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Controlling Financial Risks' Impact on Accounting Information Quality: Evidence from Iraqi banks

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Abstract. Controlling risk management strategies and implementing preventive actions are essential for creating a secure and conducive environment for individuals and organisations. The study aims to showcase the influence of financial risk control on the quality of accounting information in Iraqi banks. This will be achieved by identifying and assessing risks, as well as designing and implementing suitable procedures to manage hazards. The goal is to produce reliable accounting information that stakeholders can trust. The study employed 154 questions that were delivered to accountants, internal auditors, external auditors, and academics specialising in Iraqi institutions. It consisted of two axes. The initial objective was to evaluate the management of financial risk control in Iraqi banks. The first axis comprised 17 specific questions, while the second axis assessed the accuracy of its accounting information and consisted of 21 questions. The study variables were assessed utilising the statistical software SPSS version 26, while the hypotheses were examined by simple linear regression. The study found that implementing robust procedures and policies to manage financial risks in banks improves the reliability and transparency of their accounting information. This includes effectively addressing various risks, such as geopolitical concerns.

Keywords. Controlling Financial Risks, Accounting Information Quality, Banks, Iraq

Introduction:

Corporations are exposed to risks in a market economy to periodic losses, which can be a source of concern for them. Every sector of the economy, including trade, services, and manufacturing, is inherently exposed to hazards. Risks arise due to insufficient information, asymmetry, and competing market tendencies. Financial risk is the foremost risk that firms encounter. Within the realm of economic transactions, several organizations encounter insolvency, resulting in their failure to promptly meet their financial commitments (Nabiyev, 2020), Operational activities on accounting data generate accounting information, which both internal and external stakeholders of the economic entity use to their advantage (Wahhab & Khlaif, 2022), and the quality of financial statements is deemed satisfactory when the information supplied in the report is comprehensible and fulfils the requirements of its users in making informed decisions. It should not create a misleading interpretation and should be free from significant errors (Rusnindita & Hidayat, 2023),

Various methodological approaches are used to analyse risk. The selection of the dominant approach significantly impacts risk perception and subsequently affects the choice of analysis methodologies and procedures. Several applications utilise risk analysis methodologies and technologies. (Jedynak, 2015), To efficiently handle all possible financial risks inside a firm, it is essential to objectively identify the risks, assess them, and choose suitable methods to reduce their impact. (Roşu et al., 2017), Companies should gather and present financial risk disclosure in tables or other systematically arranged formats that enhance the usability of the information. The most crucial method to attain high-quality accounting information is by identifying and promoting optimal disclosure methods (Ryan, 2012)

Hence, this study seeks to assess the mechanisms employed by Iraqi banks to manage financial risks and the protocols implemented by their departments to achieve the desired outcomes for the majority of stakeholders. The study emphasizes the importance of high-quality information provided by these banks, which enables decision-makers to make informed choices regarding their investments or savings. This study also investigates the impact of managing financial risks on the accuracy and reliability of accounting information, as well as the factors that influence its quality. In order to accomplish the goals of this study, the researchers established the following objectives: (1) ascertain the strategies implemented by banks to manage financial risks; (2) examine the impact of financial risk management on the accuracy of accounting information; and (3) investigate the factors that influence the accuracy of accounting information due to deficiencies in certain risk management mechanisms. The industrial enterprises in Iraq can effectively utilize the findings of this study.

1. Literature Review

1. A conceptual Introduction to Financial Risk Control

When considering risk, we often focus solely on factors that give rise to substantial worries. Numerous threats are so prevalent that we seldom contemplate them. Instead, we instinctively respond to them without conscious control and adopt prudent measures based on knowledge gained from past encounters (Wideman, 2022). Implementing risk management strategies and interventions is crucial to establish a secure and conducive environment for individuals or organisations. The process of identifying risks, evaluating hazards, and developing and executing suitable risk management protocols results in the production of reliable accounting information that stakeholders can depend on. (Lam, 2014). Tzanakakis highlights the significance of effectively overseeing activities and operations to reduce the likelihood of accidents, damages, and other risks, highlights the significance of recognising and evaluating hazards, formulating, and executing suitable safety and preventive measures, and educating and training individuals involved in the activity regarding these risks and procedures. (Tzanakakis, 2021)

