

The role of social disclosure in enhancing the quality of bank profits: An applied study at the National Bank of Iraq

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Abstract: This research aims to measure the level of social disclosure in banks and examine its impact on the quality of their earnings, highlighting the importance of social disclosure and its role in enhancing earnings quality. The research also addresses the benefits of preparing social disclosure reports and their role in improving the information environment. The level of social disclosure allows stakeholders, particularly investors, to understand the wealth, performance, and success of banks through the data and indicators included in social disclosure reports. Therefore, a higher level of social disclosure in sustainability reports is expected to contribute to improving the quality of banks' earnings, which will positively impact their market value and share prices.

Keywords: social disclosure, enhancing the quality, the banking sector.

Introduction: In recent years, the business community has witnessed remarkable developments, making social disclosure in banks one of the most important indicators of overall performance. Evaluation is no longer limited to financial performance alone, but extends to include contributions to societal well-being, environmental protection, and the promotion of sustainable economic development. Increased social awareness of the importance of disclosure has contributed to banks' increased focus on the social dimension, alongside the interest of professional and accounting associations and academics in this field. The importance of this topic has also grown following the accounting crises and problems faced by global banks at the beginning of the 21st century, leading to the emergence of international initiatives aimed at producing specialized social impact reports. This has been accompanied by growing demands to ensure the credibility of these reports and guarantee the transparency of banks in their environmental and social management practices

Section One: Research Methodology and Previous Studies

First: Research Problem

Social disclosure is considered an advanced stage in the development of accounting thought, given its role as a primary Reference of information that contributes to achieving sustainability. Identifying the factors influencing the level of social disclosure is of paramount importance to both internal and external stakeholders. The growing interest in social disclosure within banks falls within the broader framework of accounting disclosure, a natural consequence of both public and private banks' commitment to meeting sustainability requirements and enhancing transparency in their performance.

Based on the above, the research problem can be defined through the following questions:

- 1-What is the level of social disclosure at the National Bank of Iraq according to the Global Reporting Initiative (GRI) standards?
- 2-What is the impact of social disclosure on enhancing the quality of bank profits?

Second: The importance of the research

The importance of this research stems from the vital role of social disclosure as an effective means of reducing information asymmetry among different stakeholders. Banks with complex organizational structures possess greater information processing capabilities, thus reducing the need for investors to conduct extensive data processing. Conversely, banks reliant on external funding face higher costs due to information asymmetry between investors and management. Therefore, a comprehensive information environment is essential, enabling banks to provide sufficient explanations and clarifications to stakeholders regarding how they achieve high-quality profits. The primary objective of banks is to maximize their wealth by enhancing the quality of their earnings, which in turn increases the wealth of investors, particularly shareholders, by boosting the market value of their shares. Social reporting is a crucial tool for achieving this objective, as it provides clear and relevant information to stakeholders, especially capital providers.

Third: Research Objectives

The current research aims to achieve the following:

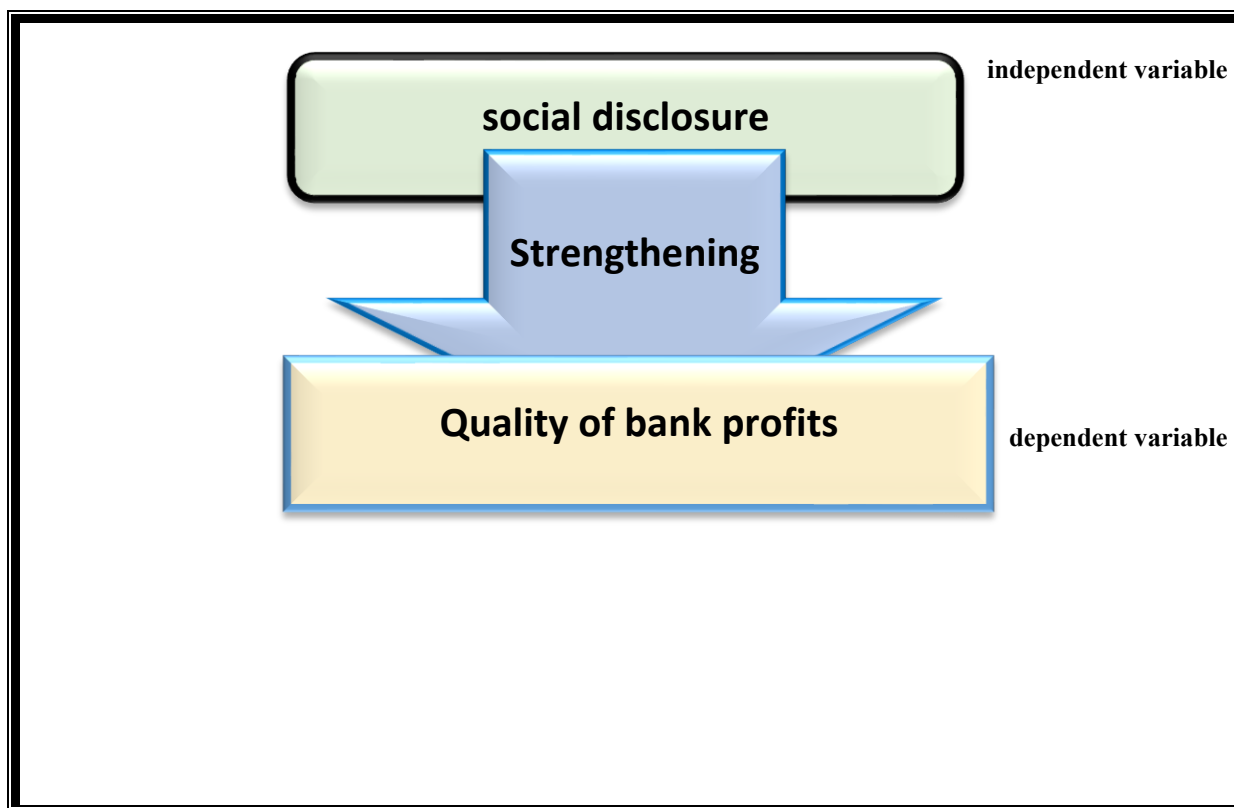
- 1.To present a theoretical framework for the concept of social disclosure and demonstrate its importance in light of sustainability reports and disclosure requirements, while clarifying the impact of social disclosure on enhancing the quality of bank profits.
2. To measure the level of social disclosure and analyze its impact on the quality of bank profits within the selected research sample.

