

Measuring Financial Reporting and the Extent of Compliance with its Standards by Private Sector Units

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Abstract

This research aims to identify the mechanisms and areas of application of international financial reporting standards and to what extent financial reporting affects the investment decision-making process that will drive growth forward through the activation of the financial markets; the most important conclusion reached by the researchers is that most of the companies listed in the Iraqi Stock Exchange did not adequately report their financial statements, but instead did not provide the necessary clarifications about the procedures or changes in their financial statements, the researchers recommend that the Securities and Exchange Commission should take the measures needed to compel companies to abide by international financial reporting standards by requesting the amendment of some laws or regulations or taking some deterrent measures that help improve the media content of financial statements.

Keywords: Financial Reporting, Financial Reporting Standards, Private Sector.

1.1 Introduction

The financial statements represent the point of contact between the company and others, and the beneficiary parties can learn about the company's work through these lists, The company's financial situation is depicted in the statement of financial status., and the income statement reflects the summary of the company's business during a specified period, whether it was a profit or a loss (Al-gabri, Al-Dulaimi, Jasber, Hasan, Wahid, & Mutar, 2022). Several groups both inside and outside the firm benefit from the financial statements, which are a fundamental source of information that may be used to identify changes in the financial condition., and the decisions taken depend on what is provided of appropriate information and assistance in taking them, the failure to report it and the company's actions have a clear impact on the investment decision-making process because the lack of timely presentation creates a state of mistrust or trust in the firms' listed financial statements. The shareholder's investment will be repaid as a result of strong financial results (Khudhair, Norwani, Ahmed, & Aljajawy, 2019; Abdulhussein & Barrak, 2021).

1.2 Problem Statement

There are many criticisms of the method or process of presenting the financial statements as a result of non-compliance with the application regarding financial reporting guidelines or how financial results are presented. Considering that reporting is not sufficient to provide or provide transparency in the presentation or process of communicating accounting information to interested parties, as these parties have to change and increasing needs for that information, meaning that the financial reporting process should include providing financial information that is reliable and appropriate, and the research problem is as first, Measuring the financial reporting of the financial statements through the degree of its impact on the decision-making process, will it help in diagnosing weaknesses or defects in the presentation of the financial statements. Second, Do the units listed in the Iraq Stock Exchange apply and adhere to the application of international financial reporting standards?

1.3 Research Objectives:

The research objectives are as follows:

1. Understand the concept of financial reporting and the measurement of financial reporting.
2. Identifying the mechanisms and areas of application of international financial reporting standards.
3. To identify the extent to which financial reporting affects the investment decision-making process.

1.4 Research Hypothesis:

1. The measurement of financial reporting in the financial statements leads to the diagnosis of strengths and weaknesses in the methods and methods of presenting the financial statements.
2. Financial reporting of all the information necessary for the investment decision-making process promptly leads to more transparent financial statement.

1.5 Research Importance:

The importance of research stems from the importance of financial reporting and its impact on the decision-making process, as how the financial statements and the attached clarifications are presented have an important role in clarifying the financial position of the company and thus creating a perception of the company's financial statements.

2.Literature Review

2.1 Financial Reporting

2.1.1 The Concept of Financial Reporting

The definition of financial reporting is the preparation of financial information of public interest and its delivery to the parties who are outside the company and do not have another source for obtaining financial information about the economic unit. (Al-Shammari, 2016 Abdulwahhab, Al-Dulaimi, & Alkfaajy, 2021). Al-Amri sees that it is a term similar to the concept of accounting disclosure, as it is a work to provide reports of public interest in order to meet the information needs of external users, especially those who do not have the ability to access that information directly (Al-Amri, 2014). The FASB in its statement No. (1) entitled (Concepts of Financial Reporting in Economic Units) defined financial reporting as the activities that depend to serve the needs of users of financial information that they need from the facility (Salar, 2006; Al-gabri, Al-Dulaimi, Jasber, Hasan, Wahid, & Mutar, 2022).