Therefore, it is imperative for banks and other institutions to mitigate the likelihood of risks by recognising and assessing potential risks and implementing appropriate steps to minimise their impact on individuals, institutions, or the environment. We enact protocols and guidelines with the objective of diminishing, averting, or eradicating potential hazards. (Puzyrova et al., 2020) Ultimately, it will safeguard individuals or organisations in terms of their assets and income. It functions as the administrative aspect of a firm, utilising scientific methodologies to efficiently manage it. The approach is grounded in a clear philosophy and adheres to a well-defined set of steps (Gallati, 2003). Additionally, it incorporates a robust system for guiding and overseeing activities at the highest level, with the aim of accomplishing

project objectives and upholding the required standards of accountability and transparency (Bachy & Harache, 2010).

Every organisation and institution are exposed to the possibility of detrimental and unforeseen occurrences that can result in substantial financial losses and even total cessation of operations. Hence, risk management in corporations and organisations aims to proactively mitigate risks and minimise unforeseen expenses. By implementing a risk management plan and proactively considering a variety of potential events and dangers, this objective can be achieved (Tucci, 2023). Risk control is crucial in several areas and industries due to regulatory obligations and legislation concerning investment safety. Implementing effective risk control measures enables businesses to meet these requirements, prevent legal infractions, and mitigate potential penalties. The organization's reputation and public confidence can be adversely impacted by substantial risks and frequent events. Effective risk control and management play a crucial role in establishing a strong reputation for the organisation as a responsible body that prioritises the safety of its business operations. This, in turn, fosters trust and loyalty among customers, partners, and investors (Evotix, 2023).

Risk management has the advantage of recognising and reducing hazards, thereby fostering a secure and enduring work environment while minimising financial losses. Adhere to legal obligations, uphold the organization's standing, and improve operational effectiveness and efficiency. Consequently, it is crucial to ascertain potential hazards prior to an organisation commencing its business activities. Regularly identifying possible hazards facilitates the implementation of preventive measures to mitigate them. Through the process of identifying possible risks, management can formulate a strategic strategy to mitigate and minimise their detrimental impacts. Management should employ rational analysis to create well-informed and deliberate decisions to effectively mitigate risks in the business realm.

2. Financial Risk-Controlling Tools.

Diversification entails the allocation of investments among many asset classes, including equities, fixed income securities, commodities, and currencies. By diversifying the portfolio, the exposure to specific market risks is minimised and the portfolio is shielded from abrupt market volatility (Leković, 2018). Portfolio management encompasses a range of methodologies and tactics aimed at achieving a harmonious equilibrium between anticipated gains and financial vulnerabilities. These tactics encompass identifying the investment objective and executing distribution and rebalancing procedures. The portfolio's periodicity (Chen et al., 2020), entails the estimation and evaluation of potential financial risks and their effects on the targeted financial objectives. Risks are identified and evaluated using tools such effect analysis, probability assessment, hedging, and statistical analysis approaches (Ya, 2020). Insurance is a crucial instrument for managing and mitigating these risks. To mitigate financial risks, both firms and people have the option to get insurance policies, which serve to minimise the monetary consequences of accidents or unforeseen circumstances. Self-insurance is a method of assuming financial risks internally rather than obtaining insurance policies. Companies could spend financial resources to establish their own insurance fund, which may be used to cover the anticipated expenses associated with financial risks. Possibility. Companies possessing robust financial capabilities might employ this method to mitigate expenses linked to procuring insurance policies (Guliyeva, 2020).

Banks employ hedging methods utilising financial derivatives such as futures contracts and options to mitigate financial risks. These instruments serve to safeguard their investment portfolios against fluctuations in the prices of correlated assets or foreign currencies, thereby

mitigating the risks associated with price volatility. The term "natural hedge" is used to describe this phenomenon. One effective approach to manage financial risk is to diversify corporate operations over multiple geographic locations or commodities. For example, a company that operates in two separate regions can partially alleviate the impacts of economic or political changes in one region by leveraging its performance in the other zone financial hedging aims to mitigate financial risks by the utilisation of financial transactions, including futures, foreign exchange, and option trades. These products provide insurance for financial assets against price or interest rate fluctuations, safeguarding institutions, and investors from undesirable financial risks (Alsahlawi, 2021). The figure 1 shows the types of risk control:

