The impact of accounting information systems on enhancing the quality of financial reports: A field study on some Iraqi banks

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Introduction

Accounting information fundamentally drives and managing any economic project, as well as a link and coordination element between institutions and their branches, and a means of communication between the economic events practiced by the institution and information users during the decision-making process. Therefore, taking sound decision depends on the accounting information quality that financial reports provide. It processes financial events within the institution and auditing them as outputs of the AIS, in order to disclose and present them to the interested parties, whether internally or externally. Good accounting information is the most useful and effective information in the field of decision-making, but utilizing information quality depends not only on the available qualitative characteristics, but also on characteristics related to the beneficiaries or decision-makers themselves, i.e. their ability to analyze information, level of understanding, and perception available to them.

The annual financial statements and reports published by banking institutions are among the most essential sources of information needed for making sound economic decisions, because of information diversity they contain. They also disclose fair information and offer equal chances for interested parties in these statements and financial reports. They can get the needed information to make investment and financing decisions. The ultimate goal of accounting information is to increase knowledge or convert the unknown into information, or reduce cases of ignorance or uncertainty among users of this information, and helping them to make objective decisions or actions.

Research significant

The importance of the current study can be identified in two areas:

Modeling a framework for the study variables represented by accounting information systems (AIS), and quality of financial reports (QFR) for management and employees in banks under study.

Clarifying the concept, dimensions, and programs used to document AIS, and the concept, importance, and factors affecting QFR, through what has been presented AND contributes to building a solid foundation that can be practically utilized, thus providing an opportunity for banks to continue and grow while avoiding risks.

Research questions

The main research problem can be identified by the following questions:

Do information systems have a statistically significant relationship with the quality of financial reports?

Do information systems have a statistically significant impact on the QFR?

Research objectives

To verify the extent of the contribution and effectiveness of AIS in enhancing the QFR for the banks under study.

To identify and analyze the nature and type of relationships, impact, and variations between the current study variables, i.e., AIS an QFR to ensure the validity of causal and logical relationships between these variables.

Research hypotheses

Accounting information systems (AIS) have a statistically significant relationship with the quality of financial reports (QFR) at both the overall dimensions and individual levels.

Accounting information systems (AIS) have a statistically significant impact on the quality of financial reports (QFR) at both the overall dimensions and individual levels.

Literature review

Accounting information systems

Any system comprises several components that are interconnected to perform a single or multiple functions, which basically depends on if the system is computerized or not. Certain policies and procedures govern the system. Those procedures at the same time are controlled by the system administrator to ensure that there are no policy breaches (Khan, 2016).

A system is a set of parts that are interconnected according to a mutual relationship that follows specific standards to get the desire goal. The system includes inputs which entered in the processes to reach the outputs that meet predetermined specifications (Salehi et al, 2010). Any information system generally consists of three main elements:

Inputs are the events and data that put into the system for processing.

Processing refers to all the arithmetic and logical operations that are performed on the inputs to prepare and arrange them for the third stage of the system.

Outputs include the results and information that are generated by the system after appropriate processing of the input data (Al-Salmi, 2012).

Taaleb (2011) mentioned that accounting information that arises from the accounting system should be built with good qualities, yet users can depend on it to make various decisions according to their needs. As an important, accounting information plays a significant role in recognizing the efficiency of institutions. Hence, institutions have sought prepare advanced systems to control the enormous amount of information necessary for managing institutions to ascertain accessing good and reliable information at all levels of management to be obtained in making sound decisions.

Accounting information system (AIS) is perceived as a set of human and financial resources in the organization which are obtained for preparing financial information, along with the information resulting from processing the data collected. This information is then provided to all levels of management for planning and controlling the organization's activities, as well as to external parties who have relationships with the organization (Adrian-Cosmin, 2015). According to Al-Asouli (2010), AIS is the essential element of the information system management in the business field. It collects and aggregates financial data from internal and external sources of the institution. Then, it processes and converts these data into meaningful financial information for users inside and outside the institution. It uses various available physical and human resources and information systems.

