International Journal of Law, Management and Social Science **ISSN: 2581-3498**

Vol. 8, Issue I, Jan-Mar, 2024 http://bharatpublication.com/journal-detail.php?jID=35/IJLML

The Impact of Earnings Management on the Quality of Financial Reporting and its Reflection on Investment Decisions: The Investment Bank as a Model

Prof. Dr. Walid Khoufi, Maytham Abdulridha Kareem

Al-Imam Al-Kadhum College, Iraq

[1]*Date of Receiving: 15 December 2023*
Date of Acceptance:02 January 2024
Date of Publication: 12 January 2024

ABSTRACT

The financial statements that companies disclose in periodic reports represent one of the most important sources of information for investors, as they help them make investment decisions of various kinds. Accordingly, any practices that can affect their transparency and credibility have a significant impact on investors. Therefore, international and local bodies and organizations have sought to achieve quality Financial reporting and achieving the maximum level of transparency in that data, with the possibility of institutional management using some accounting policies and treatments that affect the quality of accounting measurement results, which is known as earnings management, which represents a type of falsification and manipulation of the company's financial reporting information to show the company's performance and financial position in a contradictory manner. For its truth. The research concluded that the investment bank management practiced profit management throughout the study period without exception, based on the loan loss provision indicator, which showed this clearly, and this is what was confirmed by the standard tests, which means that the financial statements issued by the banks in the research sample do not have the quality of financial disclosure in them. It is not characterized by transparency, which is a major pillar of investment decision-making for investors or owners. While the research recommended the necessity of working to establish and enhance the quality of financial reporting and increase the level of disclosure and transparency in the financial statements published by the financial institutions under study, because of its great importance in determining the path of making investment decisions and then investment in general. The supervisory authorities, represented by the Central Bank and the Securities Commission, should also analyze the financial statements submitted to them by banking institutions to reveal the practice of profit management or not, in order to take legal measures against institutions that violate the instructions issued by both of them in an attempt to curb this phenomenon.

Keywords: *Earnings management; Quality of financial reporting; Investment decisions; The effect of earnings management on investment decisions*

INTRODUCTION

Financial reports are the main references through which the results of the institutions' work can be explained to investors. These reports should be characterized by information that is appropriate and transparent, encompassing all of the institution's activities. Investors depend on them to collect information and make their investment decisions, so this information should be available. It has a high level of quality as well as its comparability, with the aim of increasing the level of investor confidence on the one hand and supporting the effectiveness and efficiency of financial markets on the other hand.

---

[1] *How to cite the article:* Khoufi W., Kareem M.A..; (January 2024); The Impact of Earnings Management on the Quality of Financial Reporting and its Reflection on Investment Decisions: The Investment Bank as a Model; *International Journal of Law, Management and Social Science*, Vol 8, Issue 1, 1-12

This information should be based on reports prepared in accordance with international financial standards, which are characterized by reliability, transparency, high quality, and comparability. Despite this, the management of institutions may use alternative accounting policies and treatments that affect the quality of accounting measurement results, and this is then reflected in the profits achieved by these institutions, especially since there is a mandate from shareholders to management to make decisions, and management may exploit this mandate to achieve special benefits on the one hand, and to mislead stakeholders, especially investors, on the other hand, by practicing what is known as earnings management, which represents a type of falsification. Manipulating information in the company's financial reports to show the company's performance and financial position in a way that is contrary to what it is. These practices are carried out in multiple ways and for varying motives, which together lead to future problems that may lead to the loss of investors' confidence in the financial reports and the information available in them, which will have a significant impact on their investment decisions. In addition, this information is not limited to the need of the institution's owners, but rather extends beyond that, as institutions seek to attract new capital on an ongoing basis, and it may be in the form of new contributions or in the form of financial facilities. Naturally, the lenders of that money need to High-quality financial reports on the organization's performance, through which they can analyze the organization's financial position and make decisions regarding loans and the amount of expected return, as well as other beneficiaries represented by customers, users, suppliers, and related parties. Therefore, the use of earnings management will affect the quality of financial reports and then Reflected on investment decisions.

The spread of the phenomenon of the practice of earnings management and the negative results it leads to, such as misleading users of financial statements and the poor transparency and quality of information in them, leading to the loss of investors' confidence in them, has led to a major trend by international regulatory and professional bodies in recent years to intensify and focus academic and professional research and studies to highlight the need for attention. The informational content of accounting profits in order to make correct decisions.

