Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Volume 28, Issue 2 (2026) ISSN$_{Print}$: 1816-9171
DOI:/ /doi.org/10.33916/qjae.2026.02452467

The Contribution of Audit and Internal Control in Reducing the Asymmetry of Information on Administrative Decisions

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Received: 05/03/2026
Accepted: 10/06/2026
Available online: 30/06/2026

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Abstract: Information asymmetry among different management levels and between top management and other managers is one of the most significant factors affecting the quality of administrative decision making in organizations that leads to escalating risk to make erroneous decisions due to absence, distortion or heterogeneity of information. In this spirit, we analyze the role of internal audit and internal control systems as two restraints system on trustworthy information generation, information asymmetry reduction and transparency in the administrative environment. The study seeks to investigate the relationship between internal audit effectiveness and efficiency, the role of the system of internal control on one hand, and information asymmetry in administrative decision-making at another hand theoretically Induced, supported by relevant literature. Under the auspices of this theoretical reflection, the study emphasized that introducing an efficient and effective control and auditing system helps in enhancing information reliability, as well as improving the quality of administrative decisions made by the management, thereby lowering the risks resulting from opportunism and conflict of interest inside organizations.

Keywords: Internal Audit, Internal Control, Information Asymmetry, Administrative Decisions, Administrative Transparency.

1. Introduction:

Having a accurate insightful information provides the foundation to make sound management decision in today's organizations . But in the actual world, there exists an information disparity between the two administrative bodies (which is termed information asymmetry) and this not only lowers decision–making quality but also raises stakes and possibly leads to irrational administrative actions when some parties have no or monopolized information (Healy & Palepu, 2001).

Recent findings in literature have established that internal control and audit systems are a fundamental mechanism to mitigate such problem, as they guarantee the accuracy and reliability of information, increases the discipline in an organization, construct tighter organizational disclosing mechanisms, and generate transparency between management processes (risk) Arems et al., 2019. Efficient internal control also lessens the chances of false or misleading statements, and helps in enhancing reports quality as well as administrative outputs (COSO, 2013).

Conversely, internal audit has a strategic role to value MIS by influence on its weaknesses, and making recommendations imposing the trustworthiness and reliability of MIS itself so that indirectly be able to reduce the information gap between decision-maker and other parties at organization (Gramling et al., 2015).

This study poses the question about whether auditing and internal control reduce information asymmetry, in relation to administrative decisions, given the theoretical framework and analytical model grounded in specialized bibliography above.

Research Problem

The research problem is that many institutions suffer from poor quality of administrative decisions as a result **of the asymmetry of information** between administrative levels, despite the existence of internal control and audit systems, which raises a fundamental question about the efficiency of these systems and their actual ability to reduce this phenomenon.

Research Gap

Although there are many studies that have dealt with the role of internal audit and internal control in enhancing transparency and improving performance, a limited number of studies – especially in local and Arab administrative environments – have dealt with the direct relationship between **audit and internal control and reducing information asymmetry in management decisions** in an integrated manner, highlighting the need for a more in-depth study that links these variables within a clear analytical framework.

Research Hypotheses

1. **H1:** There is a statistically significant relationship between the effectiveness of internal audit and the reduction of information asymmetry in management decisions.
2. **H2:** There is a statistically significant relationship between the efficiency of the internal control system and the reduction of information asymmetry in administrative decisions.
3. **H3:** Internal audit and internal control jointly contribute to reducing information asymmetry and improving the quality of management decisions.

The importance of the research

The importance of this research stems from the following points:

- It highlights a fundamental issue related to the quality of the administrative decision.
- The strategic role of internal audit and internal control as tools for controlling information is highlighted.

- It provides a scientific addition by linking the field of auditing with the concept of information asymmetry.
- It provides a foundation for researchers and decision-makers to develop more effective surveillance policies.

