NEAR EAST UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
BANKING AND ACCOUNTING PROGRAM

IMPACT OF INTERNAL AUDIT AND CAPITAL STRUCTURE ON BANK PERFORMANCE EVIDENCE FROM IRAQ

SALAHALDDIN MOHAMMED AMIN KARIM

MASTER'S THESIS

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Iam SALAHALDDIN MOHAMMED AMIN KARIM, hereby declare that this dissertation entitled "IMPACT OF INTERNAL AUDIT AND CAPITAL STRUCTURE ON BANK PERFORMANCE EVIDENCE FROM IRAQ" has been prepared myself under the guidance and supervision of 'ASSOC. PROF. DR. ALIYA ISIKSAL' in partial fulfillment of the Near East University, Graduate School of Social Sciences regulations and does not to the best of my knowledge breach and Law of Copyrights and has been tested for plagiarism and a copy of the result can be found in the Thesis

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For my loving parents, wife and Children

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ABSTRACT

IMPACT OF INTERNAL AUDIT AND CAPITAL STRUCTURE ON BANK PERFORMANCE EVIDENCE FROM IRAQ

The study investigates the impact of internal audit and capital structure on bank performance in Iraq. To attain the motive of the study the Random Effect Model is used on a time series of 11 banks from 2000-2018. The results showed that bank size and debt ratio have negatively affects ROE, meaning that an increase in size and debt ratio will decrease ROE by 0.31 and 0.04 respectively. This can be attributed to the fact the selected banks are unable to utilize their assets to generate earning likewise, they were unable to employ proper investment strategies to maximize profitability from assets. However, inflation and debt to equity ratio has a positive consequence on ROE. This suggested that an increase in inflation and debt-equity ratio increases ROE by 0.08 and 0.52 respectively. The results from debt to equity suggested that the Iraqi banks were able to use debt to increase shareholders wealth. Furthermore, existence of internal audit is positively associated with ROE.

Keywords: Internal audit, Capital structure, Bank performance, Random effect model, Iraq.

ÖZ

İÇ DENETİMİN VE SERMAYE YAPISININ IRAK'TAN BANKA PERFORMANS KANITLARINA ETKİSİ

Çalışma, iç denetim ve sermaye yapısının Irak'taki banka performansı üzerindeki etkisini araştırıyor. Araştırmanın amacına ulaşmak için 2000-2018 yılları arasında 11 bankadan oluşan bir zaman serisinde Rastgele Etki Modeli kullanılmıştır. Sonuçlar, banka büyüklüğünün ve borç oranının ROE'yi olumsuz etkilediğini, yani boyut ve borç oranındaki artışın ROE'yi sırasıyla 0,31 ve 0,04 azaltacağını gösterdi. Bu, seçilen bankaların aynı şekilde kazanç elde etmek için varlıklarını kullanamamalarına, varlıklardan karlılığı en üst düzeye çıkarmak için uygun yatırım stratejilerini kullanamamalarına bağlanabilir. Bununla birlikte, enflasyon ve borç / öz sermaye oranının ROE üzerinde olumlu bir etkisi vardır. Bu, enflasyon ve borç-öz sermaye oranındaki artışın ROE'yi sırasıyla 0,08 ve 0,52 artırdığını ortaya koydu. Borçtan öz sermayeye sonuçlar Irak bankalarının hissedarların servetini artırmak için borç kullanabildiklerini gösteriyor. Ayrıca, iç denetimin varlığı, ROE ile olumlu bir şekilde ilişkilidir.

Anahtar Kelimeler: İç denetim, Sermaye yapısı, Banka performansı, Rastgele etki modeli, Irak.

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ABBREVATIONS

ROE	Return on Asset
ROA	Return on Equity
RAM	Random Effect Model
CAR	Capital Adequacy Ratio
IA	Internal Audit

CHAPTER 1

1.0 INTRODUCTION

1.1 Background

For the internal review company to be recognized as a central factor in the accounting processes' activities, the External Audit Office provides a profound change in the assessment of the organization's position. External review is considered to be at the core of company accounting because it is a segment that monitors all businesses related to the field. The internal audit experience affects and impacts the company's performance, as the numerical outcomes indicate that the internal audit team works well. Besides, an in-house review may be a vital component of the Corporate Governance (CG) phase, and CG calls for the surveillance practices carried out by the Executive Board and the Audit Committees to maintain consistent financial data preparation outside questions (Open Surveillance Board, 1994). The CG has three monitoring elements, notably external review, internal review, and management (Al Matarneh, 2011; Anderson et al . , 1993; Blue Lace Panel, 1999; IIA, 2003). The group's financial and organizational strategy is guided by successful organization systems, to enhance the continuous efficiency of the internal management mechanism by making changes to the risk evaluation framework and, above all, by fulfilling customers' wishes. The internal appraisal has a significant role to play. The structural review confirms the role of positional management and staff’s on the ligation for clients and other stakeholders (Eighme & Cashell, 2002). The internal evaluation office provides the management, administrations of directors and the examination committee with an accurate, impartial and neutral service while investors are concerned about investments' return on

investments, economic growth, sound authority and sound disclosure of the numerical results and operating practices of the enterprise (Ljubisavljević & Jovanovi, 2011).

The capital structure for back composing is among the most studied categories, particularly for non-financial enterprises. The arrangement of financing required for the survival of commercial cash indicates that it is subject to strict capital headings. Several theories have emerged in search of equilibrium of capital structure, including corporate theory, the theory of hailing, exchange theory, and theory of punching orchestrate. The Betting Company, Jensen and Meckling (1976) propose using involvement in the company's financial structure to reduce bureau charges, provided that money lenders control the activity of executives. Thus, the signage principle clarifies that corporate administrators are allowed to use the capital system to transmit these details to outcasts through the knowledge asymmetry between corporate administrators and non-touchable persons (Ross 1977). The asymmetry in expertise in hailing confusion is that auditors and banks do not provide information on their banks' potential choices so that executives will make adjustments to their financial framework and convey specific signals on the accuracy in monetary decisions. A number of concerns were tentatively exploring the partnership between the capital framework and the company execution (Abor, 2005; Majumdar and Chhibber, 1999; Yat Hung et al., 2002), but no clear agreement was achieved. The skewed relationship between capital structure calculated as debt-to-equity and business execution was noticed in India, Majumdar, and Chhibber (1999). In Hong Kong, Yat Hung et al. (2002) observed that firms that have more efficiency are related to a high degree of preparedness (debt to equity extent), as seen by Majumdar and Chhibber's (1999) findings. Abor (2005) noticed a favorable correlation with Ghana between gain and short-term debt-to-activities and to include debt-to-activity. In contrast, the connection between debt-to-activity magnitude and productivity was noticed to be negative. He was discussing companies that were producing substances in general on the promotions of money at the moment. Otherwise, Kyereboah-Coleman (2007) noticed that high-use (measured as long-term and short-term debt-to-assets extents) microfinance firms in sub-Saharan Africa are advantages. In the management of an acceptable account segment and the non-banking budget division, the choices of capital structure are also particularly important. In addition, though many quick operations have been performed in Ghana and Africa to remove the supervision of an Account section, none of them has assessed the issue inside the cash fragment (Adesina and Mwamba, 2016; Hassan et al . , 2012; Ojiako et al . , 2013; Kusi et al . , 2016). Bank leaders may applaud imperative money information related to pros by using capital structure to compete with flagging speculation (Berger et al., 1995). In addition, bank controllers are also interested in the capital quality of budgetary instructions to make the money-related system sound as an exhibition overridden by banks. The composer observed a moral threat with banking administrators in the closeness of control. In connection with the event, Merton

(1977) fights to reduce bank risks and decrease its capital and increase its chance level. Therefore, it is important to make the bank leaders measure their shareholders' soundness and benefit in order to pick a better combination of their capital structure. The banking capital structure and efficiency link in Iraq are provisionally obligated to show. The few that are opened include Abor (2005), Bokpin, et al. (2010). Abor (2005) and Awunyo-Vitor and Badu (2012) acknowledged the usage of further short-term spending in Iraq capital system by Iraq's listed firms. This evaluation refers to the layout and direction of action of the internal examination and capital structures of commercial banks in Iraq in the context of the restricted study demonstration in Iraq and the doubtful evidence on the the internal survey and capital structure. The key aim of this report is to evaluate the effect on the results of Iraq by business banks of the capital structures and internal audits.

The remainder of the paper is organized in chapter two discusses the review of earlier kinds of literature, chapter three concentrates on the specification and estimation of the models used. In contrast, chapter four focuses on the interpretation of results and discussions, and finally, chapter five discuss the conclusions and some policy recommendations.

1.2 Research Objective

i. To understand the effect of the presence of internal audit department on the bank performance in Iraq
ii. To identify the impact indicators of capital structure on bank performance in Iraq

1.3 Research Question

2. What are the consequences of the present of the internal audit department has on bank performance of Iraq?
3. What are the effects of the indicators of capital structure on bank performance of Iraq?

1.4 Problem statement

The discrepancies in previous work have given rise to an opportunity to carry out this study. A number of capital studies (for example, Rajan, Zingales (1995) Danbolt (2000 and 2002) and Hall, etc. have been performed in the context of well-developed countries. (1999)). The study was carried out by Boot et al. (2001). from 10 developed nations. For certain capital structure studies, many organizations have often used cross-company studies or analysis from a specific region or country. However, there is little or nothing research going on in Iraq to do with banks ' capital structure and how banks ' capital

structure impacts their success in Iraq. This research aims to fill the gap by analyzing Iraq's internal assessment, financial framework, and bank performance.

The possibility of an organic situation exists in the analysis of internal auditing among central government, capital management and banking performance. Therefore the issue of endogeneity will be addressed while it progresses. The scope for endogeneity and bank outcomes in financial sector capital structure and performance studies has been overlooked. Asset structure may be related to market results. If potential endogenous effects are not considered, inaccurate calculations will emerge (see Wooldridge, 2002; Camaron and Trivedi, 2005). This research aims mainly to examine the connection between internal audit, resource management, and financial performance.

1.5 External auditing function

The Department of Internal Audit is a vital component of the strategy by adding the Internal Audit Section to policy development (Ljubisavljevic & Jovanovi, 2011). Indeed, as part of the corporate monitoring mechanism (Hutchinson & Zain 2009), the administration and audit committee needs to be strengthened. The Internal Audit Department also has a responsibility to evaluate the accuracy, honesty and integrity of financial and managerial records from various corporate agencies based on sound business judgement at all levels of management. In other words, company administration does not control or execute an internal appraisal procedure with regard to tests and evaluations. However, accountability is a critical element in the performance of internal audit operations. This includes collaboration between internal analysis and management and a critical oversight of the management's efficiency (Ljubisavljević & Jovanovi 2011). The internal analysis helps the evaluation panel work and run successfully to ensure that the study test goals are compatible with prior oversight obligations (Goodwin to Yeo, 2001; Goodwin, 2003; Scarbrough, Rama & Raghunandan, 1998). Management analysis (Collier & Gregory, 1996; Goodwin & Kent, 2003) encourages the creation of an institutional structure that literature has studied. In the background of this conflict, Al-Shammari (2010) listed various internal capability variables as follows:

1. Internal monitoring systems and statistical assessments shall be carried out to apply these structures to employees and to recommend changes to the system to ensure that accounting and internal control procedures are sufficient.

2. Review proposals and procedures for assessing faults or abandonments in the organization's structures and methods and recommend appropriate modifications and upgrades, and provide an internal auditor with experts to investigate the corners of the base operations.

3. Considering the staff's dedication to the practices and methods of the company, the inspectors will test and explain their use of these techniques and procedures.

4. Shielding stores for frame working is certainly an attempt to insure that the Agency protects resources and goods from bribery and exploitation and distinguishes ransom from misfortunes induced by negligence and corruption (e.g. shortage of storage). They work at alleviating misfortunes.

CHAPTER 2

2.0 OVERVIEW OF THE BANKING SECTOR OF IRAQ

Almost 80% of Iraqis claim that they do not have a bank account that makes Iraq an under-banking nation in Middle East North African (MENA). At 9 percent of the foreign lender to the Private Sector, Iraq has the lowest Gross Domestic Product Income in the MENA region and the whole world, compared to the average global GDP of 55 percent. In Iraq, the peace and harmony restored in the area has recently resulted in a significant increase in business activities. Cash payments, including advances and overdraft offices, grew by 50 per cent from 2006-2011 to an outstanding CAGR in line with details published by the Central Bank of Iraq. Given the good reforms, Iraqi private banks need to overcome some key hurdles, should the trend seen in the last five years continue to grow unparalleled. Some of these elements are recognized: sustainability, uneven play and confidence.

Accessibility – Local Iraqis are still very limited in their access to bank branches or ATM machines. In total, 900 bank branches represent a pool of 33 million Iraqis, compared to a decent one which serves 36,000 people. In reality, ATM's are extremely limited because they were one ATM machine for every 100,000 people, with World Bank reports stating to be operational. There are 32 times more ATM machines per user in the MENA district. In fact, when you recognize that most ATM machines are not connected to a national transfer and as a result one bank customers can't be saved on ATM machines from other banks, a fair contrast to goodness is better. There are two fundamental changes in the environment, which we consider to be stronger. The national switch has been installed and the minute is the foundation of the Iraq Interoperable Versatile Installation System (IIMPS), both using the USID Iraq Money-based Advancement Extension.

2.1 Iraq cash-credit commercial banks (IQD billion)

The National Change would be interfaced into one single exchange agency with modern ATM devices, financial offices and touch terminals. This supports the ATM and other outlets for customers of one

bank. The goal is to use the flexibility of vast invasions of cellular devices to promote banking. Flexible Modular Integration System (IIMPS). Interoperable Customers who would like to make retail purchases might transfer cash from their bank accounts to merchants primarily by using telephones. In other ways, the banks should allow owners of these shops to buy and/or cash directly to a certified Smartphone. This convincing effort would enable banks to bypass the inefficient and time-consuming technique of building an uninterrupted ATM organizer at a commode point of approximately 78% 11. In compliance with USAID8, the IIMPS will continue to operate until 2013.