Fourth: Research hypotheses

- 1-Weakness in the level of disclosure of information related to the social dimension, according to the social indicators of the Global Reporting Initiative (GRI).
- 2- There is a statistically significant relationship between the level of social disclosure, according to the indicators of the Global Reporting Initiative (GRI), and the quality of bank profits, according to the Jones (1995) model. Two sub-hypotheses are derived from this main hypothesis as follows:
 - a- H0 Null Hypothesis: There is no social impact, according to the GRI indicators, on the quality of bank profits (the Jones (1995) model is used to measure the quality of bank profits.
 - b- H1 Alternative Hypothesis: There is a social impact, according to the GRI indicators, on the quality of bank profits (the Jones (1995) model is used to measure the quality of bank profits.

Fifth: The default research plan

The following figure represents the research model that illustrates the independent variable and the dependent variable



Sixth: Research population and sample

Research Population:

The research population consists of all Iraqi banks listed on the Iraq Stock Exchange during the study period.

Research Sample:

The research sample consists of the National Bank of Iraq, which was selected because it has the highest capital among the listed banks, in addition to the availability of its published financial data on the Iraq Stock Exchange.

Second: Previous studies

1- Study (Salloum, 2023)	
Study Title	The effect of joint assurance within the banking governance framework on the quality of profits of banks listed on the Iraqi Stock Exchange
Type of study	A thesis submitted to the Council of the College of Administration and Economics / University of Baghdad, which is part of the requirements for obtaining a Master's degree in Accounting Sciences
The study sample	The sample (probabilistic stratification) was selected from the research community in the unit, which is represented by the following job position (financial manager, internal auditor, external auditor, and others),
Purpose of the study	1- Presenting and discussing the theoretical framework for joint assurance and bank governance mechanisms 2- Explaining the extent of the impact of joint assurance within the banking governance framework.
the study Problem	1- Is there a role for governance mechanisms in enhancing the quality of profits? 2- Is there an impact of joint assurance on the banking governance framework?

The most important results of the study	<p>1-The joint assurance within the governance framework has an effective impact in addressing the weaknesses in the economic unit .</p> <p>2- Consistency between the conclusions of the Board of Directors, the Audit Committee and other relevant committees and other assurance providers will enhance confidence and credibility in the joint work between them.</p>
2- Study (Al-Dulaimi, 2021)	
Study Title	The role of internal control according to the integrated COSO framework in improving sustainable development reports for Iraqi economic units
Type of study	A thesis submitted to the Council of the College of Administration and Economics / University of Baghdad, which is part of the requirements for obtaining the degree of Master of Science in Accounting
The study sample	Iraqi oil banks: Five oil banks were selected
Purpose of the study	A comprehensive presentation of the components of the integrated COSO framework, its most important principles, focus points, and an explanation of the concept of sustainable development reports and the steps for preparing them. Explaining the role of internal control in preparing sustainable development reports in light of the application of the integrated COSO framework.
the study Problem	What is the role of internal control based on the integrated COSO framework in improving sustainable development reports for Iraqi economic units?
The most important results of the study	The interest of the banks in the research sample in the control environment component, and this indicates their interest in technical competence and ethical commitment, confirms that employees are aware of their responsibilities and duties, and also indicates the effectiveness of the role of the Board of Directors and senior management in setting financial, administrative, and organizational policies and plans.
3-(Pratiwi et al.,2021)	
Study Title	Stock price synchronicity, sustainability reports, and earnings quality
Type of study	International Journal of Research in Business and Social Sciences 10(1) (2021) 139-148
Purpose of the study	This study aims to examine internal information in the form of sustainability reporting and earnings quality on stock price synchronization. Moreover, this study also aims to examine the moderating effect of institutional investors as an indicator of sophisticated investors. This study addresses questions
the study Problem	<p>Firstly. Does sustainability reporting have a negative impact on stock price synchronization?</p> <p>secondly. Does earnings quality have a negative effect on stock price synchronization?</p>
The most important results of the study	First, this research contributes to the growth of capital market research, especially that which investigates the associated efficient market. Secondly, this research contributes to supporting economic unity because it helps banks understand investors' information needs. Third, this research contributes to supporting investors because it helps to understand the majority of investor behavior in Indonesia, so that they can make better investment decisions.
4 - Liu ,2020	
Study Title	Unraveling the complex relationship between environmental and financial performance — A multilevel longitudinal analysis
Type of study	A study published in the International Journal of Production Economics.
Purpose of the study	<ul style="list-style-type: none"> - Research whether good environmental performance can lead to superior financial performance. - Examine a multi-level framework to identify the complex relationship between environmental performance and financial return

Most important
conclusions

There is a generally positive relationship between environmental performance and financial performance, with variation across sectors and industries due to heterogeneity. There is a negative relationship for some establishments in some sectors

Section Two: Theoretical Framework of the Research

First: Social Disclosure

1.The concept of social disclosure

Financial reports indicate the necessity of including all relevant information, both quantitative and qualitative, to enable users to assess the social performance of banks (Mustafa, 2021: 60). These reports are a crucial means of disclosure and transparency regarding banks' short- and long-term policies and strategies concerning their social activities towards stakeholders, aiming to provide evidence of their commitment to accountability for their operations and their environmental and social impacts (Alhaj & Terengganu, 2019: 2). (Lisene, 2015: 13-14) Social disclosure is defined as a fundamental tool for conveying information related to the financial and social performance of banks to stakeholders. Al-Awad believes that social disclosure contributes to improving the quality and scope of disclosure, encompassing both financial and non-financial information that directly influences the decisions of its users., thus improving the level of transparency and institutional communication. This improvement addresses social aspects alongside the administrative structure of banks, aiming to provide a comprehensive picture that highlights the interaction between these aspects and the governance mechanisms employed. This development is expected to positively impact bank performance at both the local and international levels, contributing to societal well-being (Al-Awad et al., 2018: 58). The social dimension report is considered the primary document used to present bank performance across the three dimensions of the triple bottom line: economic, environmental, and social. These reports are often referred to as sustainability reports, corporate social responsibility (CSR) reports, or environmental, social, and governance (ESG) reports (Braun, 2018: 902). Social disclosure tends to include information related to environmental issues, business practices, product safety, and innovation (Douppnik, 2020: 67). The researcher believes that social disclosure is a key aspect of banks' work as they strive to balance financial and non-financial objectives, including promoting social responsibility, contributing to poverty reduction, and fostering stakeholder engagement. He also emphasizes that achieving comprehensive sustainability requires banks to address the financial and social impacts of their activities to ensure balanced and sustainable development.

