The Impact of International Financial Reporting Standards on Financial Reporting Quality: Evidence from Iraq

Ahmed Al-janabi

Faculty of Accounting, University of Kufa, Kufa, Iraq

Reza Hesarzadeh, Mohammad Ali Bagherpour Velashani

Faculty of Economics and Administrative Sciences, Ferdowsi University of Mashhad, Mashhad, Iran

Abstract

Prior studies provide mixed evidence on whether the transition to International Financial Reporting Standards (IFRS) deters or contributes to greater financial reporting quality. Thus, this research investigates how the transition affects financial reporting quality. This study measures financial reporting quality by earnings management and the value relevance of earnings. Using a sample of listed firms on the Iraq Stock Exchange during 2015–2019, the current study indicates no significant relationship between the transition to IFRS and earnings management. Further, the transition to IFRS positively affects the value relevance of earnings. Thus, collectively, the impact of the transition to IFRS is conditional to the proxies of financial reporting quality. This study contributes to the existing literature by providing empirical evidence regarding the impact of IFRS on financial reporting in an under-studied emerging market. This paper has important implications for regulators, standard setters, listed firms, and other stockholders. It shows that the transition to IFRS has positive effects even in firms from developing countries.

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1. Introduction

The decision for adopting International Financial Reporting Standards (IFRS) at the national level is predominantly an economic decision, with IFRS adoption leading to enhanced transparency, quality, and comparability – characteristics desirable to support international business and extend globalization. However, there is little empirical evidence to support this view, as extant research presents conflicting results (Chua & Talor, 2008; Judge, Li, & Pinsker, 2010). Exploration of IFRS adoption has, for the most part, lacked any theoretical foundation (e.g., Al-Akra, Jahangir and Marashdeh, 2009) and has most often been conducted at the corporate level, with little being carried out at the national level (Judge Li, & Pinsker, 2010). We address these limitations by analyzing the factors that have impacted, and continue to affect, the accounting system in Iraq from an institutional perspective. However,

The movement towards mandating the adoption of International Financial Reporting Standards (IFRS) is considered the most widespread global financial reform in accounting history (Daske et al., 2008). The premise of these standards is to improve the transparency and reliability of financial statements across the globe and facilitate cross-border investments. As a result of this global dimension, determining the accounting standards` economic consequences as part of financial regulatory reforms is both more challenging and important as more countries with diverse levels of development adopt IFRS (Zeff, 2012).

There is evidence that the accounting standards have a limited role in determining the quality of the reports monitored in Iraq and that the application of accounting standards involves a large judgment and use of private information. Therefore, international standards for the preparation of financial reports (such as any other set of accounting standards) provide managers with great information, the use of which depends on the company characteristics (reporting incentives and operating characteristics) (Burgstahler, Hail and Leuz, 2006) and national legal institutions (e.g., Ball, 2016).

In view of the importance of international financial reports, at the end of 2012, 106 countries adopted a compliance policy with these standards, where adoption was necessary and could not be ignored. At the international level, in 2002, the European Union passed legislation requiring companies registered in EU countries to prepare their financial statements on the basis of the IFRS as of January 1, 2005. In the United States of America, a proposal for a roadmap for the implementation of IFRS in 2014 also recommended that Securities Commissions of the International Organization apply the International Financial Reporting Standards for the possibility of trading cross-border securities for the public interest. Background, literature review, and hypothesis development

Barth et al. (2014) explain that international accounting standard setters aim to develop high-quality, principles-based standards (to replace rules-based standards) for financial reporting. This includes steps to remove allowable accounting alternatives and require accounting measurements that better reflect a firm's economic position and performance. Their hypothesis holds that limiting accounting alternatives could reduce opportunistic discretion for managers to determine accounting amounts. The result should be more reflective of a firm's actual underlying economic circumstances. Nonetheless, they acknowledge that the prediction may not be valid in cases where international standards are of lower quality than domestic standards and because the "inherent flexibility in principles-based standards could provide a great opportunity" for EM. For these reasons, they argue that IFRS`s effects on accounting quality depend on empirical evidence. They look at firms in 21 countries that adopted international accounting standards (mostly voluntarily) between 1994 and 2003 and compare them with a control group of firms using domestic standards. They conclude that firms in the test group generally show less EM and more timely loss recognition, consistent with