AIS Dimensions

AIS rely on a set of elements that participate in achieving their objectives. These components include:

Equipment and devices: it is necessary to use high-efficiency and advanced devices to achieve the system's objectives. Such devices lead to the success of these systems.

Systems and regulations: Accounting system stems from a manual system; it is based on a scientific approach and specific instructions. In the banking system, the accounting system depends on the regulations legalized by the accredited financial management, which designs electronic systems that comply with legislation and financial instructions. Transactions depend on specific documents such as payment and receipt documents, which are considered one of the main documents under the banking system. The payment document represents a document used to disburse financial expenses (current and capital), while the receipt document represents a specific model used to collect all amounts according to the financial instructions and systems related to revenue collection.

Software: Information systems cannot achieve their objectives without the contribution of programs which provide appropriate information. Software is a series of instructions that enable the computer to interpret, translate, process, and are written in a specific language.

Users and IT Management: For the success of AIS in banks, there must be an information technology management that operates and maintains the programs, monitors faults, integrates permissions, develops and updates systems to align with contemporary developments and user needs. Additionally, it is necessary to train employees and users of electronic systems to use the systems.

Monitoring measures: Banking database rules include financial and non−financial information. These data are susceptible to hacking and misuse, such as or deletion modification, which may cause harm to society and losing the rights of citizens. Therefore, it is essential to establish control measures to reduce the risks of hacking and misuse of electronic systems by providing appropriate monitoring measures to save the process of electronic operations (Munteanu et al, 2011; Romney & Steinbart, 2016; Salehi et al, 2010).

Accounting software

The field using ready−made software applications in accounting is witnessing a large number of software suppliers in terms of quantity and quality. The multiplicity of software types and their varying quality has made it difficult to choose among this large number of alternatives. However, it is found that the program cost determines the choosing of ready−made software. Therefore, it is necessary to consider the fidelity of the software to the institution's needs. The consistency between the devices and the proposed programs for using control and protection methods available for the program, the program's ability to be developed or modified, and maintenance services (Toth, 2012).

Considering these issues in ready−made software energies them with some features, including ease of using the ready−made program in operation which helps management to deal with customer service, at the necessary time for the input cycle, the inputs needed for each work, and ease of modifying or developing the consistency of software with institution reports, business services, dealing with other programs and services provided by software suppliers (Muhindo et al, 2014). There is a set of ready-made programs used by institutions when processing electronic accounting data, which are:

Word processing programs.

Citation audit software.

Electronic spreadsheet programs.

Database management programs.

Integrated programs.

Computer hardware operating programs (Adrian-Cosmin, 2015).

Documenting accounting information systems

Documenting systems determine the efficiency and effectiveness of the system and its modification in later periods. Documenting systems comprises a batch of tools used in analyzing, designing, and documenting information systems to reach a clear and comprehensive view of designed AIS. Documenting techniques of information systems help system analysts in designing the system through the following characteristics:

Reducing system complexity: These techniques allow breaking down large and complex problems into smaller and simpler ones, which enables the designer to deal with these problems more easily.

Accessing better solutions by building the physical system, such as computers and related devices.

Standardization: The unified symbols, tools, and terminology provided by these techniques enable designers to work independently with the subsystems that make up the system while integrates between subsystems.

Ease of future modification: when using these techniques as a comprehensive documentation of the developed system, facilitate its future modification and maintenance (Al-Bakri, 2004; Sajady et al, 2018).

When describing the structures of fixed systems, the system's functions, necessary data structures for the system's operation, and the relationships between these data are identified. Describing the system's functions is done by identifying and displaying the necessary processes to convert system inputs into outputs. Similarly, describing data structures also requires identifying the functional uses of this data. However, independent techniques have evolved to describe system functions and others to describe data structures (Hall, 2011). The techniques used to document or describe information systems contain some characteristics:

Simplicity of presentation methods.

Suitability of presentation methods to express the content of the system.

Ability to use these techniques in describing all systems and applications.

Isolating these techniques from information and communication technologies.

They are essential for the institution because they save cost and effort for developing and documenting information systems (Meiryani, 2017).