2.1.2 Financial Reporting Objectives:

1. Providing financial information about economic units in a way that helps capital owners in improving decisions that provide capital, such as the decision to invest and buy or sell stocks and bonds (Spiceland .al. et 2013.21).
2. Providing information to the concerned parties in evaluating the performance of the economic unit and predicting its work in the future, as information on past events improves future information (Abdulhussein & Barrak, 2021; Sticet. al, 2013; 21).
3. Providing helpful information to administrators and board members to make decisions in a manner that is in the interest of the owners.
4. Providing information to help current and potential investors, creditors, and other parties to indicate the amount, time, and untruthfulness of cash inflows and outflows. Benston al. et, 2007, 230)

2.1.3 The Importance of Financial Reporting Standards:

International financial reporting standards have grown essential, and there are several reasons for this. (Al-gabri, Al-Dulaimi, Jasber, Hasan, Wahid, & Mutar, 2022). Which can be summarized as follows:

1. Increasing the appeal of the local environment for all types of investment as many foreign investors recognize that the financial statements based on international accounting standards are reliable and trustworthy, allowing them to do so at the lowest cost when compared to those in other nations (Matar et al.: 2008:).
2. The growing need for knowledge among financiers and investors, as well as the requirement for funds to support economic activity. Sala .(2008)

2.2 Financial Reporting Standards

2.2.1 The concept of financial reporting standards

The function and performance of businesses are influenced by international accounting standards, as are the parties involved, such as capital owners, financiers, commercial clients, workers, governments, and others. Accounting standards are metrics used to determine if financial statements are transparent and valid. (Khudhair, Norwani, Khalid, & Aljajawy, 2019). Consequently, accounting standards and regulations are now a financial, administrative, and economic need rather than a choice. An official accounting or professional regulating body's declaration is known as an accounting standard. This statement describes the proper measurement, presentation, disposal, or communication technique and refers to the components of the financial statements or a kind of activities or events relevant to the financial condition and business outcomes. (Salah: 59:2008). To help users and investors in international financial markets make economic decisions, the International Accounting Council has issued clarifications known as International Financial Reporting Standards. These standards are designed to provide information in financial statements and other financial reports that is highly credible, transparent, and comparable. (Baqas et al.: 2018 Abdulwahhab, Al-Dulaimi, & Alkfaajy, 2021).

B - Areas of the impact of international financial reporting standards

The IFRS standards affect many areas, including (Al-Saeed: 2008)

1. The biological dimension of the product
2. Capital Tools
3. Financial Derivatives and Hedging Instruments
4. Employee Benefit Plans

3.Methodology

3.1 The Applied of the Research

The Securities Commission discloses or reports all data of interest to investors by studying the financial statements submitted by companies and banks listed in the Iraq Stock Exchange and ensuring that they meet the disclosure requirements, reviewing the reports of their boards of directors and the extent of the companies' commitment to applying accounting standards, sending letters of thanks to the companies that submitted their annual financial statements on time, directing companies regarding the presentation of the financial statements and the formality that they should be, and addressing them to amend those statements, in the event of an error, as for companies that did not commit to submitting data within the time specified by law, fines

will be imposed on them (Khudhair, Norwani, Khalid, & Aljajawy, 2019). The practical aspect of the research was conducted by taking disclosure data or financial reporting from the semi-annual reports of companies listed on the market for the year 2021. The following is the organizational structure of the Securities Commission.

First: financial disclosures

Companies submit quarterly financial statements and final accounts, which are studied and analyzed by the competent department in the market (Khudhair, Norwani, Khalid, & Aljajawy, 2019). The companies that submitted their financial statements and committed to the necessary disclosure are as follows:

Table (1) The companies listed on the Iraq Stock Exchange and have reported their data

The Month	Submitted financial statements	The Company's name
1	First Quarter of 2020	Chemical industries, Iraqi dates, Al-Watania Furniture Production
	Second Quarter	The tourist city of Mosul Dam, the Iraqi for seeds, between the two rivers for financial investments
	Third quarter	Kurdistan Bank, Al Ahlia Insurance, Al Weam Financial Investment, Al Ahlia Agricultural Production, Bain Al Nahrain Financial Investments
All Year	Al Khair for Financial Investment	
2	Second Quarter and Third quarter	almustashar Bank
	First Quarter ,Second Quarter and Third quarter	Gulf Insurance
	Third quarter	Al Weam Financial Investment
3	The first, second and third quarter 2017, 2018, 2019	The Iraqi Company for Carton Industries
	Third quarter 2020	Middle East Fish Company

Source: the official website of the Securities Commission

We note from the above table that the companies listed in the stock market did not comply with adequate reporting or the obligation to provide the necessary data on time, except for a few companies, and the best companies with commitment to financial reporting were (Iraqi Company for Carton Industries, Gulf Insurance, Al- almustashar Bank) this indicates laxity and lack of interest in providing the necessary information and necessary reporting, which affects the decision-making process if the number of listed companies reaches 105 and when calculating or measuring the percentage of compliance with financial reporting.