higher-quality accounting information. Subsequent single- and multiple-country studies have adopted their methodology with mixed results. Single-country studies are necessary to understand IFRS adoption in specific institutional settings (Hellman, 2011). A single-country study overcomes the possibility of spurious results if accounting changes can be attributed to factors that differ across countries. Single-country studies also frequently include more firms than do global databases, making the sample more representative of the country's particular population of firms. We discuss four single-country studies that employ the Barth et al. (2014) methodology, and one Canadian study that uses different measures. Key and Kim (2020) examine the effects of international accounting standards over time (their emphasis) on the accounting quality in Germany, where rules changes came in the era of IFRS adoption across the European Union. They hypothesize that IFRS standards will result in higher-quality accounting, specifically in terms of less EM and more timely loss recognition. They test their full sample for three periods: 2000–2002 (pre-IFRS), 2003–2004 (voluntary IFRS), and 2005–2006 (mandatory IFRS), and conclude that accounting quality in Germany worsened over time. However, when they examine a subsample of firms operating across all three periods (i.e., the voluntary adopters), their results are mixed, "neither providing evidence of an increase or decrease in accounting quality". Liu et al. (2011) examine accounting quality in China when new, substantially IFRS-convergent standards became mandatory for listed firms in 2007. They have only two years each of pre-and post-change data and see less evidence of EM in the latter period; however, only two of their six measures are statistically significant. Chua, Cheong, and Gould (2012) study Australia's mandatory IFRS adoption, effective in 2005 (there was no voluntary adoption period), and consistent with increased accounting quality, find less smoothing and timelier loss recognition after IFRS adoption. Jang et al. (2016) suggest that this result is somewhat surprising because Australia used principles-based accounting standards before switching to IFRS. Ahmed, Neel, and Wang (2013) analyzed the application of international financial reporting standards and their impact on the quality of information. As it was measured as being related to the value and estimated benefits, and the quality of analysts' forecast, their results also indicate: There is no relevant increase in the value of equity but a decrease in the appraised benefits, and an increase in value in the results when evaluated through pricing models.

Gu, Ng, and Tsang (2019) conducted a meta-analysis of studies on the impact of the application of IFRS satisfying management's expectations, where their results indicate that an increase in issuing management expectations after applying the international standards for preparing financial reports is smaller for companies from countries that impose an authorization in accordance with international standards for financial reporting with simultaneous enforcement adjustments compared to those countries where these changes do not exist—taken to a limit, earnings management or "opacity", as coined by Mongrut and Winkelried (2019) can misrepresent the firm's records to such an extent that its financial statements might no longer reflect the firm's real economic value or performance. Thus, a large amount of academic interest exists in exploring the covariates of opacity. At the macroeconomic level, Bhattacharya, Daouk, and Welker (2003) show that opacity is negatively correlated with economic growth and the stock market's wealth. The findings are confirmed by Riahi-Belkaoui (2005), although Filip and Raffournier (2014) conclude that they depend heavily on how opacity is measured.

Moura, Altuwaijri, and Gupta (2020) conducted a meta-analysis of studies on the impact of the application of mandatory (IFRS) standards on the cost of capital in Latin American countries, where their results indicate that the application of international standards for financial reporting is compulsory, resulting in a reduction in the cost of property rights after controlling incentives for preparing reports at the company level; the test results showed a significant decrease in the cost of

debt.

2. Literature Review and Hypotheses Development

2.1. Institutional setting

In recent years, great changes have occurred in Iraq's political, economic, and financial environment. It moved from a centrally planned economy to a free-market economy in 2003 and became, arguably, the most open economy in the region. The main reason for this change is to provide the Iraqi economy with the necessary financial resources to recover from the war and recessions, especially after the weak infrastructure of the oil industry in the period of the Baath regime (Jones, 2004). Two main factors have led to a growing focus on Iraq by companies and governments in the world. First: It is believed that Iraqi oil reserves come second after Saudi Arabia (Shubber, 2009). Thus, with the continued demand for oil and energy, the role of Iraq is important in the global economy, as it represents about 3% of global oil production, especially with the increasing demand for oil and energy and the need for alleviating energy shortages globally. Secondly, it appears investors are interested in Iraq, especially in the natural resource sector and the infrastructure supporting it. In 2004, legislation was amended to allow private and foreign ownership of natural resource companies for the first time, and investment in listed Iraqi companies was opened to foreign investors.

