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## ARTÍCULO

# The Impact of Accounting Conservatism and Information Technology on Audit Performance and Quality of Financial Reporting: Empirical Analysis in the Oil Industry in Iraq

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**Abstract:** The importance of financial reporting (FR) in maintaining organisational credibility has been a focal point of recent studies. Therefore, this article examines how accounting conservatism and information technology affect the quality of financial reporting in the oil industry in Iraq. The study also explores the role of audit performance in the relationship between accounting conservatism, information technology, and the quality of financial reporting in the Iraqi oil industry. The study collects primary data from the audit team of the oil industry in Iraq using survey questionnaires. The study also examines the data reliability and the relationship between variables using SPSS-AMOS. The results indicate a positive relationship between accounting conservatism, information technology, and the quality of financial reporting in the oil industry in Iraq. The findings also revealed that the performance of audits plays a significant role in the relationship between accounting conservatism, information technology, and the quality of financial reporting in the oil industry in Iraq. The study guides policymakers in developing policies to enhance the quality of financial reporting through the utilisation of accounting conservatism and information technology.

## 1. Introduction

FR is a tool used to effectively communicate the details of core financial activities. The quality of financial reporting refers to the reliability and usefulness of the information presented in financial statements for the readers (company itself and its stakeholders who have some interest in company progress) (de Villiers & Sharma, 2020). Assessing the success of the business, tracking progress towards goals and milestones, and aiding in important decision-making are all valuable aspects to consider in the near future. By carefully examining financial reports, company management can gain insight into its financial potential, track opportunities for success, and make timely and effective decisions. By utilising a strong FR, they can effectively convince contacts to collaborate and achieve their business objectives.

Generally, by analysing reliable financial reports, one can identify past business pitfalls and make necessary adjustments to prevent future failures (Nani, 2019). In addition to company management, quality financial reporting is valuable to various stakeholders, including investors, shareholders, creditors, employees, the government, and the public. Investors, shareholders, and creditors can assess the company's ability to meet their expectations and make informed investment decisions by examining the information in the publicly disclosed books of accounts. Adhering to governmental regulations demonstrates the effectiveness of financial reporting, instilling confidence in the public and customers (Wahid, 2019).

The quality of financial reporting holds great significance for a company seeking assistance in business future planning, progress, and emergence. The enhancement of FR quality is accelerated by various factors, such as audit performance, accounting conservatism, and information technology. An audit involves a thorough examination and inspection of a company's financial records. Individuals who act as internal or external auditing teams typically carry out this task. Auditors play a crucial role in ensuring the accuracy of financial records by preventing errors and detecting fraud. The study by Werner et al. (2021) highlights the positive impact of obtaining high-quality information from financial reports on audit performance. Accounting conservatism is an accounting policy that requires companies to meticulously verify and maintain their books of accounts. Accountants follow the principle of accounting conservatism to ensure that they account for all current transactions, even if they may result in future losses or liabilities. Therefore, companies demonstrate their financial performance and potential by means of their financial statements. Accounting conservatism enhances the quality of financial reporting (Sholikhah & Suryani, 2020). Information technology encompasses a range of computerised tools, including devices, software, programming languages, and data, which facilitate the acquisition, storage, processing, retrieval, and transfer of information. This technology allows accountants to efficiently collect, manage, and process large data sets that would be impractical for manual analysis (Sarwono & Handayani, 2021).

The present study focuses on the quality of financial reporting for the oil industry in Iraq. Iraq is a developing country with an upper-middle-income economy. The Iraqi economy is estimated to have a nominal GDP of \$297.695 billion in 2023. The oil sector has a significant presence in Iraq. In 2018, the proven oil reserves in Iraq amounted to 147.22 billion barrels. As of 2018, Iraq's oil reserves

amounted to 147.22 billion barrels, ranking it fifth in the world and accounting for 8.7% of the global total (AL-Saadi et al., 2022). In 2016, Iraq's daily oil consumption amounted to 857,000 barrels. Iraq's daily oil consumption ranks 26th in the world, accounting for 0.9% of the global total, which amounts to 97,103,871 barrels per day. Iraq produces 4,443,457.39 barrels per day, making it the 6th largest producer in the world.