Factors influence quality of financial reports

The QFR have been approached from various perspectives by professional organizations and specialized researchers. The Financial Analysts Federation related QFR to the clarity, transparency, and availability of information in a timely manner, while the Committee on Financial Reporting established by the American Institute of Certified Public Accountants (AICPA) relates QFR to the capacity of the institution to forecast, and use information, and the suitability of information for the intended purpose (Biddle & Verdi, 2009).

Shaat (2017) describes that QFR accurately and truthfully reflect the reality of banks, from errors, fraud, forgery, and without exaggeration, with accurate and truthful representation of the items in these financial statements according to standards and regulations for presenting financial statements. The financial statements quality is the key point for decision-makers. Renkas et al. (2015) stated that financial reports must comply many standards and regulations to pertain high quality because the quality of information defines the feasibility of forthcoming strategic decisions.

The purpose of the accounting process is to generate financial reports that provide valuable information to various stakeholders including employees, investors, creditors, and management. The ultimate goal is to ensure that financial information is utilized in a way that benefits its users. There are specific characteristics of useful financial information, which include relevance and true representation. Financial information that is considered useful possesses certain characteristics, including relevance and valid representation. Relevance is based on three criteria: predictive value, confirmatory value, and materiality. Valid representation, on the other hand, contains three sub-criteria: neutrality, completeness, and freedom from errors. These characteristics can be enhanced by comparability, verifiability, timely presentation, and understandability. These characteristics can be used as standards to measure the relevance of the action taken to represent the quality of financial reports (El-Bannany, 2018). According to El-Bannany (2018), the relationship between quality and financial reports is ambiguous and debatable, leading to the use of various measures in the literature to represent the QFR. Despite the existence of numerous measures, no specific procedure has been favored over another. One possible measure of QFR is profit quality.

Importance of financial reports

Financial statements are the basis of financial information, in which many users and beneficiaries depend on them. Financial statements are the responsibility of an institution's management and are considered the foundation of financial reports, according to the Financial Accounting Standards Board (FASB). In addition to financial statements, financial reports may also include auditor reports and board of directors reports (Al- Sharaa, 2017). The purpose of financial reports is to present organized financial information to government agencies and other interested parties. The significance of QFR lies in:

Providing suitable and relevant information to facilitate credit and investment decision-making.

Providing information that helps predict the size, timing, and level of uncertainty surrounding future cash flows.

Providing necessary information to evaluate the resources of the institution and the changes that may occur as a result of these obligations and resources (Nashwan, 2017).

Recently, accounting studies have focused more on the QFR due to their direct impact on their users, especially with the development of information technology. High-quality financial reports help users measure and predict various types of risks, allocate resources efficiently, and assist investors in making sound consultative decisions. They also reduce the cost of capital and improve its efficiency by reducing information asymmetry between investors and managers and reducing agency costs.

Financial reports produced by banks are considered the primary output of applied AIS. These reports serve as a container for collecting and presenting data and information in various formats to aid decision-makers and other users. As such, financial reports are not an end in themselves but rather a means to an end for their users, as noted by Soth and Yusheng (2018). The importance of QFR became more prominent after the financial collapses of major global companies such as Enron and WorldCom during the last two decades due to manipulation of financial reports. This had serious consequences, leading to investors losing their money and losing the jobs by thousands of employees (Tang et al., 2016).

The QFR have been of interest to accounting practitioners and academics due to recent accounting scandals. Preparing financial reports aim at providing valuable information to stakeholders both internal and external including management, investors, and creditors. In accounting literature, the term *useful financial information* describes information that meets certain basic and enhanced characteristics of quality. QFR serves as a governance tool that encourages managers to address cash flow issues and generate profits. QFR have positive influence on the performance of companies during the global financial crisis in the United Kingdom. Studies have revealed that companies with QFR are more conservative and avoid the practice of earnings management, making them more socially responsible (El-Bannany, 2018). The importance of financial reports and their purpose can be summarized to Al-Dmour et al. (2018) in three points as shown in Figure 1.