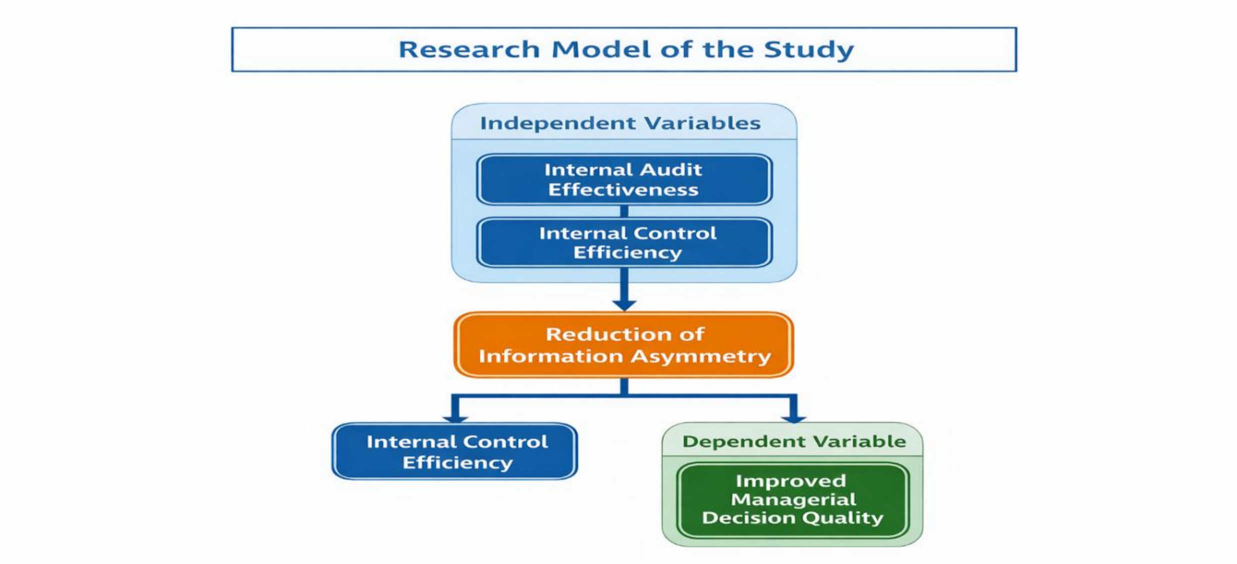
Research Objectives

The research aims to:

1. Explain the concept of information asymmetry and its effects on administrative decisions.
2. Clarify the role of internal audit in enhancing the reliability of information within the organization.
3. Analyze the role of internal control in reducing the risk of missing or distorted information.
4. Building an analytical framework that illustrates the relationship between these variables.
5. Presenting theoretical results that can be used in future applied studies.

Previous Studies (Brief Forms)

- The **study of Healy & Palepu (2001)** that addressed the phenomenon of information asymmetry and its impact on business environments.
- A COSO (2013) **study** that confirmed that effective internal control systems enhance information transparency.
- Gramling et al. (2015) **study** that illustrated the role of internal audit in strengthening information systems and reducing risk.
- Many Arab studies have confirmed the role of auditing and control in improving the quality of administrative information, but without a direct and comprehensive link to the issue of information asymmetry.



First Topic: The Theoretical Framework of Audit and Internal Control and Their Relationship to Information Asymmetry in Administrative Decisions

First: The Concept of Auditing and its Role in the Business Environment

Auditing is one of the most important professional mechanisms aimed at enhancing confidence in financial and non-financial information within an organization, as it aims to verify the accuracy and reliability of data and the extent of compliance with adopted accounting and control policies and standards. Auditing is defined as: *"a systematic process of collecting and evaluating objective evidence related to statements about economic activities in order to determine the compatibility between those declarations and established standards, and to communicate the results to relevant parties"* (Arens et al., 2017).

As the business environment evolves and the volume of information increases, auditing is no longer limited to financial statements, but has also expanded to include operational auditing, information systems assessment, and risk management, ensuring that correct and complete information reaches senior management and the Board of Directors, thereby reducing the risk of decisions based on incomplete or misleading information.