According to Semenova and Al-Dirawi (2022), Iraq's annual oil production accounts for a mere 1.2% of the global oil reserves. Iraq exports much of its oil production, which amounted to 3,576,636 barrels per day in 2016, to other nations for commercial purposes. Between 2020 and 2021, Iraq experienced significant growth in its crude petroleum exports to three countries: India (\$8.89 billion), Greece (\$6.62 billion), and China (\$6.18 billion). In modern history, most foreign exchange earnings have been generated by oil exports. According to the latest statistics for 2021, the oil sector accounts for a significant portion of foreign exchange earnings, contributing 92% of the total (Al-Frijawy et al., 2019).

The dominance of the oil industry in the Iraqi economy and the substantial funds it brings to the country are at risk due to the presence of foreign entities with rights to oil production and processing. It is essential to enhance the connection between companies and stakeholders by focusing on improving the quality of FR (Aljamee et al., 2020). This study focuses on the quality of FR and addresses the relevant need. The aim of this study is to examine the impact of accounting conservatism and information technology on audit performance and the quality of financial reporting.

The current study provides valuable contributions to the field of literature. In previous literature, authors have discussed the relationship between accounting conservatism or information technology and the quality of financial reporting. This study contributes to the existing literature by investigating the impact of accounting conservatism and information technology on the quality of financial reporting. Furthermore, previous studies have primarily focused on examining the direct correlation between audit performance and the quality of financial reporting. This study contributes to the existing literature by examining the relationship between audit performance, accounting conservatism, information technology, and the quality of financial reporting. Additionally, this study stands out in the field of literature by examining the correlation between accounting conservatism, information technology, audit performance, and the quality of financial reporting specifically within the oil sector in Iraq.

The paper is structured into five sections. The second part focuses on constructing hypotheses related to the relationship between accounting conservatism, information technology, audit performance, and the quality of financial reporting. These hypotheses were developed after a thorough review of existing literature. The third section provides a succinct explanation of the methods used in data collection and analysis. In the fourth section, hypothesis testing, and research outcomes are presented. Then, by engaging in thorough discussions, the findings are substantiated by referencing relevant prior research. The paper concludes by discussing the implications, drawing conclusions, and acknowledging its limitations.

## 2. Literature Review

Past studies have examined the correlation between accounting conservatism, information technology, audit

performance, and the quality of financial reporting. Various authors have approached the correlation between these factors in distinct ways. The following paragraphs discuss previous studies and their findings, as well as hypotheses about the relationship between accounting conservatism, information technology, audit performance, and the quality of financial reporting.

Accounting conservatism involves the guidance provided to accountants regarding the timing of recognising losses or gains in the preparation of financial statements. Implementing accounting conservatism helps minimise errors and fraudulent activities. According to [Pasupati \(2020\)](#), there is an improvement in the information quality of FR. In their study, [Muttakin et al. \(2019\)](#) examine the correlation between accounting conservatism and the quality of financial reporting. Data on the factors and their correlation was gathered from Australian-listed companies. Firms implementing an accounting conservatism policy have regulated accountants whose performance can be monitored, according to the study. It results in improving the quality of the FR. In their study, [Teymouri and Sadeghi \(2020\)](#) examine the correlation between accounting conservatism, financial regulation, and the quality of financial reporting. The research article focused on a statistical population of 137 listed companies with registrations on the Tehran Stock Exchange from 2011 to 2016. The authors utilised the Rahavard Novin software to collect the necessary data. The C-score Index and the Altman adjusted model (localised) were utilised to assess the accounting conservatism and the quality of FR, respectively. The authors employed panel data and fixed effects, utilising a multivariate regression method, to examine the hypotheses.