Accounting history in Iraq goes back to Mesopotamia (4500 BC) (Keister, 1963). Commercial and other related transactions dating back to the seventh and eighth centuries were influenced by Islamic laws (Robson, 2008). Due to Iraq's position as the capital of peace during the nineteenth century, the double-entry system was introduced as the main method of bookkeeping (Al-Akra, Jahangir and Marashdeh, 2009) and was preserved during British control at the end of World War I (Dawisha, 2005; Robson, 2008).

In the 1970s, the Iraqi government used the central planning system referred to previously for citizen management. In 2003, when the US-led coalition forces dominated through the CPA, Iraq's economy was poor, with physical and industrial infrastructure largely destroyed as a result of the war and a set of sanctions (Yousif, 2007). During control from 2003 to 2004, the Coalition Provisional Authority launched a program to liberalize prices and markets that included currency reforms, lower import tariffs, and tax reforms to encourage foreign investment (Yousif, 2007). Mono economics (Foote et al., 2004). During that period, the government formed the Accounting Standardization System Committee to create a unified government accounting system that uses government institutions (Kaddouri, 2011). In 1982, the Iraqi government implemented a new unified national accounting system applied to the industrial and commercial sectors. The new system, called the Unified Accounting System (UAS), was designed to collect taxes and facilitate government decision-making. By order of the President's office in 1988, the Iraqi Accounting and Auditing Standards Board (IBAAS) was established to advise the government on financial services and the development of National Accounting Standards (NASS) and auditing standards. This was the first semi-private accounting standards development body in Iraq. From its inception until 2003, IBAAS issued 14 accounting standards and four auditing standards. These standards were based on international accounting standards (IBAAS, 1997),

In November 2009, another change to this law allowed foreign investment in the oil sector. Now, most of the transfers to the institutions that have been wiped out from the banking sector and the Iraqi stock exchange are still small and underdeveloped. On April 1, 2004, the CPA and the Iraqi Governing Council issued an amended version of the Companies Law of 1997 to treat foreign investors like local investors to encourage Iraq to adopt a more open market economy. The legislation allows foreign investors to own 100% of the business in any industry, except for the natural resources sector (Foote et al., 2004). In April 2004, the US-led Coalition Provisional Authority passed the

Interim Act on the Stock Market (CPA, 2004). In recognition of the Iraqi Governing Council's desire to revive capital markets and bring about change in the economic system, the law requires, among other things (CPA, 2004): First: The establishment of the Iraq Stock Exchange as a self-regulatory institution owned by members, with the cessation of the operations of the former Baghdad Stock Exchange. Second: Preparing the financial statements of listed companies in accordance with the International Financial Reporting Standards for the year 2004. Third: The financial statements must be audited according to the standards of the international audit. Fourth: The establishment of the Temporary Securities Commission.

2.2. Economic consequences of IFRS

Van Tendeloo and Vanstraelen (2005) studied the application of IFRS for four advantages. First, IFRS will increase the ability of investors to make informed financial decisions and measure the financial situation and performance in different countries. The confusion that arises from the presence of different methods must be eliminated, which leads to reduced risks for investors and reduced cost of capital for companies. Second, it will reduce the costs of preparing financial information according to several sets of standards. Third, for international investment, it will also lead to greater incentives. Fourth, financial resources worldwide will be allowed to allocate more effectively.

In particular, when we compare it to the accounting systems affected by political and financial issues, such as those prevailing in continental Europe by 2005, the system based on international financial reporting standards will provide many characteristics according to (2016) Ball. A system based on international financial reporting standards reflects economic gains and losses in a timely or appropriate manner and reflects the economic essence of transactions more than its legal form. According to Ball (2016), a system makes the results more beneficial, allows better accounting information to be provided, and decreases discretionary power. The traditional accounting system in Europe allows administrators to manipulate judgments, create hidden reserves, and hide losses beautify results.