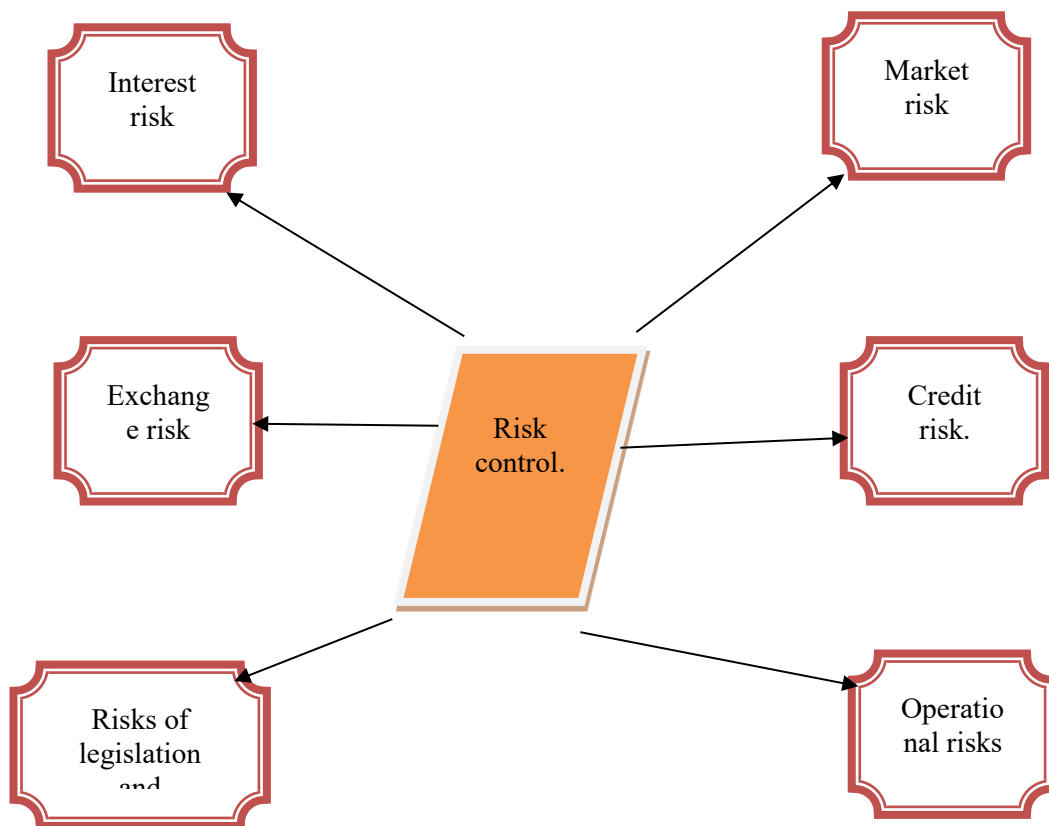


Figure 1: Types of risk control

Comprehending market risk is essential for effective financial management. It relates to the volatility of prices of financial assets such as stocks, bonds, currencies, and commodities. Fluctuations in interest rates, political and economic events, and changes in supply and demand can all influence these prices. For example, a decrease in the price of a company's stock might result in substantial financial losses. Market risk stems from various factors such as economic downturns, political instability, fluctuations in interest rates, catastrophic events, and acts of terrorism. Systemic or market risk tends to impact the entire market in a simultaneous manner, the predominant categories of market risks are interest rate, stock, commodity, and currency, investors and analysts frequently employ the value-at-risk method to assess market risk. This statistical metric determines the maximum potential loss that a portfolio may incur within a

specified timeframe and with a specified level of confidence. A of 95% implies that there is a 95% probability that the portfolio will not incur losses above the computed amount within the stated timeframe (Hayes, 2023). The variance-difference method, often known as the parametric method, is an alternative approach. Instead of retrospection, it assumes a standard distribution of gains and losses. The variation from the mean, measured in standard deviations, indicates the potential for losses. Monte Carlo simulation use mathematical models to simulate anticipated returns over numerous iterations, ranging from hundreds to thousands. Subsequently, VaR is computed by assessing the probability of a loss transpiring, such as a 5% likelihood of incurring the maximum loss (Aggarwal, 2022).