The findings suggest a positive correlation between accounting conservatism and the quality of financial reporting. Companies that adhere to accounting conservatism policies strive to maintain accuracy in their documentation, providing pertinent and transparent information. Therefore, accounting conservatism policies elevate the overall quality of FR. In their study, [Cho et al. \(2020\)](#) examine the connection between accounting conservatism, voluntary corporate social responsibility (CSR) disclosures, and the quality of financial reporting (FR). A thorough examination of the existing literature was undertaken. Researchers have conducted various theoretical and empirical studies on topics such as accounting conservatism, voluntary CSR disclosures, and the quality of FR. The study found that adopting accounting conservatism results in firms presenting high-quality information through financial reporting. Hence,

**H1:** Accounting conservatism has a positive association with the quality of financial reporting.

The field of information technology enables the collection and analysis of vast amounts of data through meticulous processing, resulting in valuable insights. Accountants with expertise in information technology are adept at efficiently recording events or transactions in the books of accounts. As a result, they effectively carry out their accounting responsibilities and enhance the accuracy of the information presented in their financial statements ([Thuy et al., 2021](#)). In their study, [Ilyas et al. \(2022\)](#) investigate the impact of information technology on financial reporting in village-owned business entities in Indonesia during 2021.

This study aims to compare businesses that utilise information technology with those that do not provide their personnel with access to information technology. The study suggests that accountants can stay informed about accounting standards by utilising information technology.

Adopting widely accepted accounting principles can rectify errors in financial statement preparation. Therefore, the enhanced quality of FR leads to improved information delivery to stakeholders. In their study, [Mosteanu and Faccia \(2020\)](#) examine the impact of digital information technology on financial management and the quality of financial reporting. In this context, the primary focus is on FinTech, XBRL, Blockchain, and Cryptocurrencies.

The utilisation of advanced digital information technologies offers numerous benefits. These include mitigating the risk of fraud, minimising the occurrence of errors (especially those caused by human factors), automating processes, analysing vast quantities of data, enhancing efficiency, and reducing error rates to yield substantial cost savings, improving the reliability of financial reports, and optimising workflow. The outcome is the achievement of efficient financial management and the production of precise financial statements. Therefore, the financial report offers comprehensive, pertinent, and precise details regarding the company's financial value. In their study, [Park et al. \(2020\)](#) examine the relationship between information technology, audit performance, and the quality of financial reports. The data for the factors were collected from South Korean institutions during the COVID-19 pandemic, utilising country statistics. The findings suggest a positive correlation between the adoption of information technology and the quality of financial reporting. Effective financial management enhances the accuracy and reliability of financial statements. Therefore,

**H2:** Information technology has a positive association with the quality of financial reporting.

In a recent study, [Hejranijamil et al. \(2020\)](#) investigated the relationship between accounting conservatism, uncertainty in the business environment, audit performance, and the quality of financial reporting in listed companies. The authors selected a sample of 183 companies and gathered financial data on accounting conservatism, business environment uncertainty, audit performance, and the quality of financial reporting for a period of five years from 2013 to 2018. EVIEWS software was utilised for estimating the multiple regression models. The findings indicate that accounting conservatism has a mitigating effect on uncertainty within the business environment. Under these circumstances, accounting conservatism enhances the performance of the audit, resulting in an improvement in the quality of the financial report.

In a recent study by [Sharma and Kaur \(2021\)](#), the authors examine the relationship between accounting conservatism, corporate governance, audit performance, and the quality of financial reporting. The data pertained to India and encompassed a time frame spanning from 2010 to 2018. The data extraction involved utilising various sources, such as the BSE website, the Prowess IQ database, and the annual reports of the selected companies. The analysis of factors under consideration utilised panel data methodology. The study provides a clear and scholarly explanation of how the application of accounting conservatism principles in accounting functions can effectively enhance corporate governance and reduce uncertainty.

As a result, there is an improvement in audit performance and the quality of financial reporting. [El-Habashy \(2019\)](#) conducted a study examining the correlation between accounting conservatism, audit performance, and the quality of financial reporting in Egyptian firms. The author collected data from a sample of 40 non-financial companies in Egypt from 2009 to 2014 to test hypotheses.