The adoption of IFRS in some countries is associated with a major paradigm shift. The application of some rules allows for the application of some principles aimed at providing helpful information for economic decision-making. The implementation of the International Financial Reporting Standards (IFRS) is linked to an increase in the complexity of the accounting system, as it requires a higher degree of evaluation and greater commitment from the part of managers within the company at all levels since it is characterized by a shift away from accounting towards taxes and significant growth in the amount of construction. However, the benefits resulting from the application of IFRS are expected to be higher than the costs associated with this move in the model.

The most important argument used to implement international financial reporting standards is that this set of standards helps obtain better information due to the use of measurement and recognition standards that reflect the economic reality of companies and provide a set of information in the notes. The application of international standards for financial reporting at the international level allows for greater comparability of financial statements.

It is expected that the quality of the data and its comparability and the consequent increase in the benefit of the information will positively impact forecasting the ability of analysts following companies in the credit and capital markets to have executive fees and economic decisions made by companies. Finally, applying these international financial reporting standards will improve the ability of investors to make sound financial decisions, improve financing conditions, and effectively allocate financial resources around the world. Other, less frequent arguments in favor of international financial reporting standards are access to accounting standardization efficiencies not present in the country,

increased mobility of accounting professionals in the labor market, and the sharing of accounting standard costs (Brown, 2013).

The impact of adopting this set of standards remains controversial, despite the benefits that are associated with the convergence of IFRS (Hail, Leuz, & Wysocki, 2010). One of the reasons for believing that the application of the international financial reporting standards, per se, does not guarantee an increase in the quality of information and its comparability and the resulting improvement in the allocation of financial resources around the world is that the use of the same rules is a necessary condition and establishing a common language for the disclosure of financial information is not enough (Jeanjean & Stolowy, 2008). Sometimes the incentives of managers and institutional factors play a major role in determining the characteristics of the financial statements.

There is now some compatibility in performance regarding the reporting incentives, and strict enforcement mechanisms are essential in realizing the benefits of implementing international financial reporting standards (e.g., Barth et al., 2014; Leuz, 2010; Ball, 2016). Brown (2011) emphasized another aspect that was less discussed.

In this paper, we posit that changes in IAS/IFRS standards (specifically, greater discretion and flexibility of the 2005 version of IFRS standards and lack of guidance in implementing those standards) can explain the conflicting findings between the Barth et al. (2014), Ahmed, Neel, and Wang (2013) and Christensen et al. (2015) studies. International Accounting Standards (IASs) were issued by the International Accounting Standards Committee (IASC) from 1973 to 2000. The International Accounting Standards Board (IASB) replaced the IASC in April 2001. Since then, the IASB has amended many IASs, replaced some others with International Financial Reporting Standards (IFRS), and adopted or proposed a number of new IFRS on topics not covered by earlier IAS standards. From this standard-setting activity of the IASC/IASB, it is possible to identify two distinct reporting regimes before and after 2005.

Major changes in the standards occurred in 2005. When it became clear that the EU would likely adopt IAS/IFRS, the IASB published a draft, ''Improvements to IFRS'', issued May 2002. Following this draft, after a period of comments (due process), 14 out of 34 IAS (in force as of 2002) were revised or improved in December 2003. In addition, IAS 32 and 39 were amended in 2004. All these changes became effective for the 2005 fiscal year. In addition, six new IFRS were issued between 2002 and 2005, of which five IFRS were in force as of the beginning of 2005.

Some of the resulting set of 2005 standards (labeled 'new IAS/IFRS' in this paper) contains fewer options than in the previous version (Vedran, Collins, and Jeanjean, 2016). The 'old IAS' standards (before 2005) usually indicated a 'benchmark treatment' and an 'allowed alternative'. Many of these options were removed in the new IAS/IFRS standards that took effect in 2005. However, the new IAS/IFRS leaves more room for covert options, subjective estimation, and interpretation than previous IAS standards. For instance, Nobes (2006) details 18 overt options and 21 covert options and numerous vague criteria. We maintain that the overt and covert options and vague criteria result in greater flexibility of accounting choices that allow greater earnings management (smoothing). Principles-based IFRS standards include many words like 'probable' and 'material', which can be interpreted differently by different firms facing similar economic circumstances. For instance, Doupnik and Richter (2003) suggest that German accountants interpret the word 'probable' more conservatively than UK accountants. In addition, the new standards rely on estimations: Nobes (2006) and Cole, Branson, and Breesch (2012) mention no less than 12 cases where estimates are relied on heavily in the revised standards. In Appendix A, we indicate each standard that changed significantly in 2005 if the revised standards use overt options, covert options, vague criteria, or estimates. Overall, this analysis suggests that new (2005) IAS/IFRS exhibit a high level of flexibility that can lead to

