
Independence -> Financial Performance	0.220	0.220	0.048	4.549	**0.000**
Size -> Financial Performance	0.157	0.156	0.042	3.736	**0.000**
Expertise -> Financial Performance	0.345	0.346	0.046	7.422	**0.000**
Meetings -> Financial Performance	0.149	0.150	0.048	3.064	**0.002**

To achieve the research hypothesis, the results displayed in Table 4.4 show that the Audit committee's Independence, P-value = 0.000, and T value=4.549 are significant and strong. The results indicate that the Audit Committee's Independence significantly impacts financial performance. Thus, the Audit Committee's Independence impacts financial performance positively. Consequently, the first hypothesis has been achieved. In addition, the results displayed in Table 4.4 show that the Audit Committee's Size, P-value = 0.000, and T value=3.736 are significant and strong. This indicates the significance of audit committee size in affecting the Iraqi banks' financial performance. Therefore, the second hypothesis has been achieved.

In addition, the results displayed in Table 4.4 show that the Audit Committee's Expertise, P-value = 0.000, and T value=7.422 are significant and strong. This indicates the significance of audit committee expertise in affecting the Iraqi banks' financial performance. Therefore, the third hypothesis has been achieved. While the result of the audit committee meeting shows a significant impact on financial performance, with a P-value = 0.002, and T value = 3.064. Thus, the fourth hypothesis has been achieved.

The justification for the strength of the Characteristics of the Audit Committee (Independence, Size, Expertise, Meetings) based on the impact on financial performance is due to the procedures of the Audit Committee adopted by Iraqi banks to enhance their integrity and ethical values, management philosophy & operating styles, organizational structure, authority & responsibility, and human resources (Hanoon et al., 2020a).

Furthermore, this is to reduce opportunities for fraud and manipulation of securities and bonds in the institution, leading to increased returns and ROI ratio. Ultimately, it leads to an improved level of financial performance. The results of the hypothesis above are consistent with the results of previous studies, especially with that of Al-matari et al. (2016), Hanoon et al. (2020b), and Zhang et al. (2007). The authors indicated a relationship between Audit Committee and financial performance through integrity, ethical values, and accuracy of the banks' information, leading to taking the correct procedures. Thus, the decisions are sound, preventing risks in the institution (Al-Mashhadani & Diab, 2019).

To be effective, the audit committee needs to be separate from the economic unit. Members of the audit committee should be chosen from non-executive management in order to preserve independence. According to clause 1 of Article 1 of the Audit Committee charter, an independent member is one who does not have any relationships or interests, either direct or indirect, that might influence their ability to make an impartial conclusion (Namakavarani et al., 2021).

Financial expertise of audit committee (Finance): According to the Stock Exchange audit committee's charter, the expertise of the audit committee does not require that all of the committee members be formal members of the accounting profession. Instead, it is sufficient to have training in accounting and financial management. In order for the audit committee to function effectively, financial knowledge is essential. The financial knowledge of the members can be described in terms of a university degree or a local or foreign professional qualification in finance, according to Clause 6 of Article 1 of the audit committee's charter. These degrees cover internal control over financial reporting, accounting, auditing, financial management, economics, and other management disciplines having a financial or economic perspective (Namakavarani et al., 2021).

The auditor's committee independence and the financial performance in enterprises with a high level of political connection are related, per the test findings in the hypothesis. As a result, it may be said that the independence of the auditor's committee is a deciding element in the financial reporting process. The rise of the financial reporting committee and the improvement of the financial statement's reputation have both benefited from the auditor's committee independence, according to the findings of a recent study. On the other hand, the small number of political ties that businesses have is inconsequential. As a result, it may be said that the independence of a firm's auditor committee is unaffected by low-level political relationships.

5. RECOMMENDATIONS

As recommendation, banks should implement and retain effective Corporate Governance in view of the risks faced by the banking sector and its impact on economic growth. Banks should establish independent Boards of Directors along with the relevant committees which are a regulatory requirement. Likewise, an effective independent audit department should also be established in all bank branches to aid efficient internal controls. In addition, the study recommended that the Central Bank should work side by side with Iraqi universities to continue research on the role of Audit Committees. Iraqi banks should use experts in the Audit Committee for the development of Iraqi bank products. Cooperation with the Central Bank suggests maintaining and improving the existing internal controls in the Iraqi banking sector to enhance Iraqi banks' financial performance towards improving the economic development in Iraq.

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7. CONCLUSION

The results indicate the significance having an effective Audit Committee in banks towards improving their financial performance. These results are supported by that of past studies. Furthermore, it can be concluded that adequate Audit Committee components must incorporate good policies and procedures to enhance financial performance. In addition, the present study showed the role of the characteristics of Audit Committee in strengthening the financial performance of the Iraqi banking sector. However, Iraqi banks still need to focus on the role of internal control and audit committee procedures in light of modern technology. These procedures can enable Iraqi banks to provide more services with greater safety and confidence for customers. The researcher suggests that prevailing internal controls and audit committees in Iraqi banks should be maintained and improved towards enhancing the banks' financial performance and improving the country’s economic growth.

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