The Impact of (IFRS9)Adoption on financial performance:The modifying role of the internal audit board

Abstract

The study aims to identify the impact of applying the international standard (IFRS 9) on the financial performance of Iraqi commercial banks. As well as measuring the impact of applying the international standard (IFRS 9) and the internal audit board on the performance of Iraqi commercial banks. To verify the research hypotheses, a sample of 165 observations of Iraqi banks was selected, and their financial statements for the period (2012-2022) were used. The statistical results obtained showed that there is an impact of applying the international standard (IFRS 9) on the financial performance of Iraqi commercial banks, and therefore commitment to applying the international standard (IFRS 9) will lead to improving performance in Iraqi commercial banks. The research results also showed that there is a statistically significant relationship between the size of the internal audit board as one of the corporate governance mechanisms that adjusts the relationship between the application of the international standard (IFRS 9) and the financial performance of Iraqi commercial banks. It also showed that there is no statistically significant relationship. The independence of the internal audit board as one of the corporate governance mechanisms adjusts the relationship between the international standard (IFRS 9) and the financial performance of Iraqi commercial banks. Finally, there is a statistically significant relationship between the percentage of women's representation in the Internal Audit Board as one of the corporate governance mechanisms that moderates the relationship between the application of the international standard (IFRS 9) and the financial performance of Iraqi commercial banks.

Keywords: IFRS9,financial performance, corporate governance.

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1. INTRODUCTION

The Iraqi banking sector, like all banking sectors worldwide, has faced many challenges, including globalization. Since the banking system operates in a changing and competitive environment, it must take advantage of what is new, exploit available opportunities, develop, enhance and grow its banking activities, keep pace with environmental changes and adapt to them, and benefit from laws and legislation in order to achieve a competitive advantage that enables it to ensure

the continuity of its activity. As a result of the different accounting methods and practices followed by countries, including Iraq, adopting international standards has become an urgent necessity in terms of measurement and reporting for the purpose of preparing financial reports that are clear, transparent, appropriate and comparable to encourage foreign investment.

The current global context, characterized by intensive international capital transfers and economic transactions, calls for a unified accounting organization, so that the optimal level of comparability and data transparency is ensured and high-quality accounting information is delivered to stakeholders (Grosu et al., 2017). The development of international standards (IFRS) has responded to this specific need of the global economic environment. Over time, these standards have proven their usefulness and effectiveness and gained international recognition, becoming important even for economic cooperation groups such as BRICS (Brazil, Russia, India, China and South Africa), whose member countries are developing their accounting legislation based on the provisions of international standards (IFRS) (Melega, 2022). Currently, these standards are one of the most widely used conceptual frameworks for financial reporting alongside generally accepted accounting principles. This is due to their contribution to ensuring the quality of disclosures, reducing the information gap between investors (Achim&Tiron-Tudor 2018), as well as their continuous support for enhancing financial performance through various accounting policy recommendations (Abdullah&Tursoy, 2021). The core business of banking institutions is based on “receiving deposits or other repayable funds from the public and granting credits for their own account” (EBA 2020, 2). Therefore, it relies on financial instruments that are legal arrangements that involve any form of monetary value, most of which ensure the efficient transfer of capital between the parties involved. IFRS9 focuses on the accounting policies and treatments for recognizing, measuring and depreciating these financial instruments, which leads to fundamental changes that have a direct impact on the results of banking institutions. When an entity recognizes or values a financial asset, it must take into account its business model for managing the assets and the contractual characteristics of the cash flows it generates (Deloitte, 2023).

Under IFRS9, financial instruments are classified at amortized cost, fair value through other comprehensive income, and fair value through profit or loss (IFRS Foundation, 2022b). Prior to the use of IFRS9, it was possible to consider recognizing credit losses under IFRS 39 “once the financial asset is impaired or there is objective evidence that a loss will be incurred” (Hansen et al., 2023). In times of crisis, this situation can be problematic, as the value of the provisions may not cover all the losses generated, and banks will struggle to maintain their financial balance and raise new capital. For this reason, IFRS9 requires the recognition of expected credit loss, which reflects “an unbiased, probability-

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weighted amount determined by assessing a range of possible outcomes using a three-stage classification based on the level of credit risk." The role of governance in the successful adoption of international accounting standards or improving financial performance is evident. Therefore, the second part of this study will address the moderating role that governance plays in the relationship between the implementation of international financial reporting standards and financial performance. As corporate scandals have highlighted the need for good corporate governance practices, the key role that corporate governance plays in improving the quality of financial reporting outcomes has been recognized. Given the prominent role that banks play in the financial sector, banking governance structures should be given special importance compared to other sectors, such as industrial sectors, which differ. Corporate governance in banks differs significantly from that of industrial companies, indicating that effective governance mechanisms are important for further improving financial performance (De Haan et al., 2016).

2. METHODOLOGY

This section explains the context of the research process and highlights understanding the scientific methodology on which the research will be based on it. So, this section reviews the problem of the research, its importance, its objectives, its limitations, data collection techniques, hypothesis, and the research model.