greater earnings management (smoothing).

New IAS/IFRS also introduced broader use of fair value measurements in selected accounts relative to the domestic GAAP of many countries (Schipper, 2005). For example, IAS 16 (Property, Plant and Equipment) and IAS 40 (Investment Property) allow firms to periodically revalue selected long-lived assets and property held for investment at fair value, with direct consequences for depreciation expenses and earnings. At the same time, IAS 39 (Financial Instruments) increases the use of fair value compared to local GAAP standards. Because market prices from active markets are not readily available for most fixed assets and many types of financial instruments (e.g., securitized loans or receivables), firms are allowed greater discretion through the use of mark-to-model measurements. Ball (2016) argues that managers exercise greater discretion over fair value measurements when capital markets are illiquid. When fair values are estimated using valuation models, managers can influence the estimations through their choices of models and parameters, thus opening the door to greater earnings management. This same concern carries over to IFRS asset impairment tests (IAS 36, Impairment of Assets) and goodwill impairment tests (IAS 38, Intangible Assets).

The inherent greater flexibility of new IFRS standards coupled with the lack of implementation guidance was a recurring source of concern leading to opposition to the adoption of some of these standards from within the IASB. Some of the IASB board members issued dissenting opinions when the new/revised standards were adopted10 of the revised and new IAS/IFRS standards enforced in 2004–2006; ten carry dissenting opinions. In eight cases, dissenting board members point to the lack of implementation guidance for the standard or inconsistencies with other standards, leading to greater managerial discretion and greater earnings management. For example, IAS 36, Impairment of Assets, was issued with a dissenting opinion pointing out the need to ''[to provide more guidance] to determine the recoverable amount of goodwill" (DO4, IAS 36). Two board members warned that IFRS 3, Business Combinations, ''puts its faith in a potentially unreliable impairment test." Standards related to financial instruments (IAS 32 and IAS 39) were subject to a number of strong dissenting opinions. Some board members argued that IAS 39, as issued in 2005, provides ''an opportunity for entities to manage reported profit or loss" by selecting unobservable inputs for fair value measurements (DO 13).

To summarize, most changes in 2005 introduced more covert and over options to IAS/IFRS, leading to greater flexibility of 2005 IAS/IFRS standards. But even those changes to IAS/IFRS that reduced the number of options available increased flexibility of 2005 IAS/IFRS standards. According to the dissenting opinions of IASB board members, those same changes reduced clarity, lead to higher reliance on estimates, and lacked implementation guidance. This de facto allowed greater flexibility in the application of the standards affected (also see Nobes, 2006). Consistent with this argument, Kim, Liu, and Zheng (2012) find an increase in audit fees following the 2005 IAS/IFRS adoption and attribute the increase in fees to the increased complexity of IAS/IFRS.

The above discussion leads us to predict that the inherent flexibility of 2005 IAS/IFRS standards coupled with the general lack of guidance on how to implement these new standards leads to greater earnings management (smoothing) following the 2005 adoption of IFRS across all three sub-samples of firms. Specifically, we expect Early Adopters' transition from the early version of IAS/IFRS to the new (2005) version of IAS/IFRS to be associated with increased earnings management (smoothing). Similarly, we expect Late Adopters' and Mandatory Adopters' transition from local GAAP to the new (2005) version of IFRS associated with increased earnings management (smoothing). For the two samples that had a choice of whether or not to adopt IAS/IFRS early, Early Adopters and Late Adopters, we do not expect to observe differences in earnings management (smoothing) metrics of

firms between these two groups in the post-2005 period. Findings consistent with these predictions would suggest that changes in IAS/IFRS standards that allow greater managerial discretion (flexibility) lead to greater earnings management (smoothing), and would also suggest this explanation dominates the self-selection (incentives) explanation for the conflicting findings in prior research. Based on the above argument, we propose the following hypotheses:

H1: There is a significant relationship between the application of IFRS and earnings management.
H2: There is a significant relationship between the application of IFRS and the value relevance of earnings.