I. Inexperienced play-back banks keep almost 91% of shops and store shop displays to expand to make up for other planned or real advantages. The proposal's significant advantages are: (a) the refused private bank establishment by government departments and government controlled entities; (b) the restriction on government purchasing by deposit checks;

Thirdly, Confidence- They remembers another important figure that has already been standard for banks' moo usage in tracking account network operations. The requirements of all shop assurances that provide consumers with assurance of their shops in case of disappointment with banks support this concern. This issue was brought to the fore from the late stage with the widely publicized bankruptcy of Warka Bank. We recognize that all the challenges will be resolved. In any case, collaboration between the government and the private sector would be important for rapid defense of these issues. In particular, the corporate sector can help expand division systems and partnerships while the government can try to close the divide between state and private banks. In the end, efforts from both sides must be required to remember the men.

2.2 State-owned banks Private-sector banks

T91% and 89% respectively, of seven Iraqi State banks' supervision and money-sector shops represent seven Iraqi government banks. Of the seven State Banks, 12, 3 out of seven are central infinite resources and elements of the market. The Rafidain Bank and Rasheed Bank are two banks of this kind and remain in the old sector at the center of extremely large events. The third branch of industry with market significance is the Iraq Exchange (TBI). The entire Rasheed and Rafidain Bank and the Iraqi administration are currently replaced with the World Bank's support. The estimated lending and financing employees of the previous organization have significant gaps where the official costs from USD 1 through IQD 1.179 at IQD 0.33 were not identified.

The Iraqi administration did not recognize this disaster. Several improvements have also been made in the operations of the two state banks between 2010 and 2011, which decreased by 68 percent. We

agree to modify these methods as well. In 2010 the World Bank calculated IQD 39.4 trillion on the current market value of bank assets in comparison to the 2011 IQD of 103.9 trillion.

The size of the State banks now is substantially higher than private banking. This is noteworthy. In terms of private finance, state-owned banks have a lower status. Public banks received 67 percent of monetary finance from the private sector in 2011. If the state-owned institutions are lending to public corporations and civic education, the state remained 100% in cash allocation.

In turn, Rafidain and Rasheed were underfunded recently to identify valuation disasters. As a result, Iraqi experts agreed to recapitalise IQD 400 billion of Rafidain banks and IQD 300 billion of the Rashid sector. Plans for this recapitalization have been underway for a number of years, and the Back Service 's attempts to implement them have been diligent. We agree that, essentially, in view of the bank's capital injections, the two banks should remain undercapitalized on a rather limited basis and could submit a request for an increase in loans.

State-owned banks and 63 percent run 89 percent of the shoreline by private companies, which focus our attention on shops. Much of this is due to unequal conditions of competition between public and private banks. State banks enjoy the fact that verifiable governments promise to hold deposits in their shops with government deposit banks and public companies.

TBI, the other public-operated central bank was founded in 2004 to carry out bursaries after the banks of Rasheed and Rafidain had not been authorized to participate. The activities of the TBI are commonly referred to as nebular and the banking details are natural. For the rest of the article, we will look at private Iraqi banks as government banks are not publicly traded and there is no way for speculators to invest in a major growth narrative. Thus, despite the limited capacity of state-owned banks, we understand that private-sector banks will play an increasingly important role.

2.3 How Iraqi Banks Make Money

Iraqi banks derive much of their sales and earnings from one of the following sources: a. Business related events

a. Modern loan operation

c. CBI and Treasury withdrawals.

By 2008, most banks had a large share of their profits from the central bank's shops or treasury assets. Intriguing price rises have risen over 16% due to inadequate spending or the implementation by banks of some conventional cash-management operations in many countries. When inflation was restricted in

2009, interesting prices started to fall, and the CBI premium rate was 6 percent at the end of 2012, 14 percent at the same time as the GDP. Iraqi banks also requested the Central Bank (more in the report) to collect capital. With stable markets and large quantities of surplus income, banks have looked for various avenues to raise revenue and have additional lending operations. In 2011, business-related payments (wire transfers, loan papers, FX spreads) represented an improvement in net profit for the four main 'normal' banks from 28 percent to 83 percent. The highest rate share was the North Bank (BNOR) with 83 per cent of the net operating income, while the Dar-Es-Salaam Investment Bank (BDSI) had 28 per cent of the net income, the least of which was. The largest generator of earnings for the four major banks in the stores, 13-49 per cent of the overall income from these activities, was the conventional lending companies, including the monthly average wage on loans. Given the following, 49 per cent of sales from Dar Es Salaam Investment Bank (BDSI) accounted for the most remarkable net cash distribution and 13 per cent for North Bank (BNOR).

It should be remembered that most banks are likely to reduce the distribution of the total fascinated income, since the credit-deposit ratio remains low; while not all companies are used for lending purposes, all fascinating expenditures are equivalent to the intrigued wage. The net basis of interesting growth is not just treasury money, but also traditional financing, such as Dar Es Salaam Venture Bank progresses. It's around fifteen a. Export operations Development and export of goods creates profits for Iraqi banks through a variety of markets. Purchases are compensated for: banks give discounts to consumers who are not willing to make deposits for goods they have purchased. They’re essentially separated into two lakes. Payment may be made in the form or letter of credit within the meaning of the wire transfer to the supplier: a) wire transfer: banks usually charge a fixed fee per wire and/or rate due to the wire transfer amount. For eg, the Bank of Bagdad paid $10.00 or 0.1% of the exchange rate, whichever was higher during that time. On the other hand, Iraq Center East Investment Bank charged an exchange rate of $3 + 0.1-0.2 per cent. B) Payment note: letter of credit (LC) transfers placed the exceptional sum of credit as income and interesting wages. Banks gain cash from a funding gap between the ICD / dollar rate they collect from the central bank and the sum they give to clients, in addition to charging costs on the stock sector. FX Spread: Most banks realize that such take-offs are made through wire transactions, but they plan to produce a percentage of the income allocation from the letter of credit. Iraqi banks purchase the dollars of the central bank at a certain cost. At IQD 1,166, as opposed to the IQD 13 premium charged by the CB for the extension of IQD 1,179, this is currently the official exchange rate. At this point, the banks are turning around and selling their capital. As further pointed out, the Iraqi Central Bank guidelines have fluctuated between a market-based approach and a personalized policy to the sum of FX that the banks will earn over their exchanges. As previously reported, the difference between the official and the showcase rates started to rise in 2011 and peaked

at 1,263 IQD / USD in April 2012. Several eyewitnesses blamed the action with the propagation of systemic displacement from Iraq to adjacent regions of Iran and Syria.

More than 80 per cent of Iraq's exports were non-commercial, with certain ratings from the Incomparable Review Board and eventually recorded by the Auditor General.[17] The key day-to-day financial strategies used by banks to buy wire trade dollars in 2012 is, in accordance with the Central Bank of Iraq, bank purchases.

The five biggest participating banks accounted for 34% of the year's combined number. In order to maintain up with the trade, the Central Bank of Iraq, headed by Dr Sinan Shabibi, has taken a range of decisions to track the weakening of the dinar. All of them were subsequently misinformed and believed to contribute to the Senate of the Central Bank's break-up. The following is an order released by the Central Bank of Iraq on June 2012, which placed a periodic cap on the dollar that banks will purchase from currency barters. The below are a few security departments who have switched to various focus points in 2012: Order No 17 June 27, 2012. The annual cash trade limit for each bank was $1.25 million a week. The most used money cap for wire transfers has been set as follows:

The over-arrangement was unsuccessful in raising the dinar, and more FX dropped to smaller banks on the market while big banks came on their own. • The buffer is 10 m (DCT) • The restriction is 3 m (IQD capital > 150 b), • the restriction is 5 m / day • the restriction 4 (Remote Bank branches) – the restriction is 3 m / day. The volume of dollars available in ads has since been raising and the dinar has started to fall again. Less than two weeks later, the Central Bank was forced to implement obsolete guidelines. The sum of bank FX ($mm) per quarter corresponds to 3.761 8 per cent Northank 3.560 8 per cent Irbil Bank 3.138 6 per cent Joined Bank 3.107 6 per cent Commercial Bank 3.726 6 per cent Joined Bank 2.726 6 per cent Joined Bank 3.1006 per cent Joined Bank 3.726 per cent.

Instruction 18 July 10, 2012 On the basis of the following plan, the Central Bank acknowledged that the occasional controls on past illumination were equally unsettled and thus imposed daily controls on wire transfers. To fact, it lifted the cash limit from $1.25 million a week to $2.0 million a week, giving an increase of $5 thousand. The CBI further notes that all cash exchanges and wire transfer payments should be covered by the IQD 1,189 cost allowance set out in the previous instruction. This clarity was crucial as several banks had taken an IQD 1189 limit that was sufficient for transactions based on equal currency.

• Bunch 1 (IQD Equity > 150b)-15 m per day • Gather 2 (IQD Equity 150b)-12 m per day • Bunch 3 (IQD Equity < 150b)-8 m per day • Gathering 4 (External Bank)-5 m per day • Raised dollar stocks after the July elections were some that were generated as confirmed by Instruction 19 October 1, 2012 This

time the CBI abolished the regular caps on fund and joint exchange volumes. The CBI also had a limit of $5 000 per person in money trading. The Abdul Basit al-Turki period was the intended product of currency stability, but it also had an undesired effect on the overwhelming quantity of cash pouring out of the region, as well as on the day-to-day effects of the displacement of limits and on the relentless expansion of advertisement dollars. The former Chairman of the Examination Board, Dr. Abdul Basit Al-Turki, was removed from office in October 2012 by Dr. Sinan Shabibi. Within this current law, the Central Bank of Iraq has begun to restore the supply of dollars, and several banks and cash-trade companies have begun to investigate. The CBI requested further review of the documents mentioned. Over-approaches have resulted in a decline from 268 m per day in October 2012 to 190 m per day in February 2013 in an average of 3 months of regular dollars earned during the advertising showcase, which decreased by about 30% in February 2013. It was also raising by the dinar, which stood at IQD 1,270 by 17 April 2013.

2.4 Off-balance sheet assets (% of total assets)

Iraqi banks produce much of the following forms of income and earnings: a. Items relevant to manufacturing

a. Current loan mechanism

c. Removals to the Treasury from CBI.

In 2008, most banks had a substantial share of their profits from the central bank 's shops or treasury funds. Fascinating price rises above 16 percent because of low spending or the output by banks in many countries in some conventional cash management operations. The intriguing pace of inflation began to decline when development became restricted in 2009. The CBI premium rate dropped 6 percent at the end of 2012, 14 percent nearly over the same period when Gdp. Iraqi banks also had to collect capital from a Central Bank (more in the report). The banks have found other avenues to produce earnings and have more lending operations with stable markets and large volumes of surplus income. In 2011, the net income for the four major 'regular' banks increased from 28 percent to 83 percent, reflecting business-related payments (wire transfers, loan documents, FX distributions). North Bank (BNOR) accounted for the most influential allocation amount with 83 percent of the transaction net profits and a nominal 28 percent of the net income of Dar-Es-Salaam Investment Bank (BDSI). The main significant stream of earnings for four large commercial banks is the conventional investment strategies, such as net income from deposits, from 13 to 49% of net profits from such activities. Despite this, the most remarkable net cash transfer and 13 percent North Bank (BNOR) accounted for 49 percent of Dar Es Salaam Investment Bank’s (BDSI) earnings.

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The five biggest participating banks accounted for 34% of the year's combined number. In order to maintain up with the trade, the Central Bank of Iraq, headed by Dr Sinan Shabibi, has taken a range of decisions to track the weakening of the dinar. All of them were subsequently misinformed and believed to contribute to the Senate of the Central Bank's break-up. The following is an order released by the Central Bank of Iraq on June 2012, which placed a periodic cap on the dollar that banks will purchase from currency barters. The below are a few security departments who have switched to various focus

points in 2012: Order No 17 June 27, 2012. The annual cash trade limit for each bank was $1.25 million a week. The most used money cap for wire transfers has been set as follows:

The over-arrangement was unsuccessful in raising the dinar, and more FX dropped to smaller banks on the market while big banks came on their own. • The buffer is 10 m (DCT) • The restriction is 3 m (IQD capital > 150 b), • the restriction is 5 m / day • the restriction 4 (Remote Bank branches) – the restriction is 3 m / day. The volume of dollars available in ads has since been raising and the dinar has started to fall again. Less than two weeks later, the Central Bank was forced to implement obsolete guidelines. The sum of bank FX ($mm) per quarter corresponds to 3.761 8 per cent Northank 3.560 8 per cent Irbil Bank 3.138 6 per cent Joined Bank 3.107 6 per cent Commercial Bank 3.726 6 per cent Joined Bank 2.726 6 per cent Joined Bank 3.1006 per cent Joined Bank 3.726 per cent.

Instruction # 18 July 10, 2012 On the basis of the following plan, the Central Bank acknowledged that the occasional controls on past illumination were equally unsettled and thus imposed daily controls on wire transfers. To fact, it lifted the cash limit from $1.25 million a week to $2.0 million a week, giving an increase of $5 thousand. The CBI further notes that all cash exchanges and wire transfer payments should be covered by the IQD 1,189 cost allowance set out in the previous instruction. This clarity was crucial as several banks had taken an IQD 1189 limit that was sufficient for transactions based on equal currency.

• Bunch 1 (IQD capital > 150b)-$15 m per day restriction • Gathering 2 (IQD capital 150b)-$12 m per day restriction • Bunch 3 (IQD capital < 150b)-$8 m per day limit • Gathering 4 (external bank branches)-$5 m per day limit The expanded stock of dollars after the July election started to emerge as a dinar created strengthened from Instruction # 19 October 1, 2012 Less than 1 m per day. This period, the CBI removed the bank's regular exchange rate restrictions and, simultaneously, scrapped the quote expense cap at IQD 1,189. The CBI also had a limit of $5 000 per person in money trading. The Abdul Basit al-Turki period was the intended product of currency stability, but it also had an undesired effect on the overwhelming quantity of cash pouring out of the region, as well as on the day-to-day effects of the displacement of limits and on the relentless expansion of advertisement dollars. The former Chairman of the Examination Board, Dr. Abdul Basit Al-Turki, was removed from office in October 2012 by Dr. Sinan Shabibi. Within this current law, the Central Bank of Iraq has begun to restore the supply of dollars, and several banks and cash-trade companies have begun to investigate. The CBI requested further review of the documents mentioned. Over-approaches have resulted in a decline from 268 m per day in October 2012 to 190 m per day in February 2013 in an average of 3 months of regular dollars earned during the advertising showcase, which decreased by about 30% in February 2013. It was also raising by the dinar, which stood at IQD 1,270 by 17 April 2013.