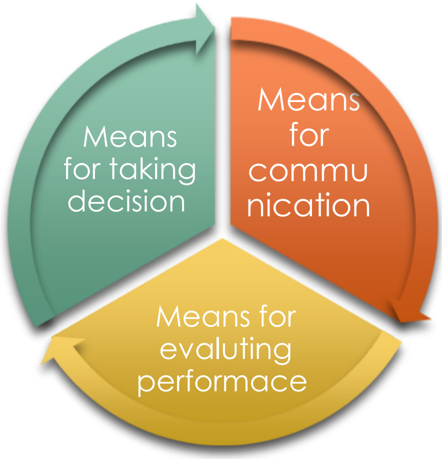

Figure 1. Importance of financial statements

Previous studies confirm that accurate financial reports are an effective measure for financial and feasibility analysis, and interpretation. QFR facilitate comparisons and informed decision-making by placing emphasis on financial elements and exchange relationships in which users can easily compare data and make appropriate decisions based on the information presented. Furthermore, current and previous financial performance are compared, so that users can make predictions about the required financial performance of the bank in the future. Many studies have been conducted to study and examine the QFR, their dimensions, and the influencing variables (Al-Dmour et al, 2018). The QFR works to enhance financial performance and increase profitability levels for banks.

Factors affecting QFR

The accounting system is based on a set of components, factors, and elements that include a range of tools and procedures used in the system to achieve its objectives. These components are considered factors that affect the QFR, as follows:

Physical components: include all financial requirements such as manual and automated accounting tools and devices used in producing accounting information.

Financial components: include all available amounts for the system, which are used to perform its functions and tasks.

Human components: include all persons responsible for operating the accounting system and working in it.

Database: includes a set of practical procedures, practices, and necessary data required to operate the system and achieve its objectives (Abid, 2018). One of the most important factors affecting the QFR is as follows:

The QFR standards differs depending on the quality of the applied accounting standards. International Financial Reporting Standards (IFRS) may limit earnings management practices and increase comparability more than local standards. The US Securities and Exchange Commission (SEC) has set a set of conditions to ensure the quality of accounting standards, including good regulation of the entity issuing the standards, high-level human and technical resources, and effective monitoring of companies' compliance with the standards.

Management motives: The flexibility afforded to management in selecting accounting policies, making accounting estimates, and structuring processes to conform to a specific method for handling certain accounting items may lead to abuse of power in pursuit of personal interests at the expense of stakeholders. This can ultimately result in a decrease in the quality of accounting information.

The presence of professional organizations and regulatory bodies affects the quality of accounting information through the standards, instructions, rules, and executive regulations it issues (Tang et al. , 2016).

The relationship between AIS and the QFR

With the growing interest of accounting and its necessity to keep up with all international developments. Accounting is a system that provides the majority of information for all levels of management and stakeholders within institutions. The main objective of this system is to supply quality and appropriate information for decision-making purposes. It is evident that the most successful institutions are those that have an AIS that provides quality information that meets all the needs of its users (Harrouz, 2018).

Therefore, it becomes clear that the AIS is one of the most important systems for producing information, and it is the most important structure within the institution due to its connection to all levels within it. It is also a fundamental factor in the success or failure of the institution, as it has the ability to collect, tabulate, and analyze a vast amount of data and prepare it as financial reports for all parties within the organizational structure of the institution to help them make appropriate decisions. It also provides financial statements for external parties who benefit from them, such as shareholders, investors, tax authorities, etc. (Setyaningsih et al., 2021).

Considering that financial statements are the primary means of presenting accounting information and their main function is to reflect the financial reality of the institution and its results of operations, whether profit or loss, their preparation process is subject to international accounting standards. The information issued by them is also subject to a set of qualitative characteristics such as accuracy, relevance, and reliability, to be ultimately informative, effective, and of high quality, performing its role in conveying and disclosing the results of economic events (Rashedi & Dargahi, 2019). Faragallah (2019) considered it is important to have an AIS that can provide an accurate and transparent picture of the financial situation of the institution, allowing for the provision of sufficient information needed by all relevant parties for various purposes.