The analysis was conducted using panel regression models. In their study, [Givoly and Hayn \(2000\)](#) used an indicator as a benchmark to measure accounting conservatism. The results indicate that implementing accounting conservatism has a positive impact on the work environment across various departments and contributes to enhanced audit performance. The enhancement of audit performance leads to an improvement in the quality of financial reporting.

In their recent study, [Al-Abedi et al. \(2022\)](#) investigated the relationship between corporate governance, accounting conservatism, and the quality of financial reporting. The research focuses on the companies listed on the Iraq Justice Stock Exchange as the statistical population. A sample of thirty companies was selected from the population using the elimination sampling method between 2013 and 2020. The results regarding the relationships between the factors were constructed using multivariate regression models. Based on the study findings, there is a connection between accounting conservatism and the quality of financial reporting. Implementing accounting conservatism enhances audit performance, leading to improved quality of information in financial reports. Thus,

**H3:** Audit performance is a significant mediator between accounting conservatism and the quality of financial reporting.

Accountants and auditors rely on financial information to make informed judgements and carry out their financial and inspection responsibilities. The organisation of information technology facilitates the accessibility of valuable information, thereby enhancing the efficiency of accounting and auditing procedures. As a result, audits are enhanced, and auditors' implementation of regulations improves the quality of financial reporting. Therefore, the performance of audits serves as a mediator between information technology and the quality of financial reports ([Salehi et al., 2020](#)). The study conducted by [Sasono et al. \(2021\)](#) examines the relationship between information technology, internal control systems, human resource competence, and the quality of financial statements.

The distribution of the questionnaire served as the data collection method, involving 161 employees from the selected study population at the Dinas Agency in the Government of South Sumatra Province, Indonesia. The authors utilised SPSS V20 to analyse the data using t-tests and Path Analysis to establish the correlations between various factors. The study suggests that the use of information technology by accountants improves audit performance and enhances the quality of financial reporting. [Roychowdhury et al. \(2019\)](#) examine the interplay between information technology, audit performance, the quality of financial reporting, and investment decision-making. [Roychowdhury et al. \(2019\)](#) conducted the study by extensively reviewing previous literature, with a specific focus on information technology, audit performance, the quality of financial reports, and investment decision-making.

The thorough examination of the chosen studies facilitated the establishment of connections between various factors. The findings suggest that the utilisation of information technology in audit processes has a positive impact on the quality of financial reports, resulting in favourable outcomes. [Liu et al. \(2019\)](#) delve into the correlation between information technology, audit performance, and the quality of financial reporting in their research article on the role of blockchain technology in auditing and accounting. This discussion revolves around the theoretical aspects of the relationship between the chosen factors. The study found that audit performance plays a role in the

relationship between information technology and the quality of financial reporting. So,

**H4:** Audit performance is a significant mediator between information technology and the quality of financial reporting.

### 3. Research Methods

This article examines the effects of accounting conservatism and information technology on the quality of financial reporting (FR) in the oil industry in Iraq. Additionally, it explores the role of audit performance as a mediator between accounting conservatism, information technology, and FR quality. The study collects primary data from the audit team of the oil industry in Iraq using survey questionnaires. The variables are assessed using questions derived from previous research. For instance, accounting conservatism is evaluated using a set of five questions ([Osborne & Sibley, 2020](#)), information technology is measured using six questions ([Vehko et al., 2019](#)), audit performance is assessed with four items ([Kaawaase et al., 2020](#)), and the quality of financial reporting is evaluated using five questions ([Phornlaphatrachakorn & Na Kalasindhu, 2021](#)).

