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RESEARCH ARTICLE

Investigating the Effect of Disclosure of Key Issues on the Relationship between Auditor Rotation and Financial Reporting Quality in Banks Listed on the Iraqi Stock Exchange the Effect of Disclosure of Key Issues on the Relationship between Auditor Rotation and Financial Reporting Quality

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ABSTRACT

The current study offers fresh perspectives by investigating the moderating effect of disclosure of key audit matters (KAM) on the link between auditor rotation and financial reporting quality in banks listed on the Iraqi Stock Exchange using annual data from 2017 to 2022. Locating many important audit issues demonstrates the new auditors' innovative viewpoint. The findings demonstrated a substantial relationship between accrual quality and auditor rotation. The results also demonstrated that when the audit partner changes, disclosures of key audit matters are seen more frequently than when the audit partner stays the same. Our findings emphasize the importance of transparent reporting through disclosure of key audit matters and the role of auditor rotation in promoting a more efficient audit process.

INTRODUCTION

Today, whether long-term auditor-client relationships improve or degrade audit quality is still up for debate. According to the learning curve, the new auditor may have a detrimental effect on audit quality following auditor rotation (Kuang et al., 2020). Additionally, if there are no notable changes to organizational structure or financial reporting, new auditors might not have different viewpoints from their predecessors (Gipper et al., 2021). Nonetheless, the new auditor might offer new insights into the client's financial reporting and audit procedures (Lin & Yen, 2022). Therefore, it is necessary to examine the connection between auditor rotation and financial reporting quality.

Audits play an important role in ensuring the quality of financial reports (Pham et al., 2025). Auditing financial reports lowers the possibility that the data is false or deceptive and boosts the confidence of those who depend on the information (Amara et al., 2025). Reliable audit reports emphasize the usefulness of audit quality and provide a foundation for stakeholders' decision-making (Istianah & Akbar, 2024). When audit quality is guaranteed, auditing will contribute to the development of capital markets and financial reporting's credibility and dependability. As a result, the quality of audits is regarded as a public concern and is highly valued by regulatory bodies worldwide. Therefore, examining audit rotation and financial reporting quality can provide significant policy implications. There is a strong correlation between auditor rotation and financial reporting quality, according to some research using various financial reporting quality metrics (Litt et al., 2014; Lennox et al., 2014; Laurion et al., 2017; Kalanjati et al., 2019). Nonetheless, some research found that auditor rotation has no discernible effect on audit quality (Kwon et al., 2014; Gipper et al., 2021). Thus, more research is required to examine this relationship.

Many countries have broadened the auditor's report to compel auditors to convey key audit matters (KAMs) in order to increase the report's information value. Because it has the potential to have a major impact on user behavior and capital markets, the comprehensive reporting framework—and in particular, the disclosure of KAMs—is extremely important (Rahman & Bhuiyan, 2024). Using auditing standards improves information users' decision-making and transparency (Pham et al., 2025). As a result, auditors can convey their opinions to those who utilize financial accounts on significant issues. In the event of an auditor rotation, the successor partners will offer their opinions through the disclosure cams. Thus, KAM disclosures can be used to analyze the shifting viewpoints of various auditors (Lin & Yen, 2022). Variations in KAM are regarded as a symptom of shifts in the auditor's evaluation of the major risks facing the organization (Yahaya, 2025). Since important audit issues are likely to be revealed throughout auditor rotations, shifts in key audit matters provide evidence of the different perspectives of new auditors. As a result, investigating how KAM disclosure influences the connection between auditor rotation and financial reporting quality offers fresh perspectives.