RESEARCH PROBLEM

The accounting information contained in the financial statements is the primary source for investors to obtain information to make investment decisions, and with the provision of many tools to the executive management of companies through which these lists can be misled by information that is not actually correct, these departments resort to the practice of earnings management through... Exploiting the flexibility in international accounting standards to achieve special benefits without taking into account the impact of this on investors, thus causing them to lose confidence in the financial statements disclosed by these companies, especially since investors do not have tools that they can use to know the extent of the manipulation practiced by companies in the volume of profits they achieved, and from this stems The features of the research problem include the following questions:

- ✓ Does the bank in question practice earnings management in its financial statements?
- ✓ To what extent does the bank practice the earnings management process and its impact on the quality of financial reporting?
- ✓ To what extent does the practice of earnings management affect the quality of earnings?
- ✓ Does the practice of earnings management affect investors' investment decisions?
- ✓ Does the quality of financial reporting affect investment decision-making or not?

RESEARCH HYPOTHESIS

The study starts from the following hypotheses:

- ✓ The management of the bank in question practices the process of managing profits in both negative and positive directions.
- ✓ The earnings management process affects the quality of accounting profits in the financial statements
- ✓ There is a statistically significant correlation between the practice of earnings management and the quality of financial reporting in the bank in question.
- ✓ There is a statistically significant correlation between the quality of financial reporting and investment decisions
- ✓ There is a statistically significant correlation between the practice of the earnings management process and the decisions of investors in the bank in question.

RESEARCH AIMS

The research seeks to achieve the following:

1. Identifying the nature of earnings management and the quality of financial reporting. Identifying the nature of the quality of financial reporting and the possibility of measuring it.
2. Indicating the extent to which the bank in question practices profit management by applying the loan loss provision indicator.
3. Identify the extent to which the practice of earnings management affects the quality of financial reporting and thus on investors' decisions.

RESEARCH METHODOLOGY

The descriptive analytical method was adopted, which aims to study the problem in depth, which helps in making the subject of the study more clear to the researcher. The researcher reviewed many previous studies related to the topic of the current research, in order to form a theoretical framework for the research, and then work on collecting data on the practical aspect and analyzing it. Statistically, it shows the impact of earnings management risks on the quality of financial reporting and its reflection on investment decisions.

EARNINGS MANAGEMENT

Understanding what earnings management is and why it occurs is essential for users of financial statement information, as financial statements are the primary way for companies to communicate value and performance to shareholders and other relevant parties, and Before the issue of accounting manipulation became of central importance to financial experts, the phenomenon of earnings management had already drawn the attention of academic researchers and regulators, through a wide range of financial scandals (Enron Tyco, WorldCom, Parmalat, etc.) in the early 21st century, where it often This is referred to as a lack of transparency in the presentation of information relied upon in investors' decisions (Oxelheim, 2010: 66-75). On the other hand, companies disclose risk-related information mainly to reduce agency costs and enhance the company's reputation. Thus, increased transparency in policy making leads to lower risk, lower risk premium as part of the cost of capital, increased investment and increased economic growth for the company as a whole (Craig et al., 2013:123)

Therefore, it is also known as a purposeful intervention in the preparation of financial reports, designed to reach the goal of a change in profits, whether positive or negative, through different accounting practices. However, it is a procedure that does not necessarily occur in violation of accounting regulations, and takes advantage of the possibilities of choice in accounting policy. This procedure may mislead stakeholders, causing them to make decisions based on financial reports that they would not otherwise provide, i.e. the active manipulation of accounting results for the purpose of creating a variable impression of business performance (Path, 2003: 41). It is also known as the process of intentional distortion of profits with the aim of arriving at accounting numbers that differ from what they were before that distortion, according to what is required by the interest of management or the owners, or both (Mangala & Isha, 2017:25).

It is also known as the use of accounting options when making decisions related to both financial measurement and the preparation and presentation of financial statements with the aim of achieving planned goals (Maswadeh, 2018: 50).

Earnings management practices overlap greatly in business and accounting application, and establishing evidence of their existence is not an easy matter, as many researchers have tried to develop indicators for adoption by the auditor or financial analyst in order to be able to discover these processes. In our study, we will focus on the LLP Loan Loss Allowance indicator, as this indicator plays an important role in the banking sector as a result of its ability to replenish loan loss reserves, which constitute a barrier against the materialization of expected losses in the bank's loan portfolio. If the LLP is created consistently at a conservative level, it protects the bank's capital base from depletion when credit losses arise. This is especially important in periods of crises, when non-performing loans increase. At the same time, LLP directly affects profitability and thus the level of retained earnings and future capital. As a result, LLP is frequently studied as a tool in capital management (Bouvatier & Lepetit, 2008: 45).

Banks also report the size of the LLP directly in their financial statements via financial statements, unlike non-performing loans. This makes LLP a potential tool for signaling and credit risk information that capital market participants can easily capture and interpret. Managers may use an LLP to signal private information to the market, particularly regarding the bank's future prospects and expected profits. An LLP also provides the opportunity for banks to exercise discretion over reported net income. Although LLPs are regulated by credit and capital risk regulations, there is some leeway for banks to determine when an LLP is established and its size, which may affect the size of the payout (Curcio & Hasan, 2015: 14).