2.5 Capital Adequacy Ratio (CAR) Iraqi banks vs. select US Banks

Risk evaluation – CAMEL framework. The widely applied CAMEL software is a successful risk prediction tool. Established by bank analysts in the United States, the approach used to assess credit risk has been broadly embraced. The term CAMEL stands for Energy, Service Quality, Management, Profit and Liquidity. However, for the Government, each calculation should be measured using quantitative techniques. After the appraisal of these attributes, hierarchical ratings are conducted from 1 to 5, with 1 being the most embedded being the highest and 5 being the lowest. In addition, at that point, each category is further subdivided into sequential order letters with "A" being the most grounded and "C" the weakest. Above, we take a closer insight into the quantifiable dimensions of the assessment method. Capital ampleness: the object of the analysis of capital ampleness is to reflect on the adequacy of the interest and other accounts on which it preserves the stumbling blocks of misfortune or the weakening of property. We see how much value the bank has in relation to its potential weighted debt, as set out in the Basel II guidelines. Banks with a large interest as a capital cost have a smaller demand and are thus more equipped to deal with the misfortunes of underperforming developments. Capital IQ22 Expenditure supply Standard of facilities, not as it is, affects earnings and the capacity of banks to sustain capital adequacy. Whereas it is not always feasible to prescribe a detailed definition of resource usage from above, several simple indicators can include assistance in this preparation. Typically, Iraqi banks have higher non-performing loans at the pace of credit adds, but a lower balance of loans to assets. The end result is that high capital performance tends to be applied to U.S. banks, while non-performing assets are related to equity creation. Among the five largest private banks in Iraq, as it is, there are enough complex elements to make a comparison to US banks on NPL estimates.

Capital IQ 23 Proceeds: development, productivity and income will be essential as they allow a bank to develop, absorb and increase its capital. Capital IQ 23 Our key comparative aspect is return-on-assets (ROA). Next, we discuss ROA in more depth in the study to point out why both ROA to ROE are downplaying Iraqi banks' real revenues. However, Iraqi banks have surprisingly strong ROA levels in comparison with US banks and are going ahead gradually.

Currency: Currency assesses banks' ability to lend to high requirements. Loans/ investments and cumulative cash/ liabilities are often found with identical amounts. As shown in the map below, Iraqi banks are highly profitable and this is the case in underutilized changing papers in several situations.

2010 Rating Iraqi Core East Great 1C Development Bank Fantastic 3A Kurdistan Worldwide Outsourced 1C Summer Business Excellent 3A Excellent 2A Iraq Islamic Bank Awesome 3B Inlet

Commercial Bank Excellent 2B Dar Es Salaam Bank Wonderful 3B Ashur Bank Excellent 3B Discount Bank Excellent 3B Mortgage Bank Excellent 3B

Equity return – 4 Iraqi banks were defeated by 18.7 percent in 2012 in a joint equity return (ROE). In either case, we assume that the real strength of earnings is conventional numbers. The Iraq Central Bank has developed unrealistic capital requirements for all Iraqi banks to maintain a total of 250b of IQD deposits by June 2013. A variety of banks, between 2009 and 2013, culminated in a book valuation of over 3 times. The massive increase in capital triggered a large overcapitalization of the majority of Iraqi banks in recent years and a concentration on vast amounts of underutilized cash right now. So we had them on the "good ROE" theory to provide a real strategic force for the banks.

Two stages are necessary in the "adjusted ROE" measuring process: the primary stage is to adjust the energy return to reflect the average productive usage of resources. The general design of the Transition Desk and the capital structure requires to be updated. Such two variables may be established in the following case. ROE (Net Profit / Activities) = ROA x Usage (Activities / Activities)

Return-on-Asset (ROA): Return-on-Asset (ROA): Return-on-Asset) leverage problems that are restricted and greatly underused to have an effect on ROA. At the end of 2012, approximately 50% and 70% of the money had been allocated to the top four Iraqi banks. In order to remove this mutilation, we need to transfer cash belongings to a safe amount in this scenario. The task of finding the 'goal cash price' is not straight forward. For example, the Bank of Baghdad's cash capital mix was approximately 37% in 2008 and 62% in 2012 as a result of a limited amount of unused liquidity. Nonetheless, when seeking to decide on an ideal cash-mix, it would be out of the question to conclude that the pre-capital cash-raising ratio is the best balance. Normally, since interest rates in central bank stores were strong in 2008, banks will gain a high degree of return by holding cash on the adjusted desk. Over the last two years, though banks have been under strain to raise interest rates and their currency equalizations have swelled, the curious amounts have collapsed, and the same financial standard for cash handling does not apply today as it did over 2008. Having no clear verifiable or peer-reliant information to rely on, we have committed to a 35 percent cash change goal. We note that this is often likely to be prudent, as certain banks, such as Bank of Baghdad and Iraq Center East Bank, held up with the volume of cash change in an environment where fascinating cash-store rates were higher and the security condition became much more severe – this with a strong intention to retain significant cash equalizations.

Another effect of the capital-execution rules laid down by the Central Bank of Iraq was a reduction in and large-scale use, as bank interest income rose much faster than the bank 's capacity to allocate the

revenue. In addition, to change this mutilation, we will adopt a steady-state capital system as we seek to establish a specific return-on-equity capacity.

The goal of the Central Bank is to ensure that Iraqi banks maintain a minimum level 1 equity ratio of 12%, which will not surpass 8 times the equity ratio. 12 As long as the overall income of such stores exceeds the increased expenses, the customer can choose to can the usage of the product until exceeding the full permitted number. Since there is a substantial difference between the debt and the liabilities, Iraqi banks will be encouraged to fulfill the 12 per cent capital threshold of Tier 1 as it is imaginable. In this case, it is very difficult to switch from the level 1 capital ratio to the basic consumption proportion (assets / equity). In the sake of effortlessness, we intend to decipher it in a simple 8x proportion (1/0.12) in this post. It is often conservative in reality, because banks with a level 1 ratio of 12% usually have a higher output ratio than 8 times. The move is having an effect on the net income in the table below. The risk weight allocated to cash is 0 and thus does not hit the 8x leverage cap. They note that they did not expect 35 per cent of additional capital in currency.

What's next, the money issue? It is also reported that, in recent years, the Iraqi part of the money reserve has been reduced to that level of capital under the interest rate rules established by the Central Bank of Iraq. When we conclude, we expect Iraq's banks to grow without external funding in the next decade. We believe that Iraqi banks do hesitate to give more funds to customers as they are overcapitalized and have large surplus currency numbers. The shift from revenues to consumers will also be an opening for distressed financial practitioners to leave. The Central Bank of Iraq is preparing to collect a minimum of IQD 250 billion for all private banks. There were two key goals for IQD 100b and IQD 150b between June 2011 and June 2012. By April 2013, 19 out of 21 approved banking institutions had entered the second level, with 5 already reaching IQD 250b.

If NGO banks join the full capital-turning cycle, they will be entitled without the need to collect additional funds to finance Iraq's fast-growing economy. We've got to pass the equations to understand why this is actually the case. There are currently 43 private banking divisions in Iraq, 21 of which are listed. The Central Bank expects all private-sector banks to have a capital QD of 250b by June 2013. The majority of registered banks are on track to reach the deadlines set, although non-registered banks might have struggled. In addition , the two large government-owned banks would increase their capital at a rate of 0.7 t IQD. Accordingly, if all banks had reached the goal, Iraqi banks would contribute 92 billion IQD loans, or roughly 58%, of GDP in 2013. According to the normal MENA credit-to - GDP level of 55% in 2011(a) Moreover, in the absence of a possibility for several unlisted banks struggling to fulfill capital requirements, identified banks alone would have ample horsepower changes to support the credit exercise for many years to come. In addition, banks can continue to attain an exceptionally high degree

of growth in the long term, with a strong ROE ratio for Iraqi banks. Growth (g) = Return on Equity (ROE) x Reinvestment Rate (RR) as we pointed out earlier, for the four largest banks in Iraq, the middle-sized ROE was 18.7%. After we have adjusted for different turns (b), our measured healthy ROE is closer to 30.1 per cent. If the two estimates are average, the ROE is 24.4%. By raising extra capital, the expectation is that the reinvestment rate of 88 per cent(c) of banks in Iraq will sustain a steady growth pace of over 21 per cent per year. This is 2 times the projected GDP growth rate. Another alternative would be to encourage banks to expand at GDP rates without any external funds if the return on equities is to be halved. Given the over capitalization of Iraqi banks and the large amounts of underutilized currency, administrative groups can agree to return some of the revenue benefits to their shareholders. When this occurs, we would want Iraqi banks to see a critical amount of interesting investors.

2.6 Evaluation – Conventional form

As we look at the management of the account division in Iraq, we see no constructive or surprising, if not negative, relation between valuation goods and traditional value generators, such as growth and stock returns. We have found a clear disparity in valuation premiums utilizing non-traditional measures such as bank-based differentiation and form of ownership (Islamic versus non-Islamic) (vital remote owners versus no key remote owners). We do not discover connections between valuation products and financial returns in the event of our isolation in unmistakable pools and the relationship between the camps. They accept that the description is a sign of waste control. While the ad will consider the banks based on non-financial factors, we favor the ad because banks will not pay based on financial value.

This marvel is not sufficiently acknowledged by the criteria for the central audit of businesses. We believe that Iraqi ads do not work, and that waste would also increase. As the two charts below show, Iraqi companies tend to have limited knowledge with traditional confidence engines. The Iraqi Center East Speculation Bank (BIME) was also listed by major banks, with at least a few exchanges having the most outstanding ROE and development ratios. On the other side, the Dar-Es-Salaam Investment Bank (BDSI) has one of the lowest ROE prices. However, many purchases have been of the utmost importance. The outcome is the same with the study of the whole banking sector.

There is a strong distinction among the other P / E firms, since the banks are split into two separate classes: those with an immense external investor and those without one. Although the ROE is smaller, banks with distant, essential owners pay separate premiums from other Iraqi banks at a price of 71 per cent per year. We see a significant gap in the "Islamic" banks that is expensive for discount compared to the "Non-Islamic" banks.

Although Iraqi financial analysts obviously seem to have optimized the value premium for banks keeping a main owner without a key owner, there is no constructive interaction between the engines of financial growth and the sale of products. Alternatively, we see a clear negative correlation between financial return and valuation. Maybe the negative correlation in advertising is attributed to brain tests by speculators, depending not on P / E products, but on obvious market values. Therefore speculators find the two dinar currency trades are more costly than one dinar swap irrespective of P / E and the two banks. Consequently, banks who generate big earnings are not necessarily conscious of who their equity costs are rising; in effect, this dissuades the specific P / E of these companies.

(a) North Side, Iraqi Middle East Inv without any geopolitical external owner. Intl Branch of Kurdistan. Intl, guy Baghdad Banks, Dar Es Salaam Finance, Credit Finance, Mansour Bank, Dijlah, National Bank, Commercial Bank (c) Non-Islamic Banking: Iraq Middle East Inv. Corporate Banks, Union Bank, Economy Bank, Finance Bank, Gulf Commercial Bank, Gulf Commercial Bank, Babylon Bank, Iraqi Islamic Bank, Summer Commercial Branch, Ashur Branch (b) Bank, Babylon Bank, Agriculture Bank, Summer Commercial Bank, Ashur Bank, Union Bank, Investment Bank, Commercial Bank (d), Islamic Banks: Iraq Islamic Bank, Dijla Furat Bank, and Business, Elaf Business, North Bank, Baghur Bank,

2.7 Laws and Regulations

The following websites include complete copies of some of the key laws of the Iraqi State; (1) Iraqi Central Banking Law No. 56 2004, (2) Banking Law 2004, (3) Money Laundering Law 2004 (4) Business Law of the Government Banks and Central Bank Legal Firm Capital Specifications: minimum capital standards for banks are introduced by central banks. Central banks' minimum capital buffer criteria Criteria consist of a 5 per cent buffer to be deposited as cash in vaults and a 10 per cent reserve for CBI Risk Control: banks in Iraq are expected to meet with the minimum risk control requirements as follows:

Loans to one entity shall not exceed 10 per cent of the capital of the banks • Loans to clients in accordance with the parties involved, as specified in the companies under management or the members of the business family shall not always exceed 15 per cent • Loans not exceeding 8 times the capital of the banks · Loans to a client not exceeding 10 per cent of the capital of the banks.

CHAPTER 3

3.0 LITERATURE REVIEW

3.1 The concept of capital structure

In this section, we are going to theoretically discourse the concept of capital structure and its components, which are the main sources discussed by firms. Moreover, we are going to discuss how to choose an optimal financial structure in a firm. There are a number of definitions for capital structure, including the following:

The Random House Webster's Dictionary (2001) of the English characterizes the word "structure" as a method of construction of development or association or course of action of parts, components or constituents, a pyramidal construction; anything made out of parts masterminded together here and there and association; the arrangement of relations between the constituent gatherings of society; to give a structure association or the board to, build an orderly system for. Basically, the word structure is a term utilized in the art of designing. In the event of the development of a structure, there are some standard extents in which different components are incorporated together.

The idea of capital is seen differently. Capital structure is characterized in two different ways. As per a few creators capital structure alludes to the connection between the long haul obligations and value. At the end of the day, it contemplates just the long-haul wellsprings of capital. It incorporates momentary capital from its domain. Actuality, the controller of capital issues fixed a rule for the capital structure of organizations basing on the connection between long-run obligation and value. Then again some trust that capital structure alludes to the relationship among all wellsprings of capital. They would prefer not to recognize long run and transient sources. It is believed that capital structure is synonymous with all-

out capital this term alludes to the make up the credit side of cases among exchange loan bosses, bank lenders, bondholders and so forth (Arnold, 2007).

Capital structure is the composition of the issuance of which a company acquired funds to finance its investments. It includes all elements comprising liabilities and equity from the balance sheet, which includes short-term debt (current liabilities), long-term debt (long-term liabilities) and equity (Brealey et al., 2012).

Additionally, the concept of capital structure is associated with how the firm's total assets, the left side of the balance sheet, are financed by a mixture of loans or equity of solely one of the two main sources (Ross et al., 2008).

Capital structure is further defined as involving all methods of financing, whether property money, borrowed funds, short-term or long-term funds, pointing to the left side of the balance sheet (Damodaran, 1996). The concept of capital structure and other similar concepts can be distinguished.