2.1 Research Problem

In April 2009, in response to input received as a result of their work in response to the global financial crisis, and following the conclusions of the G20 leaders and recommendations of international bodies such as the US Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and the International Accounting Standards Board (IASB), the FASB announced an accelerated timetable for replacing its financial instruments standards – IAS 39 (which was applicable from 2005 to 2017 in the European Union) – with IFRS 9. As a result of these efforts, the IASB issued an exposure draft on financial instruments that proposed requirements for how to include expected credit losses in the measurement of the amortized cost of financial assets (IASB, 2009). A key feature of the proposals is the aim to reflect the relationship between the pricing of financial assets and expected credit losses by recognizing interest on a credit-adjusted yield basis with changes in initial expectations of credit losses subsequently recognized as gains and losses. The effect of this is that initial expectations of losses will be recognized over time within the credit-adjusted interest, with subsequent changes in expectations being recognized when changes in expectations occur. The lack of fair disclosure scope aspirations in published financial reports in recent decades has been a reason for the decline in confidence levels in the news content of published accounting information, and thus the high

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level of asymmetry of accounting information in addition to the decline in the value of the suitability that such information is supposed to have. The issuance of (IFRS) came to address the shortcomings in accounting performance and limit the opportunistic behavior of management related to income preparation by issuing a package of modified controls and standards that would improve the quality of published accounting information, and that accounting disclosure in accordance with international financial reporting standards will have a positive impact on financial performance, in addition to the fact that the economic reality addresses all economic and financial events and is disclosed, and thus the investor has high confidence in them. Based on the above, the research problem can be formulated with the following question:

Does the application of(IFRS9) affect the financial performance of commercial banks in the Iraqi environment under the amended Internal Audit Board?

2.2 Research Importance:

The research derives its importance from the recent experience of applying (IFRS) for private banks listed in the Iraq Stock Exchange, which may affect the financial performance of banks and whether corporate governance modifies the relationship.

2.3 Research Aim:

The research seeks to study the impact of applying IFRS9 on the financial performance of commercial banks in the Iraqi environment in light of the modified role of the Internal Audit Board.

2.4 Research limitations:

Spatial boundaries: The contact person listed on the Iraq Stock Exchange was selected on the ground and expects its own work and included according to internationally influential and influential standards and the presence of international insurance.

Temporality: The temporal limits of the research are limited to the years (2012-2022) due to the availability of data consistent with the research.

2.5 Research variables

- **Independent variable**

The independent variable in this research is the International Financial Reporting Standards (IFRS9), where the researcher relied on calculating IFRS9 through a dummy binary variable that takes (1) if the company applies IFRS9, otherwise it takes (0).

- **Dependent variable**

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Financial performance of banks: The financial performance of banks is measured by relying on some financial indicators, which are the return on assets (ROA) and the return on equity (ROE).

- **Modified variable**

Internal Audit Board: Measured by: size of the Audit Board, number of independent members on the Audit Board, and percentage of women's representation on the Audit Board.

Regulatory variables: Regulatory variables can be explained as follows

1- The size of the bank.

2- Financial leverage..

3- Losses.

4- The ratio of market value to book value.

2.6 Research model

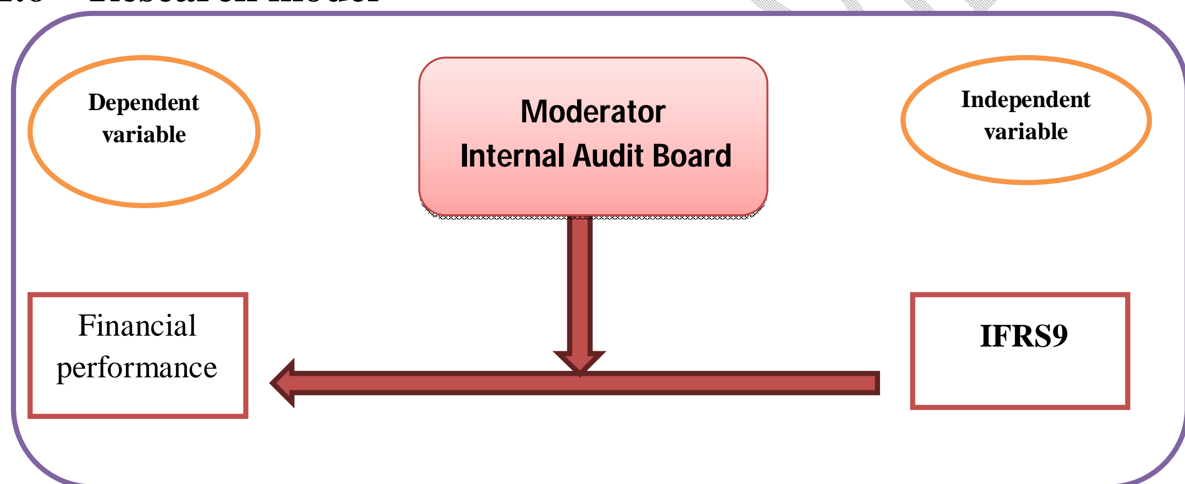

Fig. 1. Research model

2.7 Literature Review and Hypotheses development

The study (Eyalsalman, 2024) aimed to investigate the impact of the IFRS9 standard, liquidity risk, credit risk, and capital on the performance of Jordanian banks. It aims to mitigate liquidity and credit risks while ensuring adequate capital ratios to prevent bankruptcy. The dependent variables were measured, namely: Return on Assets (ROA): As a basic measure of profitability, return on assets refers to the returns generated from the assets owned by the company. It is defined as net income divided by total assets (Brealey et al., 2014); Return on Equity (ROE): As another measure of profitability, return on equity evaluates the effectiveness of the bank's use of shareholders' funds to generate income. Return on equity is defined as net income divided by total equity (Brealey et al., 2014). While the independent variable, International Financial Reporting IFRS9, was measured as a dummy variable. As for the control variables, they are: Bank Size: It is measured by the logarithm of total assets. Larger banks, which offer more