Credit risk management is evaluating the capacity of individuals or banks to fulfil their financial obligations. Neglecting to do this can lead to huge financial losses, particularly when the debts are large and affect the flow of cash. Lenders can reduce credit risks by examining characteristics associated with creditworthiness, such as the borrower's existing level of debt and income (Bhattacharya et al, 2023). Utilising advanced technology that offers up-to-date data and analysis for stress testing, scenario analysis, and continuous monitoring can effectively handle concentration risk. Concentration risk arises when a bank or financial technology portfolio becomes heavily focused on a single industry or asset class. (Kashyap, 2023)

Operational risk control encompasses a series of protocols aimed at mitigating risks associated with the company's operations and internal processes. The potential hazards encompass potential human errors, technology glitches, security vulnerabilities, and natural calamities. These hazards have the potential to result in the termination of operations and financial deficits. Operational risks typically arise from four primary sources: individuals, procedures, mechanisms, or external occurrences. Companies should endeavour to minimise the risks associated with each type of operational risk to the best of their ability, while acknowledging that certain operational risks are likely to persist indefinitely (Segal, 2023).

Managing interest rate risks entails modifying interest rates, which can impact borrowing expenses, investments, and loans. For instance, elevated interest rates might escalate borrowing expenses and impact an organization's profitability. Changes in interest rates can have a significant impact on various assets, but their greatest immediate effect is on the value of bonds and other fixed-income products. Consequently, bondholders diligently observe interest rates and base their decisions on the fluctuations of interest rates over time, as alterations in the foreign currency exchange rate will indicate the actual dangers involved. The term used to describe this is foreign exchange risk (CFI, 2023).

Legislative risks arise from changes in government rules and regulations that affect different economic sectors. Institutions may need to modify their operations to meet new regulations and adhere to financial, tax, and environmental laws. Any corporation is susceptible to substantial regulatory risks due to the authority of governments to enforce its laws on enterprises operating within their jurisdiction. Public outrage towards the negative impact of a corporation or industry frequently leads to the emergence of regulatory issues. (Budina et al., 2013)

3. Quality of accounting information

(Cohen & Karatzimas. 2017) contend that the quality of accounting information stems from its trustworthiness, the benefits it provides to users, its absence of misleading and distortion, and its adherence to specific criteria to achieve its intended objective. We compiled this information with the specific intention of fulfilling this objective. We regard the presence of corruption and the country's lack of adherence to financial and accounting regulations and procedures as factors that adversely affect the accuracy and reliability of accounting

information. Excessive corruption undermines the accuracy and significance of financial information. (Ferrero, 2014) asserts that adherence to accounting principles and international standards is essential for maintaining the integrity of accounting information. By adhering to established worldwide standards and general accounting principles, corporations and organisations guarantee uniformity and enhance the dependability and appropriateness of their practices. (Nguyen, 2021)

For accounting information to possess relevance, it must have a discernible impact on the decision-making process of its consumers. Irrelevant information that does not result in any change. Assert that both the significance and appropriateness of the information influence users' judgements. The specific circumstances of the organisation and the characteristics or magnitude of the item determine the appropriateness of the information (Tania et al., 2023).

Exerting control over financial risks enhances the accuracy and reliability of investment and management choices. Effective financial risk management ensures the provision of precise and dependable data to facilitate accurate and suitable investment choices. Additionally, it has the potential to mitigate unfavorable financial risks and enhance favorable prospects for financial and business activities (Al-Refiay et al., 2022). The objective of financial risk control is to mitigate potential adverse events that could impact the integrity of accounting information, such as manipulation of financial statements, accounting fraud, or inadvertent errors in accounting records. Additionally, it is imperative that appropriate actions be taken to minimize these risks and minimize their influence on the integrity of accounting information (Napitupulu, 2023).

4. Factors influencing the quality of accounting information.

Based on the information provided, it is crucial to effectively manage financial risks to ensure the success of business operations and investment strategies. Organisations and individuals face many risks that have the potential to result in financial losses. To effectively address these risks, it is necessary to develop realistic ways to mitigate or manage them. Effectively managing financial risks necessitates meticulous examination and assessment of potential risks, along with implementing appropriate actions to mitigate them (Huang, 2019) Organisations and individuals should establish their financial objectives and design suitable methods to manage and regulate them in accordance with these objectives. Continuous training and awareness must be provided to employees and members participating in the control process to ensure they comprehend the significance of recognising, evaluating, and implementing suitable steps to mitigate risks. (Sadeh & Pavan., 2021) Effectively managing financial risks is crucial for successful business management as it safeguards financial assets and facilitates the achievement of financial objectives. Financial stability and success in the evolving business landscape can be attained by organisations and individuals through the analysis and evaluation of financial risks, as well as the implementation of suitable control mechanisms (Yu et al., 2023)

5. They measured the study variables and tested the hypotheses.

6. Study methodology.

This section will provide a thorough examination of the study's methodology, encompassing its significance, objectives, problem description, hypothesis, data gathering process, and analysis techniques.