The Loan Loss Provision (LLP) indicator is also one of the indicators that has a direct impact on the level of bank profits disclosed in the financial statements, as a rise in LLP puts pressure on banks' performance and may push banks to losses. Earnings management is also implemented in banks to avoid reporting losses, consistent with the results seen for non-financial companies. Evidence also emerges that LLPs are used when banks have high profits and banks acquired or started by foreign banks have poor performance levels. Different. This may be due to better cost control systems adopted by foreign holding groups, more efficient monitoring of credit risk, or a leaner staffing structure. At the same time, state banks may have lower levels of performance, as a result of lower interest margins on loans to state-owned enterprises or from better interest rates on deposits made to public entities. Thus, potential discrepancies in LLP and shareholder-related earnings management may also be related to different profitability levels. Some explain that banks with above-average income create lower LLP, but engage more in income smoothing than banks with lower profitability (Skała, 2021: 5).

Accordingly, the extent to which the bank practices profit management or not can be inferred by relying on the Provision for Loan Losses LLP indicator, which can be calculated by relying on the following equation (Kanagaretnam et al., 2010, 2017):

LLP = a0 + a1BEGLLA + a2BEGNPL + a3CHNPL + a4LCO + a5CHLOANS + a6LOANS+ LOANCATEGORIES[2]

From the above equation, it is clear that a higher provision for initial loan losses will require a lower LLP in the current period. Consistent with previous research, we expect (a2.3.4.6) to be positive. Higher levels of non-performing loans indicate that issues with the loan portfolio will require higher loss provisions. Therefore, we expect the beginning balance of NPLs BEGNPL to be positively related to the LLP. We expect the change in NPLs to be positively associated with LLP because an increase in NPLs will require a higher loan loss provision in the current period. We expect LCO net loan fees to be positively related to LLP.

Just as reductions in current loan charges can provide information about future loan loadings, they can affect expectations of the collectability of current loans and therefore current LLPs. We expect the level of loans to be positively associated with LLP because a higher level of loans will also require higher provisions. We do not provide a forecast because the effect of a change in total CHLOANS on LLPs depends on the quality of additional loans. Although NPLs and loan charges serve as measures of risk, we include six additional variables to control for differences in loan composition that also likely contribute to differences in risk, as banks with a higher proportion of commercial and real estate loans are more likely to have provisions Higher loan losses compared to banks with a higher percentage of consumer loans. Failure to account for these differences makes the residual of the loan loss allowance model a function of bank type.

QUALITY OF FINANCIAL REPORTING

[2] **LLP** : provision for loan losses
BEGLLA: beginning loan loss allowance
BEGNPL : beginning non-performing loans
CHNPL :change in non-performing loans
LCO : net loan charge-offs
CHLOANS : change in total loans outstanding
LOANS : total loans outstanding
LOANCATEGORIES : amount of commercial loans COMM, consumer loans CON, real estate loans RESTATE, agriculture loans AGRI, loans to foreign banks and governments FBG, and loans to other depository institutions (DEPINS).

The quality of financial reporting is linked to the quality of accounting information, which in turn is linked to a set of characteristics that make that information good and useful that can be guided and relied upon in making investment decisions (Thabit, 2013: 13), meaning that the main characteristics that must be characterized by useful accounting information for everyone Those responsible for setting standards, as well as those responsible for preparing financial reports, evaluate the quality of information that results from the application of alternative accounting methods and methods. Accordingly, the quality of financial reporting is that the information and data are free of error and bias and are therefore characterized by honest representation that can be relied upon in decision-making (Richardson et al, 2005:440). While Verdi sees it as the accuracy in communicating financial reporting information about the company's operations, especially its expected cash flows, in order to inform investors regarding the ownership investment decision (Verdi, 2006: 2).

According to the IASB, the main requirement for the quality of financial reporting is adherence to the purpose and qualitative characteristics of financial reporting information. Qualitative characteristics are the features that make financial information useful (Tasios & Bekiaris, 2012: 57). The quality of financial reporting is defined as the extent to which financial reports and statements have Finance consists of transparency and disclosure of financial information, which reflects the reality of the financial position and the amount of profits achieved and expected for the economic unit, and in accordance with the goals and needs of the beneficiaries for the purpose of helping them make the right decisions (Muhammad 2018: 257).

The quality of financial reporting is defined as the level of accuracy of the information conveyed by the financial reports. About the operations of the economic unit, especially its cash flows in order to inform the beneficiaries (Stergios & Bekianis, 2012:59), and the quality of financial reporting is represented as the financial reports that provide accurate and fair information about the financial position and economic performance of the economic unit (Alawiye, et al., 2018 : 8), and the quality of financial reporting was defined as the amount of usefulness of financial reports for contracting, monitoring, evaluation, and other decision-making of investors, creditors, managers, and all other parties contracting with the economic unit (Alexander et al, 2014:35).

