

# Measuring the Level of Financial Reporting Quality of Commercial Banks Listed On the Iraq Stock Exchange for The Period (2016-2023)

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**Abstract:** The aim of the research is to measure the level of financial reporting quality for a sample of banks listed in the Iraq Stock Exchange due to their great importance as they are the main source for making various decisions for users and stakeholders, as their high quality contributes to making sound decisions and increasing confidence in dealing with economic units. To achieve the research objective, the financial data of the research sample, represented by five banks listed in the Iraq Stock Exchange for the period from 2016 to 2023, were analyzed. The accounting conservatism index was used as a proxy for the quality of financial reports according to the (MTB) model, the ratio of the market value of equity to its book value. The results showed a discrepancy between the banks in the research sample in the level of quality of financial reports according to the conservatism index.

**Keywords:** (MTB) Model; Financial Reporting Quality; Listed Banks

## 1. Introduction

Financial reports are the final product of accounting and the main source of information for various parties such as lending institutions, current and potential investors, stakeholders, government and tax agencies [1], as the information contained in financial reports represents one of the most important sources for decision-making by all parties related to the economic unit and in concluding contractual agreements. Therefore, there is an increase in demands to provide high-quality financial reports [2], as the low quality of financial reports leads to the emergence of some gaps that can result in losses for investors and a decrease in confidence in the financial system of the economic unit, as these gaps illustrate the challenges facing the financial analyst as well as the potential costs of failing to identify practices and methods that lead to inaccurate or misleading financial reports. [3] It can be said that the quality of financial reports helps users make sound decisions, meaning that the decision-making process improves positively with the increase in the quality of financial reports, and unsound decisions may be made due to the decrease in the quality of financial reports. [2]

Many studies have focused on the concept of financial reporting quality, as its concept is relative and varies according to the goals to be achieved. Investors, shareholders, and stakeholders of the economic unit are primarily concerned with the extent to which financial reporting information is used in making various decisions. On the other hand, regulatory and supervisory bodies are concerned with the level of compliance with legal procedures and

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regulatory rules. Despite the many studies that have addressed the issue of financial reporting quality, its concept is still vague and there is no agreed-upon definition yet. [4]

The financial reporting quality was defined as the reports prepared according to the applicable financial reporting framework, and the delivery of the content of the reports to users at the appropriate time, while avoiding the presence of material distortions in their content, so that they honestly express the economic status of the economic unit during a specific period of time. [5]

The Financial Accounting Standards Board defined it as the ability to provide financial reports that are characterized by a number of qualitative characteristics that must be present in accounting information in order for it to be useful to users, whether this information is primary or secondary. [6]

It was also defined as the reliability of financial statement information and the benefit it provides to users, free from manipulation and distortion, and that it is prepared in light of a set of legal, professional and regulatory standards that help achieve the purpose of its use. [7]. The importance of the financial reporting quality is highlighted as follows: [8], [9]

- Financial reports represent the main communication tool between the management of the economic unit and users of financial reports, through which the financial position can be known and the activities of the unit can be evaluated.
- Help current and potential investors make decisions related to retaining or selling shares.
- Contribute to facilitating the effective allocation of capital and improving investment decisions.
- Help predict the level of profitability and future risks related to investment.
- Contribute to increasing investors' confidence in financial information, which contributes to reducing the problem of information asymmetry.
- Help predict the occurrence of financial crises by identifying potential risks and working to avoid their occurrence.
- It is an important source for shareholders to monitor the work of the economic unit.
- High quality financial reports contribute to the ability of economic units to obtain appropriate external financing, which is reflected in the efficiency of their investment decisions.

Despite the many studies that have addressed the issue of the quality of financial reports, there is no specific measure to conduct a comprehensive assessment of their quality. One of the main problems that have been addressed by studies is how to measure them, due to their special nature. Achieving the quality of financial reports depends on many factors related to users and preparers of financial reports. Therefore, there is a difference in views on how to measure them as a result of the variation in users' needs, as many different methods are used to measure them indirectly using different characteristics that are believed to affect

the quality of financial reports, such as earnings management, reissuance of financial statements, the quality of the auditor's opinion, the level of disclosures, specifically optional disclosure, the timing of issuing the annual report, the level of accounting conservatism, and the quality of profits. [8]

## 2. Metode

The financial reporting quality will be measured by the accounting conservatism index as a proxy for the quality of financial reports, as accounting conservatism refers to the strict controls in preparing financial reports that require accountants to exercise the utmost degree of verification and to take care to exploit all possible and available solutions to reach accounting values that are free from uncertainty as much as possible when presenting those financial reports. [9]

The level of accounting conservatism is measured when preparing these reports to judge their quality, because accounting conservatism contributes to increasing the credibility and reliability of financial statements and reports, and limits the ability of management to take opportunistic actions that achieve its personal interests at the expense of the interests of other parties, which provides protection for investors and is positively reflected in improving the quality of financial reports, so increasing the levels of accounting conservatism is an indicator of the quality of financial reports. [10]

The (MTB) model will be used, as this model measures accounting conservatism through the ratio of the market value of equity to its book value according to the following equation:

$$MTB = \text{"Market value of equity (MV)" / "Book value of equity (BV)"}$$

Market value of equity = Share price at the end of the year \* Number of common shares

Book value of equity = Equity from the balance sheet.