7. The importance of studying

The study's value resides in its variables and their pivotal role in actual reality. Managing financial risks has become an essential concern for both administrations and

investors, as well as professional and governmental agencies. This subject is intricate and develops in response to the shifting social, economic, and technical circumstances. Adapting to this dynamic shift necessitates that administrators and investors assess and deliberate upon the uncertainty around the attainment of their objectives, ultimately making crucial judgements. Risk management allows individuals to attain their objectives while minimizing or limiting any potential losses by managing financial risks. The importance of financial risk management lies in its influence on the precision and dependability of accounting information, hence affecting all stakeholders engaged in the bank's operations.

8. The study's purpose.

The study's primary objective is to assess the level of financial risk management in Iraqi banks within the research sample. Additionally, it aims to evaluate the effectiveness of the mechanisms and procedures employed in generating trustworthy accounting information for stakeholders.

9. The problem of studying

Managing financial risks has become an intricate matter due to the emergence of hazards from multiple sources, such as globalisation, the intricate nature of financial markets, rapid technological advancements, limited transparency, regulatory deficiencies, and behavioural biases. Hence, the management of financial risks is a vital component in upholding the precision and dependability of accounting data. Inadequate handling of financial risks can have a substantial effect on the accuracy and reliability of accounting information that investors receive. This might result in deceptive or erroneous financial statements, which can have a significant impact on the whole economy.

Based on the above, the main problem of the research can be crystallized by asking the following question (Is there an impact of controlling financial risks with its various mechanisms (financial analysis, insurance, futures contracts) on the quality of accounting information and thus on investors' decisions?).

It stems from the following question:

Does the implementation of various financial risk management mechanisms, such as financial analysis, insurance, and futures contracts, have a discernible impact on the quality of accounting information?

10. The Study hypotheses

The study is based on the following hypothesis:

(a) Null hypothesis H0: Significant relationship between financial risk control and the quality of accounting information.

(b) **Existence hypothesis H1:** There is no statistically significant relationship between financial risk control and the quality of accounting information.

11. Testing the study hypothesis

The primary hypothesis (significant relationship between financial risk control and the quality of accounting information).

We will apply a simple linear regression analysis in accordance with the following regression model to test this hypothesis:

$$R = B_0 + B_1 + \varepsilon_i \dots \dots \dots (1)$$

whereas:

R = the mediating variable (quality of accounting information).

ε_i = Estimation errors or so-called statistical residuals.

B_0 = The constant of the regression equation, which represents the value of the mediating variable when the value of the independent variable is equal to zero.

B_1 = The slope of the regression function, which measures the effect of the independent variable (Controlling financial risks) on the intermediate variable (Quality of accounting information).

Using the statistical program SPSS, the results were as follows:

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Controlling financial risks	89.3117	12.24826	154
Quality of accounting information	72.2987	9.98046	154

The table above describes the variables of the first central hypothesis, its arithmetic means, standard deviation, and number of observations.

Table 2: Correlation matrix between the independent variable and the mediator

		Controlling financial risks	Quality of accounting information
Pearson Correlation	Controlling financial risks	1.000	.869
	Quality of accounting information	.869	1.000
Sig. (1-tailed)	Controlling financial risks	.	.000
	Quality of accounting information	.000	.
N	Controlling financial risks	154	154
	Quality of accounting information	154	154

The table above shows the variables of the regression matrix. The correlation coefficient reached a value of 86.9% with a yellow significance of 0.00, and this correlation is considered statistically high. The relationship between the two variables is direct and statistically significant, with the Sig value equal to 0.00 for the independent variable and 0.00 for the mediating variable.