The study chose auditors from the oil industry as participants. The surveys were distributed to the auditors through a combination of personal visits and email communication. A method of random sampling was employed to choose the auditors. The auditors distributed a total of 554 surveys and received 291 valid responses, indicating a response rate of approximately 52.53 percent. In addition, the study also examines the reliability of the data and the relationships between variables using SPSS-AMOS. The AMOS software is known for its ability to produce accurate results with large data sets, as well as its effectiveness in handling primary data and complex models ([Hair et al., 2014](#)). The study utilised two predictors, accounting conservatism (AC) and information technology (IT), along with one dependent construct, quality of financial reporting (QFR), and one mediating construct, audit performance (AP). These variables are given in [Figure 1](#).

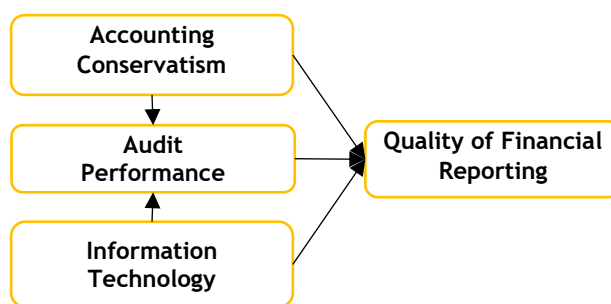


Figure 1: Theoretical Model.

### 4. Research Findings

The study checks the item's correlation, called convergent validity. It is checked using composite reliability (CR), and the figures are bigger than 0.70. It is also examined using factor loadings and average variance extracted (AVE), and both figures are greater than 0.40. Finally, it is also examined using ASV and MSV, and both figures are lower than AVE. These values exposed a high correlation between items. These figures are given in [Table 1](#).

**Table 1: Convergent Validity.**

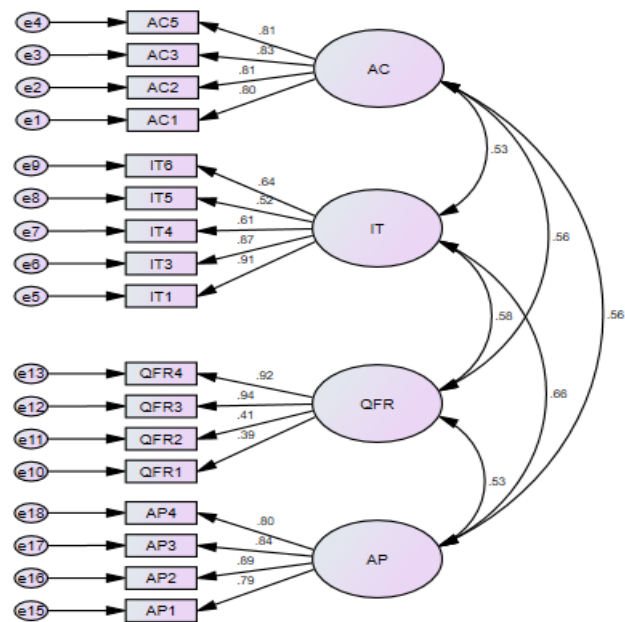
Constructs	Items	Beta	CR	AVE	MSV	ASV
Accounting Conservatism	AC1 <--- AC	0.796				
	AC2 <--- AC	0.807				
	AC3 <--- AC	0.828	0.885	0.658	0.315	0.301
	AC5 <--- AC	0.813				
Information Technology	IT1 <--- IT	0.910				
	IT3 <--- IT	0.871				
	IT4 <--- IT	0.607	0.841	0.525	0.430	0.349
	IT5 <--- IT	0.516				
	IT6 <--- IT	0.636				
	QFR1 <--- QFR	0.400				
Quality of Financial Reporting	QFR2 <--- QFR	0.411				
	QFR3 <--- QFR	0.944	0.786	0.516	0.340	0.310
	QFR4 <--- QFR	0.923				
	AP1 <--- AP	0.788				
Audit Performance	AP2 <--- AP	0.888	0.899	0.690	0.430	0.341
	AP3 <--- AP	0.843				
	AP4 <--- AP	0.800				

The study evaluates the correlation between variables, specifically focusing on discriminant validity. The use of Fornell Larcker reveals larger figures that indicate the

linkages between the construct itself and other constructs. The values demonstrated a weak correlation between variables. The data is presented in Table 2.