INVESTMENT DECISIONS

Investment is linked to various activities, but its goal lies in investing money for the purpose of increasing income and achieving the actual addition of capital through owning assets that generate returns as a result of temporary sacrifice in order to obtain them in the future at a greater rate, taking into account the risks associated with investment. It is known that the nature of investment in itself is an activity fraught with risk, and the nature of the decision taken by the investor is determined by the situations that the investor faces when making the investment decision, based on the nature of the relationship between the price and value of the investment instrument from his point of view and the size of the return and risks that surround it on the other hand (Maginn & Tuttle, 2007: 579).

Accordingly, investors' decisions are reflected in a set of decisions that are reached by the investor after studying the options and alternatives presented to him in order to choose the best alternative that achieves his goals and objectives. Investment decisions are often characterized by caution and caution, as they can result in profits or losses, and this is due to the extent that the investor knows and understands the nature of the company's work in which he wishes to invest, the amount of data provided to him, and the extent to which the minimum level of confidence is available in it and that it is free from fraud and manipulation, accounting information is the basic material for the decision-making process (Jassem, 2020: 225).

The investment decision is considered one of the most difficult decisions taken by the administration in the economic unit, as these decisions aim to determine the optimal structure for the size of the investment, as these decisions affect the survival, continuity and growth of the economic unit, and investment decisions take on importance because the amounts spent on these investments are often huge. , and represents an important weight in the financial structure of the economic unit (Zwaid, 2014: 74). The investment decision is defined as the decision in which the attention of its maker is focused on how to employ the funds obtained, i.e. the best employment, with the aim of obtaining returns appropriate to the level of risk to which these funds are exposed when employed. Thus, it can be said that there are three decisions that the investor can take, one of which depends on his circumstances. The market conditions are as follows:

1 – Purchase decision

This decision is represented by the desire to own a financial asset. The investor resorts to this decision when he sees that the present value of the expected cash flows, taking into account the risk associated with these cash flows, exceeds the current market value of the financial asset being traded. This equation is the investor's desire and motivation. To make a purchase decision, the investor makes the purchase when he feels that the value of the investment instrument at the present time, expressed in money, will increase in the near future, taking into account return and risk, that is, when the market price of the investment instrument is less than its expected value in the future, which creates an incentive for the investor. To purchase that instrument in order to achieve capital gains from an increase in its market price in the future. (Siam, 2015:37).

2- The decision not to trade

In this type of investment decision, the investor is faced with a financial asset whose current market value is equal to the present value of the expected cash flows in light of the risk. In the midst of this situation, there are no returns expected by the investor, and therefore the investor does not resort to buying or selling the asset, meaning that the investor refrains. About trading when the market price equals the current value of the investment instrument, and here the market becomes in a state of equilibrium requiring those who had incentives to buy to stop buying, and those who had incentives to sell to also stop selling, so the investment decision in this case is not to trade (Al-Maghrabi,2018: 70).

3- The decision to sell

After the state of equilibrium that occurs in the market when the price is equal to the current value of the instrument, market dynamics work, creating additional desires in it to buy that instrument from a new investor. If an investor sees that the price is still less than the current value, which requires him to offer a new price for that instrument, it increases. than the current value, and thus the price rises above the current value, thus generating an incentive for others to sell, that is, the investor takes the decision to sell when the market value of the financial asset that the investor owns is greater than the present value of the expected cash flows in light of the risks, as the investor sees that there is an opportunity to achieve profits. Then the decision to sell is made" (Ismail and Saleh, 2016: 76).

MEASURING THE PRACTICE OF EARNINGS MANAGEMENT IN THE INVESTMENT BANK

It is clear from Table (1) and Figure (1) that the bank's management has practiced profit management throughout the study period. This is clear from the LLP index, the results of which showed a continuous increase during the study period and in a gradual manner with a general trend. This increase, of course, indicates the presence of the possibility of achieving Losses from the loans that were granted, but at a rate exceeding (100%). This is inconsistent with the banking reality and the basic work of the bank according to the risk management that it is required to implement before starting to grant the loan. This means that the bank has practiced profit management, which makes the financial statements The financial disclosure it issues is not characterized by transparency, which is a major pillar of investment decision-making for investors or owners if the bank applies corporate governance. Therefore, the bank should be urged to adhere to quality and financial reporting standards as well as increase levels of transparency in its financial statements.