Even if the question of whether audit reports accomplish their goals is still up for debate, previous audit failures have cast doubt on auditors' capacity to act in the public interest, which has escalated demands for greater information from auditors (Rahman & Bhuiyan, 2024). Numerous facets of KAMs have been studied in the past, but it is still unclear how auditor turnover and financial reporting quality relate to the moderating effect of KAM disclosure, particularly in developing nations. Therefore, examining the effects of these changes is crucial. High-quality financial reporting is particularly important for banks because banks act as intermediaries between savers and borrowers and form the cornerstone of any country's financial system (Pham et al., 2025). The accuracy and dependability of banks' financial reporting are crucial because of their systemic significance (Zha et al., 2020). In addition to ensuring regulatory compliance, maintaining the quality of financial reporting audits also helps to maintain the overall stability of the financial system (Huy & Hung, 2022). The complexity of banking has grown dramatically over time as a result of globalization, technical developments, and financial innovation. Due to this complexity, auditors now face additional difficulties, necessitating ongoing development of auditing procedures and standards (Pham et al., 2025). Additionally, the swift advancement of digital technology in banking has brought up new risks and factors that auditors need to take into account (Moll & Yigitbasioglu, 2019). Internationally, after audit quality scandals in banks (the bankruptcy of BES Bank in Portugal and CBA Bank in Australia), concerns about the accuracy of banks' financial reports have increased (Pham et al., 2025). KAM disclosures offer the auditors' viewpoint because auditor rotation may have an impact on the quality of financial reports. Additionally, when auditors rotate, different KAMs can be uncovered. Therefore, by disclosing important audit matters, it is possible to study the shifting opinions of various auditors. Using multiple regression with fixed factors, the current study sought to examine how KAM disclosure affected the association between auditor rotation and the quality of financial reports of Iraqi banks between 2017 and 2022. The findings may have significant policy ramifications. In addition to clarifying whether a new perspective is provided after auditor rotation, this study attempts to examine the relationship between auditor rotation and financial reporting quality by considering the effects of changes in KAM reporting. Because successor partners' assessments and decision-making processes may differ from those of their predecessors, auditor rotation may have an impact on the banks' financial reporting. Additionally, the independence of the auditor determines whether these decisions are made objectively, and auditor rotation may have an impact on this (Pham et al., 2025). The shift in KAMs shows that auditors used their discretion to identify and manage important risks throughout the audit (Lin & Yen, 2022). As a result, we anticipate that there will be a stronger relationship between auditor rotation and financial reporting quality with auditor turnover. This study contributes to the expanding body of research on audit quality in developing nations, especially as it relates to the banking sector. Lastly, further research on the effects of KAM disclosure requirements is required because they are very new. All things considered, the study's conclusions will assist regulators, legislators, and other interested parties in creating a healthy capital market with improved financial reporting and greater investor interest protection.

This is how the remainder of the study is structured. The research literature and the formulation of hypotheses are presented in Section 2. The data, research design, and research technique are

presented in Section 3. The empirical results are discussed in Section 4, and Section 5 concludes with conclusions and policy recommendations.

RESEARCH LITERATURE AND DEVELOP HYPOTHESES

Auditor rotation and financial reporting quality

The auditor rotation process, which is implemented in accordance with legislation and at the direction of the company's general assemblies, entails switching the auditor after several audit periods (Kalanjati et al., 2019; Abouelela et al., 2025). In an effort to improve auditor independence, the accounting industry has been subject to increased scrutiny since the Sarbanes-Oxley Act of 2002. It is still up for debate, nevertheless, if the necessity for auditor rotation contributes to higher-quality audit services. According to some theories, auditor rotation is necessary to improve auditor independence, discourage unduly lengthy ties between auditors and clients, and promote greater professional skepticism (Laurion et al., 2017). In a new position, successful audit partners are also able to assess the quality of their clients' financial reporting from a different perspective. Thus, when auditors rotate, the quality of financial reports increases (Kalanjati et al., 2019; Tessema & Abou-El-Sood, 2023). In addition, long-term auditor tenure may harm auditor objectivity and increase the likelihood of audit failure (Kwon et al., 2014). Due to a greater grasp of the changes, movements, and classifications of information that have been made possible by the auditor's expertise in prior years, paying attention to the audit process of prior years increases the auditor's efficiency. Additionally, it's possible that new auditors will miss financial misreporting if a client is unfamiliar with a new assignment (Kuang et al., 2020). Successful partners could find themselves confronting the same decisions and judgments as their predecessors if there are no notable changes to the environment, customers, business structure, or risk. Methods and procedures for audits may be similar between years. Thus, auditor change may not have an impact on the quality of financial reporting (Gipper et al., 2021). Using data from 226 respondents between April and August 2023, Pham et al. (2025) examined the effects of several factors on the audit quality of financial reports of Vietnamese commercial banks. According to their empirical findings, some factors (the commercial banks' characteristics, time constraints, audit methods, the legal systems and audit firms' quality control, the auditors' independence, and the size and reputation of audit firms) significantly affect the audit quality of financial reports from Vietnamese commercial banks. In summary, existing studies have extensively examined the effects of auditor rotation on financial reporting quality and provided mixed and contradictory evidence.