comprehensive financial services, typically have more customers and assets, which leads to higher profits and lower exposure to risk (Al-Tarawneh et al., 2017; Sinha & Sharma, 2016; Rahaman & Akhter, 2015); Loan growth: The ability to raise new funds in relation to expanding the lending business, measured by the year-to-year difference in loan growth compared to the bank's total loans in the previous year (Saleh & Abu Afifa, 2020). Non-interest expenses: A portion of a bank's operating expenses, calculated by dividing non-interest expenses by total average assets. It includes costs such as employee training, rent, workplace expenses, information technology, data processing, and other expenses (Sullivan, 2000). This study is consistent with the findings of (Abbas et al., 2019& Abdelaziz et al. ,2022), highlighting the impact of these factors on profitability in the Middle East and North Africa region. Data from the annual reports of 13 banks listed on the Amman Stock Exchange from 2012 to 2021 were quantitatively analyzed, focusing on profitability measures such as return on assets (ROA) and equity (ROE). The results indicate a significant impact of implementing IFRS (9) and a small impact of liquidity risk. It is worth noting that the increase in credit risk adversely affects both return on assets and return on equity. The study also finds a positive relationship between bank capital and return on assets, but a negative relationship with return on equity, confirming the subtle interaction between risk management and financial performance in banking services. The current research aims to study the impact of implementing IFRS 9 using one of the accounting measurement alternatives (fair value/amortized cost) on financial performance. It is expected that this application will lead to changing the actual reality of the economic unit, affecting the value of the share and affecting the competitive value in the future. It is expected that this positive impact will appear, which will be reflected positively on the decisions taken by users of the financial statements. The research reached several conclusions, the most important of which is that applying the fair value accounting model according to (IFRS9) can lead to results that reflect the reality of the financial performance and financial position of the research sample. The study (Jodeh& Khalaf, 2023) aimed to clarify the impact of applying (IFRS9) on the financial performance of Jordanian commercial banks (JCB) in light of the Corona pandemic. To achieve the goal of this research, the descriptive analytical approach was used, as the community consists of all commercial banks during the period from 2018 until the end of the third quarter of 2021, where their owners were Fairness was used to select simple research and the SPSS program was used to analyze the research data. To achieve the goal of the research, the researcher relied on descriptive analysis, which aims to describe the research sample data through central tendency measures represented by (arithmetic mean, standard deviation, minimum and maximum value), and also to clarify the central tendency measures for the research sample data. The researcher also relied on analyzing financial

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ratios to clarify the importance of each ratio in the research sample banks. The results were that there is a statistically significant effect at a significance level (α ≥ 0.05) for the provision for credit facilities decline on the financial performance of the Jordan Commercial Bank in light of the Corona pandemic. There is also a statistically significant effect at a significance level (α ≥ 0.05) for debit current accounts on the financial performance of the Jordan Commercial Bank in light of the Corona pandemic. The study (AL Fatlawi, 2022) came to analyze the framework and scope of (IFRS 9) and identify the importance, procedures and obstacles to applying the standard in private commercial banks, as well as explaining the role played by corporate governance mechanisms in economic units, and the impact of applying classification and measurement (IFRS9) in activating the application of corporate governance mechanisms in Iraqi economic units, and in order to achieve the research objective and its hypotheses, a questionnaire list consisting of three axes was designed that included the research variables, and each axis included (10) paragraphs for each axis distributed to a sample of accountants and auditors working in five commercial banks and included (100) employees. The study reached a set of conclusions, the most important of which is that financial instruments are among the topics that occupied accounting thought due to the difficulty and complexity of measuring and disclosing them.

H:The Internal Audit Board as one of the corporate governance mechanisms modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks.

Ha:The size of the internal audit board as one of the corporate governance mechanisms modifies the relationship between the application of the (IFRS9) and the financial performance of Iraqi commercial banks.

Hb:The independence of the Internal Audit Board as one of the corporate governance mechanisms modifies the relationship between the application of the (IFRS9) and the financial performance of Iraqi commercial banks.

Hc:The percentage of women's representation in the internal audit board as one of the corporate governance mechanisms modifies the relationship between the application of (IFRS9) and the financial performance of Iraqi commercial banks.

The following statistical models, which were derived from previous studies, will also be relied upon to test the hypotheses:

Chart 1. Statistical models

Hypotheses	statistical models
H	$ROA_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcom_{t.i} + \beta_3 (IFRS9 * audcomsize)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i} + \beta_7 Age_{t.i}$ $\beta_8 MTB_{t.i} + \varepsilon_{t.i}$ $ROE_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcom_{t.i} + \beta_3 (IFRS9 * audcomsize)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i} + \beta_7 Age_{t.i}$ $\beta_8 MTB_{t.i} + \varepsilon_{t.i}$

Ha	$ROA_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcomsize_{t.i} + \beta_3 (IFRS9 * audcomsize)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i} + \beta_7 Ag + \beta_8 MTB_{t.i} + \varepsilon_{t.i}$ $ROE_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcomsize_{t.i} + \beta_3 (IFRS9 * audcomsize)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i} + \beta_7 Ag + \beta_8 MTB_{t.i} + \varepsilon_{t.i}$
Hb	$ROA_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcomindpen_{t.i} + \beta_3 (IFRS9 * audcomindpen)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i}$ $\beta_7 Age_{t.i} + \beta_8 MTB_{t.i} + \varepsilon_{t.i}.$ $ROE_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 audcomindpen_{t.i} + \beta_3 (IFRS9 * audcomindpen)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i}$ $\beta_7 Age_{t.i} + \beta_8 MTB_{t.i} + \varepsilon_{t.i}.$
Hc	$ROA_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 Womenaudcom_{t.i} + \beta_3 (IFRS9 * Womenaudcom)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i}$ $\beta_7 Age_{t.i} + \beta_8 MTB_{t.i} + \varepsilon_{t.i}.$ $ROE_{t.i} = \beta_0 + \beta_1 IFRS9_{t.i} + \beta_2 Womenaudcom_{t.i} + \beta_3 (IFRS9 * Womenaudcom)_{t.i} + \beta_4 SIZE_{t.i} + \beta_5 LEV_{t.i} + \beta_6 LOSS_{t.i}$ $\beta_7 Age_{t.i} + \beta_8 MTB_{t.i} + \varepsilon_{t.i}$