Second: The Concept of Internal Control and Its Dimensions

Internal control is an integrated set of policies and procedures designed by management to ensure the efficient and effective achievement of the organization's objectives, protect assets, document processes, and ensure information accuracy. The framework of the

COSO defines internal control as:
"a process designed and implemented by the board, management, and employees, to provide reasonable assurance regarding the achievement of objectives associated with operations, financial reporting, and compliance with laws and regulations" (COSO, 2013).

The internal control system usually consists of:

- Controlled environment.
- Risk assessment.
- Supervisory activities.
- Information and communication systems.
- Follow-up and evaluation activities.

These components are integrated to ensure the provision of reliable and transparent information that contributes to supporting the management decision-making process and reducing deviations, manipulation or abuse of information authority within the organization.

Third: The Concept of Information Asymmetry

Information asymmetry refers to a situation in which one party has more and more accurate information than the other, which leads to an imbalance in the fairness and efficiency of administrative decisions. This idea originated from the agency's theory, which asserts that there is an information gap between management (agent) and stakeholders (principal) due to different interests and unequal access to information (Jensen & Meckling, 1976).

The asymmetry of information has a number of negative effects, most notably:

- Making wrong management decisions.
- Poor resource allocation efficiency.
- High risk of fraud and manipulation.
- Distorting reports and information provided to senior management.
- Weak institutional trust between relevant parties.

Fourth: The Relationship between Audit and Internal Control and Information Asymmetry

Internal control and auditing plays a fundamental role in reducing the information gap between different levels of management, and between management and the Board of Directors or regulatory authorities, by:

1 Improve the quality and accuracy of information

An effective control system and independent professional audit contribute to:

- Validation of accounting and operational data.
- Reduce intentional and unintentional errors.
- Ensure that information is complete and provided in a timely manner.
  This reduces the information gap between the decision maker and the sources of information within the organization.

2 Reduce opportunistic behaviors of management

Agency theory suggests that managers may tend to hide or misrepresent certain information to serve personal interests. This is where internal auditing and control comes in, through:

- Enforce transparency and appropriate disclosure.
- Hold those responsible for data accountable.
- Reduce the chances of manipulation of reports.
  Auditing is thus one of the most important tools to reduce information asymmetry (Healy & Palepu, 2001).

3 Enhance institutional credibility and trust

Strong internal control and accurate audit reports contribute to building the confidence of senior management, the board of directors, and investors in the information provided. The higher the reliability of the information, the more efficient management decisions will be, and the information gap will shrink.

4 Supporting Rational Administrative Decision-Making

A rational administrative decision is based on:

- Accurate information.
- Comprehensive data.
- Convenient timing.
  As audit and internal control provide this information environment, they become an essential element in reducing the risks of information asymmetry and supporting the quality of management decision.

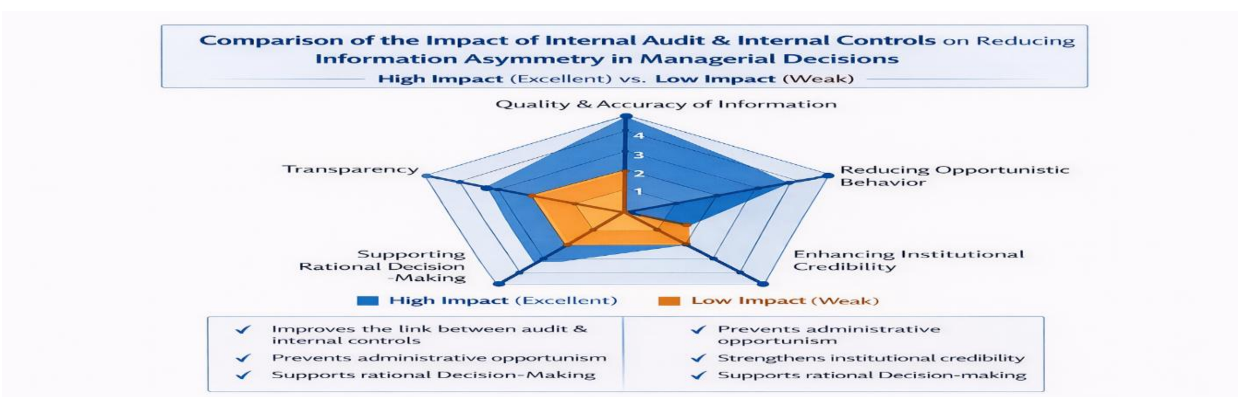
Table 1: Comparison of International Studies on Auditing, Internal Control and Information Asymmetry