Disclosure of Key Audit Matters (KAM)

International Standards on Auditing (ISA) No. 700 was released by the International Auditing and Assurance Standards Board (IAASB) in order to achieve a balance between the requirement that auditor reports be consistent and comparable across the globe and the need to make the information in the report more pertinent (Lin & Yen, 2022). ISA No. 701 outlines the auditor's obligations with regard to KAMs. KAMs are issues that, in the auditor's professional opinion, are most important while auditing the financial statements for the current period. The assessment of accounting estimations, conflicts of interest, audit risks, and other significant and intricate issues can all be included in this category (Rahman & Bhuiyan, 2024). Indicators including the quantity and variety of KAM-related material, the use of unclear terminology in KAM-related text, the number of KAMs, and variations in KAMs in subsequent reports can all be used to gauge the disclosure of key audit matters (Burke et al., 2021). Auditors are required to identify, evaluate, and report on key issues that contribute to the accuracy of the assessment. As a result, KAMs demand more effort from auditors, which could enhance the quality of companies' financial reports (Lin & Yen, 2022). Companies with important audit topic disclosures that contain more client-specific information have lower reporting quality, according to a study by De Ricquebourg & Maroun (2022) that used a sample of key audit matter disclosures found in Taiwanese audit reports.

Factors determining KAM disclosure

To clarify disclosure motivations, prior auditing research has used a number of theoretical frameworks, including agency theory, legitimacy theory, stakeholder theory, institutional theory, communication theory, and audit risk theory (Suttipun, 2022; Rahman et al., 2023). But according to Shannon and Weaver (1949), the process school of communication theory concentrates on message

transmission and employs a linear model of communication, where information is sent from a source (like the auditor) via a channel (like the auditor's report). According to communication theory, KAM disclosure helps auditors convey important audit results to managers of the organization, which facilitates comprehension and decision-making. Additionally, by candidly addressing significant audit issues, auditors increase transparency and foster stakeholder trust. According to audit risk theory, KAM disclosure helps auditors concentrate on critical audit issues and promotes effective resource allocation and resolution (Baatwah, 2016). More KAMs are likely to be reported by companies with fraud indicators or greater risk (Lin & Yen, 2022). Although the introduction of KAM disclosures was intended to give people additional knowledge regarding financial reporting and auditing. Nevertheless, it is unclear from the evidence if KAM disclosure is advantageous. According to Burke et al. (2021), KAM disclosure requirements might encourage higher-quality audits. But according to Liao et al. (2019), if other, less significant areas receive less attention, a stronger emphasis on KAMs may also result in a lower audit quality. Some studies have concluded that KAM disclosure improves the quality of financial reports (Christensen et al., 2014; Sirois et al., 2018; Li et al., 2019; Zeng et al., 2021). Some studies also reported that KAM reporting requirements do not have a significant impact on the quality of financial reports (Liao et al., 2019; Burke et al., 2021). A different body of research looked at the variables that affected the choice to report KAM. According to a number of studies, firm complexity, industry type, profitability, auditor litigation risk, and corporate governance quality all affect how many KAMs are revealed (Pinto et al., 2019; Wuttichindanon & Issarawornrawanich, 2020). Generally speaking, previous research has looked at the impact of KAM disclosures from a variety of angles, including their informational content and their connection to audit cost and quality. Additionally, a number of factors affecting KAM disclosure have been found (Chang et al., 2022; Rahman et al., 2022; Asnaashari et al., 2023; Amanamah, 2025). According to Lin & Yen (2022), auditor rotation facilitates KAM disclosure. According to Lennox et al. (2014), a novice auditor has a higher chance than an experienced auditor of spotting and fixing a financial reporting issue. According to Singer & Zhang (2018), auditors with shorter tenure are more likely to identify financial misreporting. Actually, they demonstrated that auditor rotation enhances audit quality and emphasized the value of a new viewpoint with new auditors. Verho (2021) looked into how auditor rotation affected the quantity of KAM disclosures in the EU and discovered that as auditor rotation grows, so does the quantity of KAM disclosures. Lin & Yen (2022) supported auditor rotation rules and looked at the moderating effect of KAM disclosure on the connection between auditor rotation and financial report quality in Taiwan. Using a sample of 602 yearly data from 2018 to 2020, Rahman & Bhuiyan (2024) used ordinary least squares regression to investigate the effect of required disclosure of key audit matters (KAMs) on audit report delay in Australia, as well as the possible moderating function of business size. According to their research, there is a correlation between a shorter audit report delay and the revelation of KAMs. They also came to the conclusion that there is a particularly strong correlation between the requirement to disclose key audit matters and the delay in filing audit reports in large companies. A review of the literature showed that previous studies on the relationship between auditor turnover and financial reporting quality did not reach a single conclusion. Furthermore, it is unclear how the revelation of key audit matters affects the connection between auditor rotation and the financial reporting quality, particularly in Iraq. Thus, more recent research is required. Given the foregoing, it is frequently believed that new auditors contribute novel viewpoints that affect the quality of audits. Thus, the following is how we formulate the first hypothesis:

H1: There is a positive and significant relationship between auditor rotation and financial reporting quality in banks listed on the Iraqi Stock Exchange.