3. THEORETICAL FRAMEWORK:-

3.1 International Financial Reporting Standards (IFRS9)

First: - Concept and Origin of Development:

The repercussions of the global financial crisis that the global economy faced in 2008, which was one of the real causes of this crisis, were the wrong practices of using international accounting standards that were used by large companies, especially American companies, to manipulate profits and inflate assets, which led to this crisis. This had a clear impact on the business environment in general, and on accounting standards in particular, due to the close connection that accounting standards play with the economic environment and the business environment. These effects were clearly evident in the changes that occurred in the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) (IFRS) in addition to the changes in the Generally Accepted Accounting Principles (GAAP). All of these changes had a clear impact in reducing the negative effects of the crisis, in addition to meeting the requirements of some to make improvements to existing standards to ensure the quality of financial reporting, noting that interest in these standards is of great importance in terms of strengthening comparability and improving transparency, increasing the quality of financial reports, increasing investor confidence, and increasing the efficiency of financial markets, taking into account the interests of the parties benefiting from the various establishments. (Al-Zamar, 2012). Regarding financial instruments, and in particular the standard (IAS, 39) and in response to these trends and based on the efforts made by the American Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and the Financial Crisis Advisory Group (FCAG), they issued the International Financial Reporting Standard (IFRS, 9) in 2009 as a start for the standard and as part of the problem of recognizing and measuring financial assets, with the replacement process between the two standards to be completed during the year 2010 (Chan, 2010). This was

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done by making many amendments to the standard (IAS, 39), the most important of which is that the standard (IFRS9) contains the classification and measurement of financial assets and liabilities, as the application of the standard will be effective in 2018, although the International Reporting Council has provided space for early application of the standard starting from 2015. The Council has developed a program to replace the International Financial Reporting Standard No. 9 instead of the International Accounting Standard No. (39). The Board has already begun developing a plan to replace International Accounting Standard (IAS39) with IFRS9 through three main stages, which are (International Standards Foundation (IFRS), 2014):

The first stage: Classification and measurement of financial assets and liabilities. In 2009, the Board issued provisions in IFRS9 related to the classification and measurement of financial liabilities, as these provisions require that all assets be classified based on the entity's business model for managing financial assets and the contractual flow characteristics of the financial asset. Assets are initially classified at fair value in addition to certain transaction costs if the financial asset is not at fair value through profit or loss. Assets are subsequently measured at amortized cost or fair value. In 2010, the Board added to IFRS9 the requirements related to the classification and measurement of financial liabilities (International Standards Foundation (IFRS), 2014).

The second stage: During the financial crisis in 2008, and the accompanying delayed recognition of credit losses related to loans and other financial instruments, this was considered a tipping point. Weakness in accounting standards at the time. Accordingly, the International Accounting Standards Board introduced, as part of IFRS9, a new model for recognizing expected losses from impairment, which requires recognizing expected credit losses more quickly. Specifically, IFRS9 requires businesses to record expected credit losses from the first recognition of financial instruments, and expected losses must be recognized over their life and more quickly (IFRS Foundation, 2014).

The third stage: As the International Accounting Standards Board discussed in this stage how to improve and simplify the classification and measurement requirements related to hedge accounting stipulated in International Accounting Standard No. (39), it is known that hedge accounting affects the basis for recognizing profits and losses (income and expenses) related to the hedged item or hedging instrument, and this takes two forms, as stated in International Accounting Standard No. (IAS39), fair value hedge or cash flow - net investment hedge (IFRS Foundation, 2014). The Board also identified two approaches used to determine how to classify and measure financial assets: (Michael, 2014): the entity's business model for managing financial assets and the contractual cash flow characteristics of financial assets.

Second: - The objective and scope of the (IFRS9) standard:

The (IFRS9) standard aims primarily to reduce the problems and obstacles that accompanied the application of International Accounting Standard No. (39), as the standard focuses primarily on setting the principles for preparing financial reports for financial assets and liabilities so that it can present appropriate and useful information to users of financial statements for the purpose of assessing the amounts, timing and uncertainties related to the entity's future cash flows. And setting the foundations for recognition, measurement, amortization and hedge accounting as part of the International Accounting Standards Board's project to replace the International Accounting Standard (IAS, 39) on financial instruments recognition and measurement, and the (IFRS9) standard was prepared objectively as an introduction to the recognition and measurement of financial assets in a way that reflects the business model that can be managed through the characteristics of contractual cash flow, and a model of impairment in assets, loans and financial instruments for hedge accounting (IFRS, 9). With regard to the scope of the (IFRS, 9) standard, the scope of the standard covers all items that fall within the International Accounting Standard (IAS, 39) Financial Instruments, Measurement and Recognition (Venkata, 2009). The scope of the (IFRS9) standard extends to include fixed assets in addition to financial liabilities (Crowe, 2014).

Third: Challenges and obstacles facing the implementation of the (IFRS9) standard:

There are many challenges and obstacles facing its implementation as follows (Beerbaum, 2015):The ongoing need in establishments to evaluate all financial instruments that will be affected by measurement alternatives according to the (IFRS9) standard, and accordingly, amendments must be made to the accounting systems of these establishments.There are many areas that require diligence and interpretation by financial statement preparers and legal accountants, for example, whether the business model, for example, is actively managed for the purpose of achieving a change in fair value.

