

# A suggested model for verifying the reporting credibility of financial statements in Iraqi joint stock companies

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## Abstract:

The application of international financial reporting standards was not in the required form, beginning with the application, as the local environment is recent in applying the standards, and therefore there are many wrong applications, and the parties that benefit from the financial data need someone to confirm the validity of these data, and from here the role of checking the integrity of the application of the foundations, procedures and safety started. Applying accounting standards and principles.

The researcher concluded that there is a direct relationship between verification and reporting credibility in the financial statements, through its factors represented in the information and its characteristics, the authors of information, the method of financial reporting of the information, and the criteria for financial reporting, where the links respectively reached 0.70, 0.81, 0.85, 0.73 and it is noted that all of these The factors have a direct relationship affecting the credibility of the financial statements and the need of the beneficiaries to contribute to enabling them to verify them, and since the calculated values of (T) are greater than their tabular value at the level of significance of 0.01 and thus are considered significant and acceptable, as the determination factor for the mentioned elements (0.49, 0.66, 0.73, 0.53) i N direct impact, although there are other factors influential.

**Keywords:** Verification, Financial Reporting, Reliability Of Financial Statements.

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## Introduction

Financial statements are the inevitable result of accounting work as they represent financial reporting as the third primary function of the accounting profession after recognition and measurement, as it gives current and potential investors, lenders and other users information to make their decisions, and that accounting like any profession cannot be left without organizing or adjusting according to procedures, And rules, and laws that have the force to be respected and applied, so many international accounting standards came with rules and foundations regulating business, accounting and accounting procedures and procedures and laying a guide for how to prove accounting treatments and to indicate the future limit

None of the accounting information that should be reported, and that the need for it was a result of the economic conditions and developments that the world witnessed, so that it became necessary to have general rules dealing with similar accounting practices, and therefore the international financial reporting standards came to regulate the procedures for presenting the financial statements of companies operating in the private sector.

The application of international accounting standards was not in the required form, beginning with the application of the local environment is new in the application of standards and therefore there are many wrong applications as the parties that benefit from the financial data need to confirm the validity of these data and from here the role of

checking the integrity of the application of the foundations and procedures and the safety of application Accounting standards and principles, and thus international accounting standards ensure the integrity of the preparation of final accounts and enable their users to understand and understand these data, making them in a better position before making their various decisions.

**1. Research problem:** The basic problem of the research is the lack of scientific foundations and rules for auditors in Iraq to verify the authenticity and reliability of that accounting information in the financial statements.

**2. The importance of research:** The importance of the research stems from giving a suggested model to verify the reliability of the financial statements, as well as the importance of applying international accounting standards, especially those related to reporting, as these standards ensure the integrity of the preparation of financial statements and enable their users to understand and understand those data in a way that makes them in a better position Before making their different decisions.

**3. Research objective:** The research achieves the following goals:

- a. Explain the role of international accounting standards in achieving the reliability of financial statements.
- b. A statement of the audit procedures that the auditor applies to verify the reliability of the financial statements.
- c. Clarify the concept of financial reporting and its importance.
- d. Application of a form to verify financial statements in a sample of Iraqi joint-stock companies.

**4. Research hypothesis:** The research is based on the following hypothesis: Verifying the reliability of financial statements and reporting them contributes

to raising the value of the company and rationalizing decisions.

**5. Research community and sample:** The research community is represented in the Iraq Stock Exchange for various sectors. As for the research sample, it is represented by seven companies represented by the Amin Bank of Iraq, the Ashur International Bank for Investment, the Bank of Babylon, the Baghdad Bank, the Baghdad Company for Packaging Material Manufacturing, and the Baghdad Company for Soft Drinks, and the Industries Company e.

**6. Research methodology:** In order to achieve the objectives envisaged from the research, the research will be divided into two main sections, the first of which deals with the theoretical aspect of the research based on the descriptive approach to address the research problems and prove its hypotheses based on previous studies and literature that dealt with the subject of the study, while the second section deals with the practical side based on the approach Analytical descriptive in the study of a questionnaire presented to the companies of the research sample in which the link analysis and t-test as well as the coefficient of determination for hypothesis testing are performed.