2-The importance of social disclosure

The importance of social disclosure lies in the following:

1.Enhancing the reputation and competitive position of banks:

Social disclosure contributes to improving banks' image and enhancing their competitive position in the market by providing financial and non-financial information related to social performance. This helps in estimating the future market value of banks and enables investors and creditors – both current and potential – to make more accurate and informed investment decisions, thus reducing the information gap between investors and stakeholders (Al-Sarraf, 2021: 208)

2.Responding to investor demands:

Investors seek to extend annual financial reports beyond purely financial aspects to include indicators of banks' social performance. They believe that this type of disclosure enhances

their ability to make sound investment decisions based on a comprehensive evaluation of the bank from various perspectives (Daghidi, 2020: 57).

3. Meeting public needs and enhancing transparency:

Disclosing social dimension reports gives the public a better opportunity to evaluate banks' performance and make their consumer decisions in accordance with the values and principles adopted by those banks. These reports contribute to enhancing the level of transparency and strengthening the interactive and positive relationship between banks and the public (Abdul Rahim, 2015: 41)

3-The purpose of social disclosure

Sustainability reporting is a core activity for banks, serving two main objectives: first, to assess the social aspects of banks, and second, to communicate the efforts and progress made in sustainability initiatives to stakeholders. The goal of social disclosure is that banks, across all business sectors, need to contribute to a growing economic community by using natural reReferences and the environment sustainably, while simultaneously adhering to the social objectives of society. This enhances their ability to effectively contribute to social disclosure. Consequently, banks have a pressing need to utilize effective tools for monitoring, managing, and disclosing their social performance. Although banks are not obligated to disclose information within a standardized framework for social reporting, the increasing number of published reports reflects banks' strategic decisions in this area. Furthermore, societal expectations of the banking sector place additional pressure on banks to provide accurate and transparent social reporting. These motives are among the most prominent reasons that urge banks to act sustainably, as banks first begin by assessing the factors and considerations that must be taken into account before preparing a sustainability report (Tristan, 2014:28) (Horngren, 2021: 548)

4. Benefits of social disclosure

An integrated social strategy, built on integrity, strong values, and a long-term approach, offers tangible business benefits for banks, as well as a positive contribution to societal well-being. Key benefits for banks adopting a sustainable approach include:

1. Enhanced Brand Value and Reputation:

Social performance is a significant factor in how many people evaluate banks. Therefore, a sustainable strategy presents an opportunity to enhance brand value and improve the image of the bank and the industry as a whole (Romiguer, 2011: 11).

2. Customer Attraction and Retention:

Social disclosure helps customers differentiate between similar products and service providers when price and performance are equal. Some customers consider social performance a key purchasing criterion and may be willing to pay a premium or accept compromises in performance for sustainable products. This disclosure also provides existing customers with an additional reason to maintain their trust in the products and services offered by banks that embrace social disclosure

3. Reduced Operating Costs and Increased Revenue:

Social distancing practices can contribute to reduced operating costs through waste management, pollution prevention, and minimizing health and safety risks. Furthermore, the benefits of sustainability extend beyond cost savings; it can also positively impact revenue by enhancing operational efficiency and improving the bank's reputation among customers and investors. (Vasylieva, 2017: 350).

5. Characteristics of social disclosure information

A framework aligned with the current stage of development for social responsibility accounting can include a set of essential characteristics:

1.Relevance:

The information in the social dimension report must be relevant, directly related to the report's objectives. Relevance refers to the information's ability to meet the needs of the report's users, while being easily identifiable and applicable to informed decision-making.

2. Understandability:

To ensure clarity, the content of the social dimension report should be formatted in a way that is easily comprehensible to all users. This characteristic is crucial for the report's effectiveness and successful communication with all stakeholders (Badawi & Baltaji, 2013: 129).

3. Flexibility:

Social disclosure must remain responsive to the needs of the report's beneficiaries under changing circumstances. Flexibility is a fundamental criterion for ensuring effective communication, especially as social processes related to sustainability responsibility change from year to year in response to environmental and societal variables (Li & Jia, 2023: 59).

6. Social disclosure strategies

1. The primary objective of social disclosure is to enable users of general-purpose financial reports to understand banks' strategies for addressing significant sustainability risks and opportunities. This includes risks and opportunities that are reasonably expected to affect a bank's business model, strategy, and cash flows in the short, medium, or long term (TRWG & ISSB, 2021: 26; Latan, 2018: 67)

2. Banks should provide information that enables users of financial reports to assess the impacts of current and anticipated social risks and opportunities. Disclosure should include a description of these impacts on the bank's value chain in the production of goods or the provision of services, including supply chains, operations, workforce, marketing, distribution channels, assets, and inputs (TRWG & ISSB, 2021: 26; Latan, 2018: 67)

7. Reasons and motivations for social disclosure

There are a number of motivations that encourage banks to operate sustainably and disclose their performance through sustainability reporting, while other reasons may lead banks to refrain from doing so. These motivations can be categorized into two main groups as follows: (Schiehlé & Wallin, 2014: 29)

First: Motives for Social Disclosure:

- Enhancing the banks' ability to progress towards achieving their defined objectives.
- Facilitating the implementation of strategic environmental and social actions.

Second: Motives for Refusing Social Disclosure:

- Confusion and uncertainty about the expected benefits of disclosure for banks.
- The fact that competitors do not disclose environmental and social impact reports, which reduces the incentive to engage in this process.

8. Advantages of social disclosure

Social disclosure offers numerous benefits to both banks and society as a whole. Among the most prominent of these benefits are the following (Alotaibi, 2021: 252)

1.Enhancing Banks' Image:

Social reporting contributes to enhancing banks' image within the community, leading to increased sales, a competitive advantage, and improved overall financial performance.