A combination of debt and equity creates a conflict of interest between the company owners and the management team. The procedure of preference between sources of internal and external finance varies between different perspectives of management and shareholders. The management mostly prefers external financing because it is less expensive and enjoys tax advantages that increase profits. However, from the shareholders' point of view, access to finance through the issuance of ordinary shares gives the company high flexibility and avoids the restrictions imposed by the creditors. There could be opposition from regular shareholders to the belief that an increase in the number of shareholders would weaken their earnings. Here, a financial manager's difficult task is to balance return, risk, cost, sustainability, and wealth maximization.

Therefore, the policy of capital structure includes a balance between risk and return. The use of more loans as a source of financing increases the risk to shareholders and is often accompanied by a high expectation of a return on equity and a high degree of risk, which reduces the value of the shares.

Capital structure is different from the financial structure. It is part of the structure of the institution's money and is the permanent financing that usually consists of long-term loans and equity, including preferred shares. However, financing structure means the identification of the appropriate mix of property debt that is determining the structure of funding policy for the firm, debt plus equity.

The various forms of capital structures have been linked to the degree of financial leverage, with the purpose of special advantages for insurance companies if they are made in return for assets higher than the borrowing cost. In order to attain this, the company needs to develop its financial and

investment policies in line with its position and nature. Therefore, this can maximize the shareholders' wealth and increase the value of the company in the financial market. Additionally, the identification of a range of risks to which the greater the dependence of the company on the sources of self-funding, the less these risks and increase the risks if they rely on external sources (creditors).

To achieve this, the company needs to develop its financial and investment policies in line with its position and nature in a way that it can maximize the shareholders' wealth, increase the value of the company in the financial market and identify a range of risks to which it is exposed. The more the company relies on self-financing sources, the lower these risks whereas the greater the risks if they rely on external sources of financing (Abdulfatah, 2014).

3.2 The funding sources of capital structure

Financing sources are the funding flow that a company obtains for the purpose of investment from various sources in different forms such as long-term and short-term. This combination of funding sources is called capital structure. The capital structure consists of borrowing or equity or a combination of both. The percentage of this combination could vary between from firm to firm or firm time to time for the same company according to the financial policy that firm follow. Figure 2.1 presents capital structure elements in details.

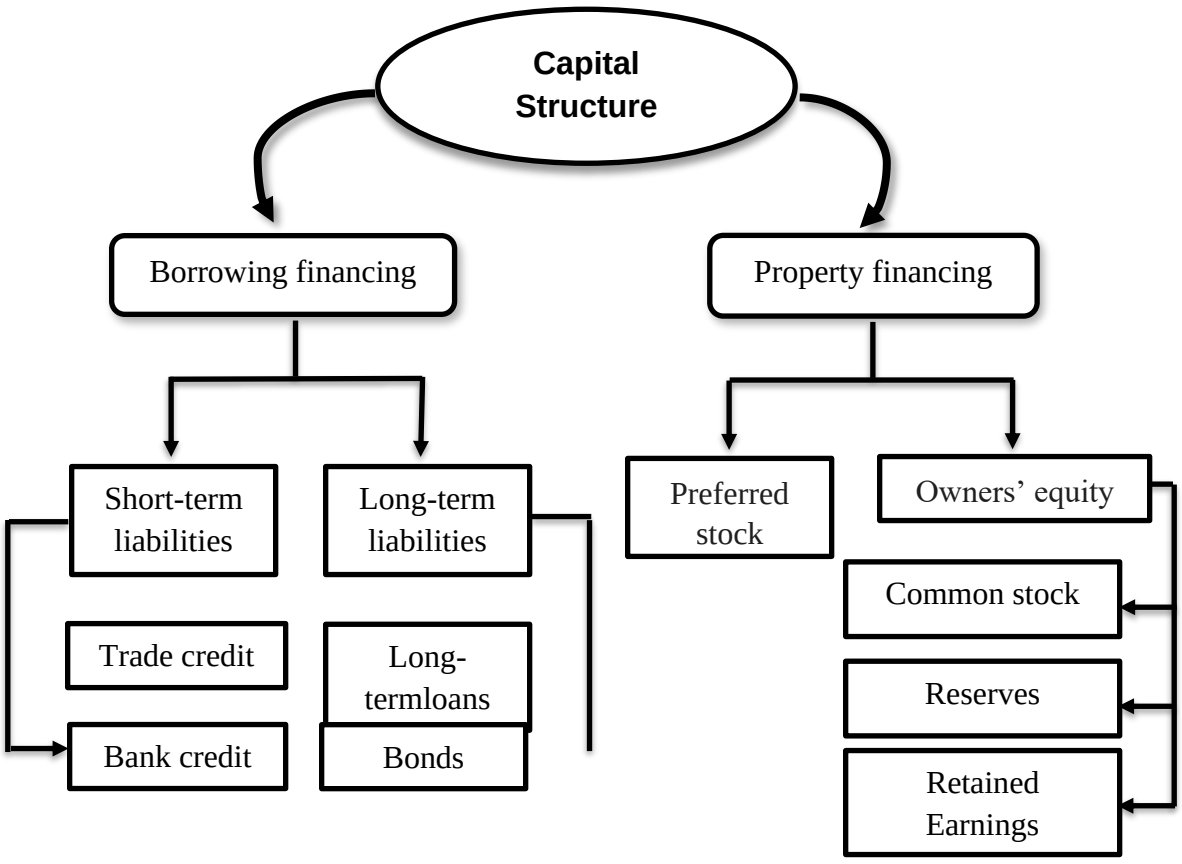

FIGURE 2.1

Available funding sources for a firm

(*Source: Nuaimi and Khrsha 2007*)

3.3 Borrowing financing

This part of capital is debt and creates a liability for the firm to pay off at the end of the arranged period. Liabilities can be either in the form of short-term or long-term debts.

Short-term borrowing represents funds received by a company from third parties and is obligated to repay them within a period not exceeding one calendar year. Short-term debts are used to finance temporary financial requirements in current assets. As a consequence, this lending term is split into two main types, enterprise credit and bank credit. First, trade credit is described as a short-term credit granted to the purchaser by the seller when the purchaser purchases goods for resale. This concept is exempt from commercial credit, medium-term or long-term financing offered by fixed asset vendors; and consumer finance, such as installment purchases. Second, bank credit means short-term debts obtained by the company from banks. This type comes in the second row after commercial credit in terms of the degree of dependence on the institution as a source of short-term financing. Moreover, this kind of debt is less expensive than commercial credit.

On the other hand, long-term borrowing represents funds received by a firm from third parties and is obligated to repay them within a period exceeding one calendar year. Long-term debts are used to finance long-run financial investments in fixed assets. Modern institutions seek to provide financial resources from multiple sources in different forms according to the prevailing conditions in the financial markets and the direction of their administrations. The purpose here is either to bear risks or avoid them. Long-term borrowing is one of the main sources of financing for institutions. They are mainly long-term debts and bonds.

A company obtains long-term debts from financial institutions and insurance companies such as banks. These debts are obtained through direct negotiation to transfer funds from the lender to the borrower in accordance with the terms specified in their contract. Interest is paid periodically, and the loan is amortized in equal installments on certain dates or once at the agreed maturity date. The most important characteristics of debt are the interest rate, due date, mortgages, and the use of the debt.

Bonds are long-term borrowing issued by the borrowing firm that gives its holder the right to receive the face value of the bond on the maturity date and gives it the right to an annual interest rate which represents the percentage of the face value. In other words, it allows the bondholder to make capital gains and may also be exposed to capital losses. Its market value is determined by the degree of risk to which the bondholder is exposed.

3.4 Property financing

The second element of corporations' capital is shareholders' equity. Equity shows the portion of a business which is owned by its shareholders. Equity funds are the primary source of financing for new enterprises and it is also considered as one of the basic funding for existing institutions. We will address the most important components of this source which are represented by preferred shares, common shares, and retained earnings.

Preferred share is a title deed and it is considered as an important source of long-term funding for the company. It is also characterized by combining equity and borrowing properties. It is also a form of capital invested in the company and an excellent position towards stocks. The book value of this share is calculated by dividing the total capital generated by preferred shares by the number of preferred shares.

In addition to preferred shares, owners' equity creates a significant portion of the capital of a firm which is financed through shareholders' properties. This element consists of common stocks, reserves, and retained earnings. Common stocks are shares that do not have any priorities or special precedents, whether in the declaration of dividends or in bankruptcy and liquidation circumstances. These shares are the foundation of the company's goal of valuing them in the stock markets. It also represents the capital provided by the owners when the foundation is established.

Reserves are another element of owner's equity. These funds are collected by the company and deducted from recognized and undistributed profits within a particular ear or cumulated from the undistributed profits of several fiscal years. Reserves of any kind are net undisclosed profits recorded in a special account which is the reserve account. Therefore, they are considered to be the rights of the owners of the firm. There are three main types of reserves which are legal reserves, optional reserves, and systemic reserves.

Moreover, retained earnings are another important portion of owners' equity for institutions. Profits represent an important internal source used to finance the institution's long-term financial requirements. It also represents the portion of the profits retained within the enterprise for the purpose of reinvestment. Retained earnings are used in the case of institutions with financial problems when a firm

wishes to reduce their debts or institutions facing volatile economic conditions. The most important advantages of retaining profits are their associated costs are low compared to other financing sources and positively affect the book value of shares.

3.5 Review of Theoretical and Empirical Literature

The pioneering study of Modigliani and Mill Operator (1958) began to examine the companies' financial system. I am of the view that the funding activities of a business would not affect the value of the product. Nevertheless, this vision was revamped in 1963, by educating backers. It has been known that the profitability of a company is often enhanced by a shift in the organization's own capital structure. In 1984, a war was revived with the concept of a pecking order for the optimum capital structure. This hypothesis proposed that effective companies should limit their bond capital usage to fund indoor stores to a minimum (Myers and Majluf , 1984). The resulting inactive trade-off principle implies that firms select goal usage levels in terms of cost-benefit trade-offs through an rise in leverage. Where little improvement has been created, companies must constantly account for the differences of their core goals.

In the other side, the modification duration is more likely to decline significantly if there are tremendous modification costs (Fama and French, 2002). It's Gleason et al. (2000) concluded that firms should use the definition of degrees of duty and interest in their capital frameworks, irrespective of their success in implementing them, and are intensively prone to passive trade through speculation. The organizational theory brought forth by Jensen and Meckling (1976) is therefore important to the debate. The theorem analyzes the office's question between owners and officers regarding the value-added company, with regard to the allocation of bond prices, in relation to bond investors and shareholders. The Company Theories note that the usage of a moo equity-to-asset ratio (total debt-to-asset) in the corporate capital system serves as an teacher to minimize the potential costs of the business and maximize valuation by pressuring or encouraging the management firms to take action more directly within the background of the shareholders who named them (Berger and di Patti 2002; Grossman and H).

The usage of a company that ultimately influences its operational expenditures would have an effect on the performance of the project either in contravention or strongly at any given moment. Berger and Patti (2002) indicated that large-scale use of optimal circumstances may result in a reduction in the organization's business value and administrative costs. It will boost the agent's drive to produce the performance. Throughout this situation, expanded usage typically leads to an rise in the expense of an company and entails financial problems as a consequence of potential conflicts between shareholders and management and possible liquidation. The branding theory therefore stipulates that company executives demonstrate a enthusiasm for the future activity of a companies through capital structures.

Through such findings, it became incredibly difficult for Fund Directors to find an acceptable funding structure for an entity as they needed a range of financial alternatives. The dilemma is illustrated by the reality that each organization will select the right alternative to reach an optimum financing framework.

3.6 Trade-Off Theory of Capital Structure

A theory of the stock exchange system indicates a profit ratio of a contribution to the business could be the alternative from the fascinated appreciation cover to money stress costs. Companies in the same sector are expected to have an equivalent or identical undertaking to lower investment fund pressure by transferring investment funds to reserve funds. The drawback to these items decreases the penalty charges collected by the post-tax program, thereby lowering the weighted average debt gain. Brigham and Gapenski (1996) maintain that if there are any fee benefits derived from the liquidation, an optimum capital structure will be achieved. It can be inferred that an ideal capital structure occurs for at least the normal weighted resources. Whether this is the case, the financial gathers should be offset in the long term by insolvency changes generated by the fee when the proportion of company usage rises. The theory for trade-offs was to build an ideal capital structure that would decrease the weighted standard capital acquisition and increase firm confidence. In the ideal position in the equity scheme, along with the effects of insolvency the spending interest will be common. The finance program experts neglected to take into account the optimum resource structure following the practical plan for duties funding (Simerly&Li, 2002).

3.7 Agency Theory of Capital Structure

Capital theory is based on the relationship between the principal agent (Jensen and Meckling , 1976). The settlement of interceding commitments, on the other side, with investors and officials who have gained from the dispute is an arrangement requiring particular administrative acts. The interesting question is emerging as management manages power to tailor its strategies to the needs of shareholders. The managers, Jensen and Meckler (1976) and Jensen and Ruback (1983), suggest that they sometimes do not choose to retain their shareholders.

The proportion of usage must be increased to resolve this problem (Pinegar and Wilbricht, 1989). This means that managers operate for the good of shareholders. If they plan to take an interest in gambling or non-profit activities and cannot repay their bonds, bondholders will sue for liquidation and put their employment at risk. The company's philosophy is that the usage of businesses by consumers is rendered safer by the ability to monitor management practices (Boodhoo, 2009). This will lead to lower job losses and the workforce's turnover, thereby improving management performance (Jensen 1986, Koehhar 1996, Aghion, Dewatnipont and Rey 1999), [Friedrichsbruck, (1999)].

3.8 Pecking Order Theory of Capital Structure

The emphasis was on financial recovery and benefits from the optimum resource structures in the prior inquiry. The emphasis was on obligation use. The Picking Order principle is intended to demonstrate the application of bond financing. The hypothesis businesses tend to finance their activities from inside the assets created under the pecking systems, because there is no negative flag that will cover any product expense of the business. If it be acceptable in-house, businesses would want, some time ago, to challenge their duty to take care of the interest issue. Such consensus emerges as it is less likely to be a negative warning from financial analysts. If a company is interested in compensating, it gives a derogatory signal to speculators that the company's expenses are swelled up and, therefore, the directors provide value. Speculators instead sell their purchases at the cost of the capital of their client. Therefore, the focus of a share issue is interpreted as a terrible indication, rather than a duty, if the reverse is insufficient. The theory of structure-picking is also a rival concept of a structure of capital, which notes that companies promote internal management.