**7. Previous studies:** When referring to this topic, reference must be made to some previous research that gave and achieved results to be completed or refuted so they presented Gray, et al 2000 A study that seeks to evaluate the relationship between verification in companies and organizational transparency and the empowerment of external parties, and a detailed analysis was made of the content of reports and the duration Seven years included the main procedures relating to the independence of the auditor, the degree of rigor applied to verification operations, whether the performance dimension was taken purposefully for verification data and the extent to which these data are considered "adding value" to external auditing or not, and the result concludes that the current

verification practice shows a "representation" Administratively "instead of representing the company's commitment to external transparency and accountability.

The Cassar, G. 2011 study gave a field description of the factors that affect the independence of the auditor, and the duties and responsibilities of the auditor. The research also aims to indicate the independence and impartiality of the auditor when expressing an opinion. The researcher concluded that some auditors resort to the method of tenders to obtain and maintain business in a It affects their independence, so it is necessary for the auditor to adhere to the rules of professional conduct. The independence of the auditor is one of the alternative sources of information available to debtors from private companies.

As for the Ball, et al 2012 study, it gives an explanation of the financial reporting that includes management licenses and the audit mechanisms used to enhance the credibility of financial reports. The credibility must include accuracy, impartiality and appropriate timing, and they reached in their study through statistical inference that the presentation of financial statements is directly affected At the time of the offer, the investor does not want it in the event it is late.

However, the Liang, et al 2017 study provided a model that demonstrates that the reliability of financial statements affects the time series of disclosed earnings, book values, and stock prices in ways that appear to be consistent, and when investors are unsure about the reliability of the reporting process and profit response transactions In addition to the market values to the book value, the estimated benefits are larger and more volatile, and through a study of the US market during 2002-2012 for the relationship between financial reporting and credibility, it became clear that the probability of erroneous reporting is 7%, which led to fluctuations in profits of 13-17%.%)% .

As for the current study, it clarifies the concept of financial reporting and its importance, as the current study addresses the issue of the credibility of the financial statements of Iraqi companies, and I went for more than that by studying the mechanisms of verifying these data by the auditor or by matching them to the actual reality of the company.

## 8.Theoretical background to the research:

**a) The concept of financial reporting:** There are many concepts, each group of researchers gave a different concept, but the most prominent of them is the following: The first is seen as an accounting disclosure, and this means focusing on the importance of financial reports and the information contained therein and how to communicate them to the beneficiaries in the best way (Ball, et al, 139: 2012), and the second is considered a broader concept of disclosure, as it considers that financial reporting is a concept that includes disclosure and defines the financial reporting system as a set of different elements whose ultimate goal is to provide information that is a major part of financial reporting, and the goal that accounting seeks to achieve reporting The financial. (Shroff, 2015: 2)

Given that the information is the mainstay upon which decisions are based, it is clear that there is a need to harmonize the decision models used and the required information (Zuif, 2010: 229), so the process of producing information and decision models within a broader system, namely the financial reporting system, is also considered a step. Sophisticated Accounting, as it includes financial and non-financial information to contribute effectively to decision-making.

**b) Credibility in the financial statements:** A legal obligation to give credibility did not appear until 1948 when the British Companies Act obliged companies to prepare accounts that show credibility for the company's status and the result of its activity (Tweedi, 1983: 425), and auditors had the same legal obligation to express opinion As to whether these

data show credibility, and since 1948, no law or professional body has specified the detailed content in the financial statements to express credibility, because the economic facts are all images that express the facts according to the viewpoint of its author and the determinants that govern its preparation, and to the extent that it comes to the outcome Activity There is operational profit, tax profit, and net profit based on historical cost accounting and net profit based on current value accounting and others (Rashid, 2011: 53), and users have different facts in their thinking about financial behavior recorded in the financial statements, as some of them see "Accounting Historical cost is the fact that represents the facts in accounting, while others see that the current value accounting is the one that represents the facts in accounting, while others think that the facts in accounting are determined by the accepted accounting principles of general acceptance such as those related to achieving revenue and losses, allocating costs and evaluating For R&D assets and costs and others. " (Popoff, 1983: 44.)