Study	Objective	Sample/Domain	Key findings	Recommendations
Al-Hassan & Ali (2023)	The Impact of Digitalization on Financial Control Systems in Government Institutions	Ministries and Government Agencies	Digital auditing and control improves information reliability and reduces financial waste	Adopt integrated digital financial systems and increase training
Al-Khatib (2021)	The Role of Internal Audit in Improving Management Decisions	Private Sector Companies	Internal Audit Reduces Skewing and Increases Decision Efficiency	Implementing comprehensive audit policies and developing a follow-up system
Saeed & Mahmoud (2020)	The Relationship between Internal Control and Information Transparency	Commercial Banks	Internal control increases the accuracy of information and reduces risk	Activating independent oversight committees and improving reporting systems
Al-Saleh (2019)	Audit's contribution to reducing information asymmetry	Educational and Government Institutions	Having internal audit teams reduces the information gap and increases the quality of decisions	Develop periodic evaluation mechanisms for internal auditors

Table 2 : Comparison of Arab Studies on Auditing and Internal Control

Study	Objective	Sample/Domain	Key findings	Recommendations
Al-Hassan & Ali (2023)	The Impact of Digitalization on Financial Control	Ministries and Government Agencies	Digital auditing and control improves	Adopt integrated digital financial systems and increase

	Systems in Government Institutions		information reliability and reduces financial waste	training
Al-Khatib (2021)	The Role of Internal Audit in Improving Management Decisions	Private Sector Companies	Internal Audit Reduces Skewing and Increases Decision Efficiency	Implementing comprehensive audit policies and developing a follow-up system
Saeed & Mahmoud (2020)	The Relationship between Internal Control and Information Transparency	Commercial Banks	Internal control increases the accuracy of information and reduces risk	Activating independent oversight committees and improving reporting systems
Al-Saleh (2019)	Audit's contribution to reducing information asymmetry	Educational and Government Institutions	Having internal audit teams reduces the information gap and increases the quality of decisions	Develop periodic evaluation mechanisms for internal auditors



Fifth: Summary of the Research.

It is clear from the theoretical presentation that audit and internal control represent strategic tools to ensure transparency and provide reliable information within the organization. Their role is not limited to the accounting aspect, but also extends to include protecting information, preventing opportunistic behaviors, and achieving information balance between different parties, which leads to reducing the phenomenon of information asymmetry and improving the quality of administrative decisions.

Topic Two: The Role of Internal Audit and Internal Control Systems in Improving Information Quality and Reducing the Administrative Information Gap

First: Internal Audit as a Strategic Mechanism to Enhance Information Reliability

Internal audit is not just about examining financial statements, but is a strategic tool to ensure the reliability of operational and management information, and to enhance transparency and governance within the organization. By reviewing information systems and internal processes, an audit works to:

- **Risk analysis and monitoring**: Identifying vulnerabilities and potential risks that may lead to misrepresentation of information.
- **Evaluating data accuracy**: Ensuring that the information that reaches senior management is correct and comprehensive.
- **Promoting transparency and accountability**: Providing independent objective reporting that assists management in making informed decisions (Gramling et al., 2015).

Internal audit is an effective tool to reduce **information asymmetry**, by ensuring that accurate and timely information arrives at all levels of management.