Table (1): Calculating the Loan Loss Provision (LLP) indicator for the Iraqi Investment Bank for the period 2010 - 2020 (million dinars)

Years	**a_0**	**LOANCATEGORIES**	**a_1LOANS**	**a_2CHLOANS**	**a_3LCO**	**a_4CHNPL**	**a_5BEGNPL**	**a_6BEGLLA**	**LLP**
2010	230.85	54756	124.58	0.001	4.43	0.0001	25.7	49.8	**55191.4**
2011	171.5	55315	125.85	0.001	4.48	-0.001	24.9	50.3	**55692.1**
2012	244.53	58214	132.45	0.006	4.72	0.004	27.4	52.9	**58676.0**
2013	481.52	61375	139.64	0.007	4.97	0.0004	27.6	55.8	**62084.6**
2014	581.13	63471	144.42	0.004	5.14	0.003	29.8	57.7	**64289.3**
2015	835.78	58314	132.68	-0.009	4.72	-0.004	26.8	53.1	**59367.1**
2016	1309.3	59746	135.94	0.003	4.84	0.002	28.1	54.4	**61278.6**
2017	999	60890	138.54	0.002	4.93	0.003	29.2	55.4	**62117.1**
2018	625.56	62413	133.25	0.017	5.61	-0.002	28.1	74.3	**63279.8**

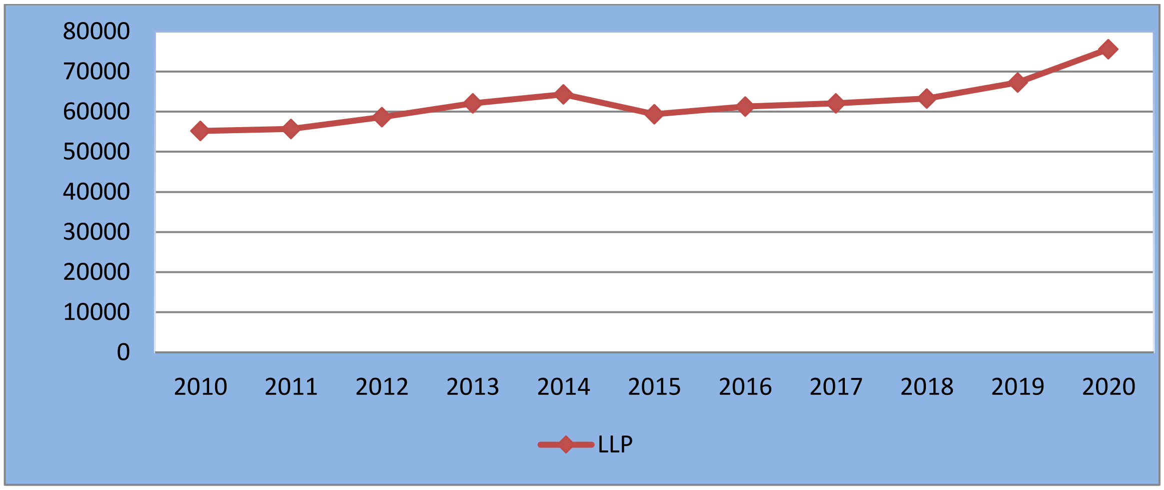
2019	1132.32	65860	140.61	0.007	5.93	0.003	30.3	78.4	**67247.5**
2020	622.28	74683	159.45	0.016	6.75	0.004	33.6	88.9	**75593.9**

Source: Prepared by the researcher based on the Eviews10 statistical program and data:

- Iraq Stock Exchange, annual data of the Iraqi Investment Bank, multiple years.
- Central Bank of Iraq, Banking Control Department, financial statements for lending operations.
- Securities Commission, annual reports, Iraqi Investment Bank, multiple years.

Figure (1)

Development of the provision for loan losses in the Iraqi Investment Bank for the period (2010-2020)



Source: Prepared by the researchers based on the data in Table 1.

MEASURING INVESTORS' DECISIONS IN THE INVESTMENT BANK

It is clear from Table (2) that most of the years in which the trading volume in the bank in question witnessed clear declines are in the years in which the economy is experiencing a financial crisis, whether at the local or global level, as it is noted that the trading volume in the Investment Bank decreased in 2010. To reach (9431.1) million dinars, this resulted from the effects of the global financial crisis that occurred in late 2009, and this was the result of investors' pessimism about the future, which led to their reluctance to invest in that bank, and with the Iraqi economy recovering from the effects of that crisis, the volume of trading in the shares of the investment bank witnessed It gradually improved and a clear increase rose from about 2010 (9431.1) million dinars to about (56903.3) million dinars in 2013, but this soon gradually decreased over the next two years due to the unstable security and economic conditions witnessed by the Iraqi economy and the prevalence of a kind of pessimism by Investors, in addition to the Corona crisis, which greatly affected the trading volume of Investment Bank shares, which reached its lowest level throughout the study period, reaching 404.1 million dinars in 2020.

It is clear to us that the financial sector in Iraq is very greatly affected by the crises affecting the global economy on the one hand, as well as the internal measures and crises that the economy is witnessing on the other hand, which reflects negatively on this vital sector and on the companies listed in it, which hinders the investment process in the country as well. Increasing pessimism among investor circles.