The important part of credibility is that the financial statements do not lead their users to predict conclusions that users see as correct and make operational, investment and sometimes strategic decisions (Cray, et al, 2000: 3), "especially since junior investors can be fooled by financial statements that are based on the ideas of the accountant Which does not depend on economic valuations or values, and is based on them in judging the present value of the investment incorrectly (Zeff, 1982: 531), as it also appeared in one of the elements of the qualitative characteristics of information in 1980 in the conceptual framework of financial accounting and many researchers focused on it and must That includes albi Financial information The correct information that reflects the reality of the financial position and the result of the activity.

**c) Relationship of audit dimensions (examination, verification, report) with the reliability of financial statements:** The analysis of the role of the accountant in improving the reliability of financial statements through enhancing the quality of their information content is related to the analysis of the role of: (Hoda, 2015: 52)

- **Examination:** It is the verification of the correctness of the measurement of the processes that have been recorded, analyzed and classified. That is, the examination of the accounting measurement is the quantitative and critical measurement of economic events related to the activity of the institution. It is the mechanism for assessing standards, methods and accounting data on the one hand and the authenticity of the information provided on the other hand. These standards are represented in the following elements: Appropriateness of information, testability, impartiality in recording, quantifiable

- **Verification:** The ability to judge the validity of the financial statements (appropriate neutrality) as a sound expression of the business results during a specific period.

- **Reporting:** Formulating and verifying the results of examination and investigation with a written report presented to the users of the financial statements. The investigation process leads us to know the transparency and objectivity of the financial statements.

**d) The effect of verification on the quality and reliability of the financial statements:** The auditor's report on the annual financial statements is the final product of the audit process and a tool or means of communication through which the auditor can communicate the results of his examination and his evaluation of the evidence and evidence, his technical opinion, the evidence and his neutral technical opinion on the validity and integrity of the presentation The financial statements of the financial position at the end of the year and the results of the



business, in addition to that the auditor should address a set of elements or controls for the content of the report along the lines of relying on accounting principles in preparing the financial statements (Thomas, 2009: 220), commitment and consistency. Applied, in addition to its emphasis on the financial statements contain all material information on whether or not to be the auditor's report to take several images differ depending on the content of his turn mortgaged the financial statements.

**e) The proposed model for verification:** The model is based on a set of relevant accounting procedures in accordance with the criteria for financial reporting, as well as considerations for audits of financial statements. My agencies:

- The auditor should enhance his understanding of the company and its elements and environments, including control systems on its scope, which are obtained during the acceptance and continuation stage as well as taking into consideration if it has subsidiary branches.
- Verify that the financial statements of the company are prepared on the same reporting date, and the same applies to holding and subsidiary companies When the reporting date of the parent company differs from the reporting date of one of its subsidiaries, the subsidiary is prepared for the purposes of consolidation, additional financial statements as on the same date as the financial statements of the parent company It was not impractical to do so.
- Determine the level of relative importance of the financial statements when setting the overall strategy for the company's audit, taking into account whether there are a group of subsidiaries or subsidiaries taking into account specific circumstances of that group, specific categories of transactions, account balances or disclosures in the group's financial

statements where there may be Errors in the expression of amounts below the relative importance level are expected to affect the economic decisions of users taken on the basis of the Group's financial statements. • Verify the change in the levels of absolute or relative ownership that the parent company may lose the authority to manage the financial and operating policies of the investee in order to obtain benefits from its activities.

- Verifying the integrity of recording the purchase of shares in the records of the holding company based on the method of purchase in accounting for the merger is very important because the settlement restrictions to unify the financial statements depend on it.
- Verification of the fair market value of the Company's assets and liabilities is very important for the purposes of establishing the settlement reconciliation for the preparation of the financial statements as well as determining the annual impact of the change in the market value of the book cost on the income statement and financial position.
- Verification of the integrity of proof of mutual operations between the holding company and the subsidiary is based on generally accepted accounting principles.
- To verify the integrity of the accounting treatment of the company's profits and losses.