If the (MTB) ratio is greater than one, it means using conservative accounting policies and thus increasing the quality of financial reports, and if the ratio is less than one, it means not using conservative policies and a decrease in the quality of financial reports. [11]

## 3. Results and Discussions

**Table 1.** Measuring the quality of financial reports of the Bank of Baghdad according to the (MTB) index

| Year | MV              | BV              | Conservation level |
|------|-----------------|-----------------|--------------------|
| 2016 | 227,500,000,000 | 282,821,705,000 | <b>0.80439</b>     |
| 2017 | 150,000,000,000 | 267,942,042,000 | <b>0.55982</b>     |
| 2018 | 72,500,000,000  | 266,742,720,000 | <b>0.2718</b>      |
| 2019 | 75,000,000,000  | 273,641,424,000 | <b>0.27408</b>     |
| 2020 | 102,500,000,000 | 278,435,852,000 | <b>0.36813</b>     |

|                           |                        |                        |                |
|---------------------------|------------------------|------------------------|----------------|
| 2021                      | 257,500,000,000        | 309,129,878,000        | <b>0.83298</b> |
| 2022                      | 342,500,000,000        | 349,626,266,000        | <b>0.97962</b> |
| 2023                      | 1,050,000,000,000      | 473,718,461,000        | <b>2.21651</b> |
| <b>Average</b>            | <b>284,687,500,000</b> | <b>312,757,293,500</b> | <b>0.91025</b> |
| <b>Standard deviation</b> |                        |                        | 0.59567        |

From the table above, we note that the overall average of the level of conservatism for all years for the Bank of Baghdad was (0.91025), which is less than (1) and the highest value among the banks in the research sample, and that the value of the standard deviation is (0.5956), which is the highest deviation for the rest of the banks in the research sample and indicates that there is dispersion in the values and that the values contain a difference between them, and we note that the highest percentage of conservatism was in the year 2023 (2.21651), while the lowest percentage was in the year 2018 at a percentage of (0.2718), and this indicates a slight decrease in the level of accounting conservatism for most years except for the year 2023, when the level of conservatism was high according to the (MTB) index.

**Table 2.** Measuring the quality of financial reports of Gulf Commercial Bank according to the (MTB) index

| Year                      | MV                    | BV                     | Conservation level |
|---------------------------|-----------------------|------------------------|--------------------|
| 2016                      | 135,000,000,000       | 317,733,784,000        | <b>0.42488</b>     |
| 2017                      | 117,000,000,000       | 320,887,340,000        | <b>0.36461</b>     |
| 2018                      | 60,000,000,000        | 314,472,925,000        | <b>0.1908</b>      |
| 2019                      | 42,000,000,000        | 306,709,058,000        | <b>0.13694</b>     |
| 2020                      | 42,000,000,000        | 307,172,111,000        | <b>0.13673</b>     |
| 2021                      | 45,000,000,000        | 304,325,776,000        | <b>0.14787</b>     |
| 2022                      | 48,000,000,000        | 308,640,863,000        | <b>0.15552</b>     |
| 2023                      | 54,000,000,000        | 321,457,227,000        | <b>0.16799</b>     |
| <b>Average</b>            | <b>67,875,000,000</b> | <b>312,674,885,500</b> | <b>0.21707</b>     |
| <b>Standard deviation</b> |                       |                        | 0.10576            |

From the table above, we note that the overall average level of conservatism for all years for Gulf Commercial Bank was (0.21707), which is less than (1), and the standard deviation value is (0.10576), as we note that the highest conservatism rate was in 2016 (0.42488), while the lowest rate was in 2020 at (0.13673), which indicates a decrease in the level of accounting conservatism according to the (MTB) indicator.

**Table 3.** Measuring the quality of financial reports of Mansour Bank for Investment according to the (MTB) index

| Year | MV              | BV              | Conservation level |
|------|-----------------|-----------------|--------------------|
| 2016 | 247,500,000,000 | 287,534,465,000 | <b>0.86077</b>     |
| 2017 | 197,500,000,000 | 290,096,763,000 | <b>0.68081</b>     |
| 2018 | 157,500,000,000 | 297,286,553,000 | <b>0.52979</b>     |
| 2019 | 167,500,000,000 | 279,661,254,000 | <b>0.59894</b>     |
| 2020 | 142,500,000,000 | 286,554,793,000 | <b>0.49729</b>     |
| 2021 | 127,500,000,000 | 280,081,281,000 | <b>0.45522</b>     |
| 2022 | 155,000,000,000 | 283,054,974,000 | <b>0.5476</b>      |

|                           |                        |                        |                |
|---------------------------|------------------------|------------------------|----------------|
| 2023                      | 350,000,000,000        | 311,845,607,000        | <b>1.12235</b> |
| <b>Average</b>            | <b>193,125,000,000</b> | <b>289,514,461,250</b> | <b>0.66706</b> |
| <b>Standard deviation</b> |                        |                        | 0.21101        |