Table (2) Development of the annual trading volume of the Investment Bank for the period (2009-2020), million dinars

years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020

trading volume	12310.7	9431.1	31662.7	50111	56903.3	16176	10922.2	11140.5	10681.3	8841.6	2288.6	404.1

Source: Prepared by the researcher based on data from the Iraq Stock Exchange, annual data, multiple years (2009-2020).

MEASURING AND ANALYZING THE COINTEGRATION RELATIONSHIP BETWEEN RESEARCH VARIABLES

After we finished the process of measuring and analyzing the variables used in the research and discussing them in some detail and tracking their developments throughout the study period, we now come to measuring the relationships of influence and correlation between the research variables, as the variables produced by the analytical side of the research will be used in order to determine the relationships of correlation and influence to measure and analyze. The impact of the practice of earnings management on investors' decisions. National data issued by the Iraqi Stock Exchange was also relied upon, in order to obtain a more accurate data series, and then reach more realistic results that are consistent with macroeconomic theory, taking into account the state of the Iraqi economy. It also covers Research data for the period of time (2010-2020) and on a quarterly basis.

VIEW AND ANALYZE STATIC TEST RESULTS

We infer, through the Phillips-Perron stationary test, whether the time series for the two variables being estimated are stationary or not, and then indicate whether they have no unit root or not? Which results in a decision to accept or reject the null hypothesis, in addition to determining the order of integration for the time series, and then determining the most appropriate model to be applied. The Phelps-Perron test is also considered the most accurate static test, especially when the sample size is small, and its results can be relied upon in the event that they are not consistent with the results of other static tests (Fakieh, 2018, p. 116).

The results of Table (3) indicate that the null hypothesis (H0) for the time series of the investor decisions variable (trading volume) as well as the profit management variable (allowance for loan losses) is accepted at its original level, meaning that it suffers from the presence of a unit root in it, which confirms that it is not achieved. It has the characteristic of rest, and this is confirmed by the value of Prob, as it was greater than (5%) at the level. While we find the stationarity of these series when taking their first difference, that is, rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1), which states that it does not contain a unit root, and this is confirmed by its Prob value, as it was smaller than (5%). Therefore, these series are considered integral of the first order, I(1).

Table (3) Unit root test results by Phelps Perron

Stability	level	First difference
Earnings management	➢ 5% Not stable	< 5% stable
Investment decisions	➢ 5%Not stable	< 5% stable

Source: Outputs of the statistical program Eviews10

COINTEGRATION TEST (JOHANSEN-GESLIUS)

After conducting the unit root test and ensuring that the two variables in question are stationary at the first difference according to the (PP) test, that is, they are complementary to the same degree, which makes it possible to apply cointegration tests such as the Johansen-Geslius test. Before proceeding with its application, the optimal delay period must be determined, indicating The results of Table (4) show that the optimal slowdown period is (1), i.e. one year, depending on the criteria mentioned therein.

Table (4) Results of the test to determine the optimal slowdown period for investment bank variables

slowdown period	HQ	SC	AIC	FPE	LR	LogL
0	234.1	251.2	231.9	5.54e+92	NA	**-8941.4**

1	267.01*	230.1*	227.9*	4.64e+82*	1633.4	**-7982.1**
2	250.6	274.7	218.13	3.00e+82	173.7*	**-7860.8**
*** The optimal slowdown period according to the standard**						

The results of Table (5) show the existence of a long-term balanced relationship between the variables in question, as the impact test shows the presence of cointegration between the variables, according to the value of Prob, which reached (0.0001), which is statistically significant because it is less than (5%), in addition to Therefore, the calculated value (t) was (136), which is greater than its critical value of (95) at a significance level of (5%), which means rejecting the null hypothesis (Ho), which states that there is no vector for co-integration between the variables, i.e. That (r=0), and accepting the alternative hypothesis, which states that there is a single vector for co-integration between the variables under investigation, and that (r=1). As for the maximum value test, the same result was reached, with the possibility of the presence of at least two vectors of co-integration between these variables, as the significance value reached (0.01) At most1, which is less than 5%, and therefore the null hypothesis is rejected and the alternative hypothesis is accepted, which... It indicates the existence of a long-term balanced relationship between the variables under investigation, and the researcher agrees with this result because it is consistent with macroeconomic theory.

Table (5): Results of the Johansen-Geslius cointegration test for the variables under investigation for the Iraqi Investment Bank

Impact testing			
Number of cointegrating vectors	Calculated t value	Tabular t value	**Prob**
None *	**136.8**	95.75366	**0.0001**
At most 1	68.2	69.81889	0.0790
Maximum value test			
Number of cointegrating vectors	Calculated t value	Tabular t value	**Prob**
None *	**71.27**	40.07757	**0.0001**
At most 1 *	**37.04**	33.87687	**0.0155**

Source: Outputs of the statistical program Eviews10.