**f) The applied side and the test model:**

- Characteristics of the members of the research sample: The analysis of the results related to the demographic characteristics of the members of the research sample and presented in Table No. (1) shows that they have good educational qualifications, as the largest percentage of the sample members are holders of university qualifications and as shown in the table:

**Table 1: Represents the characteristics of the sample individuals**

Academic achievement	Answer		Scientific specialization	Answer	
	Repetition	percentage		Repetition	percentage
Ph.D.	5	10%	Accounting	25	50%
M.A.	10	20%	Financial and Banking Sciences	17	34%
BA	30	60%	Business Administration	5	10%
diploma	5	10%	economy	3	6%
Other	-	-	Other	-	-
<b>total</b>	<b>50</b>	<b>100%</b>	<b>total</b>	<b>50</b>	<b>100%</b>
Job title	Answer		Experience	Answer	
	Repetition	percentage		Repetition	percentage
Audit manager	7	14%	< 5 years	3	6%
Audited	16	32%	5 – 10 years	6	12%
Account Manager	7	14%	11- 15 years	17	34%
Accountant	18	30%	16 – 20 years	20	40%
Other	2	4%	> 20 years	4	8%
<b>total</b>	<b>50</b>	<b>100%</b>	<b>total</b>	<b>50</b>	<b>100%</b>

From the table it became clear that the percentage of holders of a bachelor's degree (60%) and that the majority of the respondents are from the major in accounting, financial and banking sciences, where these formed (50%) and (34%) respectively, and that the largest proportion of respondents occupy the position of auditor and accountant, as Their percentage was (32%) and (36%), respectively, of the sample.

Most members of the sample have sufficient experience and know-how in their field of work, whereby those who have 16-20 years experience accounted for 40%, while the percentage of those who had 11-15 years was 34%, and it is clear that The largest percentage of respondents possess high skills and experience, which enhances confidence in the results of the applied side of the study.

### Testing the research model and its hypotheses:

The first five paragraphs of the questionnaire are related to the verification variable, and the answers of the sample members show that companies realize the possibility of verifying their financial data is an essential element to attract investors and lenders and that the information provided by it represents one of the important economic sectors that the beneficiary parties seek, and the answers also indicate that the study sample companies own such examples This advantage, as the mean for the total sample answers (4.16), and the opinions of the sample members were consistent in this aspect, as the standard deviation for all answers was 0.37.

As for the second five paragraphs, it relates to a variable of the reliability of the financial data and its informational content as it relates to the nature of the

information and the appropriate and credible characteristic. It is clear from Table No. (2) that respondents believe that there is a significant change in the nature of the information required from the financial reporting system through its characteristics represented in the reliability of the average Arithmetic for the total answers on this axis (4.04) There was also harmony between the answers of all paragraphs, where the standard deviation for it (0.64)

The rest is concerned with measuring the ability of the financial reporting system to meet the needs of

the beneficiaries of its information and the extent of the impact of verification on their decisions. The sample members agreed that the verification response in enhancing the credibility of financial reporting, which reflects positively on its ability to meet the needs of users, as the arithmetic average of all the answers of this axis has reached ((4.14 as the value of its standard deviation was (0.48), which indicates harmony between these answers, and this can be illustrated in the following table:

**Table 2: sample results**

Item	Mean	Stand.Dev.
The company follows the principles of verification by properly auditing the operations.	4.48	0.52
The company believes in the importance of controlling its internal control systems and developing its resources.	4.10	0.51
The company uses modern information and communication technology methods to complete the work and provide services.	3.95	0.75
The company has a business infrastructure and databases that contribute to providing verifiable information.	4.00	0.55
The company has an integrated set of foundations that assist in data auditing and proper verification.	3.96	0.50
Total	4.16	0.37
The nature of the information required to be provided from the financial reporting processes has changed at this time.	4.33	0.48
It is essential that financial reporting procedures currently provide non-financial information in addition to financial information.	3.90	0.77
It is imperative that the financial reporting presently provides future information on the company's position.	4.14	0.36
The use of technological development in financial reporting procedures to provide information that reduces the degree of uncertainty among decision makers.	3.47	0.84
The contribution of the financial reporting system in providing information that helps in evaluating the results of the various decisions and the validity of the expectations against which these decisions were built	4.08	0.90
Total	4.04	0.64
Verifying that the company's financial statements are prepared on the same reporting date reduces the difference between the	4.24	0.54