From the table above, we note that the overall average level of conservatism for all years for Mansour Bank for Investment was (0.66706), which is less than (1), and the standard deviation value is (0.21101), as we note that the highest conservatism rate was in 2023 (1.12235), while the lowest rate was in 2021 at (0.45522), which indicates a decrease in the level of accounting conservatism for most years, except for 2023, when the level of conservatism was high according to the (MTB) index.

**Table 4.** Measuring the quality of financial reports of the Middle East Bank according to the (MTB) index

| Year                      | MV                    | BV                     | Conservation level |
|---------------------------|-----------------------|------------------------|--------------------|
| 2016                      | 107,500,000,000       | 278,361,478,000        | <b>0.38619</b>     |
| 2017                      | 87,500,000,000        | 261,151,000,000        | <b>0.33506</b>     |
| 2018                      | 32,500,000,000        | 267,467,533,000        | <b>0.12151</b>     |
| 2019                      | 25,000,000,000        | 267,290,296,000        | <b>0.09353</b>     |
| 2020                      | 30,000,000,000        | 264,891,189,000        | <b>0.11325</b>     |
| 2021                      | 50,000,000,000        | 265,181,362,000        | <b>0.18855</b>     |
| 2022                      | 35,000,000,000        | 265,195,849,000        | <b>0.13198</b>     |
| 2023                      | 30,000,000,000        | 254,239,017,000        | <b>0.118</b>       |
| <b>Average</b>            | <b>49,687,500,000</b> | <b>265,472,215,500</b> | <b>0.18716</b>     |
| <b>Standard deviation</b> |                       |                        | 0,10478            |

From the table above, we note that the overall average level of conservatism for all years for the Middle East Bank was (0.18716), which is less than (1), which is the lowest value among the banks in the research sample, and that the standard deviation value is (0.10478), which means that the data is less dispersed for the bank's values compared to other banks, as we note that the highest percentage of conservatism was in 2016 (0.38619), while the lowest percentage was in 2019 at (0.09353), which indicates a decrease in the level of accounting conservatism according to the (MTB) indicator.

**Table 5.** Measuring the quality of financial reports of Sumer Commercial Bank according to the (MTB) index

| Year                      | MV                     | BV                     | Conservation level |
|---------------------------|------------------------|------------------------|--------------------|
| 2016                      | 225,000,000,000        | 267,139,192,000        | <b>0.84226</b>     |
| 2017                      | 225,000,000,000        | 267,513,283,000        | <b>0.84108</b>     |
| 2018                      | 225,000,000,000        | 268,382,600,000        | <b>0.83836</b>     |
| 2019                      | 127,500,000,000        | 269,420,267,000        | <b>0.47324</b>     |
| 2020                      | 100,000,000,000        | 262,874,590,000        | <b>0.38041</b>     |
| 2021                      | 95,000,000,000         | 263,997,158,000        | <b>0.35985</b>     |
| 2022                      | 47,500,000,000         | 265,258,324,000        | <b>0.17907</b>     |
| 2023                      | 32,500,000,000         | 255,764,435,000        | <b>0.12707</b>     |
| <b>Average</b>            | <b>134,687,500,000</b> | <b>265,043,731,125</b> | <b>0.50817</b>     |
| <b>Standard deviation</b> |                        |                        | 0,27939            |

From the table above, we note that the overall average level of conservatism for all years for Mansour Investment Bank was (0.50817), which is less than (1), and the standard deviation value is (0.27939), as we note that the highest conservatism rate was in 2016

(0.84226), while the lowest rate was in 2023 at (0.12707), which indicates a decrease in the level of accounting conservatism according to the (MTB) indicator.

#### 4. Conclusion

The subject of the financial reporting quality is an important subject, as it is considered the main source that is relied upon in making decisions by users and all parties concerned in the economic unit. Therefore, reports of high quality contribute to making sound decisions and increasing the confidence of users. However, if their quality is low, unsound decisions are made, and thus confidence in the reports of the economic unit decreases.

Despite the great importance of the subject, the concept of financial reporting quality is considered a vague concept as there is no agreed-upon definition for it yet. In addition, there is no specific measure to measure it as different methods are used for measurement indirectly such as earnings management, accounting conservatism, or earnings quality.

The results showed, according to the accounting conservatism index (MTB), that there is a difference in the level of financial reporting quality for the research sample banks. The highest average was for the Bank of Baghdad (0.91025), while the lowest average was for the Middle East Bank (0.18716). Given the great importance of the subject, it is necessary to adhere to a reasonable level of accounting conservatism practices to increase the level of financial reporting quality.

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