3.9 Optimal capital structure

The optimal capital structure is the fairest combination of equity, preferred stock, and common stock, which enhances the company's profitability in the spotlight and reduces capital expenditure. Debt financing provides deductibility in theoretical terms the most marginal cost of capital. Nevertheless, a part of a claim reduces the responsibility for the assets of the speculators as they apply. Therefore, businesses would consider the best opportunity to work with reduced prices and the marginal benefit of the duty. Within Modigliani and Mill 's ads, liquidation charges, business expense and data asymmetry are used, without price. A company's estimation is not influenced in a crowned ad by the financial structure.

The optimum configuration of the resources is determined by calculating the mix of contribution and valuation that decreases the weighted average capital gain (WACC) but at the same time the interest outside the advertisement system. When capital investment is lower, the more unambiguous is the viewing calculation of the company's future cash flows, which the WACC limits. Therefore, the aim of each account office must be to identify the right capital structure resulting from the lowest WACC and the organization's most notable estimate.

Under dynamic markets, a firm's financial structure does not vary as its increasing strength and the failure of its essential property are a function of a corporation's market equations. Modigliani and Miller note that the company's firm purpose is regardless of the funding system and the confusion utilized. MM Hypothesis provided two proposals: firstly the capital structure states that the productivity of a company is insignificant. To order that the value should not be affected by the buyer's option to

purchase the property, the calculation of the independent entities will remain the same as before. The estimation of a organization depends on the future income predicted. Everything occurs because there is no profit. There is none. The second plan states that the return on debt raises the company's income and decreases the WACC value. That is when information pertaining to taxation is accessible (Modigliani and Miller, 1958).

Furthermore, the theory of pecking order focuses on the expense of asymmetrical knowledge. This approach indicates that businesses have a less reactive form of managing their financing system. Bank investment is the first option to debt and international capital borrowing as a last step (Myers and Majluf , 1984).

The cost of borrowing is perceived to be more expensive than the cost of investing to compensate for the additional risk. The total return required to reward bondholders is lower than the average return anticipated to reward stockholders. It may be because the recovery of interest takes priority over the distribution of money to investors and provides advantage to bondholders in the case of bankruptcy. In fact, another explanation for keeping bonds cheaper than equity is that companies obtain a tax discount on dividends charged to bond investors, whereas the transfer of cash in the form of a dividend is a taxable element.

However, there is a restriction on the amount of debt that a company may incur on fund its investments, as the disproportionate amount of debt will raise interest costs, the uncertainty of earnings and the possibility of bankruptcy. This spike in financial uncertainty for shareholders may indicate that they want a higher return to repay them, which raises the WACC and decreases the company's stock valuation. The perfect financial plan needs enough dependency on equity to reduce the possibility of not being able to fund the loans, taking into account the volatility of the company's cash flow.

3.10 Capital Structure and Firm Performance Nexus

Two strategies of execution, conventional approaches for accountable recognition (ROAA), return of price[ROAE], share benefit and Tobin quantity), and profitability conduct, for example wildness outcomes, can be recognized in the estimation of the effect on activities of companies with capital resources (Berger and di Patti 2002). To show the interest of advertisement demand for the benefit of the products, Abu-Rub (2012) used the following steps of order to assess the capital-structure effect on the company's output: ROAE, ROAA, Stock Revenues, Tobin's Q and Media Sector. With respect to Hansen and Wernerfelt (1989) in relation to the influence of the capital structure in the business execution, external and internal variables have been defined as determinants of the business execution. On the other side, Ahmadet al. Al. (2012) four variables have been established that were

considered historically to have an effect on the operations of a organization related to the management of the capital structure. These are market measures, money development, process building and productivity (known to be control factors). Ahmadet al., man. (2012) suggested that a strong and unfavorable relationship with ROAA is formed between short-term commitments (short-term debt-to - equity ratio) and rise in liabilities (added to the debt – to – equity ratio). On the other hand the interaction between all operating factors and ROAE was strong. Chenet al. in a separate study (2008) the growth in ROAA was reported to have been weaker than that of smaller businesses as a consequence of the shift in capital structure for major corporations. Developments in use were closely linked to growth changes in the ROAE. Gleasonet et al. (2000) ties between the company's success and use (where use is measured as a debt-to - asset ratio add-on) and ROAA as an execution métric have been examined (2000). We observed that the company's overall liability has a major adverse impact on the drug's activity.

The paper claimed that the project's execution did not focus on the capital arrangement; nevertheless, the estimates appeared to have an effect on the way the project was carried out, particularly if the project's use was usually limited. Mesquita and Lara (2003) suggested that there was a possible but not critical correlation between ROAE and long-term responsibility (long-term debt / total risk ratio), whereas short-term obligation (total responsibility / total liability) had a favorable association with ROAE. I decided that a short-term plan would be a window of opportunities for companies that I would leave or stay involved. This argument was supported by the views of Zeitun and Tian (2007), Noe (1988), Heinkel (1982) and Ross (1977). Hoffmann (2011) examined the revenue / share relationship in the sector over a span of 13 years, utilizing experience in the US cash management industry, and noticed a negative association between the equity / share ratio and the profitability of banks, provided that there is a non-monotonous connection between some U-type variables. This implies that higher usage can initially result in lower costs and firm acceptance, while potentially raising the costs of insolvency and budgetary problems above a certain limit (Berger and Di Patti, 2002).

In addition, Berger (1995) analyzed the connection between capital-to-asset and bank productivity and concluded that there was a strong and significant correlation between capital-to-asset ratio and bank profits. This would lead in lower expected spending and lower recorded spending, which compensate for a large portion of all revenue misfortunes. Throughout Ghana’s increasing theoretical community, influences are discussed and the connection between capital structure and results is assumed. Antisan Abor (2005) has demonstrated that ROAA is basically related to short-term bonds (short-term debt-to - asset ratio) based on study of the financial framework and operation of 22 firms listed on the Ghana Stock Exchange. The long-term spending (a long-term debt-to - asset ratio) he claimed had a substantial adverse impact in execution. It is aligned with that of Hadlock and James (2002), who

indicated that effective businesses tend to be interested mostly in the short term. Bokpinet al. (2010) found out, however, that businesses in GSE use broad bond funding and thus tend to be likely to favor short-term transactions in the funding of their activities. Two of the main problems discussed with the current studies of the capital structure by Berger and di Patti (2002) is the inability to engage in the analysis of the transition from the application to the capital structure and the subsequent misconception of the impact of the capital framework on the application of the capital structure. A favorable association between execution and equity and liquidity (liquidity – to-asset ratio) has been established, using a two-stage Lwer Quad (2SLS) approach to control invert correlation from execution to capital structure. It is compatible with the signaling theory (predicts that banks would possibly function better with higher capital). It was inferred.

3.11 The determinants of capital structure.

A controversial theoretical as well as scientific partnership is the connection between productivity and capital structure (Akgul and Sigali, 2018; Cevheroglu-Acar, 2018; Kara and Erdur, 2015; Sbeti and Moosa, 2012). In order to obtain a tax shield advantage, a firm may choose debt between the two debts and equity options (Modigliani and Miller, 1963). Profitability often has a significant impact on the challenges of free cash flow. In such cases, Jensen (1986) argues that debt can act as a control tool to guarantee that administrators will not meet their specific goals.

Hypotheses explaining the connection between capital structure and efficiency are ambiguous and there are no simple theoretical conclusions in previous scientific studies. The pecking order hypothesis expects a detrimental effect on the competitiveness of the capital system, as the theory claims that companies favour internal finance over external sources in general. As a result, companies with strong productivity ratios will have lower leverage as they rely on income to fund their ventures. In other terms, these businesses will not need external financing (Gill and Mathur, 2011). Empirically, the majority of studies found a negative correlation between competition and control (see, for example, Ab Wahab and Ramli, 2013; Akgul and Sigali, 2018; Baltacı and Ayaydın, 2014; Guner, 2016; Tomak, 2013; Yolanda and Soekarno, 2012; Wahab et al . , 2012). The trade-off theory would, however, suggest a beneficial relationship between competition and regulation. The theory argues that high leveraged companies would have a greater chance of shielding income from taxes, which in turn would increase profits. The principle of free cash flow indicates a favorable correlation between competitiveness and leverage. Companies with strong productivity prefer to invest bigger loans and seek to convince management to stop investing on unproductive ventures and then pay out cash (Bauer, 2004). As a consequence, several observational research, such as Fattouh et al. (2002), Salawu and Agboola (2008), have demonstrated a significant effect of competitiveness on leverage.

In the grounds of the pecking order theory, high productivity companies have the capacity to utilize internal leverage to fund their ventures instead of debt and equity. As a result, the negative impact of profitability on the leverage ratio is expected to keep the investment level constant. Nevertheless, companies who have a higher leverage ratio of price information is asymmetric can convey greater production to the customer. In fact, productive businesses can fear a possible weakening of control and so prefer not to issue equities.

At the other side, the exchange hypothesis balances assumptions that competitiveness and flexibility are favorable. Fama and French (2002) suggest that the risk of bankruptcies is increasing as productivity rises. A high-income company is also more likely to raise its ability to profit from the tax shelter (Frank and Goyal 2009). In comparison to low-income companies, investors can prefer to have high-performance cash flows to a company (Wiwattanakantang, 1999). In brief, high profitability requires lawsuits and operating expenses, and thus a higher debt of a company is likely to have a significant and negative effect on leverage.

In Myres and Majluf (1984), companies note that they prefer to utilize secondary capital and spend earnings first and last since, in the asymmetry of information arising from the pick sequence, the assumption is that leverage / profitability became unfavorable. Nevertheless, under the theory of trade-offs, companies with high profitability prefer to maximize flexibility under order to take advantage of the tax shield. The relationship between power and efficiency is also positive. Within the literature, cash and equity dividends are widely used to measure company profits.

Asset structure (tangibility): Hypotheses surrounding capital structures say, in turn, that the type of the commodity owned by the company influences the judgment on the capital structure in some manner. Titman and Wessels (1988) note that balances of revenue, gross facilities, net assets, and equipment are not considered part of the land. Titman and Wessels, (1988) explained that there is a negative association between leverage and intangibility, and there is a positive connection between leverage and tangibility. The theory of tradeoffs and the theory of organizations that characterize positive partnership visible properties have, in fact, stronger levels of dedication than intangible ones. This ensures the actual assets will boost flexibility. As a consequence, this sort of asset will reduce the risk of financial distress. Any of the earlier studies (e.g. Akgul and Sigali, 2018; Acaravci, 2014; Bevan and Danbolt, 2002; Chen, 2004; Koralun-Bereznicka, 2018; Wahab et al., 2012) indicate a positive relation between control and tangibility. Consequently, the concept of the pecking order of the capital structure can explain a negative relationship. Empirical data are also available (see, for example, Baltacı and Ayaydın 2014, Serghiescu and Vaidean 2014; Mugosa 2015)

In the other side, the two theories of trade-off and organization suggest a positive relationship between capital and control. Debt protection may be listed as one of the benefits of financial assets. Companies are able to access foreign funding easily if they provide a large proportion of profitable properties. In addition, this will increase the flexibility of the company (Sbeti and Moosa, 2012). The sum of financial expenditure and the expense of the entity's liabilities are also explicitly associated with the tangibility of the property (Bosoth et al . 2001). La Rocca et al. (2009) apply to the fact that, if companies may not have insurance for their debts, the company's spending cost will increase. Therefore, if a company cannot give a guarantee, the interest rate will increase or concentrate on the problem of equity rather than the problem of debt (Akgul and Sigali, 2018). A high rate of interest will characterize it.

In the case of bankruptcies, intangible assets are less important than real assets. Bondholders also expect lower risk premiums. Tangible assets can therefore alleviate fears over the expropriation of insider wealth. Plus, Moro et al. (2018) stated that the guarantee operation plays a greater role in countries with comparatively poor creditor coverage. Developing countries are commonly regarded as part of the low creditor security community. In brief, leveraging is believed to be helpful to the tangibility of the property.

A negative connection between power and the tangibility of property can be found in the Picking Order theory. This is because companies with substantial capital reserves are more inclined to rely on domestic cash flows by the utilization of such properties; in other words, businesses that can deliver relatively outstanding cash flows internally are likely to avoid debt funding. As a result, businesses that are more reliant on tangible assets prefer to use less leverage than firms with fewer tangible assets. Instead of investing, such companies prefer to use locally generated funds (Harc, 2015; Gao and Zhu, 2015). In the other hand, the swap theory assumes that power and tangibility have a favorable partnership. Tangible assets here are regarded as debt protection as they may offer financial security to lenders in the event of bankruptcy. Organizations can therefore easily achieve low leverage rates.

Liquidity: Liquidity ratio can have a hazy impact on usage under the Ozkan Agreement (2001). It may be a positive link between liquidity and efficiency, because more leverage enhances the organization's capacity to fulfill its short-term contractual obligations. Negative relations can also exist. The movement of activity is improved, rather than having the obligation to buy the company, with more opportunities to use these resources to encourage speculation. Eldomiaty (2007) suggested that the usage of the liquidity channel would have a detrimental connection. The negative relationship between liquidity and usage has been established by Sbeti (2010), Nikolaos et al. (2007), Ozkan (2001). It is therefore necessary to test the competitiveness of the banks in that regard. Equity is calculated by controlling a portion of the net advances in portfolio equity to roll up assets.