2.Legitimizing and Enhancing Reputation:

Social disclosure helps legitimize banks' activities and products, and enhances their reputation as responsible economic entities that prioritize efficient operations in environmental and social issues. It also provides access to new, potentially less costly, financial references for investors interested in social and environmental issues, thus reducing risk and facilitating access to financing from lenders.

3.Improving Credit Rating and Attracting Capital:

Social disclosure contributes to improving banks' credit ratings, which supports their financial success and helps them attract the long-term capital necessary to expand their activities and achieve their strategic objectives.

9. Social Disclosure Methods

1.Voluntary Disclosure Approach:

This approach relies on assessing market effectiveness and stakeholders' needs for social information. When a pressing need for such information arises, sectors provide it voluntarily without any legal obligations. This approach aims to disseminate information related to social dimensions in a voluntary manner that meets users' requirements without regulatory compulsion.

2.Mandatory Disclosure Approach:

According to this approach, sectors are required to provide social information in accordance with applicable regulations and laws. This approach primarily aims to protect investors and prevent fraudulent activities, while ensuring that information is transmitted to stakeholders reliably and accurately. The fundamental difference between the two approaches lies in the nature of information provision. The voluntary disclosure approach allows banks to determine the scope of information they wish to share, while the mandatory disclosure approach mandates the provision of information according to legal controls. It is worth noting that social information disclosure remains largely voluntary, with the exception of some countries, such as South Africa, where it has become mandatory. (Çalıyurt, 2020: 55)

Second: The quality of bank profits

1. The concept of quality bank profits

The concept of earnings quality in banks is fundamental in accounting and financial economics, yet its definition and measurement are subject to considerable debate. Proposed measures of earnings quality include a variety of indicators such as earnings consistency, predictability, asymmetric loss recognition, continuous earnings, accrual size, accrual growth, the absolute value of discretionary or abnormal accruals, and the extent to which accruals are converted into cash. The measurement of earnings quality is further complicated by the inability of previous studies to distinguish between the portion of earnings generated by earnings management and the portion generated by core earnings operations (Dichev et al., 2013:13)

Schroeder notes that bank earnings quality analysts and other users of financial statements place great importance on reported bank earnings, as they enable them to assess past performance and forecast future cash flows, which in turn influences securities prices. However, research since the 1970s has shown that the impact of reported earnings on securities prices is relatively small, as accounting earnings are influenced by revenue recognition policies and methods, and by the need to match revenues with expenses within specific time periods (Schroeder et al., 2011:170).

Interpretations of the concept of "earnings quality" vary in accounting. High-quality earnings are described as being consistent, stable, predictable, and accurately reflective of the bank's economic situation. They are also believed to be linked to past, present, and future cash flows. (Papadopoulos, 2018:20)

2. The importance of quality in bank profits

The quality of bank earnings is a crucial factor in determining cash reserve levels. Research indicates that banks with low levels of earnings information face greater difficulty in securing external funding, leading them to accumulate higher cash reserves to meet future financing needs. These banks tend to hold larger cash reserves compared to banks operating in the main market. This is attributed to less stringent listing requirements, more flexible regulatory oversight, and lower levels of financial disclosure, which limit their ability to access external funding from investors. In this context, earnings quality is a more significant indicator for determining cash reserve levels. Evidence suggests that earnings quality has a substantial and negative impact on cash reserves for profitable banks, while this effect is not observed in loss-making banks (Farinha et al., 2018:251).

The term "earnings quality" is generally interpreted as net income, i.e., profit after deducting interest and taxes, as presented in the income statement. This metric is of interest to all banking stakeholders, as high-quality earnings provide a reliable indicator of a bank's actual economic performance and profitability. Furthermore, high earnings quality in banks allows for a more accurate measurement of management performance and shareholder returns, and helps mitigate investor risk, making reported profit a pivotal element in the decision-making process (Takacs et al., 2020:1).

Consequently, a low earnings quality ratio is unacceptable because it can mislead investors, lead to misallocation of capital, and hinder economic growth. On the other hand, a high earnings quality ratio accurately reflects the profitability and sustainable growth of the bank (Al Nasser, 2018:69).

3.Stakeholders and Areas Interested in the Quality of Bank Profits

The quality of bank profits is a pivotal element for all users of financial reports, particularly current and potential investors and creditors. However, the interest of each of these stakeholders varies according to their specific priorities and needs. Profits are a key indicator of bank performance, and the following is an overview of the stakeholders interested in the quality of bank profits and their areas of interest (Al-Tamimi et al., 2014:167)

1.Current and Potential Investors

Investors, whether current or potential, are highly interested in the bank's ability to distribute profits and the continuity of these distributions, in addition to the size of the reported profits. Dividend payments depend on current profits and the availability of sufficient liquidity, along with other factors and variables that influence this decision. This interest translates into

investors' evaluation of the value of their investments and their expectations of future returns (Al-Saadi, 2012:62).

2.Creditors and Suppliers

Creditors and suppliers seek to assess the sustainability and financial strength of banks by examining their liquidity and ability to meet obligations. The reported profit amount is considered an important indicator for them, as adequate liquidity reflects a bank's ability to meet its financing needs and outstanding obligations. However, these parties recognize that relying solely on reported profits, especially if they are excessively high, may mask weaknesses in a bank's ability to meet its obligations, potentially leading to flawed financing decisions such as continuing to grant loans, extending repayment periods, or entering into deferred payment sales (Al-Tamimi et al., 2014:168).

4.Characteristics of High-Quality Earnings

High-quality earnings are characterized by several features that make them a reliable indicator of a bank's financial performance. Among the most prominent of these characteristics are:

1-Sustainability:

High-quality earnings are sustainable in the long term, as they are not the result of short-term accounting manipulations or one-off exceptional events. Rather, they are achieved through environmentally and socially responsible business practices that ensure banks' activities do not deplete reReferences or harm society. Sustainable earnings also reflect banks' positive contributions to the communities in which they operate (Dichev et al., 2013:13; Hamid, 2020:26).

2-Consistency:

Earnings consistency reflects the stability of a bank's income over time. Banks with consistent earnings are considered more reliable by investors, as they provide more accurate forecasts of their future performance.