RESULTS OF THE GRANGER CAUSALITY TEST

This type of test shows the causal relationship and the nature of a short-term trend between the variables under investigation, as it is clear from Table (6) that there is a unidirectional causal relationship from the earnings management variable to the investment decision variable, and using a lag period (Lag = 1), as the value Prob (0.0053) is at a significance level of 5%, so it is statistically significant because it is less than (5%), which resulted in rejecting the null hypothesis and accepting the alternative hypothesis, which states that there is a causal relationship between the two variables, and this result is acceptable and consistent with the theory. Macroeconomic and financial as well.

Table (6): Results of the granger causality test for the investment bank

Null hypothesis	**F value**	**Prob**	**Judgment**
Does earnings management cause (or influence) investors' decisions?	9.38407	**0.0036**	**impact**
Do investors' decisions cause (or affect) earnings management?	0.03431	0.7350	**Not impact**

Source: Outputs of the statistical program Eviews10.

DIAGNOSTIC TEST RESULTS AND ESTIMATED MODEL SAFETY

Have you proven the standard tests concerned with verifying the presence of standard problems in the estimated model or not? The quality of this model and its results can be relied upon, as it is characterized by the absence of an autocorrelation problem, as indicated by the LM Test, as the value of Prob Chi-square(1) reached (0.057), which is greater than (5%), that is, accepting the null hypothesis which states that there is no There is a problem of autocorrelation between the residuals. The model also enjoys the absence of the problem of non-stationarity of the homogeneity variance, as indicated by the Heteroskedasticity test ARCH (1), as the homogeneity of the residuals was proven because the value of Prob Chi-square (1) reached (0.92), which is greater than (5%), and thus the hypothesis is accepted. The null hypothesis stipulates that the residuals are homogeneous, while the model is characterized by the absence of a problem in the normal distribution among the residuals, in terms of Prob, which is (0.07), which is greater than (5%). Thus, the null hypothesis is accepted, which states that there is no problem of the normal distribution among the residuals, and as Explained in the following figure:

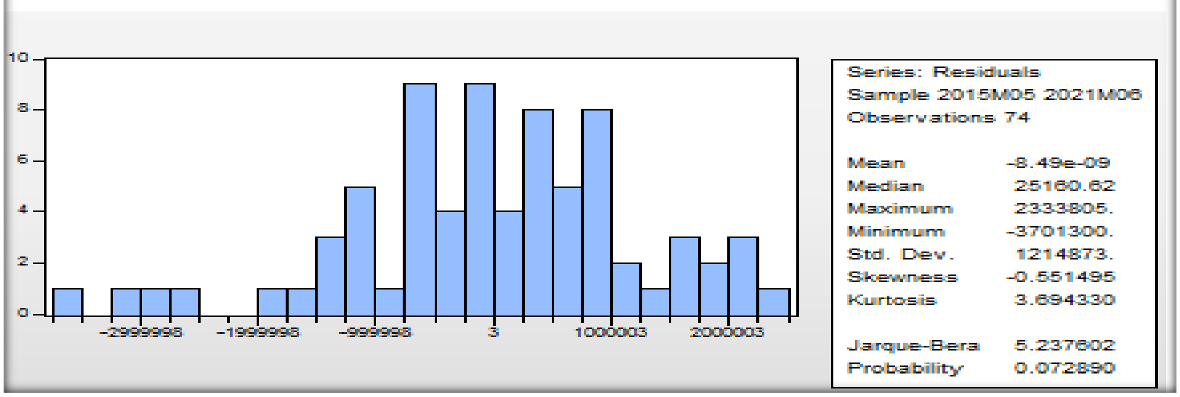
Figure (2) Results of validity tests of the model estimating Iraqi investment

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.796980	Prob. F(4,51)	0.1438
Obs*R-squared	9.141178	Prob. Chi-Square(4)	0.0577

Heteroskedasticity Test: ARCH

F-statistic	0.152292	Prob. F(3,67)	0.9279
Obs*R-squared	0.480873	Prob. Chi-Square(3)	0.9231



Source: Outputs of the statistical program Eviews10.

CONCLUSIONS

1. The bank's management has practiced profit management throughout the study period without exception, based on the loan loss provision indicator, which showed this clearly. Therefore, the financial statements issued by the bank do not have good quality. The financial disclosure in them is not characterized by transparency, which is a main pillar of taking... Investment decisions for investors or owners.

2. The global financial crisis that occurred in late 2009 had a negative impact on the trading volume in the bank's shares, which declined in 2010 as a result of investors' pessimism about the future, which led to their reluctance to invest in it. With the Iraqi economy recovering from the effects of that crisis, the trading volume in its shares witnessed an improvement. Gradually, but it quickly decreased due to the 2014 crisis and the Corona pandemic.

3. The financial sector in Iraq is very greatly affected by the crises affecting the global economy on the one hand, as well as the internal measures and crises that the economy is witnessing on the other hand, which reflects negatively on this vital sector and on the companies listed in it.