Financial Reporting Compliance Scale

$$\frac{3}{105} \times 100 = 2.9\% \quad \dots (1)$$

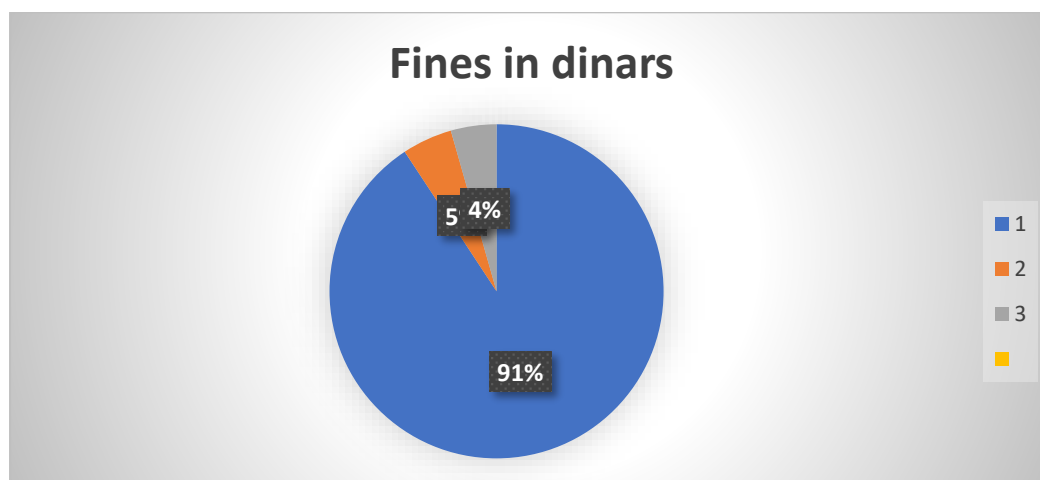
With the presence of companies that have reported their financial statements because they have only reported for a period of two or two periods, and this is not sufficient to reflect the company's financial position .

Second: The Securities Commission's actions against the violating companies. The Securities and Exchange Commission imposed financial fines on companies that did not report their financial statements.

Table (2) Fines collected from listed companies as a result of failure to submit quarterly statements and final accounts

The Month	Fines In Dinars
1	18710,000
2	1,000,000
3	910,000
Total	2062000

We note that the commission collected fines of 2062,000 dinars as a deterrent against non-compliant companies. The Securities and Exchange Commission took another measure, which is to stop trading several companies as a result of not doing the financial reporting.



From the above table, we note the amount and size of violations and fines imposed by the Securities Commission, and the month of January was the highest if it constituted 91% of the total amount of fines, while February was 5% and March was 4%.

Table (3) The companies whose shares continued to be suspended at the end of the first quarter due to lack of financial disclosure requirements

	The Company's name	Reason
1	modern dyes	Failure to submit the annual disclosure for the years 2015-2016-2017-2018-2019 and the quarterly disclosure for the years 2016-2017-2020-2019-2018
2	Albatik Financial Investments	Failure to submit the annual disclosure for the years 2018-2019 and the quarterly disclosure for the year 2020
3	Al Badia Public Transp	Failure to submit annual disclosure for the years 2017-2018-2019 and the quarterly disclosure for the years 2018-2019-2020
4	electronic industries	Failure to submit annual disclosure for the years 2017-2018-2019 and the quarterly disclosure for the years 2018-2019-2020