The financial instruments that have been reclassified according to International Accounting Standard No. (39) need to be reclassified according to the fair value principle based on the (IFRS9) standard, as they depend on business models and their characteristics.Applying IFRS9 requires reclassifying financial assets that were prepared according to the fair value through profit or loss principle to prepare them based on the amortized cost principle. It also becomes impossible to apply hedge accounting retrospectively, as the figures for the previous year (the comparative year), if mentioned, need to be clarified in the case of a gain or loss from the fair value of those assets that were reversed in the previous year against the change in the value of financial derivatives. In addition, the effect of the transitional phase of IFRS9 on retained earnings may be material if the hedged

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item was measured retrospectively according to the amortized cost principle and the derivatives remained at fair value.The business entity that applies this standard needs to determine the effect of taxes and supervisory authorities when applying the standard, which means a change in the measurement method and the resulting effect on net profits and losses for the period.The possibility of improper application of the standard (IFRS9) due to lack of experience or lack of full readiness to implement it. Therefore, the application of this standard will require the activation of the necessary oversight by the regulatory authorities to monitor the extent of compliance by financial institutions with the requirements of implementing the new standard.In addition, the transition to the standard (IFRS9) has an impact on systems, controls, contracts and policies, which in turn affects the strategies of establishments for preparing financial reports and their operations, noting that the nature and size of this impact varies depending on the activity of financial companies.

Fourth: Criticisms directed at the International Financial Reporting Standard (IFRS 9):

There are some criticisms, including the following:

1. Although this standard adopts the method of initially recognizing the provision for expected credit losses and updating it every period, which reflects changes in credit risks and thus recognizing it in a timely manner, ensuring the provision of more accurate and transparent information for financial information, it may face the problem of high provisions for credit losses, which may lead to volatile profits or losses according to the state of the economy, which is negatively reflected on banks because they allocate large loan portfolios (Hassouba, 2021: 251).
2. The expected credit loss model requires a great deal of effort in collecting and processing data, which allows for subjective judgments, i.e. the possibility of manipulating profits, which negatively affects the transparency of banking reports (Hassouba, 2021: 250).
3. This standard may be criticized for lacking practical guidance and setting illustrative rules for financial statement preparers, and it may also hinder comparison between different establishments because it requires the application of assumptions and judgments according to the establishment.

Some believe that one of the most important reasons for the IFRS 9 standard is to address the criticisms of the International Accounting Standard (IAS39). However, when applying this standard, some complications or challenges emerged when applying it, including:

1. The difficulty of understanding and applying this standard because it requires issuing professional judgments to a large extent. Among the most important of these challenges is the classification of financial assets according to the business

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model of the facility and modifications in the characteristics of contractual cash flows for management. (Popescu, 2019)
2. The facility needs to evaluate all financial instruments affected by measurement alternatives according to the IFRS 9 standard, meaning that some procedures must be followed on the accounting systems of that facility (Ahmed, 2019).
3. The emergence of some challenges, especially in information technology, through the development of regulatory reports and the provision of the necessary data. (Gulyás & Somogyi, 2019)
4. Establishments that apply this standard need to determine the impact of taxes and supervisory authorities (Gulyás & Somogyi, 2019).

3.2 Financial performance in banks:

First: The concept of financial performance:
It is not easy to define an accurate concept of financial performance, due to the difference in viewpoints between writers and researchers. Al-Khatib (2010) defines it as a tool to determine the current financial status of the company at a specific time, as a whole or a specific aspect of the company's performance or the performance of its shares in the market on a specific day and period.
Financial performance is also defined as the ability of the institution to optimally exploit its resources in long-term and short-term uses in order to form wealth. Financial performance is defined as maximizing results by improving returns and profits, and this is achieved by reducing costs and maximizing revenues on an ongoing basis, to achieve the accumulation of wealth and stability in the level of financial and administrative performance in the company.
Some financiers and researchers have defined a precise framework concept for financial performance: it is an accurate description of the current status of organizations, and a more accurate definition of the areas in which organizations use financial performance in order to reach the desired financial and administrative goals by studying specific and different performance elements, which are sales, revenues, assets, liabilities, and net worth. Others have created a more comprehensive definition of financial performance as an expression of business performance in companies using many financial indicators such as profitability, debt and liquidity indicators, which represent the basis for the various activities and businesses that companies do.
It is defined as a number of methods that can be used to determine the strength or weakness of the company, and various financial indicators are used mainly to compare past performance with current and expected performance, and to know the areas of agreement and difference between them, and good financial performance leads to maximizing the company's ability by making a positive and negative diagnosis in its financial performance. Financial performance represents

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the use of financial indicators to measure the extent of achieving goals, and expresses the performance of companies, as it is the main supporter of various businesses practiced by the company.

Second: - The importance and objectives of financial performance:

Financial performance is of great importance to companies and financial markets, as the importance lies in the following (Lassala et al., 2021):

1. Monitoring and knowing the activity and nature of the institution.
2. Monitoring and knowing the economic, financial and political conditions surrounding the investment environment.
3. Assisting in conducting financial analysis operations and comparing and evaluating financial information for companies.
4. Helping to understand financial information and its indicators after analysis.