The change in KAMs can be interpreted as an indication of a new auditor perspective that could provide a new and more direct measure of auditor risk assessment. It is therefore anticipated that a number of significant concerns will be discovered by the new auditors. KAMs are the most significant risks that auditors have identified and decided to disclose in the auditor's report. New auditors can discuss results through KAM disclosure. As a result, the auditor changeover year is the most probable time to see a change in KAM disclosure. In the auditor's rotation year, key audit matters are probably going to differ from those reported the year before. Changes in the auditor's professional judgment may have led to the development and implementation of alternative audit methodologies and processes. The quality of financial reporting and audit results is likely to be impacted by

modifications to audit methodologies and procedures. In conclusion, we predict that the relationship between auditor rotation and the financial reporting quality will shift depending on whether KAM changes. Therefore, we state our next hypothesis as follows:

H2: Disclosure of key audit matters moderates the relationship between auditor rotation and financial reporting quality in banks listed on the Iraqi Stock Exchange.

When KAMs shift, the correlation between auditor rotation and the financial reporting quality might be stronger than it would be otherwise. Auditor rotation provides an environment to examine the effects of changes in auditor judgments, as different auditors can have different judgments. As a result, this study addresses the topic of critical issue disclosure for the first time in Iraq and looks at how it affects the connection between auditor rotation and financial report quality.

MATERIALS AND METHODS

Population and statistical sample

Using annual data from 2017 to 2022, the current study aims to examine how the disclosure of key audit issues (KAM) affects the relationship between auditor rotation and the quality of financial reporting in banks listed on the Iraqi Stock Exchange. It is anticipated that the information supplied by the banks of the Iraqi Stock Exchange will be of greater consistency, dependability, and quality because they are bound by the regulations set forth by the Stock Exchange Organization. As a result, banks that were active on the Iraqi Stock Exchange and whose financial data was displayed on the exchange during the study period were included in the statistical population of this study. 180 banks that were listed on the Iraqi Stock Exchange and satisfied the following requirements were included in the study sample:

The bank's fiscal year-end is December 25.

They were members of the stock exchange during the years 2017-2022.

Their financial information is available for the aforementioned years.

They have not changed their fiscal year during the period under review.

They have not merged with another bank.

Model specifications, variables, and research method

In this study, models one and two are presented as follows to examine the first and second hypotheses:

$$QFA_{it} = \beta_0 + \beta_1 SWITCH1_{it} + \beta_3 SIZE + \beta_4 AGE_{it} + \beta_5 LEVit + \beta_6 ROA_{it} + \beta_7 GROWTH_{it} + \beta_8 MB_{it} + \beta_9 CFO_{it} + \beta_{10} BIG_{it} + \epsilon it \quad (1)$$

$$QFAit = \beta 0 + \beta_1 SWITCH2_{it} + \beta_2 DIFF_{it} + \beta_3 SWITCH*DIFF_{it} + \beta_4 SIZE + \beta_5 AGE_{it} + \beta_6 LEVit + \beta_7 ROA_{it} + \beta_8 GROWTH_{it} + \beta_9 MB_{it} + \beta_{10} CFO_{it} + \beta_{11} BIG_{it} + \epsilon it$$

In the equations above: QFA: The dependent variable is the quality of financial reporting, which is calculated from the absolute value of discretionary accruals based on the modified Jones model. SWITCH: is the independent variable (auditor rotation or change) which is calculated in two ways according to the study (Lin & Yen., 2022). For the first hypothesis (Model One), the change of auditor (SWITCH1) is considered as a change in the audit firm, and for the second hypothesis (Model Two), the change in each of the partners signing the audit report (SWITCH2) is considered. The number is one if there is a change and zero otherwise. The association in the first hypothesis should be stronger than the relationship in the second, even though the first proxy also contains the second proxy. SIZE: Bank size —the logarithm of asset size is used to determine the bank's size. AGE: The bank's age, calculated by taking the logarithm of the years it has been in operation. LEV: Financial leverage is calculated by dividing the assets of a bank by its liabilities. ROA: Return on assets, which is calculated by dividing operating profit by bank assets. GROWTH: Revenue growth, which is calculated through the amount of revenue change compared to the previous year. MB: Market-to-book value, calculated based on the ratio of the market value of equity to its book value. CFO: Operating cash flow, which is obtained by dividing operating cash flow by the bank's total assets for the previous year. BIG: Large Audit Institution, considered 1 when the auditor is from the Iraqi Court of Accounts and 0 otherwise.