3. Research methodology

This research's time and place domain are five years from 2015 to 2019 and the companies listed on the Iraq Stock Exchange.

3.1. Test models and variables definition

This research estimates the following model to test H1 (the relation between the application of IFRS and earnings management) and H2 (the relation between the application of IFRS and Value relevance of earnings).

Following the past studies, this research estimates the following model to test H1 (the relation between the application of IFRS and earnings management) and H2 (the relation between the application of IFRS and Value relevance of earnings).

Model (1):

$$EM_{it} = \beta_0 + \beta_1\,IFRS_{it} + \beta_2\,SIZE_{it} + \beta_3\,LEV_{it} + \beta_4\,Growth_{it} + \beta_5\,AQ_{it} + \beta_6\,ROE_{it} + \beta_7\,Ownership_{it} + \beta_8\,AuditTenure_{it} + \beta_9\,ROA_{it} + \beta_{10}\,AR_{it} + \beta_{12}\,CG_{it} + fixed\ effects + \varepsilon_{it}$$

In Model (1), β_1 shows the association of *IFRS* and *EM* (earnings management).

Model (2):

$$Ret_{it} = \beta_0 + \beta_1\,IFRS_{it} + \beta_2\,EPS_i + \beta_3\,(EPS_{it} \times IFRS_{it}) + \beta_4\,SIZE_{it} + \beta_5\,LEV_{it} + \beta_6\,Growth_{it} + \beta_7\,AQ_{it} + \beta_8\,ROE_{it} + \beta_9\,Ownership_{it} + \beta_{10}\,AuditTenure_{it} + \beta_{11}\,ROA_{it} + \beta_{12}\,AR_{it} + \beta_{13}\,CG_{it} + fixed\ effects + \varepsilon_{it}$$

In Model (2), the association of *EPS* and *Ret* reflects the value relevance of earnings. Specifically, β_3 shows that how IFRS affects the value relevance of earnings.

Following past studies (Dechow et al. 1995; Healy & Wahlen, 1999; Young, 1999; McNichols, 2000), this research uses the Jones model (Jones, 1991) for estimating earnings management.

Other variables are defined as below:

Ret   = Stock returns of firm i for fiscal year t.

Further, the independent variables are defined as below:

IFRS   = Dummy variable that takes the value of 1 for a company that adopts IFRS and 0 otherwise.

EPS   = Earnings per share.

SIZE   = Logarithm of total assets of a firm i measured at the end of year t.

LEV = Total long-term debt / Total assets for firm i in period t.

Growth = Sales growth rate, defined as the sales in year t minus sales in year t-1 and scaled by sales in year t-1

AQ   = If the audit firm is big, audit firms (firms with managers over the median) coded one, otherwise zero.

ROE = Net income divided by last year's total equity.

Ownership = The percentage of institutional ownership

AuditTenure = is calculated as the total length of the individual auditor and client relationship

ROA = It is measured by the ratio of operational profit to total assets of the company

AR = Total accounts receivable divided by the total assets of the company

CG = As a symbol of the quality of the corporate governance system, it is obtained from the combination (sum) of the following variables. If the ratio of non-executive members of the board of directors is more than the median, coded one, and otherwise codes zero. If the CEO and the chairman of the board are not the same, code one and otherwise code zero.

Fixed effects = industry and year fixed effects

4. Finding
4.1. Descriptive statistics
Table 1 provides the Descriptive statistics for research variables. Based on the table, about 25 percent of observations also use international financial reporting standards. It can be seen that the average earnings management variable is 0.102. The average stock return variable is also slightly below zero, indicating that the sample companies generally do not have good returns. The highest return is about 320%, and the lowest is about 380% negative. The average earnings per share are 16 percent, and the ratio of long-term debt to total assets is approximately 33 percent. Sales grew by about 13 percent over the previous year, with the high auditor quality for 24 percent of the observations. The dividend to equity ratio is about 6%, and the average institutional ownership of the sample companies is about 20%.