3-Transparency:

Transparency in financial reporting ensures that financial data accurately reflects the actual economic situation of banks. Clear and comprehensive disclosures contribute to enhancing the credibility of earnings and enabling investors and creditors to make informed decisions.

5.Techniques Used to Assess the Quality of Bank Earnings

The quality of bank earnings refers to the reliability and sustainability of reported profits. Investors and analysts often use a variety of techniques to assess earnings quality, helping them make more informed investment decisions (Schroeder et al., 2011: 170-171). Among the most prominent of these techniques are:

1-Revenue Recognition Policy Analysis:

This involves examining banks' revenue recognition policies to ensure compliance with applicable accounting standards, whether Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). This analysis also includes assessing

the consistency of revenue recognition methods across different time periods to ensure they accurately represent the bank's financial performance.

2-Expense Recognition Policy Analysis:

This involves evaluating banks' expense recognition policies to ensure their compliance with applicable accounting standards. The focus is on the consistency of operating expense treatment and the timing of cost recognition to ensure that reported profits are not distorted or that investors' decisions are not influenced.

6.Factors Affecting the Quality of Bank Earnings

1-1 Audit Quality:

Audit quality plays a pivotal role in ensuring the credibility of bank earnings. When audit quality is high, auditors limit unreasonable management choices regarding accounting methods and prevent the presentation of an inaccurate financial picture of the bank. Conversely, when audit quality is low, the auditor may not only fail to impose constraints on management but may also advise on how to circumvent Generally Accepted Accounting Principles (GAAP), leading to an inaccurate financial presentation. Discretionary accruals reflect management authority and discretion, making them extremely difficult to audit. Generally, the higher the audit quality and the lower the discretionary accruals, the higher the quality of bank earnings (Anvari, 2015:198).

2-Managerial Ownership:

Managerial ownership refers to the percentage of shares owned by managers, board members, and commissioners in banks. The management ownership structure can be viewed from two perspectives:

The agency approach: This perspective argues that increased management ownership helps reduce conflicts of interest between managers and shareholders. Managers have less incentive to manipulate earnings or accounting information, as their interests align with those of the shareholders.

The asymmetric information approach: This perspective promotes transparency and reduces opportunities for illicit earnings management.

Therefore, with a higher percentage of management ownership, incentives to manipulate earnings decrease, leading to improved earnings quality for banks. A management ownership structure can limit earnings management activities and ensure the continued credibility of financial reports (Ariyanto, 2020:257)

7.Determinants of Bank Earnings Quality

1.Bank Characteristics:

The quality of bank earnings is affected by the operational and structural characteristics of banks, such as performance, debt levels, and bank size (Dechow, 2010:379).

-Bank Performance: Poorly performing banks tend to engage in accounting practices to improve their earnings, which leads to lower earnings quality. Poor performance provides incentives for management to opportunistically manage earnings to boost apparent financial results.

-Debt Level: High leverage may make it difficult for banks to secure future financing. This may prompt managers at highly leveraged banks to take measures to boost revenue or adjust financial statements, which can reduce the quality of bank earnings.

-Bank Size: The size of banks, in terms of revenue, assets, and workforce, affects their operational characteristics. Larger banks often have more references and capabilities,

enabling them to adopt different operating models compared to smaller banks, which in turn affects earnings quality.

2. Financial Reporting Practices:

Accounting policies and choices of financial reporting methods affect the quality of bank earnings. In general, studies indicate that managers' choice of opportunistic accounting methods, rather than those that accurately reflect economic information, can lead to lower earnings quality. However, this effect is not always strong, as investors typically adjust their valuations to reflect undisclosed information, such as research and development expenditures or earnings management expectations.

Evidence also suggests that adopting principles-based accounting standards can reduce opportunities for earnings management and more accurately reflect underlying bank performance, resulting in a more informative earnings figure for investors (Dichev, 2012:22)

Third: The impact of social disclosure on the quality of bank profits

The disclosure of banks' social performance may reflect on the quality of their profits, as the disclosure of sustainability dimensions aims to provide stakeholders with valuable information that helps them make their various decisions

1. The impact of disclosing social performance on the quality of bank profits

A study by (Al-Jundi, 2016: 401–402) indicated that disclosing social performance contributes positively to improving the quality of bank profits. Providing information on social performance is crucial for interpreting the conditions and methods used in economic measurement, particularly in cases where the data used in the measurement process is unclear or ambiguous. The study also demonstrated that the increasing need for logical and acceptable explanations of accounting procedures highlights the importance of social disclosure in clarifying the impact of banking activities on society and the surrounding environment. This necessitates developing accounting and financial reporting systems that align with the social dimension.

Banks can reap numerous benefits from social disclosure and implementing social responsibility programs. These practices contribute to strengthening communication with stakeholders and integrating the bank's vision, mission, and principles. Furthermore, commitment to social responsibility enhances the efficiency of institutional performance by mitigating risks and improving reputation. In this context, a study by (Ashraf ,2014: 92) demonstrated that social responsibility is not a burden on institutions, but rather an opportunity for success, as it is a Reference of innovation and competitive advantage. Therefore, banks should not focus on existing tensions with society, but rather identify areas of common interest and select relevant social issues to address by developing their own social agenda and integrating the concept of social responsibility into the process of creating corporate value. This will enhance the quality of earnings and increase competitiveness in the market.

Similarly, a study by (Gherghina ,2014), conducted on a sample of 52 US companies listed on the New York A recent study by the Securities and Exchange Commission indicates a strong and positive relationship between adopting social responsibility and quality in profits. The study showed that banks that prioritize social responsibility attract a larger number of customers and achieve higher sales, reflecting an improvement in the quality of their earnings. The results also indicated that customers show an increasing preference for banks that strive to create a positive social impact, which enhances the banks' reputation in the market and leads to improved financial performance. In another study by. (Nguyen et al ,2015: 212), the relationship between sustainability disclosure and earnings quality in banks listed on the

Vietnam Stock Exchange during the period 2010–2013 was examined using content analysis of annual reports. The study found a significant and positive impact of sustainability disclosure on earnings quality in the year following disclosure. Banks that effectively disclosed their social commitments experienced improved earnings quality and higher market capitalization. A similar study by. (Fodio et al , 2013: 9) demonstrated a positive impact of social responsibility indicators related to human reReference management and community development on the quality of bank earnings. This study confirmed that adopting socially responsible practices contributes to enhanced financial performance sustainability and added value for the institution..