In addition, in model two, DIFF: Change in Key Audit Matters (KAM) is a dummy variable. When the key matters included in the audit report are different from the previous period (when the change in a significant account is more than 10% during a year compared to the previous year), 1 is considered for each proxy, and zero is considered if the key matters are the same as the previous period. Finally, the sum of the proxy numbers is considered as the DIFF variable according to the study (Lin and Yen., 2022). Changes to Key Audit Matters (KAM) include:

BS COUNT: Change in the number of balance sheet accounts, the absolute value of the change in the number of important accounts on the balance sheet, i.e., when the change in an important account is more than 10% during a year compared to the previous year, the number is 1; otherwise, it is 0.

IS COUNT: The absolute value of the change in the number of significant profit and loss accounts, as well as the change in the number of profit and loss accounts overall. The number is 1 if the change in a significant account over the course of a year is greater than 10% from the year before; otherwise, it is 0.

DTA: Change in total assets, total assets at the end of the year minus total assets at the beginning of the year divided by total assets at the beginning of the year. When the change in a significant account is more than 10% during a year compared to the previous year, the number is 1; otherwise, it is 0.

DLEV: Variations in financial leverage are calculated by dividing the current year's financial leverage (debt-to-asset ratio) by the preceding year's financial leverage. The value is 1 if there is a large account change of more than 10% from the prior year to the current year; otherwise, it is 0.

DLEV: Change in return on assets, change in the rate of return on assets (the ratio of profit to total assets) of the current year compared to the previous year divided by the rate of return on assets of the previous year. When the change in a significant account, over a year compared to the previous year, is more than 10%, the number is 1, otherwise zero.

ISSUE: Change in equity, 1 if there is an issue of more than 10% of common stock, and zero otherwise.

AC: Existence of an audit committee, 1 if there is an audit committee and zero otherwise.

DCEO: Change of CEO, 1 if there is a change of CEO and zero otherwise.

DLAG: Change in reporting delay, the amount of change in audit reporting delay when the change in a significant account is greater than 10% in a year compared to the previous year. The number is 1, otherwise zero.

SWITCH*DIFF: A modifier variable that is calculated by multiplying (auditor rotation and change in KAM). The method of examining the data is in the form of panel data. The advantage of using the panel method is to increase the statistical power of the coefficients compared to using separate analysis of statistical data in the form of time series or cross-section. In this research, the multivariate linear regression method is used to test the hypotheses.

RESULTS AND DISCUSSION

Descriptive and inferential statistics of research variables

To rapidly extract and summarize the information contained in a set of statistical data, the first step is to classify, describe, and analyze the data. Table 1 displays the descriptive statistics for the variables.

Table 1. Variables descriptive statistics

Quantitative variables				
Variables	**Mean**	**Median**	**Minimum**	**Maximum**
QFA	-0.25	-0.15	-0.79	-0.01
DIFF	0.32	0.28	0.06	0.61
SIZE	26.88	26.93	25.33	28.07
AGE	2.60	2.77	0.69	3.40
LEV	0.43	0.42	0.04	0.78
ROA	0.03	0.03	-0.01	0.11
GROWTH	0.11	0.06	-0.78	2.27
MB	5.28	3.98	1.37	11.13

CFO	0.02	0.01	-0.18	0.28
Qualitative variables				
Variables	Frequency of 0	Frequency of 1	Percent of 0	Percent of 1
SWITCH1	141	39	77	23
SWITCH2	140	40	76	24
BIG	72	108	40	60

Table 1 shows that, at most, 1% of discretionary accruals have been used to influence the dependent variable, which is the quality of financial reporting (QFA) in Iraqi banks. Regarding the audit institution size variable (BIF), it is observed that banks are audited more by the Iraqi Court of Accounts. During the study period, the change in banks' audit partners was marginally greater than the change in audit firms. The independent variables are audit partner change (SWITCH2) and audit firm rotation or change (SWITCH1). According to a comparison of the return on assets (ROA) variable, the return on assets throughout the study period was relatively low and unfavorable for the Iraqi research community.