Table 1. Descriptive statistics indicators of research model variables

Operational definition	Symbol	Mean	Median	Standard deviation	Min	Max	Quartiles 25%	75%
Earnings management	*EM*	0.102	0.056	0.134	0.000	0.750	0.023	0.022
Stock returns	*RET*	-0.004	-0.061	1.338	-3.896	3.119	-0.313	0.171
Transition to IFRS	*IFRS*	0.255	0.000	0.436	0.000	1.000	0.000	1.000
Earnings per share	*EPS*	0.160	0.017	0.434	-0.581	1.625	-0.007	0.101
Size of the company	*Size*	8.977	9.027	1.042	5.233	10.970	8.187	9.811
Financial Leverage	*LEV*	0.337	0.300	0.248	0.010	0.970	0.120	0.500
Sales growth	*Growth*	0.127	-0.010	0.946	-0.920	5.600	-0.320	0.180
Audit quality	*AQ*	0.240	.240	0.426	0.000	1.000	0.000	0.740
Returns on equity	*ROE*	0.069	0.014	0.200	-0.256	0.818	-0.007	0.075
Institutional ownership	*Ownership*	0.199	0.000	0.300	0.000	0.910	0.000	0.324
Audit Tenure	*AudTnr*	4.210	4.000	2.629	0.000	9.000	2.000	6.000
Returns on assets	*ROA*	0.040	0.015	0.118	-0.460	0.650	-0.002	0.058
Accounting receivable	*AR*	0.220	0.080	0.234	0.010	0.900	0.040	0.420
Corporate governance	*CG*	2.250	2.000	0.436	2.000	3.000	2.000	3.000

Based on the results of Table 1, it can be seen that the average of the earnings management variable, which is derived from the absolute value of the error values of the Jones earnings management model, is 0.102, and the closer these values are to zero, the lower the earnings management. The average stock return variable is also slightly below zero, indicating that the sample companies generally do not have good returns. The highest return is about 320%, and the lowest is about 380% negative. About 25 percent of observations also use international financial reporting standards. The average earnings per share are 16 percent, and the ratio of long-term debt to total assets is approximately 33 percent. Sales grew by about 13 percent over the previous year, with the auditor accounting for 24 percent of the observations. The dividend to equity ratio is about 6%, and the average institutional ownership of the sample companies is about 20%.

4.2. Inferential statistics
Consistent with our first hypothesis, there is a significant relationship between the use of IFRS and

earnings management. Table 5 reports the hypothesis test results. It can be seen that the significant value of the Fisher statistic is 0.000, which indicates a good fit of the model. On the other hand, the value of the adjusted R squared is 0.204. In other words, about 20% of the dependent variable is explained by independent variables. Also, Watson's Durbin statistic with a value of 2.044 is between 1.5 and 2.5, indicating a lack of significant autocorrelation. Regarding the main independent variable of the research, IFRS, the significance value is 0.660. Considering that this value is more than 5%, the first hypothesis has not been confirmed. Hence, there is no relationship between the transition to international standards and earnings management. Among the control variables, institutional ownership with a significance of 0.000 has a negative relationship with earnings management.

Table 5. Results of the first research hypothesis test

Variable		Coefficient	Standard error	t statistic	Sig
Constant	C	.036	.224	.160	.873
Transition to IFRS	*IFRS*	-.017	.038	-.441	.660
Size of the company	*Size*	-.001	.015	-.051	.959
Financial Leverage	*LEV*	.061	.050	1.213	.227
Sales growth	*Growth*	-.004	.009	-.496	.620
Audit quality	*AQ*	-.049	.065	-.753	.452
Returns on equity	*ROE*	-.040	.053	-.758	.449
Institutional ownership	*Ownership*	-.163	.042	-3.874	.000
Audit Tenure	*AudTnr*	.006	.007	.862	.390
Returns on assets	*ROA*	-.136	.091	-1.484	.139
Accounting receivable	*AR*	-.025	.068	-.364	.716
Corporate governance	*CG*	.035	.076	.454	.650
Year fixed effect		Was controlled			
Firm fixed effect		Was controlled			
Fisher statistics		2.191			
Significance of Fisher statistics		0.000			
R squared		0.375			
Adjusted R squared		0.204			
Durbin Watson Statistics		2.044			