The influence of the calculation on usage is demonstrated by Rajan and Zingales (1995). The business philosophy maintains a close relationship with the commodity and its application as large enterprises expand and their capacity to work decreases. Since insolvency is unlikely to happen to major firms and liquidation is bad, large firms are allowed to apply the criterion more. Big companies are cheaper than smaller firms (Chung 1993). In providing long-term bonds and taking advantage of currency control over borrowers, economies of scale should be used effectively (Ngoyer and Ramachandran, 2006). Growing enterprises need a fee protection, which may involve additional duties (Deesomak, Paudyal and Pescetto, 2004). We are no longer likely to charge and compensate for the cash show at an acceptable price (Ferri and Jones, 1979). Data asymmetries do not favor major banking firms of experts (Cassar and Holmes, 2003). In the long line of thinking, the relationship between company involvement and the operation of both large and small firms has had positive results (see Van Dijk 1997; De Jong 1999; Fama and French 2002; Michaëlas et al 1999; Bevan and Danbolt 2004; Sogorb-Mira 2005; Lobby et al. 2004; Lopez-Gracia and Sogorb-Mira 2008; Psillaki and Daskalakis 2009; Degryse et al. 2, 2000). In comparison to previous statements such as Huang and Melody (2006), Booth et al. (2001) the output of the notifications is the same and Rajan and Zingales (1995) respectively. In the other side, pecking mechanism theory implies that it utilizes and measures a derogatory interaction. High-interest rates associated with such forms of borrowing continue to encourage the usage of vast quantities of short-term loans (Titman & Wessels 1988). One explanation is that a funding organization can't collect statistics on predominantly large companies because they spread their transactions through a variety of areas, but specific data on small businesses can be easily accessed, resulting in more contractually binding small enterprises (Ojeh and Manrique 2005). The underlying source of this is the collection and review of records. Kester (1986), Kremp etc. Start the debate on this subject. The relationship between the measurement and the obligation will be focused on the calculations of Agant (1999), Titman and Wessel (1988) and Bevan, Danbolt (2002) and Diesilas, Papasyriope (2005). The bank estimation is estimated on the basis of the particular labor cost logarithm used by Homaifar et al. (1994).

Inflation: Amid inflationary periods the genuine taken a toll of obligation diminishes. This positive connection is recommended by Jaffe (1978), DeAngelo and Masulis (1980), and Modigliani (1982). Swelling rate is measured by utilizing the buyer cost list for each nation amid the test period of 2004.

Volatility (Firm Risk): Financial instability (including so-called uncertainty) relates to fixed market interest rates and the amount of leverage that a business may draw against it in view of the corporation's income value (Titman and Wessels, 1988) proxy for the likelihood of financial distress. A variety of research therefore, show that the company has a negative association between the maximum strength and its susceptibility (see, for example, Ahmed Sheik and Wang, 2011; Baltacı and

Ayaydın, 2014; Booth et al., 2001). The relationship between the two variables can also be positive, since the intrinsic danger of equities tends to decrease as the value of the properties of the business rises.

The elevated probability of profits can be used as a warning to the business about a financial downturn. As confusion increases, the company is less likely to fulfill the negotiated commitments as appropriate. As a result, the financial assumptions about the level of debt and the volatility of benefits hypothesize a harmful association. Various retrospective studies confirm this assertion (Ahmed Sheik & Wang, 2011; Booth et al. , 2001; Fama & French, 2002). Similar to previous work, we use the ROA benchmark in this study to measure the volatility of the enterprise (Booth et al. 2001; Huang and Song 2006).

For starters, Mugosa (2015) and Wald (1999) using the typical cash fill variance for the first time in the operational cash flow, Booth et al. (2001) The Co-efficient of Price Variance is used by Chang et al. (2009) the regular ROE and ROA variance, Titman and Wessels (1988) use the co-flow to calculate firm variability.

Operating risk: Goyal (2009) argues only now that companies with unreliable supplies are likely to pose a greater risk as costs represent the bank's trading potential. The principle of punching and the principle of trade-offs forecast the negative interaction between reward and use. Higher risks mean that their probability is smaller and that money borrowers will ultimately ask for better returns. Any scorers, such as Bradley et al. (1984), Titman and Wessels (1988), Walsh and Ryan (1997), Kremp and others (1999) and Booth et al. (2001) advise that the loss of employment is counter to the bond's usage for the compelling gain. In addition, in periods of stable business growth, companies aggregated cash to work across moo profit intervals and satisfy volatile demands (Gaud et al., 2005). The occupational hazard shall be determined by the standard deviation of the amount of the final three-year compensation for employment, which shall be separated by the average operating profit over all three years.

It is assumed that the companies controlling their shareholder will not inherently seek to dispose of the properties of the bondholders of the business. In the case of firms developing markets that will be more selective in their future investment options, the direct costs of this Agency partnership may be greater. As a consequence, the expected future growth of the long-term debt rate will be adversely established. Nonetheless, Myers (1977) noted that this company's problem would be mitigated if the corporation has short-term rather than long-term debt problems. This indicates that short-term debt levels will be directly related to growth trends as growing businesses change short-term funding. Business threats were dismissed in the selling of convertible bonds by Gillet & de La Bruslerie (2010) and Green (1984)

companies. This advice indicates that the rise in debt levels will be related directly to the prospects for growth.

Likewise, growth opportunities can be known as financial benefits that improve a business's productivity that cannot be guaranteed and cannot produce existing taxable income. Disagreements in prior publications also suggest a negative correlation in terms of growth and debt. Price indicators are the growth rate of gross assets determined by the change in combined assets (GTA) and total assets (EC and TA) investment. Increased research and engineering expenses typically include companies in the production of more developments. Company sales R & D (RD / S) also performs a vital position in explaining economic growth features.

Throughout the literature we have read (see, for example, Kara and Erdur, 2015; Cewheroglu-Acar, 2018) there has been a correlation between capital structure and business growth. Hypotheses exist, though, to explain this relationship in different ways. In reality, this interaction's scope would be affected by the different changes in the capital system. For example, the relationship between leverage and growth, based on organizational philosophy, is believed to be negative. The theory indicates that, in order to increase flexibility in successive years, companies with high growth capability tend to maintain financial elasticity (La Rocca et al., 2009; Myers, 1977).

Nevertheless, there are a variety of other justifications for the correlation between the capital structure and the opportunities for growth in literature. In the first place, when a company has a greater ability to grow, free cash flow expenses stay lower for the organization (Jensen , 1986). Second, Harris and Raviv (1991) recognize that companies with good growth potential are unlikely to finance their acquisitions entirely by debt, since the financial danger in these cases is very large and the value of immaterial assets will drop dramatically in bankruptcy. Eventually, the problem of asset replacement is especially critical for businesses with higher growth chances than those with lower growth chances. This also allows lenders to claim higher interest costs. This means that businesses with strong growth opportunities pay less debt.

Nevertheless, the principle of law enforcement promotes a strong association between power and development potential. Funding is the chosen method for growing the asymmetric level of teach (Myers, 1984). In turn, companies will lead, first, to retained earnings; second, low-risk debt; second, high-risk debt; and, last, new equity. This follows because even though businesses were granted enormous investment incentives, cash flow from the inside will still be needed. The first alternative is debt to fund the growth of the company. The consequence would then be large loan rates in these organizations. Eventually, as companies with higher growth potential generate more asymmetric content, high leverage is a kind of indication of the efficiency of their investments.

In fact, the relationship may also be explained by the concept of control and growth. Such enterprises may experience substantial financial problems, despite future growth prospects, because growth opportunities may raise social risk concerns that further drive the enterprise into risky conditions (1989, Basque Country). It approach will lead to financial problems. In fact, this contributes to a reversal of the partnership between power and development opportunities. The punching order theory suggests that the enterprise's growth will contribute to the depletion of internal cash reserves and the loss of financial assistance will enable companies to consider external sources of financing (Michaelas et al., 1999). Overall, the effect of growth opportunities on the funding plan (capital structure) is sometimes contradictory.

3.12 Nexus between Audit and Performance

CEO and Company Awards for Results: Throughout today's dynamic market climate, there is a need for professional throughout-house assessments, because they can be vigilant regarding trade details, structures, innovations, success and other company developments. This must be able to disengage the consistency, the shortcomings of the metrics, the application structures and the approaches that function and do not function (Hala 2003; Clikeman 2003). Throughout the form of the expansion, the Chief Examining Officer's high-quality request is to advance the standard of the review and, hence, the present assessment of the steps that vector across the study. The Head of inside Analysis has been certified with qualifications such as the CIA, the Certified Government Examining Advantage (CGAP), the Certified Money-Related Administrations Evaluator (CFSA) and the Self-Assessment Performance Certification Service (CCSA) and the CRMA, where valuable assessments are obtained on each botch. The present thought anticipates the Chief Assessment Officer's ability to thoroughly exploit (Eighme and Cashell, 2002) Businesses that have experienced a respectable run-of-the-mill period should have a more effective position to play in facilitating the usage of executive externals. (Eighte & Cashell, 2002)

Size of Internal Audit and Firm Performance: Internal Auditing (IAS) is important to improve corporate performance. The total amount of regular auditing sessions of the Internal Audit Services Commission is indicative of the size of the corporate audit. The role performed by the committee is well demonstrated in this specific chapter with the usage of various hypotheses. The research by Jensen (1993) aligns with Lipton's and Lorsch (1992) recommendations for the structure of a variety of boards with 7-8 board members. The board of directors, composed of eight or less members, has been proposed by Firsteberg and Malkiel (1994) to promote participation, constructive engagement, and stronger discussion. Shaver (2005) also reported that larger committees are mostly characterized by work allocation, leading to social loafing, allowing group fractionation and reducing a commitment to

evolving strategies. From the asset dependence hypothesis it is assumed that, due to the special capacities, knowledge and mastery of meeting space, the larger board estimate will lead to higher corporate execution. Furthermore, sheets of expansion will have different characteristics for industries to obtain basic properties and eliminate natural hazards (Goodstein, Goodstein, Gautam & Boeker, 1994; Ghazal, 2010; Pearce & Zahra, 1992; Pfeffer, 1987). Likewise, in view of the the opportunities and the autonomy assessment board in Malaysia, Hutchinson and Zain (2009) analyzed the relation between the internal (research and accounting capacity) framework and corporate execution (ROA). The data was obtained from the annual report using the questionnaire and other supplementary information. The identified sample consists of 60 companies listed during 2003 in Malaysia Bursa. In order to check the correlation between internal audit and performance, multiple regressions were used by the study. The present review contrasts the efficacy of the Chief Audit Officer and the size of an organizational examination with current business performance, focusing on their feedback from previous studies. No work has so far investigated the link between internal auditing and the organization's performance thus checking the vital function of internal auditing in an company. This work also attempts to do something different and uses the Internal Audit system to improve the organization's productivity.

Experience of Internal Audit and Firm Performance: The third focus of the IAC is the internal analysis. Unless a person has several long confrontations, he / she will make a smart decision and quickly and easily pick some situations. These considerations are calculated based on the number of people collected over a long time by means of an email survey submitted to each company. Master people also embrace the confidence theory of asset dependence and its supporters, because they know exactly how to compromise and accomplish their work tasks in a consistent manner. Master people have resources for the development of the company. So once the organization has a board of directors of high-level professionals, it will help to keep it out of the market, making it harder for businesses to run. Several researchers have explored the connection between internal evaluation and firm adoption in established and emerging nations. In reality, specialists are required for the growth of emerging economies. In the context of this relationship, a few experts are discussed below. Hutchinson and Zain (2009) explored the connection between internally-focused and trained accounting audits and the Return on Assets (ROA) market outcomes and growth prospects and the Committee's freedom of inspection in Malaysia. The research identified two separate methods to the analysis and relevant data from the financial accounts. There were 60 companies listed in Malaysia Bursa in 2003. This element tests the interaction between the company investigator and the business, using a different mutual inquiry, and noticed a surprising connection between internal review performance and firm outcomes. Prawitt, Smith and Wood (2009) also discussed the relationship between internal analysis efficiency

(involvement and capacity) and benefit control. This present work has gained adequate expertise to approximate unexplained accrual equations for 528 observations in the years 2000 to 2005, in which 218 are alone. The survey also tested the effect of independent variables and dependent variables using OLS regression. The finding indicates a connection between corporate audit activity and revenue management. Accordingly, the analysis of the link between the competence of the internal audit and the performance of the company shows to Al-Matariet al. (2012).

Qualification of the Internal Audit and Firm Performance: The goal of internal audit qualification is to increase the quality of company audits. Leaders with highly qualified internal audit personnel must fix any issues inside the audit team. Competent workers in the audit team are continuing to boost organizational efficiency focused on the philosophy of organizations and resource reliance, because they have a strong knowledge of how to manage and conduct high-quality research. It is evident that few specialists have inspected the partnership between internal inspection capability and firm implementation in the nations and nations of development. In fact, focus has to be given to the growth of emerging markets. Hutchinson and Zain (2009) addressed among the few thoughts on the partnership between the assessment of the internal (examination meeting and book maintenance capacity) and the execution of the business (ROA) with development prospects and the independence of the appraisal committee in Malaysia. Two approaches were used to classify the particular enquiries and supplementary information from the annual study. There were 60 companies listed with Malaysia Bursa in 2003. Numerous parallel tests were used to determine the connection between the company's operational appraisal and its outcomes. The findings revealed a critical link between internal audit control capability and company effectiveness. It's Prawitt et al. (1990) studied the relationship between internal productivity (encounter and capacity) and the administration won in another way. This criterion provided sufficient details for the evaluation of our anomalous sample models for the financial year 2000 to 2005 for 528 company-year perceptions (218 company-type perceptions). He used OLS recurrence to test the relationship between free and hierarchical variables. Results are the relation between the internal evaluation capability certification and the winning administration. As has already been stated, you need questions that have checked the relationship between internal analysis and company execution as well as Al-Matari et al. (2012) to demonstrate?? As such, the new methodology explores the interaction between internal assessment ability and the company's performance.

CHAPTER 4

4.0 REAESRCH METHODOLODY

4.1 Introduction

The section gives detailed procedures required to attain the motive of the study. Base on the type of data used, quantitative technique is utilized on this thesis. The section is sub-categorized into “research design, variable choice and data collection (sampling technique sources of data), model specification method of analysis”.

4.2 Research Design

The thesis concentrates on evaluating the impact of capital structure and internal audit on bank performance in Iraq. Using income statements and statements of financial position reclaimed from Central Bank of Iraq from 2000-2018 quarterly data. “Return on equity” (ROE) and “Return on asset (ROA)” are the dependent variables. Return on asset (ROA) reflect the income derived from the assets of the business and is calculated as net income relative to total earning asset. ROE reflects incomes derived from shareholders equity, calculated as “net income to equity”. Existence of internal audit, Debt to equity ratio, debt ratio and bank size are the explanatory indicators. Fixed effect – random effect models are used to obtained the motive of the research.

4.3 Data Collection

4.3.1 The Study Sample

According to Trochim (2006) sampling is a “method of choosing units (e.g. people or organization) from a population of interest so that by studying that sample we may fairly generalize our results back to the population from which they were chosen”.