Techniques for extrapolating data from a sample to the full population are included in inferential statistics. Few statistical problems end at the descriptive statistics stage, but most statistical problems involve inferring a specific characteristic of a population using information available in a sample. Next, Table 2 displays the Pearson correlation coefficient matrix for Iraqi banks.

Table 2. Pearson correlation coefficient matrix

	QFA	**SWITCH1**	**SWITCH2**	**DIFF**	**SIZE**	**AGE**	**LEV**	**ROA**	**GROWTH**	**MB**	**CFO**	**BIG**
QFA	1.000											
SWITCH1	0.17*	1.000										
SWITCH2	0.43*	-0.125	1.000									
DIFF	0.10*	0.109	-0.157	1.000								
SIZE	0.10*	-0.050	0.171	-0.258	1.000							
AGE	0.07	-0.055	-0.211	0.153	-0.224	1.000						
LEV	0.16*	-0.086	0.009	0.122	-0.003	0.151	1.000					
ROA	0.07	-0.157	0.103	-0.032	0.311	-0.109	0.113	1.000				
GROWTH	-0.13*	0.011	0.042	-0.179	0.284	-0.086	0.014	0.163	1.000			
MB	0.12*	0.179	-0.109	0.038	-0.127	0.213	-0.158	-0.178	0.256	1.000		
CFO	0.04	0.117	-0.061	0.035	-0.013	-0.027	0.026	-0.081	-0.019	0.099	1.000	
BIG	0.01	-0.179	0.284	-0.086	-0.055	-0.211	0.153	0.109	-0.157	-0.15	0.178	1.000

According to the results of Table 2, the correlation coefficient between the quality of financial reporting (QFA) and change in the audit firm (SWITCH1) and rotation or change in the audit partner (SWITCH2) and change in KAM (DIFF) in Iraqi banks is direct and significant with coefficients of 0.17 and 0.43. Additionally, the quality of financial reporting (QFA) and changes in critical audit matters (DIFF) are directly and significantly correlated.

Model Estimation

In this section, the research hypotheses are tested in two models, (1) and (2). Before estimating the model, pretests are first examined. The application of the panel data approach with fixed effects was validated for both models based on the findings of the Hausman and F-Limer tests. Table 3. displays the results of additional mandatory pre-tests.

Table 3. Pre-test results

Test	**Model (1)**		**Model (1)**	
	t-statistic	Prob.	t-statistic	Prob.
Autocorrelation	0.381	0.421	0.455	0.487
Heteroscedasticity	1.033	0.426	0.978	0.355

Autocorrelation was investigated in this study using the Breusch-Godfrey test, with the absence of autocorrelation serving as the null hypothesis. Table 3's test results indicate that autocorrelation is not present in the models being examined. Furthermore, Table 3's results from the hetero scedasticity test show that neither model exhibits variance heterogeneity. The next stage involves analyzing the variables' stationary. Table 4 displays the findings of the improved Dickey-Fuller test for stationery.

Table 4. Unit root test results

Variables	t-statistic	Prob.
QFA	-8.90	0.000
SWITCH1	-10.10	0.000
SWITCH2	-4.80	0.000
DIFF	-7.76	0.000
SIZE	-8.18	0.000
AGE	-9.67	0.000
LEV	-8.21	0.000
ROA	-16.69	0.000
GROWTH	-7.32	0.002
MB	-11.16	0.000
CFO	-17.20	0.000
BIG	-8.40	0.000

All variables are stationary, according to Table 4's advanced Dickey-Fuller test results. Next, Table 5 displays the outcomes of estimating model (1) using multiple regression with fixed effects.

Table 5. Estimation results of model one (first hypothesis)

Variables	Coefficient	t-statistic	P- value
SWITCH1	0.07	3.76	0.00
SIZE	0.05	2.30	0.02
AGE	-0.065	-9.90	0.00
LEV	0.04	0.71	0.47
ROA	0.14	0.73	0.46
GROWTH	-0.02	-1.75	0.08
MB	-0.001	-0.402	0.68
CFO	0.007	4.66	0.00
BIG	0.005	0.32	0.74
CONS	-0.256	-0.66	0.508

The estimation results of model (1) in Table 5 show that there is a positive and significant relationship between the audit firm change variable (SWITCH1) and the quality of financial reports (QFA) of Iraqi banks with coefficients of 0.07. Indeed, the findings show that the quality of financial reports from Iraqi banks increases by roughly 0.07 percent for every 1% change in the auditing company. The risk of error is reduced, and financial statements can be evaluated from a different perspective when the audit firm and auditor change. Furthermore, the new auditor might offer new insights into the client's audit and financial reporting procedures, which could result in better financial reporting. As a result, the study's initial hypothesis is approved. Studies conducted in other nations have likewise demonstrated that auditor rotation enhances the quality of financial reports (Litt et al., 2014; Lennox et al., 2014; Laurion et al., 2017; Kalanjati et al., 2019; Lin & Yen, 2022).