information it provides and that the decision maker needs.		
Verification of the fair market value of the Company's assets and liabilities is very important for the purposes of establishing the reconciliation record for the preparation of the financial statements as well as determining the annual impact of the change in the market value of the book cost on the income statement and financial position	3.92	0.85
Changes in the financial reporting system today contribute to increasing the reliability of the information it provides through the financial statements.	4.76	0.44
The credibility of financial reporting leads to raising the efficiency of the performance of the study sample companies and enhancing their market value, especially after applying financial reporting standards.	4.48	0.60
Verification of enhanced user understanding of financial and non-financial information disclosed contributes to the financial reports of the study sample companies.	4.41	0.57
<b>Total</b>	<b>4.25</b>	<b>0.46</b>

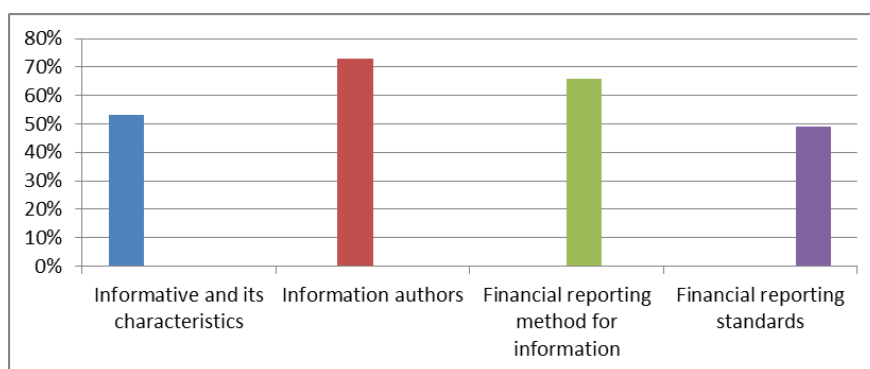
• **Search hypothesis test:** To test the research hypothesis, a simple regression method was used. Table (3) shows a positive relationship between verification and reporting credibility in the financial statements, through its factors represented in the information and its characteristics, information preparers, the method of financial reporting of information, and financial reporting standards As the commitments respectively reached 0.70, 0.81, 0.85, 0.73 and it is noted that all of these factors have a direct relationship and affect the reliability of the financial statements and the need of the beneficiaries, which contributes to enabling them to verify them, and since the calculated (T) values are greater than their tabular value at a level of significance 0.01 and thus T. D moral and acceptable, as was the selection of the elements mentioned coefficient (0.49, 0.66, 0.73, 0.53) that any direct impact, although there are other factors influential, as shown in the following table:

**Table 3: Shows the relationship between verification and the reliability of financial reporting by influencing factors**

factors	Correlation	coefficient	T - test
Informative and its characteristics	0.73	%53	7.48
Information authors	0.85	%73	11.29
Financial reporting method for information	0.81	%66	9.67
Financial reporting standards	0.70	%49	6.86
Total	0.87	-	12.35

It can be illustrated as follows by the determination coefficient that represents the level of impact:





**Figure 1: showing the factors affecting the proposed model**

### Conclusion:

Through what was presented in his study, it became clear that there is a need for adequate disclosure of information and that adequate accounting disclosure requires the design and preparation of financial statements on the economic events that affected the company during the period, as well as the existence of credibility in those data while adhering to the accounting standards and rules adopted in the country in which you operate The company, undoubtedly, non-misleading financial data contribute effectively to creating value for the company, and therefore the investors and other beneficiaries are actively seeking to verify the reliability of those data, which provides this research paper as a verification model as it clarifies the relationship between m Accuracy of financial reporting and verification through what the results showed that there is a direct relationship between verification and reporting credibility in the financial statements, through its factors represented in the information and its characteristics, information preparers, the method of financial reporting of information, and the criteria for financial reporting, where the links respectively reached 0.70 and 0.81, 0.85, 0.73 It is noted that all of these factors have a direct relationship affecting the credibility of the financial statements and the need of the beneficiaries, which contributes to enabling them to verify them.

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