3.The nature of the relationship between social disclosure and the quality of bank profits

The relationship between social disclosure and the quality of bank profits has received considerable attention in academic research, with numerous studies examining the impact of banks' level of social disclosure on the reliability and quality of their accounting earnings. It is worth noting that the nature and direction of this relationship can vary depending on several organizational, environmental, and institutional factors.

1- Reciprocal relationship:

Some studies, such as the study by (Yip, 2011: 20), indicate a reciprocal relationship between the level of social disclosure and the quality of bank profits. Banks that show weakness in disclosing their social information tend to compensate for the low quality of their profits by increasing the volume of narrative disclosure. Conversely, banks that have a high level of social disclosure may reduce narrative disclosure, which positively impacts the stability and reliability of their accounting profits.

2- complementary relationship

The relationship between social disclosure and earnings quality can be seen as complementary, with banks that report high-quality financial results tending to enhance their earnings quality by providing comprehensive environmental and social disclosures. In this context, social disclosure works synergistically with financial reporting, contributing to a better overall quality of information available to stakeholders. Understanding this relationship between social disclosure and accounting earnings is crucial for investors, analysts, and other stakeholders, as high-quality accounting earnings provide a more accurate picture of a bank's financial performance. Social disclosure can also influence perceptions of a bank's long-term sustainability, risk management efficiency, and commitment to social responsibility. It's important to note that the nature of this relationship can vary depending on the industry, geographic region, and individual bank characteristics, as well as being influenced by different regulatory environments and reporting standards, which largely determine how social disclosure is integrated with financial reporting. In general, studies in this field emphasize the close link between social disclosure and financial reporting, and stress the importance of adopting a comprehensive and integrated approach to banking disclosure that allows for a deeper view of banks' performance and their environmental and social impact (Abu Jabal, 2023: 83).

4-Factors Affecting the Relationship Between Social Disclosure and Earnings Quality

(Al-Dulaimi,2022:92(Aggarwal, 2013: 51) (Shehata, 2023: 16)(Castello and Lozano, 2011: 20)

1.Enhancing Transparency

Social disclosure contributes to raising the level of transparency in banking operations by providing additional information about their practices and social responsibilities. This transparency is a key factor in enabling stakeholders to form a more comprehensive understanding of the overall performance of banks, particularly with regard to risk management and achieving long-term sustainability.

2. Influencing Investor Decisions

Comprehensive social disclosure can directly influence investor decisions, as investors are increasingly paying attention to social and environmental factors when making their investment decisions. Therefore, banks providing accurate and reliable information about their sustainability practices can enhance investor confidence, leading to higher bank valuations and a lower cost of capital.

3.Creating Long-Term Value

Banks that integrate social disclosure into their corporate strategies and provide relevant sustainability information are more advanced in their strategic approach. These banks focus on creating sustainable value, enhancing resilience, and mitigating risks, which positively impacts the quality of their earnings over time

Third section: Measuring the level of social disclosure and the quality of bank profits for the research sample bank and testing the hypotheses

3-1-1 A Brief Overview of the National Bank of Iraq:

A sophisticated banking system capable of attracting and efficiently utilizing financial reReferences is a cornerstone for encouraging investment in any country. This system actively contributes to achieving comprehensive social and economic development, thereby ensuring the well-being of society.

The National Bank of Iraq conducts various banking, financial, credit, and investment activities through its main branch in Baghdad. It has developed a plan to open new branches in the capital and other governorates to expand its services and strengthen its banking presence.

The bank strives to develop banking operations by meeting the needs of its clients and achieving the highest levels of coordination among them. This includes modernizing service delivery methods using the latest technologies and communication tools. The bank also works to establish modern banking practices and standardize systems and procedures, while adhering to the highest professional standards in the banking sector.

Furthermore, the bank is committed to promoting banking practices as the primary option in its operations, contributing to economic support and social solidarity, and upholding the principles of financial inclusion and social objectives. The bank is also committed to providing modern, high-quality banking solutions and services at both the local and international levels,

relying on a spirit of teamwork, training banking staff, and encouraging the exchange of advice in order to achieve the public interest and serve the community.

Second: Measuring the level of social disclosure and the quality of profits of banks in the research sample

This study aims to measure the level of social disclosure and the quality of profits of A group of banks listed on the stock exchange for the period (2018–2023), as a prelude to the following study which deals with analyzing the correlation and impact relationships between social disclosure and the quality of profits of those banks.

3-2-1 Measuring the Level of Social Disclosure in the Bank Sampled for Research:

To measure the level of social disclosure in the bank sampled for research, the focus will be on the social dimension. The level of social disclosure during the period (2018–2023) can be determined based on a set of indicators, as detailed below:

The social dimension includes several indicators, most notably: Recruitment of new employees/ Distribution of incentives/ Maternity leave and childcare/ Health insurance system/ Employee training/ Diversity for the board of directors and employees/ Human rights agreements/ Commitment to human rights procedures and policies/ Providing services in the best possible way/ Supporting all projects/ Providing facilities for customers/ Contributing to humanitarian issues in service to the community/ Disclosing customer complaints/ Compliance with social laws.

The level of disclosure of information related to the social dimension in the National Bank of Iraq for the period (2018–2023) is measured as shown in the following table

Level of disclosure of social axis information for the National Bank of Iraq for the period (2018-2023)

2023	2022	2021	2020	2019	2018	Indicators	Sequence
-	-	-	-	-	-	Hiring new employees	1
√	√	√	√	√	√	Distributing incentives	2
√	√	√	√	-	-	Maternity and childcare leave	3
-	-	-	-	-	-	Including employees in the healthcare system	4
√	√	√	√	√	√	Employee training programs	5
√	√	√	√	√	√	Diversity on the board of directors and staff	6
-	-	-	-	-	-	Human rights agreements	7
√	√	-	-	-	-	Adherence to human rights policies and procedures	8
√	√	√	√	√	√	Protecting customers	9
√	√	√	√	√	√	Providing the best possible service	10

√	√	√	√	√	√	Supporting small and medium-sized enterprises	11
-	-	-	-	-	-	Providing facilities for customers	12
√	√	√	√	√	√	Contributing to humanitarian causes	13
√	√	√	√	√	√	Contributing to community service	14
√	√	√	√	√	-	Disclosing customer complaints	15
÷ 11 15	÷ 11 15	÷ 10 15	÷ 10 15	÷ 9 15	÷ 8 15	Complying with social laws	
73.3 %	73.3 %	66.7 %	66.7 %	60 %	53.3 %	Total disclosures ÷ Total requirements	

Reference: Prepared by the researcher.