5	modern industries	Failure to submit quarterly disclosure for the second and third semesters of 2016 and continued suspension for failure to submit annual disclosure for the years 2018-2019 and the quarterly disclosure for the years 2017-2019-2018-2017
6	Iraqi Engineering Wor	Failure to submit annual disclosure for the years 2018-2019
7	Iraqi Land Transport	Failure to submit annual disclosure for 2019
8	Fallujah for the production of construction materials	Failure to submit annual disclosure for the years 2017-2018
9	Al Hilal Industrial	Failure to submit annual disclosure for the years 2018-2019
10	modern construction materials industry	Non-submission of annual disclosure for 2015 and continued suspension for failure to submit annual disclosure for the years 2014-2015-2016-2017-2018-2019 and the quarterly disclosure for the years 2016-2017-2020-2019-2018
11	Ashur Hotel	Failure to submit the annual disclosure for the year 2019 and the quarterly disclosure for 2019-2020
12	Al Sadeer Hotel	Failure to submit annual disclosure for 2019
13	Etihad Bank	Failure to submit annual disclosure for 2019
14	Economy Bank	Failure to submit annual disclosure for the years 2018-2019
15	Al Shamal Bank	Failure to submit annual disclosure for 2019
16	Babel Bank	Failure to submit annual disclosure for 2019
17	Dar Al Salam Bank	The bank is under the tutelage of the Central Bank and the continuation of t suspension for not submitting the annual disclosure for the years 2016-2017-2018-2019 and the quarterly disclosure for the third quarter 2018- and the quarterly disclosure for 2019-2020
18	Bank of the DeGale and Euphrates	The bank is under the tutelage of the Central Bank
19	modern animal produc	Failure to submit annual disclosure for the years 2018-2019

Source: the official website of the Securities and Exchange Commission

It was not satisfied with stopping the trading of the shares of some companies, but the Securities Commission removed the shares of some companies from trading, including Babel Financial Brokerage Company .

Table (4) Shows the Fines Collected

	1	2	3
Weekly release delay	425,000	55000	100,000
Violation of the authority's instructions	100,000	250,000	
trial balance delay		100,000	
The fourth semester balance is delayed		100,000	
Total	525,000	1,000,000	100,000

The Securities Commission obtained for December 525,000 dinars and for February it was 1,000,000 dinars, while in March it was 100,000 dinars. This decrease is caused by the return of companies to submit their financial statements for fear of delisting from circulation.

Third: Market Performance

Companies listed on the Iraq Stock Exchange now number in the hundreds. 103 companies for the year 2021 after two companies were written off as a result of non-compliance, as trading witnessed a decrease of 26%,

approximately 84.8 billion to approximately 115 billion last year. As for the market value, it was noted that there is an increase of 20.15% compared to the previous year, compared to the previous year.

Table (5)

year	turnover (Million dinars)	The number of shares traded (million shares)	number of contracts	Market value (Million dinars)
First quarter of 2020	111115249.5	72729.6	23403	13163348
First quarter of 2021	84802.4	133,475.6	31,734	15164572
percentage change(%)	cat,42	83 .52	35.60	15.20

As for the financial indicators, according to the market, the percentage of trading for the regular market was 84.2% and the informal market was 15.8%, as shown in the following figure:

Market	Trading Value (Million Dinars)	Ratio To total	Traded Shares (Million Shares)	Ratio To Total%	Bargain	Percentage To Total%	Market Value Million Dinars	Percentage To Total
Regulars	71427.9	84.2	1204574	90.2	29,464	92.8	734305	48.4
The Secor	13374.5	15.8	13018.2	9.8	2270	7.2	782152	51.6
Total	84802.4		133475.6		31734		1516457	

5. Conclusions and Recommendations

5.1 Conclusions

The researchers reached several conclusions, including:

Most of the companies listed in the Iraq Stock Exchange did not adequately report their financial statements, but did not provide the necessary clarifications about the procedures or changes in their financial statements. Also, It was noted that the percentage of the listed companies' commitment to reporting the financial statements constitutes 2.9%, which is a small and not good indicator of the market's performance, and that the authority has taken the measures of fines and write-offs, and this is not enough.

The international accounting standards have an impact on the work and performance of companies represented by the entities that work with the company, including capital owners, financiers, commercial clients, employees, governments, and others. Besides, The Securities Commission discloses or reports all data available to it of interest to investors by studying the financial statements submitted by companies and banks listed in the Iraq Stock Exchange and ensuring that they meet the reporting requirements.

The researchers recommend several things, including the necessity for companies listed on the Iraqi Stock Exchange to report all the necessary information that would contribute to the investment decision-making process. Also, Securities and Exchange Commission should take the necessary measures to compel companies to abide by international financial reporting standards by requesting the amendment of some laws or regulations or taking some deterrent measures that help improve the media content of financial statements. Work must be done to keep pace with the requirements of international financial reporting standards and to

consider any new developments in this regard. The companies listed in the stock market must abide by the transparency of the presentation of the financial statements.

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