4. There is a long-term and short-term equilibrium relationship between the two variables, profit management and investors' decisions in the Iraqi Investment Bank, based on the impact and maximum value tests of the Johansen joint integration methodology, according to the Prob value, which amounted to (0.0001) and (0.01), respectively, and it is statistically significant because it Less than (5%). In addition, the calculated value (t) for both of them was greater than its tabulated value. At a significant level (5%). And the Granger causality test, which proved the existence of a unidirectional causal relationship from the earnings management variable to the investment decision variable.

RECOMMENDATIONS

1. The necessity of working to establish and enhance the quality of financial reporting and increase the level of disclosure and transparency in the financial statements published by the financial institutions under study, because of its great importance in determining the course of making investment decisions and then investment in general.

2. The necessity of adhering to the international standards specified and confirmed by the Central Bank regulatory authorities in preparing financial statements accordingly and avoiding unethical accounting practices that contribute to obstructing or misleading the cognitive facts disclosed in those financial statements.

3. It is necessary for the executive authorities in the banking sector to commit to not practicing earnings management for any reason, because this has negative or positive effects at the same time on the investment decision maker on the one hand and the owners of those institutions on the other hand, as it shows an unreal financial position of the institution, which contradicts the international standards regulating the work of this practice. Institutions.

4. It is necessary to increase attention to the methods through which the practice of earnings management can be discovered and prevented, through the continuous development of supervisory staff and auditors through the establishment of training courses to identify the most common methods and methods of practicing earnings management and what are the effects resulting from them in a step towards curbing these practices.

REFERENCES

1. Alawiye-Adams, Adewale Adegoke, and Ibukun-Falayi Owoola Rekiat, (2018), "The Impact of International Financial Reporting Standards (IFRS) Adoption on the Quality of Financial Statements of Banks in Nigeria." Available at SSRN 3099851 .
2. Central Bank of Iraq, Banking Control Department, financial statements for lending operations.
3. Countries path , R. 2003 "earning manipulation in fasting firms contemporary " accounting research , vo1.20,no.2
4. David Alexander, Anne Britton, Annjorissen, Martin Hoogendoorn and Carien van Mourik (2014) "International Financial Reporting and Analysis, 6th"
5. Fakieh, J,R.(2018) inflation and exchange rate policies in Saudi Arabia: An inflation targeting perspective, Manchester metropolitan university, UK
6. Iraq Stock Exchange, annual data of the Iraqi Investment Bank, multiple years.
7. Jassim Hussein Karim (2020), The role of reporting in sustainability accounting according to (SASB&GRI) standards in improving financial performance, an applied study, part of the requirements for obtaining a doctorate degree in philosophy in accounting, Al-Mustansiriya University
8. Mangala, D., & Isha, (2017). A Brief Mapping of Earnings Management's Drivers and Restraints. Journal of Commerce & Accounting Research, 6(3).
9. Maswadeh, S., 2018," The effect of the ownership structure on earnings management practices", Investment Management and Financial Innovations,15(4).
10. Muhammad Al-Fattah Muhammad Al-Maghrabi (2018), Management of Specialized Financial Institutions, first edition, Morocco, International House for Publishing and Distribution.
11. OXELHEIM, L. (2010) "Globalization, transparency and economic growth: The vulnerability of Chinese firms to macroeconomic shocks", Journal of Asian Economics, 21.
12. Richardson, S.A., Sloan, R.G., Soliman, M.T., and Tuna, I., 2005, Accrual Reliability Earnings Persistence and Stock Prices, Journal of Accounting and Economics, 39.
13. RODRIGUES, L., OLIVEIRA, J. and CRAIG, R. (2013) "Technical Note: Company Risk-related Disclosures in a Code Law Country: A Synopsis", Australasian Accounting, Business and Finance Journal, 7(1).
14. Securities Commission, annual reports, Iraqi Investment Bank, multiple years.
15. Stergios, Tasios, and Michalis Bekiaris, (2012), "Auditor's perceptions of financial reporting quality: the case of Greece." International Journal of Accounting and Financial Reporting 2, no. 1
16. Tasios, S., & Bekiaris, M. (2012)," Auditor's perceptions of financial reporting quality: the case of Greece. International Journal of Accounting and Financial Reporting, 2(1).
17. Thabit H., 2013, Adoption the Fuzzy Logic to Enhance the Quality of the Accounting Information to Operate Balanced Scorecard - Applied on Mosul Bank for Development & Investment in Nineveh Province, M.Sc. Thesis in Accounting, University of Mosul, Iraq.
18. The Iraq Stock Exchange, annual data, multiple years (2009-2020).
19. Verdi, R.S., 2006, Financial Reporting Quality and Investment Efficiency, available online at: https://papers.ssrn.com.

20. Zuwaid Jassim Kashish (2014), The understandability of accounting information and its role in enhancing the rationality of investment decisions is part of the requirements for obtaining a master's degree in accounting sciences, University of Baghdad.