**Table 2: Discriminant Validity.**

	QFR	AC	IT	AP
QFR	0.718			
AC	0.558	0.811		
IT	0.583	0.527	0.725	
AP	0.527	0.561	0.656	0.831



**Figure 2: Measurement Model Assessment.**

The study examines the model's level of fitness. The data is assessed using the RMSEA method, with the resulting figures indicating values below 0.05. The examination also includes the use of TLI and CFI, with both values exceeding 0.90. The values of the exposed model are a good fit. The data is presented in Table 3.

**Table 3: Good Fitness of Model.**

Selected Indices	Result	Acceptable level of fit
TLI	0.922	TLI > 0.90
CFI	0.926	CFI > 0.90
RMSEA	0.003	RMSEA < 0.05 good; 0.05 to 0.10 acceptable

The outcomes of the study indicate a positive relationship between accounting conservatism, information technology, and the quality of financial reporting in the oil industry in Iraq. The study supports hypotheses H1 and H2. Table 4 presents the associations.

**Table 4: Direct Path Analysis.**

Relationships	Beta	S.E.	C.R.	P
Audit Performance <--- Information Technology	0.414	0.03811	10.130	0.000
Audit Performance <--- Accounting Conservatism	0.298	0.038	7.796	0.000
Quality of Financial Reporting <--- Accounting Conservatism	0.197	0.034	5.758	0.000
Quality of Financial Reporting <--- Information Technology	0.239	0.036	6.689	0.000
Quality of Financial Reporting <--- Audit Performance	0.262	0.043	6.102	0.000

Results from the indirect path analysis revealed that audit performance plays a significant mediating role in the relationship between accounting conservatism, information technology, and the quality of financial reporting in the oil industry in Iraq. These results support the acceptance of hypotheses H3 and H4. Table 5 presents the associations.

**Table 5: Indirect Path Analysis.**

	Accounting Conservatism	Information Technology	Audit Performance
Audit Performance	0.000	0.000	0.000
Quality of Financial Reporting	0.100	0.141	0.000

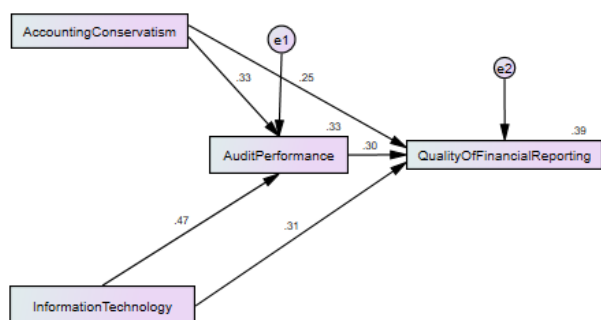


Figure 3: Structural Model Assessment.

## 5. Discussions

The results indicate a positive correlation between accounting conservatism and the quality of financial reporting. The findings of Čičak and Vašiček (2019) provide support for the notion that adhering to widely accepted accounting principles and implementing an accounting conservatism policy can enable a company to accurately determine its profits over a given period. The accuracy of financial statement outcomes enhances the quality of information provided by FR to stakeholders. The study conducted by Li and Chao (2020) investigates the impact of accounting conservatism on the quality of financial reporting, aligning with these results. The study suggests that implementing accounting conservatism provides a more accurate representation of a company's financial condition throughout the year, ultimately enhancing the quality of financial reporting.

The results indicate a positive correlation between information technology and the quality of financial reporting. Lesi (2020) research supports these findings, illuminating the impact of information technology on the quality of financial reporting. The study suggests that the adoption of information technology can enhance the knowledge and effectiveness of personnel in the company's accounts management department. Developing accounting skills enhances the accuracy and transparency of financial statements. Hence, the adoption of information technology enhances the quality of FR. These findings align with the research conducted by Kulkarni (2020), emphasising the ability of information technology to analyse and process large amounts of data to extract accurate information. Therefore, it is crucial to ensure the accuracy of financial statements in order to enhance the quality of financial reporting.