The study (Nelson & Quick 2015) also indicated that there are other objectives for financial performance, which can be summarized as follows:

1. Comparing the bank's performance with other banks within the same sector or different sectors to reveal strengths and weaknesses in performance and address them by senior management and raise the level of performance.
2. Discovering and diagnosing some administrative and organizational problems and obstacles that occur within banks, as the analytical study of the results of the reports is responsible for revealing organizational and administrative problems and defects.
3. Activating the supervisory bodies on the performance of banks through the information provided by performance reports, which enables those in charge of the institution and decision-makers to verify that the institution is carrying out its activity efficiently and effectively and achieving the set goals and achieving the greatest returns at the lowest cost and risk.
4. Providing statistical data and information through the results of performance evaluation in banks, which contributes effectively to the continuous updating of all data and statistics that help in setting future policy that works to improve and increase the effectiveness of performance after evaluating the financial performance. This is necessary to help in knowing the programs and objectives achieved for the economic project

Third: - The importance of financial performance evaluation:

The importance of financial performance evaluation for banks is evident in the following (Fahd, Al-Hussaini, 2008; Fahd, 2009):

1. The process of evaluating financial performance is a measure of the bank's success in striving to continue its activity and achieve the set goals efficiently and effectively.

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2. Financial performance evaluation provides information for use by different administrative levels in banks for planning, control and decision-making purposes, in addition to the importance of this information to external parties.
3. The process of evaluating financial performance contributes to determining the strategic position of the bank within the sectoral environment in which it operates, as well as determining the required mechanisms.
4. Financial performance evaluation helps in ensuring the availability of financial liquidity, as well as measuring profitability in light of investment and financing decisions and the risks associated with them.
5. Evaluating the performance of banks from several aspects in order to identify the strengths and weaknesses of banks and benefit from the data resulting from the financial performance evaluation process in rationalizing users' financial decisions. Providing a comprehensive picture of the bank's performance and the extent to which it achieves the set goals, and its role in supporting the national economy.

3.3 Corporate Governance (Internal Audit Board):

The first evidence of the use of audit committees was in the United States of America in the late thirties when the New York Stock Exchange advised companies to form audit committees by 1978, and the establishment of audit committees became mandatory for all companies listed on the New York Stock Exchange, according to the Sarbanes Oxley Act of 2002.The internal audit board can be defined as a committee or equivalent body established from among the members of the board of directors of the economic unit for the purpose of supervising the financial and accounting reporting processes of the economic unit and reviewing its accounts.The internal audit board is considered one of the important board committees that assist the board of directors in oversight to ensure transparency and integrity in the financial reporting process (Klein, 2002). According to Section 2020 of Sarbanes Oxley, companies are mandated to have an audit committee in addition to the financial expertise of the members of the internal audit board, the independence of the members of the committee is essential to the effectiveness of the committee and to reaffirm that in order for the internal audit board to be effective in its oversight role, the committee must be independent in its composition. This requirement is based on the idea that independent directors are more objective in their analysis of financial statements. Previous studies have emphasized the role of the independent internal audit board in performing its duties. Ayinde (2002) indicates that the internal audit board is a permanent committee established to enhance corporate accountability by working with internal auditors and management to improve and strengthen the financial reporting practices of the economic unit and ensure the continuity of the economic unit in accordance with generally accepted ethics and legal standards. The study (2015 Leong et al) identified that the term of the internal audit board as the term of

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membership of the directors of the audit committees on the board of directors is another important factor in determining the effectiveness of the audit committees in performing their oversight role. The term of service refers to the number of years that a member of the internal audit board has spent on the board of directors, as there are many opinions on the impact of the term of membership of the members of the internal audit board on their ability to perform their duties efficiently and effectively. The study (YOSR et al., 2016) investigated whether the adoption of mandatory International Financial Reporting Standards (IFRS) affects the effectiveness of the company's board of directors and audit committee. The independence of the board of directors, the internal audit board, and the remuneration committee were selected as characteristics of the company's board of directors. The study was conducted in France, which had national accounting standards different from the International Financial Reporting Standards, and the United Kingdom, which had national accounting standards close to the International Financial Reporting Standards. The study expects that the company's board of directors will be more effective in reducing earnings management and improving earnings adequacy after adopting the International Financial Reporting Standards in France, which does not apply in the United Kingdom. Audit committees are one of the basic rules on which governance is based, due to their positive and effective role in enhancing governance practices and reviewing its structures and procedures, as they represent one of its mechanisms aimed at guiding and assisting the board of directors (Bin Darwish, 2013), and evaluating policies related to behavioral aspects and organizational ethics. These committees play a prominent role in coordinating between all internal and external parties of the organization, which requires providing all the components that support their role in terms of their independence, the tasks assigned to them, and the powers granted to them (Ellili, 2023).

The study (Umoren, 2016) stated that the characteristics and features of the Internal Audit Board ensure that it performs its supervisory work, the most prominent of which are:

1. Independence of the Internal Audit Board:

After the independence of the member of the Internal Audit Board is one of the basic rules that contribute to enhancing his ability to perform his duties and supervisory operations, the independence of the Internal Audit Board assumes the appointment of non-executive members of the Board of Directors as members of the Internal Audit Board. The (Sarbanes Oxley) Act referred to the concept of an independent member of the Internal Audit Board as a member who is not associated with a financial or non-financial relationship with his assessment as an independent member other than his membership in the Internal Audit Board.