Table 3: Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Controlling financial risks ^b	.	Enter
a. Dependent Variable: Quality of accounting information			
b. All requested variables entered.			

The table above shows the names of the variables that were entered into the regression equation (quality of accounting information) as an intermediary variable and the independent variable

(control of financial risks), and the analysis did not exclude any variable, noting that the method used in the model is simple regression.

Table 4: Summary of the first main hypothesis model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869 ^a	.755	.754	6.07983
a. Predictors: (Constant), Controlling financial risks				
b. Dependent Variable: Quality of accounting information				

The table above shows the Pearson correlation coefficient between the mediating and independent variables. The value of R between the variables reached 0.869, which is a good value. The coefficient of determination R Square reached 0.755, which represents the “explanatory power” of the model used, meaning that the independent variable (controlling financial risks) explains what its value is 86.9% of the variance occurring in the intermediate variable (quality of accounting information). The standard deviation of the estimation error was 6.07983, which is a low number. The lower this type of error, the better it is from a statistical standpoint and explains the strength of the model.

Table 5: Variance testing the primary hypothesis^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17334.451	1	17334.451	468.950	.000 ^b
	Residual	5618.588	152	36.964		
	Total	22953.039	153			
a. Dependent Variable: Quality of accounting information						
b. Predictors: (Constant), Controlling financial risks						

The table above shows the results of the ANOVA analysis to test the significance of the regression. We note that the calculated F value reached 468.950, which is greater than its tabular value calculated according to the degrees of freedom df (153.1), and that the significance level of the test Sig reached 0.000, which is less than the acceptable error value in the social sciences of 5. %.

Table 6: Standardized and unstandardized coefficients to test the primary hypothesis^a

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.205	3.594		3.396	.001
	Controlling financial risks	1.066	.049	.869	21.655	.000
a. Dependent Variable: Quality of accounting information						

According to the table above, the coefficients of the standard and non-standard regression function, the standard error, and the T-test value with the tests' probability value (statistical

function). The table showed that the value of the constant of the regression equation reached 22.943 and that the value of the slope of the regression equation reached 1.066%, which shows the effect of the independent variable (risk control). Financial) in the mediating variable (quality of accounting information) through coefficient B. The positive value of the coefficient indicates that there is a direct effect between the two variables, the independent and the mediator. In other words, any increase in the independent variable (control of financial risks) by one degree leads to an increase of 1.066. % in the mediating variable (quality of accounting information) with all other independent variables constant. It is also noted from the table above that the significance level of T for the independent variable reached 0.01, which is less than the accepted error in the social sciences, which is predetermined by 0.05. This means that the sample data provided evidence. It is convincing to accept the alternative hypothesis because the effect is proven statistically. The result is that controlling financial risks significantly affects the quality of accounting information.

Overview of the primary event displayed below is the graphs illustrating the normal distribution of the intermediate variable, precisely the quality of accounting information. A hypothetical model

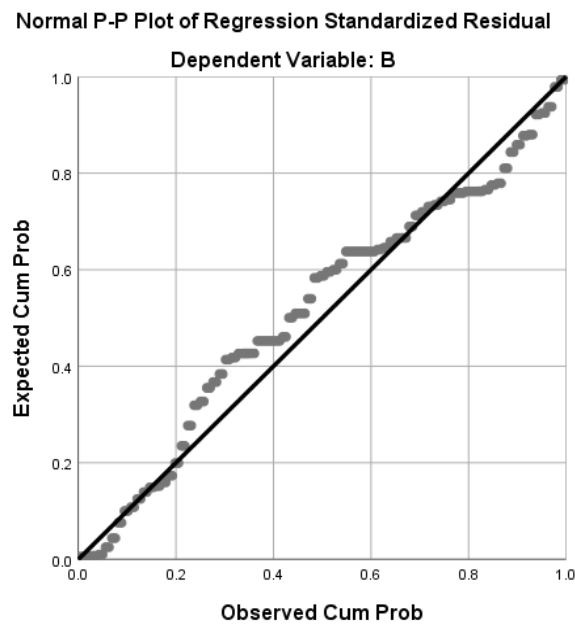


Figure 2: Normal distribution of data for the intermediate variable (quality of accounting information)