Based on the second hypothesis in this research, there is a significant relationship between the transition to IFRS and the value relevance of earnings. In Table 6, it can be seen that the significant value of the Fisher statistic is 0.000 indicating a good fit of the model. On the other hand, the value of the Adjusted R squared is 0.259; in other words, about 25% of the dependent variable is explained by independent variables. Also, the Durbin Watson statistic has a value of 2.407 and is between 1.5 and 2.5, suggesting a lack of autocorrelation. Regarding the main independent variable of the research, i.e., the interactive effect of the transition to IFRS and earnings per share that shows the association of IFRS and the value of earnings, the significant value is 0.007 and considering that this value is less than the error level of 5%, the second hypothesis is confirmed. Thus, there is a significant relationship between the transition to international standards and the value relevance of earnings.

The positive coefficient also indicates the existence of a positive relationship between these two variables, the increase in the use of international standards has increased the value of the company's earnings.

Table 6. Test results of the second research hypothesis

Variable		Coefficient	Standard error	t statistic	Sig
Constant	C	1.353	2.142	.632	.528
Transition to IFRS	*IFRS*	-.789	.396	-1.993	.048
Earnings per share	*EPS*	1.638	.302	5.425	.000
Interactive effect	*IFRS*EPS*	5.700	2.096	2.719	.007
Size of the company	*Size*	.201	.147	1.369	.172
Financial Leverage	*LEV*	.411	.484	.849	.397
Sales growth	*Growth*	-.017	.084	-.197	.844
Audit quality	*AQ*	.947	.624	1.517	.131
Returns on equity	*ROE*	-.975	.527	-1.849	.066
Institutional ownership	*Ownership*	.816	.517	1.577	.116
Audit Tenure	*AudTnr*	-.022	.064	-.339	.735
Returns on assets	*ROA*	-.943	.908	-1.039	.300
Accounting receivable	*AR*	-.696	.670	-1.038	.300
Corporate governance	*CG*	-1.204	.734	-1.641	.102
Year fixed effect		Was controlled			
Firm fixed effect		Was controlled			
Fisher statistics		2.569			
Significance of Fisher statistics		0.000			
R Squared		0.424			
Adjusted R Squared		0.259			
Durbin Watson Statistics		2.407			

5. Conclusion

The creation of IFRS is one of the most challenging changes to the accounting framework globally. The content of IFRS has been a matter of debate and controversy among scholars for decades, particularly with regard to historical cost accounting and fair value measurement. Whether Iraqi financial information had any effect on stock price variance has been a major regulatory and academic topic in Iraq. The application of IFRS has increased the need to verify whether the IFRS financial information has any impact on share price variance. This is a new aspect of accounting, especially in Iraq. So far, the importance of adopting IFRS on financial information in the context of Iraq has not been delved into. Research in Iraq is dominated by descriptive research, using biased primary sources and full of assumptions. This study is concerned with the empirical investigation of adopting international financial reporting standards and financial reporting quality in the Iraq Stock Exchange.

Based on empirical evidence, the first hypothesis has not been confirmed, and therefore, there is no relationship between the use of international standards and earnings management. Further, the interactive effect of using the standard and earnings per share that shows the second hypothesis is confirmed, indicating that there is a significant relationship between the transition to international standards and the value relevance of earnings.

In light of these results, the study concluded that the prior IFRS financial information is relevant to value and that the post-IFRS financial information is also relevant. The study further concludes that financial information after IFRSs is more relevant to value. Therefore, the accounting information has relevance to value, and the adoption of IFRSs has had a clear impact on the Iraqi companies' industry. Then the study concluded that preparing a cadre specialized in accounting science and well informed on the latest international developments and holding intensive training courses to develop technical and practical skills in dealing with IFRS. Further, it is concluded the necessity of activating standards and principles compatible with our Iraqi environment in order to adapt and create the general climate for adopting IFRS.

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