The survey entails a population of 22(twenty two) and a sample 11 (eleven) banks from iraq. The data is derived from following banks:

(i) Mosul bank
(ii) Arbil bank
(iii) İslamic bank
(iv) Trade bank
(v) Word bank
(vi) Corperative bank
(vii) İnvestement bank
(viii) İraqi bank
(ix) Tbi bank
(x) Mansour bank
(xi) Lebanon

A non-probability sampling system is conducted on this thesis that is purposive method, whereby firms are chosen on certain criterion pertaining to the topic, which entails financial might, profitability and size.

4.3.2 Source of Data

In evaluating bank performance, a secondary source of data was used via income statements and statements of financial position reclaimed from Central Bank of Iraq from 2000-2018 quarterly data. Other vital sources were obtained from publications. The thesis adapts a quantitative analysesthus it atempts to explore financial ratios in applying the dynamic analysis of cointegration.

4.4 Variable Choice

The segment propounds on chosen variables of bank performance. Performance is frequently evaluated by the use of ROE and ROA for instance: Onaolapo and Kajola (2010), Karaduman et al. (2011).

Debt to equity ratio is calsulated as total debt divided by to equity.

Bank size was evaluated as “natural logarithm of total assets” it was employed by (Padachi et al., 2010, Karaduman et al., 2011). I adapted due to its frequent use in measuring profitability.

Debt Ratio was derived as “total debt over total assets”. Ekwe and Duru (2012) argue that borrowed external funds can magnify a firm’s returns when invested rationally.

Inflation was derived from “consumer price index” (CPI) it was utilized by (Molyneux and Thornton, 1992; Perry, 1992). Who highlighted that the consequences of inflation on prosperity of returns depends on the predictability of inflation. Below is the explanation of the indicators:

Existence of internal audit is measured as a dummy variable 1 for existence and 0 for non-existence.

Table .1: Defination and Notaion of the Variables

	Variable	Measure	Notation	expecta tion

Dependent variable	Profitability	Return on Equity (ROE) = Net Profit/Equity Return on Assets (ROA)= Net Income/ Total Assets	ROE ROA	
Internal factors (explanatory variables)	Bank Size	Natural Logarithm of Total Assets	LOGA	+
	Internal Audit Financial Leverage Debt Ratio	Dummy variable 1 and 0 Debt / Total equity Total Debt /Total Assets	IA DE DR	-/+ +/- -/+

4.5 Specification of Model

The sample of 11 (six) banks is experimented from 2000q1 – 2018q4. "Panel of data is a data set that comprises both cross-sectional and time series elements in a models, the data set consists of n cross-sectional units, denoted i = 1,…,N, observed at each of T that is time periods, t = 1, ….,T. nxT represents the total observation in the data set. The framework for the panel data is explained according to the following regression model "(Brooks, 2008).

$\ln ROE_t = a_{it} + \beta_{1i}\ln IA + \beta_{2i}\ln DE + \beta_{3i}\ln SIZE + \beta_{4i}\ln DR + + \beta_{5i}\ln INF\ e_{it}$; i=1,2,…., N, t=1,2,…T (1)

$\ln ROA_t = a_{it} + \beta_{1i}\ln IA + \beta_{2i}\ln DE + \beta_{3i}\ln SIZE + \beta_{4i}\ln DR + \beta_{5i}\mathrm{InINF}\ e_{it}$; i=1,2,…., N, t=1,2,…T (2)

wherea_{it} symbolizes bank specific effects, *lnROE* is the natural log of return on asset, *lnROA is the natural log of return on asset, lnIAQ* is the natural log of internal audit, *lnDE* is the natural log of debt to

equity ratio, lnSIZE is the natural log of bank size, *lnDR* is the natural log of debt ratio, lnINF is log of inflation and ε depicts error condition, i=1,2,…., N are banks and t=1,2,…T depicts the time interval.

4.5.1 Panel unit root test

For those variables which have a time series characteristic, it is essential to test for unit root. In other words, a unit root test is used to clarify whether a time series variable contains a unit root and is non-stationary. In order to be able to use a variable in a regression model, that variable needs to be stationary either at level of differenced. Each variable is firstly tested at level for a unit root. Almost all the unit root tests state their null hypotheses in a way that a unit root exists in the series and their alternative hypothesis is stationary or trend stationary. Generally, the method to implicitly test for unit root suggests that the variable for test (Y_t) can be stated as:

$$Y_t = D_t + z_t + \varepsilon_{\mathrm{t}} \qquad (3.15)$$

Where D_t is the deterministic element; z_t is the stochastic element; and $\boldsymbol{\varepsilon_t}$ represents the stationary error term.

The purpose of the test is to identify if the stochastic element possesses a unit root or it is alternatively stationary. There are several unit root tests available to test non-stationarity in panel data. The most common used approaches in the literature are the Levin, Lin and Chu (LLC) (2002) and Fisher-specific tests of Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) (Choi, 2001), (Dickey and Fuller, 1981) and (Maddala and Wu, 1999) which their null hypotheses are similarly set for having unit roots in the panel. This study uses all these three types of unit root test (see table 5) to finalise the decisions and for the purpose of robustness check. Latest literature recommends that the tests for panel unit root owns greater control compare to unit root tests for specific time series.

Although the different types of unit root test work to somehow similar on a particular series, they are not precisely identical. Here, we describe the three techniques of unit root employed in this study with dividing them to common and individual unit root tests. In doing so, we should firstly classify the tests according to the presence of restrictions on the process of autoregressive through series or cross-sections. The following AR(1) process (3.16) is designed for panel:

$$y_{it} = \rho_i y_{it-1} + X_{it}\delta_i + \varepsilon_{it} \qquad (3.16)$$

Where X_{it} characterised for the models' exogenous variables, counting for any specific trends or fixed effects; ρ_i represents the coefficients of autoregressive; ε_{it} is the error term which supposed to be mutually independent; and *i* = 1, 2, …, *N* series or cross-section units which are perceived during periods *t* = 1, 2, …., *Ti*. The panel series is thought to be stationary or trend stationary if the unit root of ρ_i is less than 1 whereas it contains a unit root if ρ_i is equal to 1.

Two previously accepted assumptions exist about the ρ_i for the purposes of testing. The first one assumes the mutuality of persistence parameters through cross-sections ($\rho_i = \rho$ for all i). The LLC test for panel unit root uses this assumption. The second one assumes that the persistence parameters differ freely through cross-sections. The ADF and PP tests of panel unit root are of this method. These three tests all employ a null hypothesis of non-stationary (Barbieri, 2009).

LLC method tests for the following simple specification of ADF:

$$\Delta y_{it} = \alpha y_{it-1} + \sum_{j=1}^{Pi} \beta_{ij} \Delta y_{it-j} + X'_{it}\delta + \varepsilon_{it} \qquad (3.17)$$

Where it is assumed that $\propto = \rho - 1$, but lag order is allowed for the difference terms, ρ_i , to differ through cross-sections. The hypotheses of this test can be stated as $H_0: \propto = 0$ and $H_1: \propto < 0$. Null hypothesis states there is a unit root whereas the alternative claims stationarity.

The fisher based ADF and PP tests for panel data both allow for separate unit root procedures which can differ through cross-sections. The p-values of separate unit root tests will be combined to provide the panel-characteristic outcome.

The suggested Fisher-type test for unit root is stated as:

$$-2\sum_{i=1}^{N} \log(\pi_i) \rightarrow \chi^2 2N \qquad (3.18)$$

Additionally, Choi (2001) suggests a Z test as:

$$Z = \frac{1}{\sqrt{N}} \sum_{I=1}^{N} \Phi^{-1}(\pi_i) \rightarrow N(0,1) \qquad (3.19)$$

The hypotheses of these tests can be stated as $H_0: \alpha_i = 0$ for all i and $H_1: \alpha_i = 0$ for i = 1, 2, …, N1 or $H_1: \alpha_i < 0$ for i = N+1, N+2, …, N. Null hypothesis states there is a unit root whereas the alternative claims stationarity.

The results of the three used panel unit root tests are illustrated in table 3.4. The t-statistics of LLC and Fisher Chi-square of both ADF and PP tests confirms that we can reject the null hypothesis of unit root test of all the three tests and for all the variables used in this study. In other words, the employed variables are I(0), meaning they are stationary at their level. This is confirmed based on the small probability values of all the tests, P-value < 0.01. Since all the variables are identically stationary at level, this study can therefore conduct pooled LS, FE and RE models (Acaravci, 2014; Bas et. al., 2009)

4.5.2 Static Model

In static Panel static technique entails duo estimation either “fixed effects (FE) or random effects (RE) models".The individual-specific consequences of a RE is permitted to be connected with the control variables in the fixed effects model. The logic following RE estimation inculcates a single specific effect of an unassociated random variable with the control variables. The FE model is a fitting specification if examining a particular set of N banks and our inference is constrained to the behavior of the selected banks. And to decide the technique that is suitable for my model, the Hausman test should be conducted (Baltagi, 2005). The following are the regression equations to be employed for the random Effect:

$y_{it} = \alpha + '\beta\, x_{it} + uit$

“Where y_{it} is the dependent variable, α is the intercept, β is a kx1 vector of parameters to be estimated on the independent variables, and x_{it} is a 1 x k vector of observations on the independent variables, t = 1, …,T; i = 1, …,N”.

5.4.3 Procedures to Analyzing the result

Datas explored from financial statements was adapted, hence dynamic and static panel are used, it is a prerequisite to for stationarity and cointegration which is for th’e dynamic regression. Moreover “multicollinearity” was also conducted to avoid high correlation among the explanatory variables.

CHAPTER 6

6.0 DATA PRESENTATION

6.1 Unit Root test

The prime focus of stationarity tests was to check if the model variables have a unit root and to determine which model would be used to estimate the relationship between economic growth, foreign direct investment and inflation. The “Augmented Dicky Fuller and Phillips Perron unit root test” are used on the following null hypothesis. The null hypotheses that ROA, ROE, IA, DE, LINF, SIZE, and DR have a unit root are accepted at 5% at level and rejected at first difference since its obtained p-values at first difference are less than 5%. Information provided in table 3 and 4 showed that all the variables are non-stationary at all levels but becomes stationary when first differenced. Such a condition implies that the variable ROA, ROE, IA, DE, INF, SIZE and DR are I (1) and thus fulfilling the conditions of unit root test.

Table 1 unit root test

	ADF Fisher	Phillips-Perron-unit root
Variables	t-statistics	t-statistics
LROA	-2.891268	-3.112929
LROE	-4.755952	-4.813897
LSIZE	-3.981381	-3.937473

IA	-5.512068	-5.546192
LDR	-4.088220	-2.976283
LDER	-1.676672	-2.787789
LINF	-1.573207	-1.674993
ΔROA	-11.07246**	-11.51561**
ΔLROE	-16.95566**	-17.25821**
ΔLSIZE	-15.11441**	-15.49240**
ΔIA	-20.074586**	-7.061979**
ΔLDR	-17.098746**	-13.89938**
ΔLDER	-22.783634**	21.76357**
ΔLINF	-12.758343**	-10.83372**

Note ** represent the rejection of the null hypothesis of unit root at first difference.

6.2 Cointegration

Johansen (1988) offered the "maximum Eigen-value test" that is proficient of discover multiple cointegrating association amid the variables. This highlighted a novel technique for analyzing cointegration among variables. The techniques applied below suggested cointegration exist among the series. The null hypothesis of non-cointerating series is discarded at 5%. Likewise, the Kao cointegration technique also showed the rejection of the null hypothesis of no cointegration at 1% significance.

Table 2: Johansen Fisher Panel Cointegration Test for ROA

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None*	97.95	0.0000	78.66	0.0000
At most 1	297.1	0.0000	295.3	0.0000
At most 2	26.52	0.0090	17.00	0.1494
At most 3	21.58	0.0425	21.58	0.0425

Table 3: Johansen Fisher Panel Cointegration Test for ROE

Hypothesized	Fisher Stat.*	Fisher Stat.*

No. of CE(s)	(from trace test)	Prob.	(from max-eigen test)	Prob.
None*	118.2	0.0000	99.17	0.0000
At most 1	298.2	0.0000	297.9	0.0000
At most 2	26.43	0.0093	16.32	0.1772
At most 3	21.46	0.0440	21.46	0.0440

Table 4 Kao Cointegration Test for ROA

	t-Statistic	Prob.
ADF	-3.188763	0.0007
Residual variance	0.014537	
HAC variance	0.017593	

Table 5: Kao Cointegration Test for ROE

	t-Statistic	Prob.
ADF	-2.933386	0.0017
Residual variance	0.012308	
HAC variance	0.014026	

6.3 Random Effect Model

Table:6 Random Effect Model for ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGA	-0.280132	0.058976	-4.749968	0.0000
LINF	0.133722	0.067411	1.983688	0.0485
LDR	-0.043222	0.016891	-2.558888	0.0112
LDER	1.383439	0.110115	12.56360	0.0000
IA	0.235791	0.057159	4.125160	0.0001
C	-0.938032	0.508069	-1.846269	0.0662
R2	0.29			

Durbin Watson	2.3

LOG A is bank size, LINF is inflation, LDR is debt ratio, LDER debt to equity ratio, IA is internal audit.

The analysis from the RE model revealed that bank size and debt ratio have negatively affects ROA, meaning that an increase in size and debt ratio will decrease ROA by 0.28 and 0.04 respectively. This can be attributed to the fact the selected banks are unable to utilize their assets to generate earning likewise, they were unable to employ proper investment strategies to maximize profitability from assets. However, inflation and debt to equity ratio has a positive consequence on ROA. This suggested that an increase in inflation and debt-equity ratio increases ROA by 0.13 and 1.38 respectively. The results from debt to equity suggested that the Iraqi banks were able to use debt to increase shareholders wealth. Furthermore, existence of internal audit is positively associated with ROA. This suggested the introduction of internal audit on Iraqi banks have brought high performance and profitability as a result of proper asset management.

Table 7: ROE RE Model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGA	-0.306050	0.058116	-5.266188	0.0000
LINF	0.078345	0.066429	1.179395	0.2395
LDR	-0.039514	0.016645	-2.373991	0.0184
LDER	0.521657	0.108510	4.807457	0.0000
IA	0.232208	0.056326	4.122564	0.0001
C	3.603383	0.500664	7.197205	0.0000
R2	0.29			
Durbin Watson	2.1			

LOG A is bank size, LINF is inflation, LDR is debt ratio, LDER debt to equity ratio, IA is internal audit.

