Effect of Accounting Information and Communication System on Financial Reporting Quality: A Review of Theories and Empirical Works

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Abstract

The alignment of Business and information technology is still an important concern of both business and technological managers. The vast directions of accounting information system on financial reporting quality presents the most important relations between the challenges and technological responses in pointing out the way for future research in order to improve the alignment between adopted technology and organization performance, in this particular case the support of management information systems to accounting and management. The main objective of this study is to review the theoretical and empirical literature on the effect of accounting information system on reporting quality and to ascertain research gaps from past studies. The study concluded that past studies on the effect of accounting information and communication system on reporting quality are limited but have yielded positive results; while some studies documented accounting information system improves financial performance, others suggested accounting information system aids management strategy. Furthermore most studies were carried out in advance economies, where advanced computerized accounting information system techniques have been in practice.

Keywords: Information Technology, Accounting Information system**,** Data Quality, Financial Performance.

INTRODUCTION

As part of management information systems, accounting information and communication systems represent one of the most important systems in the economic unit and vary among organizations in terms of the application of accounting information systems and the consciousness of their importance**.** Many organizations automate and integrate their business operations by accounting information system (Hla and Teru, 2015). Accounting information system is a manual or computer-based system that increases the control and enhances the synergy in an organization, to assign the quantitative value of the past, present, and future economic events. Data collections, data maintenance, data information accounting systems and knowledge management, data/security control and information generation are key functions performed by an accounting information and communication system. An information system seeks to take advantage of the surrounding circumstances in order to improve the quality and quantity of information and to enhance delivery mechanism to users, thereby providing various users with different forms of useful information to meet their various needs (Alzoubi, 2012). Despite the continuous production of accounting information as required by law, financial and accounting regulations aimed at improving financial performance, there is a persistent misuse of resources and poor accountability (Bukenya, 2014). Reliability, relevance, accuracy, timeliness, and clarity are true measures of perceived quality of accounting information in that order. For financial information to serve its intended objective, it should be of good quality to ensure good decision- making. Identifying management commitment to efficient Accounting Information and quality reporting systems has been widely recognized as the most important factor for the achievement of Business success (Iskandar, 2015). Implementing accounting information systems in Nigeria usually require intensive resources, often with an unsatisfactory result after spending millions of naira, and most businesses are forced to abandon the project. Even if the system was delivered on time and within budget, it does not guarantee that it will be used or preferred by the user, and might not achieve the expected benefits and the end of the whole process the system becomes staled.

The role of accounting information system is significant because it derives its necessity from the level of contribution in improving the value chain of business organizations, and provides various resources and optimally allocates them under risk conditions and the uncertainty surrounding the business environment. Other qualitative characteristics of accounting information can also be maintained if there is a sound internal control system in an organization (Toposh, 2014). Internal controls procedures are set up to protect assets, ensure reliable accounting reports, promote efficiency and encourage adherence to company policies as essential to achieve objective such as the efficient and orderly conduct of accounting transactions, safeguarding the assets in adherence to management policy, prevention and detection of error, prevention and detection of fraud and ensuring accuracy, completeness, reliability and timely preparation of accounting data. An accounting information and communication system that is accurate, flexible to suit environmental changes, timely, provide administration the necessary information to plan and control economic activities and an effective feedback mechanism is effective and efficient (Hafnawi, 2001). Well-designed accounting information and communication system simplifies getting information to interested users by an authorized access. Also, auditors can use the data to assess a company's internal controls, financial condition and the compliance with the Sarbanes-Oxley act. An automated accounting information and communication system issues instructions and procedures for collecting, storing, retrieving and processing data that is coded into accounting information and communication system software having a structured database. Having a pool of data in one place facilitates record keeping, reporting, analysis, auditing and decision-making activities of an economic unit.

LITERATURE REVIEW

Conceptual Clarifications

Accounting information system

Accounting information system and financial reporting quality concepts need to be clarified especially on the study. This will not only sharpen the direction of this study but will also provide a framework upon which the study findings will be validated. Romney and steinbart (2012), and Gel, (2010) defined an accounting information system as a collection of parts and sub systems that are connected with each other and with the surrounding environment and operate as a single overlap relationship between each other and between the system that combines, where each part depends on the other in achieving the goals sought by the comprehensive system of accounting, in order to provide data and information to decision makers. It then means, accounting information systems collect, record, store and handles data to provide information to decision-makers via advanced technology or simple system or in between of the two. In order for accounting information to achieve its desired goals, it should have the following basic properties (Ahmad, 2006); it should be: Appropriate, Credible, Timely, Understandable, Important, and posses' financial data quality