2. Size of the Internal Audit Board:

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Determining the size of audit committees is a relative matter, as determining the size of these committees is subject to several considerations. Including the size of the organization and its management, the number of non-executive directors, the size of its activity and the nature of its work, in addition to the nature of its accounting and auditing operations, but this does not cancel out the fact that there are many controls and standards that must be taken into account when forming audit committees, the most prominent of which is the sufficiency of their number and their possession of an acceptable level of experience and knowledge. The importance of adhering to these controls when forming audit committees comes in enhancing their ability to perform their tasks with the highest levels of efficiency and effectiveness and achieve their specific goals. The professional legislation concerned with organizing and forming audit committees has determined the optimal number of members of the Internal Audit Board, which ranges between (3 - 9) elected members from non-executive members of the Board of Directors. 3. Number of Internal Audit Board meetings:

The meetings of the Internal Audit Board are considered the measure that expresses the activity of the committee and the extent of its effectiveness, as they represent one of the factors that affect the ability of the committee to carry out its tasks and achieve quality in its performance. Determining the number of these meetings is a relative matter, which is subject to many considerations, including the size of the tasks assigned to the committee, and the circumstances and changes surrounding it. These meetings often take place after the completion of the preparation of reports and financial statements. Many studies and research have mentioned the importance of the meetings of the Internal Audit Board, most of which have participated in achieving quality in the processes of oversight and preparation of financial reports (Karamanou&Vafeas, 2005; Lin & Hwang, 2010; Khlif& Samaha, 2016; Floxd et al, 2017). The study (Khli & Samaha, 2016) indicated that the committee's meetings contribute to achieving quality in the oversight process, due to the increasing size of the responsibilities related to oversight, management follow-up, and supervision of the preparation of financial reports. The study (Floxd et al, 2017) also indicated that increasing the number of meetings held between the Chairman of the Internal Audit Board and members of the committee contributes to reducing manipulation and fraud in financial statements.

4. DATA ANALYSIS AND HYPOTHESIS TESTING

<u>The first sub-hypothesis:</u>

- First: In the case of the dependent variable "return on assets rate":

Table(1) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.044	2.03	0.3098	C

0.015	- 2.45	- 0.0233	
0.092	-1.69	- 0.00162	
0.094	1.69	0.00187	(
0.076	- 1.79	- 0.01054	
0.328	0.98	0.1528	
0.000	- 6.80	- 0.02246	
0.704	- 0.38	- 0.0015	
0.007	2.74	0.0124	
19.91			F-statistic
0.000			Prob (F-statistic)
0.4799			Adjusted R-squared
0.01437			Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic equals (19.91) and the value of Prob equals (0.000) which is less than 5%, which indicates the significance of the test model as a whole. As shown in Table No. (1), the value of Prob for the independent variable, which is the (IFRS9) standard, equals (0.015), which means accepting the first sub-hypothesis, i.e. there is a statistically significant relationship between the size of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, as the value of the regression coefficient Coefficient equals (-0.0233), i.e. the relationship between the size of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks is a negative significant relationship.

- Second: In the case of the dependent variable “rate of return on equity”:

Table (2) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.003	3.05	1.0018	C
0.000	- 4.73	- 0.0966	
0.000	- 3.80	- 0.0078	
0.001	3.44	0.0082	(
0.003	- 2.98	- 0.0378	
0.022	2.32	0.0777	
0.006	- 2.81	- 0.0199	
0.009	2.66	0.0230	
0.000	5.29	0.0517	
30.49			F-statistic
0.000			Prob (F-statistic)
0.5899			Adjusted R-squared
0.03088			Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic equals (30.49) and the value of Prob equals (0.000) which is less than 5%, which indicates the significance of the test model as a whole. As shown in Table No. (2), the value of Prob for the independent variable, which is the (IFRS9) standard, equals (0.000), which means accepting the first sub-hypothesis, i.e. there is a

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statistically significant relationship between the size of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, as the value of the regression coefficient Coefficient equals (-0.0966), i.e. the relationship between the size of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks is a positive significant relationship.

Second sub-hypothesis:

- First: In the case of the dependent variable "return on assets rate":

Table (3) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.108	1.62	0.2410	C
0.302	-1.03	- 0.0074	
0.090	- 1.71	- 0.0064	
0.918	0.10	0.0007	(
0.158	- 1.42	- 0.0082	
0.334	0.97	0.0150	
0.000	- 6.54	- 0.0214	
0.659	- 0.44	- 0.0017	
0.023	2.30	0.0104	
20.05			F-statistic
0.000			Prob (F-statistic)
0.4817			Adjusted R-squared
0.01434			Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic equals (20.05) and the value of Prob equals (0.000) which is less than 5%, which indicates the significance of the test model as a whole. As shown in Table No. (3), the value of Prob for the independent variable, which is the (IFRS9) standard, equals (0.302), which means rejecting the second sub-hypothesis, i.e. there is no statistically significant relationship between the independence of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the (IFRS9) standard and the financial performance of Iraqi commercial banks, as the value of the regression coefficient Coefficient equals (-0.0074), i.e. the relationship between the independence of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the (IFRS9) standard and the financial performance of Iraqi commercial banks is a negative, insignificant relationship.

- Second: In the case of the dependent variable “rate of return on equity”:

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Table (4) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.030	2.19	0.6974	C
0.000	- 3.72	- 0.0571	
0.000	- 4.11	- 0.0331	
0.026	2.24	0.0364	(
0.027	- 2.23	- 0.0277	
0.021	2.33	0.0773	
0.019	- 2.38	- 0.0166	
0.014	2.48	0.0214	
0.000	4.56	0.0443	
31.22			F-statistic
0.000			Prob (F-statistic)
0.5958			Adjusted R-squared
0.03066			Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic equals (31.22) and the value of Prob equals (0.000) which is less than 5%, which indicates the significance of the test model as a whole. As shown in Table No. (4), the value of Prob for the independent variable, which is the (IFRS9) standard, equals (0.000), which means accepting the second sub-hypothesis, i.e. there is a statistically significant relationship between the independence of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks). The value of the regression coefficient Coefficient was equal to (-0.0571), i.e. the relationship between the independence of the internal audit board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, a negative significant relationship.

third sub-hypothesis:

- First: In the case of the dependent variable "return on assets rate":

Table (5) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.051	1.97	0.2778	C
0.000	- 3.78	- 0.0142	
0.000	- 4.74	- 0.0539	
0.000	4.06	0.0577	*
0.077	- 1.78	- 0.0098	
0.370	0.90	0.0132	
0.000	- 6.98	- 0.0215	
0.936	0.08	0.0003	
0.001	3.30	0.0142	
24.76			F-statistic
0.000			Prob (F-statistic)
0.5369			Adjusted R-squared

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0.01356	Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic was (24.76) and the value of Prob was (0.000), which is less than 5%, indicating the significance of the test model as a whole. Table No. (5) also shows that the value of Prob for the independent variable, which is the (IFRS9) standard, is (0.000), which means accepting the third sub-hypothesis, i.e. there is a statistically significant relationship between the percentage of women's representation in the Internal Audit Board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, as the value of the regression coefficient was (-0.0142), i.e. the relationship between the percentage of women's representation in the Internal Audit Board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks is a negative significant relationship.