The analysis from the RE model revealed that bank size and debt ratio have negatively affects ROE, meaning that an increase in size and debt ratio will decrease ROE by 0.31 and 0.04 respectively. This can be attributed to the fact the selected banks are unable to utilize their assets to generate earning likewise, they were unable to employ proper investment strategies to maximize profitability from assets. However, inflation and debt to equity ratio has a positive consequence on ROE. This suggested that an increase in inflation and debt-equity ratio increases ROE by 0.08 and 0.52 respectively. The results from debt to equity suggested that the Iraqi banks were able to use debt to increase shareholders

wealth. Furthermore, existence of internal audit is positively associated with ROE. This suggested the introduction of internal audit on Iraqi banks have brought high performance and profitability as a result of proper practices in protecting shareholders wealth.

6.4 Conclusion

The study investigates the impact of internal audit and capital structure on bank performance in Iraq. To attain the motive of the study the Random Effect Model is used on a time series of 11 banks from 2000-2018. The results showed that bank size and debt ratio have negatively affects ROE, meaning that an increase in size and debt ratio will decrease ROE by 0.31 and 0.04 respectively. This can be attributed to the fact the selected banks are unable to utilize their assets to generate earning likewise, they were unable to employ proper investment strategies to maximize profitability from assets. However, inflation and debt to equity ratio has a positive consequence on ROE. This suggested that an increase in inflation and debt-equity ratio increases ROE by 0.08 and 0.52 respectively. The results from debt to equity suggested that the Iraqi banks were able to use debt to increase shareholders wealth. Furthermore, existence of internal audit is positively associated with ROE. This suggested the introduction of internal audit on Iraqi banks have brought high performance and profitability as a result of proper practices in protecting shareholders wealth.

6.5 Policy Implications and Recommendation

The “internal audit department is very important inside a firm where the internal audit is regarded as the key element in the application of accounting systems and this in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department’s quality. In addition, an internal audit is considered as a significant part of the Corporate Governance (CG) structure in the organization and CG covers the activities of oversight by the board of directors and audit committees to ensure credible financial reporting process (Public Oversight Board, 1994). Previous studies have attempted to provide a clear picture of the relationship between internal audit (professional qualifications of the chief audit executive, experience of internal audits and internal audit qualifications) and firm performance. If Iraqi banks should put measures in place to increase and enhance their return on asset (ROA), it will reduce their debt ratios. A reduction in banks debt ratios will enable them avoid some of the negative tendencies that is associated with increasing financial leverage such as bankruptcy cost and financial distress. Banks should also have more tangible assets which they can use generate more profit in order to reduce their debt ratios since tangible asset is significant in determining their total debt ratio. Banks should also growth their assets since asset

growth reduces their long-term debt ratio significantly. The government and monetary authorizes should put policies in place to curb inflation in order to avoid unanticipated inflation, since unanticipated inflation reduces banks debt ratios because the cost of borrowing will be very high. Furthermore, commercial bank managers should consciously seek cheaper sources of funding such as consumer short-term funding via attractive interest rates to positively enhance their profitability. This is evident in the recent upsurge in bank short-term deposit mobilization strategies and promotions by commercial banks in the country to enhance their deposit base. Meanwhile, bank managers must ensure they minimize overhead expenses which negatively affect bank profitability. Finally, the positive relationship between the capital-to-asset ratio and performance provides support for bank capitalization policy implemented by the Bank of Iraq".

There is a "notable lack of research in developed as well as developing nations regarding the direct association of internal audits functions and firm performance. More specifically, among these few studies is the one conducted by Al-Matari et al. (2012) who investigated the association between the board characteristics and performance of Kuwaiti firms. They called for future researchers to examine the relation between internal audit and firm performance, both directly and indirectly, or in light of a moderating effect. This study has many recommendations." First, the future researchers to empirically examine the effect of factors of internal audit on firm performance. "Second, the future authors should employ this study in the developing countries considering the necessity of this type of research in this environment. More importantly, future studies could compare between two or more countries in the same economy and culture; for example in the Middle East or exactly in the gulf countries. Third, with respect to the importance of audit quality, the present research considers audit quality as a moderator between the association of audit characteristics and firm performance. This study reviews internal audit studies and found that only a few studies investigated the relationship between internal audit, firm performance and earning management." Last but not least, in consistent to the value of the integration between accounting-based measure and market-based measure together to enhance performance of firms to provide a clearer picture to investors, future studies should look into the how this integration should take place.

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APPENDIX

“Dependent Variable: LROA

Method: Panel EGLS (Cross-section random effects)

Date: 05/13/20 Time: 17:59

Sample: 2008Q1 2018Q4

Periods included: 44

Cross-sections included: 6

Total panel (unbalanced) observations: 230

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGA	-0.280132	0.058976	-4.749968	0.0000
LINF	0.133722	0.067411	1.983688	0.0485
LDR	-0.043222	0.016891	-2.558888	0.0112
LDER	1.383439	0.110115	12.56360	0.0000
DUMMY	0.235791	0.057159	4.125160	0.0001
C	-0.938032	0.508069	-1.846269	0.0662

Effects Specification		
	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.214668	1.0000

Weighted Statistics			
		Mean dependent var	0.631822
R-squared	0.287276		
Adjusted R-squared	0.271367	S.D. dependent var	0.355446
S.E. of regression	0.303408	Sum squared resid	20.62069
F-statistic	18.05743	Durbin-Watson stat	0.198272
Prob(F-statistic)	0.000000		

Unweighted Statistics			
		Mean dependent var	0.631822
R-squared	0.287276		
Sum squared resid	20.62069	Durbin-Watson stat	0.198272

Dependent Variable: LROE
Method: Panel EGLS (Cross-section random effects)
Date: 05/13/20 Time: 18:07
Sample: 2008Q1 2018Q4
Periods included: 44
Cross-sections included: 6
Total panel (unbalanced) observations: 230
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.

LOGA	-0.306050	0.058116	-5.266188	0.0000
LINF	0.078345	0.066429	1.179395	0.2395
LDR	-0.039514	0.016645	-2.373991	0.0184
LDER	0.521657	0.108510	4.807457	0.0000
DUMMY	0.232208	0.056326	4.122564	0.0001
C	3.603383	0.500664	7.197205	0.0000

Effects Specification		
	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.211539	1.0000

Weighted Statistics

		Mean dependent var	2.830120
R-squared	0.138052		
Adjusted R-squared	0.118813	S.D. dependent var	0.324545
S.E. of regression	0.304656	Sum squared resid	20.79060
F-statistic	7.175319	Durbin-Watson stat	0.150812
Prob(F-statistic)	0.000003		

Unweighted Statistics

		Mean dependent var	2.830120
R-squared	0.138052		
Sum squared resid	20.79060	Durbin-Watson stat	0.150812

Kao Residual Cointegration Test

Series: LROE LINF LDR LOGA

Date: 05/13/20 Time: 18:10

Sample: 2008Q1 2018Q4

Included observations: 264

Null Hypothesis: No cointegration

Trend assumption: No deterministic trend

User-specified lag length: 1

Newey-West automatic bandwidth selection and Bartlett kernel

	t-Statistic	Prob.
ADF	-2.933386	0.0017
Residual variance	0.012308	
HAC variance	0.014026	

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(RESID)

Method: Least Squares

Date: 05/13/20 Time: 18:10

Sample (adjusted): 2008Q3 2018Q4

Included observations: 218 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RESID(-1)	-0.253039	0.046222	-5.474370	0.0000
D(RESID(-1))	0.200413	0.068820	2.912146	0.0040

		Mean dependent var	-0.003278
R-squared	0.124552		
Adjusted R-squared	0.120499	S.D. dependent var	0.142375
S.E. of regression	0.133521	Akaike info criterion	-1.179975

			7
			-1.14892
Sum squared resid	3.850845	Schwarz criterion	6
			-1.16743
		Hannan-Quinn criter.	5
Log likelihood	130.6175		
Durbin-Watson stat	2.074013		

Kao Residual Cointegration Test

Series: LROA LOGA LINF LDR

Date: 05/13/20 Time: 18:14

Sample: 2008Q1 2018Q4

Included observations: 264

Null Hypothesis: No cointegration

Trend assumption: No deterministic trend

User-specified lag length: 1

Newey-West automatic bandwidth selection and Bartlett kernel

	t-Statistic	Prob.
ADF	-3.188763	0.0007
Residual variance	0.014537	
HAC variance	0.017593	

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(RESID)

Method: Least Squares

Date: 05/13/20 Time: 18:14

Sample (adjusted): 2008Q3 2018Q4

Included observations: 218 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RESID(-1)	-0.238067	0.042017	-5.665935	0.0000
D(RESID(-1))	0.260733	0.067421	3.867224	0.0001

R-squared	0.143823	Mean dependent var	-0.002207
Adjusted R-squared	0.139859	S.D. dependent var	0.155487
S.E. of regression	0.144205	Akaike info criterion	-1.026036
Sum squared resid	4.491708	Schwarz criterion	-0.994986
Log likelihood	113.8380	Hannan-Quinn criter.	-1.013495
Durbin-Watson stat	2.073322		

Johansen

Fisher Panel

Cointegration Test

Series: LROA LOGA LINF LDR

Date: 05/17/20 Time: 16:08

Sample: 2008Q1 2018Q4

Included observations: 264

Trend assumption: No deterministic trend (restricted constant)

Lags interval (in first differences): 1 2

Unrestricted Cointegration Rank Test (Trace and Maximum Eigenvalue)

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None	118.2	0.0000	99.17	0.0000
At most 1	298.2	0.0000	297.9	0.0000
At most 2	26.43	0.0093	16.32	0.1772
At most 3	21.46	0.0440	21.46	0.0440

* Probabilities are computed using asymptotic Chi-square distribution.

Individual cross section results

Cross Section	Trace Test Statistics	Prob.**	Max-Eign Test Statistics	Prob.**

Hypothesis of no cointegration

1	824.7348	0.0001	504.6864	0.0001
2	72.6025	0.0005	44.2840	0.0002
3	88.5177	0.0000	48.3702	0.0001
4	78.2874	0.0001	44.1752	0.0003
5	91.3970	0.0000	45.4435	0.0002
6	69.9395	0.0010	35.3947	0.0058

Hypothesis of at most 1 cointegration relationship

1	320.0484	0.0000	286.6142	0.0000
2	28.3184	0.2274	19.1932	0.1284
3	40.1475	0.0135	22.9984	0.0399
4	34.1122	0.0651	21.7635	0.0593
5	45.9535	0.0024	31.9017	0.0017
6	34.5449	0.0586	21.6801	0.0608

Hypothesis of at most 2 cointegration relationship

1	33.4342	0.0004	19.4163	0.0134
2	9.1253	0.7245	7.0659	0.6615
3	17.1491	0.1270	10.5148	0.2898
4	12.3487	0.4181	9.4051	0.3916
5	14.0518	0.2859	8.9924	0.4347
6	12.8648	0.3747	7.1054	0.6567

Hypothesis of at most 3 cointegration relationship

1	14.0179	0.0056	14.0179	0.0056
2	2.0594	0.7659	2.0594	0.7659
3	6.6343	0.1471	6.6343	0.1471
4	2.9437	0.5913	2.9437	0.5913
5	5.0594	0.2770	5.0594	0.2770
6	5.7594	0.2101	5.7594	0.2101

**MacKinnon-Haug-Michelis (1999) p-values

Johansen

Fisher Panel

Cointegratio

n Test

Series: LROE LOGA LINF LDR

Date: 05/17/20 Time: 16:12

Sample: 2008Q1 2018Q4

Included observations: 264

Trend assumption: No deterministic trend (restricted constant)

Lags interval (in first differences): 1 2

Unrestricted Cointegration Rank Test (Trace and Maximum Eigenvalue)

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None	97.95	0.0000	78.66	0.0000
At most 1	297.1	0.0000	295.3	0.0000
At most 2	26.52	0.0090	17.00	0.1494
At most 3	21.58	0.0425	21.58	0.0425

* Probabilities are computed using asymptotic Chi-square distribution.

Individual cross section results

Cross Section	Trace Test Statistics	Prob.**	Max-Eign Test Statistics	Prob.**

Hypothesis of no cointegration

1	NA	0.5000	NA	0.5000
2	67.4190	0.0021	37.6496	0.0027
3	90.5924	0.0000	50.4219	0.0000
4	84.2976	0.0000	48.4415	0.0001
5	88.3248	0.0000	44.9929	0.0002
6	63.3062	0.0061	30.6026	0.0273

Hypothesis of at most 1 cointegration relationship

1	481.5110	0.0000	449.0997	0.0000
2	29.7694	0.1710	19.6056	0.1140
3	40.1705	0.0134	23.5596	0.0332
4	35.8561	0.0423	21.5554	0.0633
5	43.3319	0.0054	28.2555	0.0065
6	32.7036	0.0906	21.0375	0.0743

Hypothesis of at most 2 cointegration relationship

1	32.4114	0.0007	19.9551	0.0108
2	10.1638	0.6237	7.4595	0.6132
3	16.6109	0.1477	9.2962	0.4027
4	14.3007	0.2692	11.5377	0.2145
5	15.0764	0.2220	8.5713	0.4811
6	11.6660	0.4792	6.4573	0.7351

Hypothesis of at most 3 cointegration relationship

1	12.4563	0.0115	12.4563	0.0115
2	2.7042	0.6373	2.7042	0.6373
3	7.3147	0.1108	7.3147	0.1108
4	2.7630	0.6259	2.7630	0.6259
5	6.5051	0.1552	6.5051	0.1552
6	5.2087	0.2613	5.2087	0.2613

**MacKinnon-Haug-Michelis (1999) p-values”

PLAGIARISM REPORT

IMPACT OF INTERNAL AUDIT AND CAPITAL STRUCTURE ON BANK PERFORMANCE EVIDENCE FROM IRAQ

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ETHICS COMMITEE APPROVAL

10.10.2021

Dear Salahaddin Mohammed Amin Karim,

Your project "Impact of Internal Audit and Capital Structure on Bank Performance: Evidence from Iraq"" has been evaluated. Since only secondary data is used in the project it does not need to go through the ethics committee. You can start your research on the condition that you will use only secondary data.

Sincerely,

Assoc. Prof. Dr. Aliya Isiksal