The impact of implementing AIS on the QFR

The judgment on the quality of financial statements is mainly based on the quality of accounting information declared within these financial statements, which in turn is the result of an interactive process of the components of the AIS that operates according to modern scientific standards and principles to ensure the quality of its outputs and meet the needs of its users (Boniface, 2016). Due to technological, economic, and globalization developments, information systems have gained wide and significant importance in all fields, where they have rapidly evolved and their applications have multiplied at all managerial levels. In our current era, most institutions compete to possess the latest and best information systems in general, and AIS in particular control big amount of information, process it efficiently and effectively, and deliver it at the right time and place to all managerial levels in a way that ensures making sound decisions (Burkab, 2015).

The information system plays an important and sensitive role within the organization as a producer of information, as it is considered a vital element, as on the basis of the information it provides us with, immediate and strategic decisions are taken for the organization, and whenever this information is of quality, profit and continuity return to the organization (Setyaningsih et al, 2021). The AIS is a fundamental and vital component of the management information system within a business enterprise. It is responsible for identifying and gathering financial data from both internal and external sources, and processing and transforming this data into valuable financial information for system users (Medfouni, 2015). AIS are of great importance as their information outputs are considered as the basis for making administrative and financial decisions in institutions, and in order for these decisions to be highly effective. There must be an effective AIS, and like other systems, the AIS go through several stages when it is built, from design and analysis the quality of the financial statements as outputs of the AIS depends on the quality of the inputs, the processing process, recording, tabulating and summarizing its data (Faragallah, 2019).

Methods

Research design

The research involves using the inductive and deductive methods: the inductive method, the researcher examines the aspects of the problem and reviews a number of previous studies related to the variables of the research topic which are AIS and QFR whether these studies are in Arabic or foreign languages. Deductive method enables the researcher to test the hypotheses of the research statistically to determine the validity of the hypotheses, by designing a questionnaire prepared for this purpose and distributing it to managers, auditors, and accountants in the banks under study.

Sample settings and context

Data were collected using a questionnaire prepared from employees in Iraqi banks. The researcher distributed 225 questionnaire forms to the respondents and retrieved 217 forms back, which is equivalent to 96% of the research community. These participants are the employees in the banks under study, including accountants, managers, auditors, department heads and their assistants, department directors and staff. They are representatives of their statistical community.

The study included Iraqi Commercial Bank, Ashur International Investment Bank, Baghdad Bank, and Gulf Commercial Bank as an area of application the study. This study is limited to quality of financial reports (QFR), accounting information systems (AIS), and lean thinking methodology (LTM).

Results and discussion

Testing the hypotheses

H1: Accounting information systems (AIS) have a statistically significant relationship with the quality of financial reports (QFR) at both the overall dimensions and individual levels.

To achieve this hypothesis, Pearson Correlation coefficient is used. Table 1 shows the correlation between the variable of AIS and the variable of QFR.

Table 1.

Correlation coefficients between AIS and the QFR

Variables		Hardware and equipment	Regulations and circulars	Software	Users	Monitoring measures	Accounting information
Quality of financial reports	Pearson Correlation	.715**	.590**	.773**	.694**	.513**	.869**
	Sig. (2tailed)	.000	.000	.000	.000	.000	.000
	N	217	217	217	217	217	217

Table 1 shows a strong direct relationship between the dimensions of AIS and the QFR, with a correlation coefficient of 0.869**. This indicates a significant relationship between the two variables at a confidence level of 99%. The results suggest that the banks in the study sample are interested in the dimensions of AIS and are working to provide a transparent and valid picture of their financial position. This allows for the provision of sufficient information for all relevant parties, which ultimately enhances the QFR.

Testing the second hypothesis

H2: Accounting information systems (AIS) have a statistically significant impact on the quality of financial reports (QFR) at both the overall dimensions and individual levels.

The influence hypothesis can be evaluated using a simple linear regression equation, represented by $Y = \alpha + \beta 1X1$, to determine whether the hypothesis is valid or not. In this equation, α represents the constant value, while $\beta 1$ represents the relationship between the dependent variable (Y) and the real value of the independent variable (X1). The estimated values and statistical indicators were calculated for a sample of 217 employees working in banks operating in Iraq.