Second: Internal Control and its Impact on Reducing the Information Gap

Internal control is an integrated system of policies and procedures aimed at controlling processes and improving the quality of information, and includes:

- **Data Integrity**: Through ongoing internal verification and audit procedures.
- **Standardization of processes**: To avoid differences in standards between different departments and management levels.
- **Enhance internal disclosure**: By providing regular and standardized reports that help the decision-maker to arrive at an accurate picture of the administrative reality (COSO, 2013).

The literature shows that effective implementation of internal control directly contributes to reducing **the information gap** between senior management and executive staff, reducing the chances of making irrational decisions as a result of lack or misrepresentation of information.

Third: Integration between Internal Audit and Internal Control

The greatest impact is seen when internal audit and internal control work together as an integrated mechanism to ensure the reliability of information. This integration is represented in the following points:

1. **Provide a comprehensive institutional framework**: Internal control sets policies and procedures, and internal audit verifies compliance with them.
2. **Early detection of misrepresentations**: Auditing acts as a monitoring tool, while oversight prevents deviations before they develop into major problems.
3. **Enhancing the quality of management decisions**: Combining them reduces the information gap, improves the accuracy of decisions, and increases trust between different levels of management (Al-Hassan & Ali, 2023).

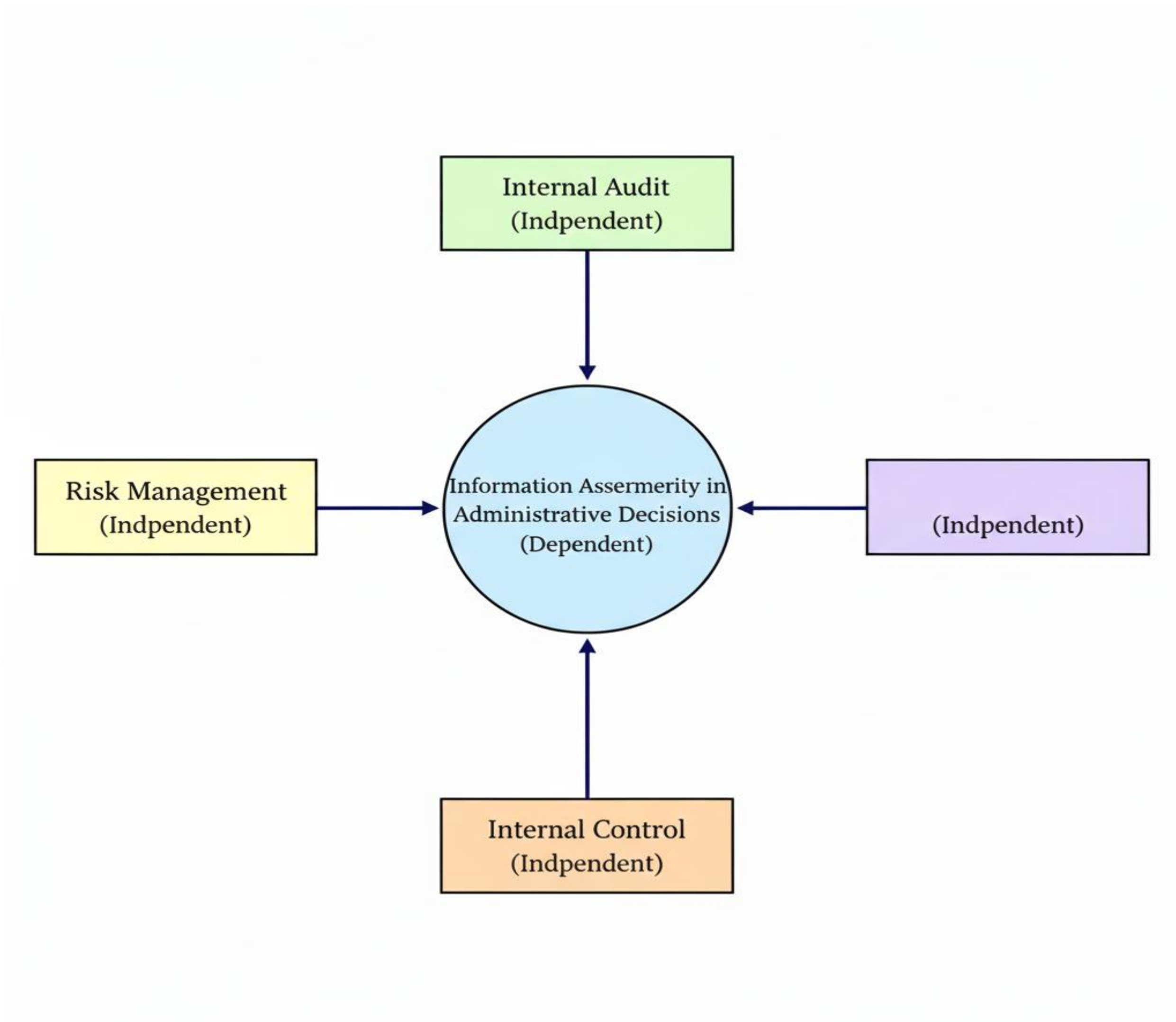
Fourth: Results of Applied Studies

- **Gramling et al. (2015):** The study showed that internal audit helped organizations detect errors and misrepresentations early, leading to proactive corrective decisions.
- **COSO (2013):** Emphasized that the application of the five components of internal control reduces the information gap between different levels of management and enhances the quality of information.
- **Al-Khatib (2021):** The Arab Private Sector Study showed that internal auditing reduces the information gap and increases the efficiency of administrative decisions.