Similarly, the findings also indicate that the performance of audits plays a crucial role in mediating the relationship between accounting conservatism and the quality of financial reporting. The findings of Bhaskar et al. (2019) support the notion that accounting conservatism is a well-established accounting principle that assists accountants in accurately determining the actual profits for a given period. It enhances the efficiency of auditors and optimises audit performance. Improved audit performance leads to the attainment of high-quality financial reports. Craja et al. (2020) provide insights into how the adoption of accounting conservatism policy guides auditors in conducting thorough investigations and verifications. The improvement in audit performance contributes to the overall quality of financial reporting. The performance of audits plays a crucial role in the relationship between accounting conservatism and the quality of financial reporting.

Another factor learned from the results of this study is that the performance of audits plays a crucial role in mediating the relationship between information technology and the

quality of financial reports. The results are backed by a study conducted by Crucean and Hațegan (2021). In a previous article, it was discussed how the utilisation of information technology enhances the quality of information accessible to financial officers within a company. This, in turn, aids them in efficiently processing and utilising the information to carry out their duties. By implementing these measures, the risk of fraudulent activity is minimised, and the overall effectiveness of the audit process is enhanced. Enhancing audit performance leads to an enhancement in the quality of financial reporting. A study conducted by Salijeni et al. (2021) suggests that implementing information technology enhances audit performance and subsequently improves the quality of financial reporting.

## 6. Implication

The current study holds great importance for researchers in their academic pursuits due to its valuable contribution to the existing literature. The study focuses on examining the correlation between accounting conservatism, information technology, and the quality of financial reporting. The study also examines the mediating role of audit performance in relation to accounting conservatism, information technology, and the quality of financial reporting. Companies and their stakeholders greatly benefit from the significance of the present study. The document guides company management and auditors to enhance the quality of financial reporting. Management and auditors should encourage and support accountants in implementing the accounting conservatism principle to enhance the quality of financial reporting.

The study proposes the introduction of information technology within the company to address various issues and enhance the quality of FR. Additionally, it provides a directive for corporate managers to prioritise the implementation of an accounting conservatism policy. Consequently, the organisation can enhance its audit performance and elevate the quality of financial reporting. Furthermore, the study highlights the importance for firm administrators and regulators to promote the utilisation of information technology, as it enhances audit performance and contributes to the quality of financial reporting. The study assists policymakers in formulating policies aimed at enhancing the quality of financial reporting through the utilisation of accounting conservatism and information technology.

## 7. Conclusion

The authors of this article aimed to analyse the impact of accounting conservatism and information technology on the quality of financial reporting. The study aimed to investigate the potential relationship between audit performance, accounting conservatism, information technology, and the quality of financial reporting. Information was gathered from the Iraqi oil industry using carefully designed questionnaires. The findings indicated a positive correlation between accounting conservatism and information technology in relation to the quality of financial reporting. The results indicate that the implementation of an accounting conservatism policy by accountants when handling financial statements leads to accurate recording of losses, gains, and liabilities, resulting in improved information quality in financial reports.

The study also found that the implementation of information technology enables accountants and other company administrators to forecast the company's losses and gains more accurately for the year. Hence, financial reports can provide an accurate representation of the company's financial status. Therefore, the implementation of information technology can enhance the quality of FR. The findings indicate that the performance of audits has a notable impact on the relationship between accounting conservatism, information technology, and the quality of financial reporting. Through the adoption of accounting conservatism and information technologies, there has been a notable enhancement in audit performance and the overall quality of financial reporting.

## 8. Limitations

Future literature should address the limitations of the current article to enhance its overall quality. In this study, the authors have presented accounting conservatism and information technology as the main factors driving the quality of financial reporting. In future literature, researchers should expand the factors considered in the research framework. Furthermore, the researchers have chosen to analyse the correlation between accounting conservatism, information technology, and the quality of financial reporting in the Iraqi oil industry. There is a need to consider the generalizability of the study, and future authors should aim to collect data from a wider range of economies.

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