- Second: In the case of the dependent variable "rate of return on equity":

Table (6) Hypothesis test results:

Prob.	t-statistic	Coefficient	Variable
0.015	2.46	0.7935	C
0.000	- 5.46	- 0.04708	
0.000	- 3.64	- 0.0946	
0.002	3.19	0.10379	*
0.012	- 2.55	- 0.0321	
0.028	2.22	0.0748	
0.013	- 2.52	- 0.0177	
0.004	2.96	0.0260	
0.000	5.27	0.0518	
30.17			F-statistic
0.000			Prob (F-statistic)
0.5873			Adjusted R-squared
0.03098			Durbin-Watson stat

The above table shows the validity of the test model, as the value of F-statistic equals (30.17) and the value of Prob equals (0.000) which is less than 5%, which indicates the significance of the test model as a whole. As shown in Table No. (6), the value of Prob for the independent variable, which is the (IFRS9) standard, equals (0.000), which means accepting the third sub-hypothesis, i.e. there is a statistically significant relationship between the percentage of women's representation in the Internal Audit Board as one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, as the value of the regression coefficient Coefficient equals (-0.04708), i.e. the relationship between the percentage of women's representation in the Internal Audit Board as

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one of the corporate governance mechanisms that modifies the relationship between the application of the (IFRS9) standard and the financial performance of Iraqi commercial banks, is a negative significant relationship.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The researcher concludes from the above that the effectiveness and capabilities of the Internal Audit Board can affect the impact of applying (IFRS9) on the financial performance of Iraqi banks. As an audit committee can enhance the positive impact of (IFRS9) on financial performance. The results of this study are consistent with previous studies (Eyalsalman, 2024; Neamah, 2024; Jodeh& Khalaf, 2023; AL Fatlawi, 2022), as this study concluded the importance of applying the (IFRS9) standard to financial performance. Previous studies also concluded that the size of the Internal Audit Board should be appropriate and sufficient to allow for the availability of expertise, skills and leadership in the board and the exchange of these expertise to ultimately achieve the efficiency and effectiveness of the Internal Audit Board, as the number of members of the Internal Audit Board may not be sufficient to perform the required tasks. The number of members of the Internal Audit Board should be appropriate, not less than necessary so as not to cause the Internal Audit Board to be unable to perform its duties, and at the same time not more than necessary so as not to cause a difference in opinions and difficulty in reaching consensus within the Internal Audit Board, whether during discussion or making recommendations (Musa & Venancio, 2008; Aldamen et al, 2012; Gabriela, 2014). Previous studies have also concluded the importance of the independence of the members of the Internal Audit Board due to what it represents as an important pillar for the effectiveness of the performance of the oversight role of the Internal Audit Board. Therefore, this characteristic is considered a starting point for the success of the Internal Audit Board in performing its roles effectively, as it can be an effective tool due to the nature of its composition of non-executive members and the Internal Audit Board represents the first line of defense to prevent violations of monopolization of power by executive management. These results are consistent with the results of previous studies that indicated the importance of the independence of the Internal Audit Board (Krishnan & Visvanathan, 2008 ;).

5.2 Recommendations

Commercial banks have a special nature in terms of the operations they conduct, which exposes them to many risks, which prompted the International Accounting Standards Committee to set a new independent standard in preparing the financial statements of banks and financial institutions. Therefore, the application of international financial reporting standards in banks is a necessary entry point to

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improve financial performance and understand the special features of the nature of banks' business. In light of the results reached, the following recommendations can be made:

- Iraqi banks must pay attention to applying the (IFRS9) standard for financial instruments, as it provides many benefits in improving financial performance.
- The need to pay attention to the effective application of corporate governance mechanisms, and the imposition of penalties by the Iraq Stock Exchange on listed institutions and banks that do not implement effectively or partially.
- Issuing laws that stipulate the application of corporate governance principles.
- Active participation in holding seminars and conferences on the extent of the effectiveness of applying the (IFRS9) standard to economic units.
- The necessity of obligating the Central Bank of Iraq to obligate the banks listed in the Iraq Stock Exchange to comply with the requirements of the (IFRS9) standard, which in turn works to improve financial performance, especially since the accounting information prepared under the (IFRS9) standard is the best alternative to local standards.
- The necessity of obligating the Central Bank of Iraq to obligate the banks listed in the Iraq Stock Exchange to comply with corporate governance mechanisms.
- The necessity of obligating the economic units to publish their financial statements in a timely manner and as specified three months after the end of the fiscal year to achieve the characteristics of suitability and honest representation, which help users make appropriate economic decisions.
- The Central Bank of Iraq should obligate the economic units to train employees to apply the (IFRS9) standard.

The researcher also recommends the following future studies:

1- Integration between the business model and international financial reporting standards and their impact on the value relevance of accounting information.

2-The role of applying financial mission standards in achieving social development goals in government units

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