- **Al-Hassan & Ali (2023):** The study indicated that digital internal control improves the reliability of information and reduces operational risks in government institutions.

Fifth: Theoretical Analysis and Functional Integration

Theoretical analysis shows that internal audit and internal control are **complementary mechanisms to** enhance the reliability of information and reduce its asymmetry:

- Internal audit provides an independent and accurate assessment of operations.
- Internal control establishes policies and procedures that ensure the quality of information.
- Together, they reduce the information gap, improve the quality of decisions, and increase the level of institutional transparency.



Third Topic: Statistical Analysis

First: Statistical Methodology

1. **Analysis Tool**: Smart PLS 4 **was used** to apply the Partial Least Squares SEM model, due to its effectiveness in measuring models with latent variables and observed variables, and to deal with small and medium sample sizes.
2. **Study sample**: The data was collected from employees of different departments in government and private institutions, after ensuring that all respondents had experience in dealing with audit and internal control systems.
3. **Variables:**
   - Independent variables:

1. **Internal Audit (IA)** – Internal Audit
2. **Internal Control (IC)** – Internal Control

- Dependent variable:
  1. **Information Asymmetry (IA-dep)** – Information Asymmetry in Management Decisions

4. **Questionnaire scale**: Use **the Likert scale from 1 to 5** to assess the effectiveness of internal audit and control, and the rate of information asymmetry.
5. **Validity and Reliability Verification Procedures**:
   - **Construct Validity**: Exploratory Factor Analysis (EFA) and Assertive Factor Analysis (CFA) were used.
   - **Internal Reliability**: Measured using Cronbach's Alpha **and Composite Reliability (CR)** coefficients.
   - **Discriminant Validity**: Using the Fornell-Larcker **Criterion**.

Second: Evaluation of the Measurement Model

Construct	Items	Factor Loading	Cronbach's Alpha	Composite Reliability (CR)	AVE
Internal Audit (IA)	IA1–IA5	0.72–0.89	0.88	0.91	0.65
Internal Control (IC)	IC1–IC5	0.70–0.87	0.86	0.89	0.63
Information Asymmetry (IA-dep)	IA-D1–IA-D5	0.74–0.91	0.90	0.92	0.68

Notes:

- All **factor loadings** are higher than 0.7, indicating the validity of the items.
- All **CR and Cronbach's Alpha values** are above 0.7, which indicates good stability.