It is clear from the table above that the level of disclosure of information on the social axis of the National Bank of Iraq for the years 2018, 2019, 2020, 2021, 2022, 2023 was (53.3%), (60%), (66.7%), (66.7%), (73.3%), (73.3%) respectively, as it is noted that the highest level of disclosure was during the years 2022, 2023, while the lowest level of disclosure was during the year 2018.

The disclosure of the social axis of the National Bank of Iraq for the period (2018-2023) is measured as shown in the table below:

2023	2022	2021	2020	2019	2018	Banks	ت
73.3 %	73.3 %	66.7 %	66.7 %	60 %	53.3 %	National Bank of Iraq	1

Reference: Prepared by the researcher based on the previous tables

The table above shows that the level of disclosure of information regarding the social axis of the National Bank of Iraq (the research sample) for the years 2018, 2019, 2020, 2021, 2022, and 2023 was (53.3%, 60%, 66.7%, 66.7%, 73.3%, and 73.3%), respectively. It is noted that the highest level of disclosure was during the years 2022 and 2023, while the lowest level was during 2018.

3-2-2- Measuring the quality of bank profits in the research sample bank :

To measure the quality of earnings at the bank in the research sample, specifically discretionary accruals, during the period (2018-2023), the modified Jones (1995) model will be used. To achieve this, a series of steps will be followed, beginning with calculating total accruals, then estimating the model parameters, followed by calculating non-discretionary accruals, and finally, calculating discretionary accruals, which serve as an indicator of the level of earnings management.

These steps include the following:

-1Calculating the total dues:

Total accruals represent the non-cash portion of income, and are measured by the difference between accrual-based operating income and cash-based operating income for each bank in the research sample, according to the following model:

$$TAC_{ijt} / A_{ijt-1} = NI_{it} - CFO_{it}$$

Whereas:

TAC_{ijt} / A_{ijt-1} : The total receivables of the bank (i) during the year (t).

NI_{it} : The bank's net income (i) during the year (t)

CFO_{it} : The bank's operating cash flow (i) during the year (t)

The total receivables of the bank in the research sample for the period (2018-2023) can be calculated as shown in the following table:

TAC_{ijt} / A_{ijt-1} (3) ÷ [(2) - (1)]	A_{ijt-1} (3)	CFO_{it} (2)	NI_{it} (1)	years	The bank
-0.01556	145673089	10885372	(1703965)	2018	National Bank of Iraq
-0.05404	128577270	13136496	136210	2019	
-0.0852	200781707	(16139082)	722380	2020	
-0.01753	336464614	13658418	(1073209)	2021	
0.10133	190811122	(63557607)	1355540	2022	
0.15182	322890242	6651231	1625629	2023	

Reference: Prepared by the researcher and based on the final accounts of the National Bank of Iraq

The table above shows that the lowest value of total receivables at the National Bank of Iraq was (-0.0852) in 2020, while the highest value was (0.15182) in 2023. Fluctuations in the total receivables (TAC_{ijt}/A_{ijt-1}) of the bank under study were also observed during the period from 2018 to 2023. These fluctuations are attributed to changes in both the bank's net income and operating cash flows during those years. This volatility stems from the instability of the bank's financial performance during the study period. Furthermore, negative values for total receivables were observed in some years, which is attributed to higher operating cash flows compared to the bank's net income.

2- Calculating non-optional entitlements:

Non-discretionary receivables represent that portion of receivables over which the bank's management has no control. They cannot manipulate the accounting figures by increasing or decreasing them, as these receivables arise from the bank's normal operating activities. Non- Estimated dues are calculated using the form below:

$$NDAC_{ijt} / a_{ijt-1} = \alpha_1 (1/a_{ijt-1}) + \alpha_2 [(\Delta REV_{ijt} - \Delta REc_{ijt})/A_{ijt-1}]$$

$$+ \alpha_3 (PPE_{ijt}/a_{ijt-1})$$

$NDAC_{ijt} / a_{ijt-1}$: Non-optional receivables of Bank (i) during year (t) on the (total assets) of Bank (i) at the beginning of year t

ΔREV_{ijt} : Change in bank(revenues) (i) between period (t) and (t-1).

ΔREC_{ijt} : Change in the balance of the bank's debtors account (i) between period (t) and (t-1)

PPE_{ijt} : Total property, buildings equipment which represents the net fixed assets account of the bank (i) during year (t).

The non-optional receivables for the bank in the research sample for the period (2018-2023) can be calculated as follows:

$NDAC_{ijt} / A_{ijt-1}$ (3) + (2) + (1)	$\alpha_3 (PPE_{ijt}/$ $A_{ijt-1})$ (3)	$\alpha_2[(\Delta REV_{ijt}$ $- \Delta REC_{ijt})/A_{ijt-1}]$ (2) + (1)]	$\alpha_1 (1/A_{ijt-1})$ (1)	years	The bank
0.02932	0.05999	-0.03753	0.00686	2018	National Bank of Iraq
0.07682	0.12751	-0.05847	0.00778	2019	
0.00765	0.08437	-0.0817	0.00498	2020	
0.00904	0.04237	-0.0363	0.00297	2021	
0.00983	0.17241	-0.16782	0.00524	2022	
0.03735	0.1168	-0.08255	0.0031	2023	

Reference: Prepared by the researcher based on final accounts of the bank, the research sample.

The table above shows that the lowest value of non-discretionary receivables at the National Bank of Iraq was (0.00765) during 2020, while the highest value was (0.07682) in 2019. Fluctuations in the non-discretionary receivables ($NDAC_{ijt}/A_{ijt}$) values for the bank under study are also observed. This is attributed to changes in revenue amounts, accounts receivable balances, and the total value of real estate, property, and machinery during the period from 2018 to 2023. Furthermore, negative values for non-discretionary receivables ($NDAC_{ijt}/A_{ijt}$) were noted, reflecting a negative change in the bank's revenues within the research sample.