The influence levels between the variables display in Table 2. The coefficient of determination (R^2) in Table 2 indicates that the accounting information systems dimensions explained (31%) of the variables affecting the quality of financial reports. The hypothesis is supported by the significant value of F, which was calculated to be 101.41, exceeding the tabular value of 3.94 at a significance level of 0.05 and a degree of freedom of 1.215. However, the remaining 69% of the variability in QFR is attributed to other variables that were not included in the study or cannot be controlled for. The regression coefficient (Beta) indicates that a one-unit increase in AIS results in a 0.520% change in QFR, which is supported by the significant value of t at a significance level of 0.05. Therefore, the hypothesis is accepted.

Table 2.

Analysis of the effect relationships of AIS on the QFR

Independent variable dimensions	Dependent variable	Constant limit value (α)	Marginal slope (β)	Coefficient of determination (R^2)	The calculated (F) value	Tabular (F) value	Sig
Hardwoare and equipment	Quality of financial reports	2.675	0.265	0.138	35.396	3.94	0.000
Regulations and circulars		2.566	0.306	0.143	36.967		0.000
Software		2.515	0.272	0.117	29.412		0.000
Users		2.249	0.394	0.325	106.790		0.000
Monitoring measures		2.389	0.318	0.125	31.624		0.000
Accounting information systems		1.773	0.520	0.314	101.418		0.000

Conclusion

AIS is one of the most important information-producing systems, and it is the most important structure within the institution due to its connection to all levels within it. It is also a key factor in the success or failure of these banks, through its ability to collect, classify and analyze a huge amount of data and prepare it as information that is pumped in the form of financial reports for all parties within the bank's organizational structure to help them make their appropriate decisions.

The financial statements are the main means for presenting accounting information, and their primary function is to reflect the financial reality of the institution and the results of its business, whether profit or loss. The process of drafting them is subject to international accounting standards, and the information issued by them is subject to a set of qualitative characteristics such as accuracy, relevance, and the ability to rely on them, so that they are finally content. An effective and quality media player that plays its role in communicating and disclosing the results of economic events.

AIS have the ability to provide a true and transparent picture of the financial position of the institution and allow the provision of a sufficient amount of information necessary for all relevant parties that will be used by you in different parties and for various purposes.

The judgment on the quality of the financial statements is based mainly on the quality of the accounting information disclosed within these financial statements, which in turn is a product of the process of interaction of the components of the AIS that operates according to modern scientific standards and foundations to ensure the quality of its outputs and their fulfillment of the needs of its users.

Recommendations

Paying more attention to training employees and users of electronic systems on the use of systems in banks, and working to develop and update systems in line with contemporary developments and users' needs.

The management of banks should adapt to developments in government regulations and instructions, and work to design electronic systems in the bank in line with financial legislation and instructions.

It is necessary to activate the supervisory authorities to follow up the improvement processes related to eliminating waste in banks, to work on constantly improving management in the bank from its banking operations, and to use methods and methods that will simplify the work of the bank and make it more flexible.

The bank's reports should accurately represent the phenomena to be reported on, work on explaining changes in the financial position, and work on applying the used accounting methods.

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Abstract:

This study aims at disclosing the relationship between the quality of financial reports (QFR) and accounting information systems (AIS). It also studies the impact of implementing AIS on the QFR. Data were gathered via a questionnaire administrated with 217 employees in some Iraqi banks. Results reported that AIS are one of the most important information systems and the most important structure within the institution due to its connection to all levels within it. AIS are also considered as fundamental factor in the success or failure of these banks. AIS have the ability to collect, tabulate, and analyze a huge amount of data and prepare them as financial information in the form of reports for all parties within the organizational structure of the bank, helping them make appropriate decisions. Therefore, it is recommended that bank management should adapt to developments in systems and government regulations, and work on designing electronic systems in the bank that are compatible with financial legislation and instructions.