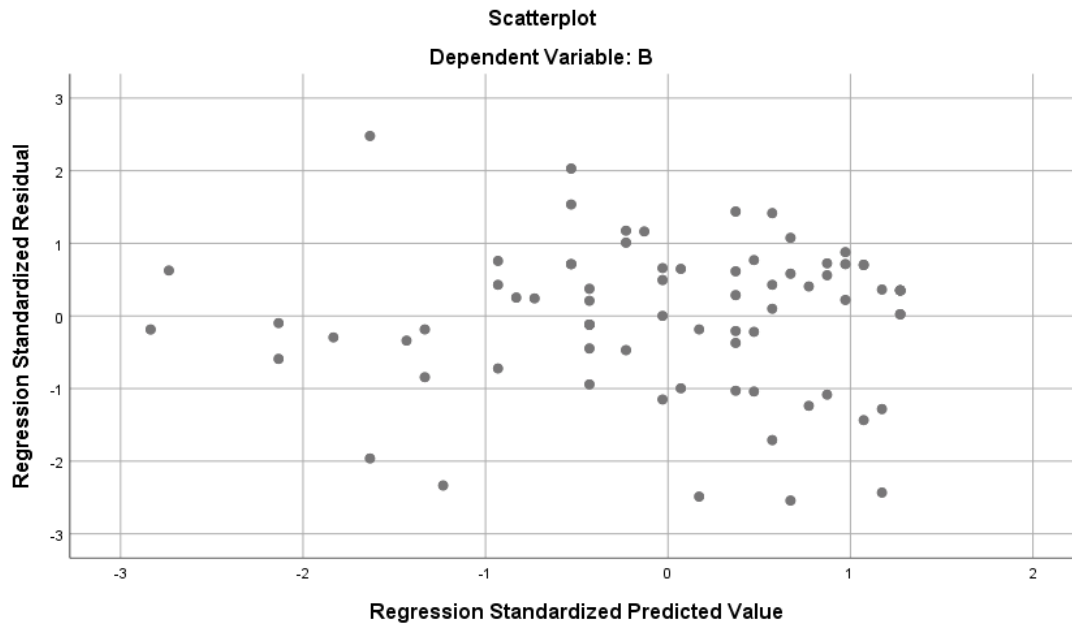


Figure 3: Scatterplot for the mediating variable (quality of accounting information)

The figure above illustrates the moderate level of variability in the data for the mediating variable (quality of accounting information), and it is worth mentioning that there is no variability in the data for this variable.

12. Conclusion

It is crucial to effectively manage financial risks to ensure the success of business operations and investment strategies. Organisations and individuals face many risks that have the potential to result in financial losses. To effectively address these risks, it is necessary to develop realistic ways to mitigate or manage them. Effectively managing financial risks necessitates meticulous examination and assessment of potential risks, along with implementing appropriate actions to mitigate them. Organisations and individuals should establish their financial objectives and design suitable methods to manage and regulate them in accordance with these objectives (AZIZ et al., 2023). Continuous training and awareness must be provided to employees and members participating in the control process to ensure they comprehend the significance of recognising, evaluating, and implementing suitable steps to mitigate risks (Shamsul et al., 2023). Effectively managing financial risks is crucial for successful business management, as it safeguards financial assets and facilitates the achievement of financial objectives. Organizations and individuals can achieve financial stability and success in the evolving business landscape by analysing and evaluating financial risks and putting in place the appropriate control mechanisms.

The quality of accounting information is a significant concern that garners attention from company management, professional accountants (Rudy et al., 2023), financial information users. Accounting information can provide significant benefits to all parties involved, since it helps address information imbalances and plays a vital role in monitoring managers. Consequently, we expect financial information to become increasingly important in compensation agreements. To enable effective supervision and hold managers accountable for risk management measures, we must ensure the dependability of accounting and financial information and promote openness. (Anto & Yusran, 2023)

The study's results and the previous discussion suggest that Iraqi banks significantly enhance the quality of accounting information through the implementation of effective risk control systems. Consequently, this information has a direct impact on the decision-making process of individuals, empowering them to make well-informed and rational choices. Survey participants emphasized the importance of managing financial risks because they have a significant impact on generating trustworthy information for stakeholders. Furthermore, the banks included in the study concentrated primarily on the long-term consequences of market risks. We suggest that scholars investigate this subject further by examining the extent to which industrial enterprises exercise control over these risks and elucidating their impact on the economy. Mostly of Iraqi origin.

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