The results of Table 5 show that there is a positive and significant relationship between the bank size variable (SIZE) and the quality of financial reports (QFA). Indeed, the findings show that a bank's

financial reports are of higher quality the more assets it possesses and the stronger its finances. The findings also indicate a strong and positive correlation between banks' financial report quality and sales growth. The results of the table above indicate that there is a positive and significant relationship between the bank's operating cash flow (CFO) and the quality of financial statements. Bank age (AGE) and the quality of financial reports (QFA) have a negative and statistically significant association, according to the model estimate results. The findings really show that the quality of a bank's financial reports decreases with age. The model estimate results, however, indicated that the variables of financial leverage (LEV), return on assets (ROA), market-to-book value (CFO), audit firm size (BIG), and the quality of financial reports (QFA) of Iraqi banks do not statistically significantly correlate with one another. The second model's estimation results are then shown in Table 6.

Table 6. Estimation results of model two (second hypothesis)

Variables	Coefficient	t-statistic	P- value
SWITCH2	0.01	2.14	0.00
DIFF	0.17	6.29	0.00
SWITCH*DIFF	0.03	4.20	0.00
SIZE	0.07	2.26	0.02
AGE	-0.09	-12.95	0.00
LEV	0.16	2.13	0.03
ROA	0.31	0.80	0.42
GROWTH	-0.01	-0.47	0.63
MB	0.003	0.65	0.51
CFO	0.005	11.43	0.00

With coefficients of 0.01, the estimation results of model (2) in Table 6 demonstrate a positive and significant link between the quality of financial reports (QFA) of Iraqi banks and the variable of auditor rotation or change of audit partner (SWITCH2). Actually, the findings show that the quality of financial reports from Iraqi banks increases by roughly 0.01 percent for every 1% shift or rotation in auditors. With a coefficient of almost 0.17, the results of the above table demonstrate a positive and substantial association between the quality of financial reports (QFA) of Iraqi banks and the variable of change in major audit matters (DIFF). Actually, the findings show that revealing and addressing important audit issues lowers errors and fraud, which raises the quality of financial reports from banks. Furthermore, recognizing several important audit issues shows that new auditors have a new point of view. According to some research, KAM disclosure enhances financial reporting (Laurion et al., 2017; Verho, 2021).

The results of Table 6 show that the moderating variable (SWITCH*DIFF) has a positive and significant effect on the quality of financial reports (QFA) of Iraqi banks. The findings do, in fact, provide credence to the notion that auditor change and rotation enhance the quality of financial reports by revealing important audit issues. Overall, the findings indicate that the link between audit partner change and the quality of financial reporting in Iraqi banks is moderated by changes in important audit topics. As a result, there has been an upward adjustment in the topics covered in the association between audit partner change and financial reporting quality. There are various reasons why important audit trail issues should be openly disclosed. Stakeholders may be able to comprehend the reasons behind auditor changes, such as conflicts of interest, shifts in corporate goals, or dissatisfaction with audit quality, if important issues are disclosed transparently. It also sheds light on the steps banks have taken to resolve problems found throughout the audit process, improving the overall dependability and openness of financial reporting. Consequently, the findings show that the study's second hypothesis is accepted. According to a Taiwanese study by Lin & Yen (2022), changes in KAM happen more frequently when there is auditor turnover than when there isn't, which helps to raise the quality of financial reports.

The quality of financial reports (QFA) and the bank size variable (SIZE) have a positive and substantial association, according to Table 6's findings. The findings show that a company's assets increase with its size. Consequently, its financial reports are of higher quality. The above table's findings show a strong and positive correlation between the bank's operating cash flow (CFO) and the quality of its financial statements. The quality of financial reporting from Iraqi banks is positively

and significantly correlated with financial leverage (LEV), according to the results of model two estimation. Bank age (AGE) and the quality of financial reports (QFA) have a negative and statistically significant association, according to the model estimate results. In fact, the results indicate that the older the bank is, the lower the quality of its financial reports. However, the results of the model estimation showed that there is no statistically significant relationship between the variables of sales growth (GROWTH), return on assets (ROA), market-to-book value (MB), and audit firm size (BIG) with the quality of financial reports (QFA) of Iraqi banks.