3-Calculating optional benefits:

The discretionary receivables are The difference between total receivables and non-discretionary receivables for the National Bank of Iraq for the period (2018-2023). Discretionary receivables are calculated according to the model below:

$$DAC_{it} / A_{it-1} = tAC_{ijt} / A_{ijt-1} - NDAC_{ijt} / A_{ijt-1}$$

DAC_{it} / A_{it-1} : Bank's discretionary accruals (i) during year (t) on the total assets of Bank (i) at the beginning of year (t)

e_{it} : random Error.

$A1, A2, A3$: Bank-specific model features (i)

The discretionary entitlements for the bank in the research sample for the period (2018-2023) can be calculated as follows:

DAC _{it} / A _{it-1} (2) – (1)	NDAC _{ijt} / A _{ijt} - (2)	TAC _{ijt} / A _{ijt-1} (1)	years	Banks
-0.5307	0.02932	-0.01556	2018	National Bank of Iraq
-0.70346	0.07682	-0.05404	2019	
-11.13725	0.00765	-0.0852	2020	
-1.93916	0.00904	-0.01753	2021	
10.30824	0.00983	0.10133	2022	
4.06479	0.03735	0.15182	2023	

Reference: Prepared by the researcher based on the final accounts of the bank, the research sample.

The table above shows that the lowest value of discretionary receivables at the National Bank of Iraq was

(-11.13725) in 2020, while the highest value was (10.30824) in 2022. A clear fluctuation in the value of discretionary receivables is evident, attributed to changes in both the total and non-discretionary receivables of the bank under study during the years of the study.

After determining the bank's discretionary receivables during the period (2018-2023), the bank can be classified according to the presence or absence of earnings quality based on its earnings management practices. If the bank is found to be practicing earnings management, this indicates low earnings quality, and vice versa. This classification is based on a Comparing the absolute value of estimated receivables with the average absolute value of these receivables.

If the absolute value of the estimated entitlements is lower than the average, the bank is classified as practicing earnings management during the year in question, which means the absence of earnings quality. These practices typically stem from management decisions aimed at achieving private interests by disclosing financial information that is manipulated to align with management objectives. This includes exploiting the flexibility afforded Through accounting rules and disclosure measurement options to influence reporting results, rather than presenting them in a neutral and fair manner.

However, if the absolute value of discretionary accruals is greater than the average absolute value, the bank is considered not to be practicing earnings management, meaning its earnings are of high quality. This indicates The bank's management does not intentionally manipulate the preparation of financial data and reports. to achieve private gains, nor did they seek to mislead shareholders or influence decisions or contracts based on the accounting figures presented in those reports.

In short, a lower absolute value of discretionary accruals than the average suggests earnings management practices and poor earnings quality, while a higher absolute value indicates the absence of earnings management and the presence of genuinely high-quality earnings at the bank

Thus, the quality level in the profits of the National Bank of Iraq for the period (2018-2023) can be measured as shown in the table:

Quality of bank profits (exists/does not exist)	The difference between (the absolute value of discretionary rights / and their (average	Average Absolute value of discretionary entitlements	The absolute value of discretionary entitlements	Year	The bank
None	-4.2499	4.7806	0.5307	2018	National Bank of Iraq
None	-4.07714	4.7806	0.70346	2019	
There is	6.35665	4.7806	11.13725	2020	
None	-2.84144	4.7806	1.93916	2021	
There is	5.52764	4.7806	10.30824	2022	
None	-0.71581	4.7806	4.06479	2023	

Reference: Prepared by the researcher.

The table above shows the absolute value of discretionary allowances, as well as the average of these values for the banks included At the National Bank of Iraq, to find out the extent to which each bank possesses quality profits. Based on the data provided, it is observed that the National Bank of Iraq achieved good earnings quality during the years 2020 and 2022, while it did not demonstrate good earnings quality in the years 2018, 2019, 2021, and 2023.

Therefore, all the hypotheses of the current research were accepted, indicating a correlation and influence between social disclosure and the quality of bank earnings

Fourth topic

First: Conclusions

After completing the theoretical and applied aspects of the study, the researcher reached the following key conclusions:

1. There is a relationship between the level of disclosure of social performance according to social indicators based on GRI (Global Reference Planning) standards and the quality of bank profits, specifically for the National Bank of Iraq listed on the Iraq Stock Exchange, according to Jones (1995).
2. The study results showed that the level of disclosure of information related to the social dimension ranged between 53.3% and 73.3% during the studied period.
3. Analysis of the average values of the Jones (1995) equation National Bank of Iraq period 2018-2023 showed an increase in the quality of bank profits in 2020 and 2022 compared to 2018, 2019, 2021, and 2023.
4. The analysis reveals that the banks in the research sample prioritize the social dimension over other dimensions, given its greater impact on various banking activities.
5. Paying attention to social indicators is of increasing importance to banks, as it yields both internal and external benefits over time. Implementing these indicators attracts investors and lenders, satisfies stakeholders, and improves the quality of bank profits, which positively impacts both the company and society.
6. Social disclosure contributes to providing an accurate picture of the company's position and its commitment to social issues, while ensuring that the rights of future generations are not compromised and that reReferences are not compromised.

Second: Recommendations

1. Adapting the conceptual framework of financial accounting to align with the requirements for achieving social disclosure.
2. - Obliging Iraqi banks to issue a social report in addition to their annual financial reports, while expanding the role of the external auditor to include auditing the reports and ensuring their compliance with the Global Reporting Initiative standards.
3. Encouraging Iraqi companies to adopt a systematic and organized approach to protecting and preserving reReferences and minimizing the impact of risks associated with their activities and operations on society.
4. Raising awareness among stakeholders and encouraging them to consider social information alongside economic information when making critical decisions.
5. The necessity for all banks to adopt social standards and indicators to issue unified reports that consistently reflect their social performance, without variations in metrics.
6. Promoting social awareness among investors and employees of commercial banks, and educating them about the importance of social disclosure and its role in enhancing transparency and profit quality.

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