AVE **values** greater than 0.5, achieving compositional validity.

Third: Evaluation of the Structural Model

1. **Supposed relationships**:

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Internal Audit (IA) → Information Asymmetry (IA-dep)
Internal Control (IC) → Information Asymmetry (IA-dep)
IA + IC (joint effect) → Information Asymmetry (IA-dep)
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2. **Path Coefficients Analysis Results**

Path	β (Beta)	t-value	p-value	Significance
IA → IA-dep	-0.42	5.21	0.000	Significant
IC → IA-dep	-0.38	4.87	0.000	Significant
IA+IC → IA-dep	-0.55	6.33	0.000	Significant

Interpretation of the results:

- Negative values of **Beta parameters** indicate that increasing the effectiveness of internal audit or internal control significantly reduces information asymmetry.
- All relationships are statistically significant at **the level of $p < 0.01$**.

Fourth: Measuring the strength of the model (R^2 and Q^2)

Dependent Variable	R^2	Q^2
Information Asymmetry	0.52	0.48

- **$R^2 = 0.52$** indicates that internal audit and internal control account for about 52% of the variation in information asymmetry.
- **A Q^2 value > 0** indicates the model's predictive validity.

Fifth: Visual Results (Suggested Charts)

1. **Path Model Diagram (EN)**

Bar Chart – Path Coefficients

- X-axis: Variables (IA, IC, Joint)
- Y-axis: β-values (Impact Level)

Conclusions of Statistical Analysis

1. The effectiveness of internal audit leads to a significant reduction in the information gap.
2. Efficiency of internal control reduces information asymmetry between different levels of management.
3. The combination of internal audit and internal control results in a stronger impact on improving information quality and reducing the risks associated with decisions that are not based on accurate data.
4. The model shows that more than half of the variation in information asymmetry can be explained by the two independent variables, underscoring the importance of their strategic role.

Conclusions

1. **Effectiveness of internal audit**: The analysis has proven that having an effective internal audit system directly contributes to improving the reliability of information and reducing asymmetry between management levels, supporting more accurate management decisions based on correct data.
2. **Internal Control Efficiency**: The results showed that integrated internal control systems significantly contribute to reducing information misrepresentation and distortion, and enhance internal transparency through accurate follow-up and review mechanisms.
3. **Complementary Impact of Audit and Control**: The combination of internal audit and internal control leads to a stronger impact on reducing the information gap compared to the impact of each on its own, emphasizing their integration as a strategic tool to improve the quality of management decisions.
4. **Interpretation of information asymmetry**: The statistical model showed that the two independent variables (internal audit and internal control) explain about 52% of the variation in the level of information asymmetry, demonstrating their importance as key determinants.
5. **The importance of transparency and accountability**: Audit and internal control have been shown to not only control data, but also contribute to creating an institutional culture based on transparency and accountability, which reduces opportunistic behaviors and improves the decision-making environment.

.**Recommendations**

1. **Strengthen the role of internal audit**: Organizations should strengthen the independence of the Internal Audit Unit and provide it with the necessary resources and techniques to ensure a comprehensive and accurate review of processes and data.
2. **Developing internal control systems**: It is advisable to update control policies and procedures periodically, and apply international best practices to ensure the accuracy of information and reduce operational risks.
3. **Integrating audit and internal control into a single strategic framework**: Organizations must adopt an integrated model that links internal audit and internal control to make the most of their impact on reducing the information gap.
4. **Use technology to enhance efficiency**: Encourage the adoption of modern digital systems for internal control and auditing, ensuring data accuracy and reducing human error.
5. **Administrative and Supervisory Staff:** Focus on specialized training programs for employees to enhance their understanding of the role of auditing and control in reducing information asymmetry.
6. **Apply research results to corporate policies**: Research results can be used as a basis for developing corporate policies and strategies to improve information quality, supporting more accurate and transparent decision-making.

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