CONCLUSIONS AND POLICY RECOMMENDATIONS

Using annual data from 2017–2022, the current study uses fixed effects multiple regression to examine the moderating influence of KAM disclosure on the link between auditor rotation and the quality of financial reports of banks listed in Iraq. Based on particular criteria and data accessibility, 180 banks were chosen for this purpose from among all banks listed on the Iraqi Stock Exchange. Following an analysis of the variables' descriptive and inferential statistics, two hypotheses were evaluated using models one and two in the last stage. The model estimate findings demonstrated that the first hypothesis is true, namely that the quality of financial reporting in banks listed on the Iraqi Stock Exchange is positively and significantly correlated with auditor rotation (change of audit company). This result showed that higher-quality financial reporting is linked to frequent auditor changes. When banks experience audit changes, it frequently leads to a reevaluation of financial reporting procedures and policies since a change of auditor may signal heightened attention and scrutiny by stakeholders, including regulators, investors, and the board. Improvements intended to guarantee the correctness, comprehensiveness, and transparency of financial disclosure may result from this reevaluation. Consequently, it contributes to raising the quality of financial reporting. Additionally, the market's abundance of audit companies may increase competition and motivate auditors to deliver superior services in order to draw in new business or keep existing clients. This competitive pressure can translate into more rigorous audit procedures and greater attention to detail, thereby positively impacting the quality of financial reporting. In the context of the Iraqi Stock Exchange, where regulatory mechanisms and corporate governance may still be evolving, the role of auditors is particularly important in maintaining the integrity of financial reporting. The positive association that was found highlights how crucial it is to keep up good audit performance in order to boost investor confidence, support well-informed decision-making, and advance market stability. In order to enhance banks' financial reporting, this study recommends that Iraqi and emerging country authorities give top priority to auditor rotation.

The findings of model two's estimation demonstrated that, particularly in the banking industry, the association between audit turnover and financial reporting quality is strengthened and moderated by the disclosure of major issues. Stakeholders can learn more about the audit turnover's conditions and financial reporting ramifications thanks to improved disclosure standards. Transparent disclosure of important concerns pertaining to audit revisions helps eliminate uncertainties and show a commitment to accountability and openness in the Iraqi setting, where regulatory frameworks may still be developing. This in turn exacerbates the impact of auditor rotation on the quality of financial reporting. Consequently, this research offers significant understanding of the relationship among auditor turnover, the quality of financial reporting, and disclosure policies in banks that are listed on the Iraqi Stock Exchange. The results highlight how crucial it is to uphold robust audit procedures and encourage open disclosure policies to preserve the integrity of financial reporting in developing nations. The creation of uniform standards for revealing important aspects of auditor turnover in financial reports for Iraqi banks is suggested by this study. Clear disclosure criteria, such as the kinds of occurrences that qualify as important issues, the necessary level of detail, and the presentation manner, should be outlined in these standards. To improve transparency and accessibility to disclosures on important subjects, banks can also use technological solutions like digital reporting platforms or web portals. This can entail building searchable databases that make it simple for interested parties to get and examine data regarding the audit trail and important associated subjects. Initiatives to improve audit supervision procedures and encourage transparency standards ought to be given top priority by legislators, regulators, and industry players going forward. To boost investor trust and sustain market growth in Iraq's changing financial landscape, stakeholders can endeavor to improve the accuracy and dependability of financial reporting by cultivating a culture of responsibility and transparency. By putting these useful recommendations

into practice, banks may improve the dependability and openness of their financial reporting procedures, which will boost investor and shareholder confidence.

It is recommended that future studies on this topic compare the Iraqi Stock Exchange's results with those of other developed or emerging markets. Understanding and informing global policy suggestions can be achieved by examining the ways in which audit trails and disclosure policies impact the caliber of financial reporting in various situations. One of the study's limitations was that it might not have accurately reflected the market's variety because it only examined a small number of banks that were listed on the Iraqi Stock Exchange. The quality and accessibility of the data was the next significant constraint that might affect the study's conclusions.

Contribution:

All authors contributed to the study conception and design. AZM: Conceptualization, Data curation, Methodology, Resources, Software, Visualization, Writing – original draft. YK: Data curation, Methodology, Resources. EM: Project administration, Supervision, Conceptualization, Writing – review & editing.

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