Concept of Information System

Idris, (2005) defined the information system as a system which includes a set of elements and reactants components of the relevant reciprocity that work together to collect, operate, store, distribute necessary information for the decision- making process in the organization. Information system is a system consisting of a set of parts and procedure interacting with each other in order to collect, process, and store the appropriate data, and deliver the appropriate information in the appropriate time and place and accuracy suitable for the process of decision-making in the organization and in a form which contributes to achieve its objectives. Miller, (2002) acknowledged the concept of accounting information quality as a new model to achieve tremendous benefits that indicate the need of administration to communicate with shareholders to understand their needs and serve them fast and in the best possible way. Such characteristics aim to help administrators when developing accounting standards and assist accountants in the preparation of financial statements in assessing the accounting information that results from the application of alternative accounting methods and distinguish between what is a necessary clarification and what is not according to the users of accounting information.

Quality of Accounting Information and Financial Performance

The key components of effective financial management include: access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant and secure (Barrett, 2004). Accounting information systems maintain and produce the data (for example, financial statements containing information about accounts and their balances) used by organizations to plan, evaluate, and diagnose operations and financial position (Peters et al, 2001). Therefore, the aim of the regulators should be to make an accounting system that offer maximal benefits at lowest possible cost. According to Goitom, (2003), the better the quality of accounting information, the greater the possibility for a business success and this is possibly because accounting can be viewed as an information measurement and communication system to serve macro and micro-economic activities. Investment decisions made in a vacuum are gambles; useful decisions are made depending on useful information (Sserwanga, 2003). Sometimes decision makers may be fed with irrelevant and useless information than they can use, they may overlook information on serious problems (Stoner, Freeman, and Gilbert, 1995).

A financial report that does not reflect economic reality will result in poor decision-making. It is therefore necessary for public enterprises' managers, the supervision authority and the government as controllers to appreciate the need for quality accounting information in order to minimize waste. The objective of accounting is to provide information that is useful to making rational decisions. Usefulness is characterized by relevance and reliability. It should be noted that the restoration of financial discipline in local governments through enhanced reporting standards and practices would be an important step leading to improvements in the quality of municipal governance and in the quality of citizens lives (Temple, 2002). It was noted further that quality reporting is a critical part of the performance management effort. It improves communication with internal and external stakeholders, leads to better decision-making and ultimately improves performance (Bisnow, 2004)

Accounting Information System and Data Quality

The output of accounting information system (AIS) depends on the quality of data, garbage in garbage out is the result of poor data quality, and therefore data quality is important to AIS (XU, 2003). The processes of data collection, storage, and utilization must work properly in order to achieve high data quality (Lee and strong 2003). According to (Xu 2009), inaccurate and incomplete data may damage a firm’s competitive ability. These studies also agreed that input control and competent employees are important to data quality of accounting information system.

Accounting and Management Information system (MIS)

Most businesses use a large amount of non-financial information. Their marketing departments for example, are interested in the style or packaging of competitor products. Personnel departments keep health and employment records of employees. With the wide spread of computers and computer applications today, many of these varied information needs are being organized into what is called Management Information System (MIS). According to Esiefa (2005) he stated that the management information systems consist of interconnected subsystems that provide the information needed to run a business. The accounting information system is the most important subsystem because it plays the primary role of managing the flow of economic data to all parts of the business and to interested parties outside the business. Accounting is the financial nub of the management information system; it gives both management and outsiders a complete view of the business organization. Some organizations have many operational activities, but how to express the achievement of the operation requires qualification of the operational activities and accounting services as a tool for quantifying (management) activities and the result is the accounting information. Simply put, accounting information isto use the language to reflect the operational achievements but why is accounting information so important? Mainly it has too close relation with all. As economic cells of the society, all enterprises or organizations are associated with people which rely on accounting information. For instance, Graham (1990) stated that “an investor has to take decision based on accounting information; enterprises (management) has to take operational and other decisions according to accounting information, banks have to take decisions on loans base on accounting information”. “This is because the society and economy are in alienable from accounting information”. This is the reason for the need of accuracy and reliability of accounting information.

Users of accounting information

Accounting information is used more than commonly realized. Here are some question according to Graham (1990) a company (bank) might face in its everyday activities, that's involving accounting information;

i. In applying for loan: - How should the financial statement for the bank be computed? How is the interest on the loan computed?
ii. In making an investment: - Is this a good company to invest in? What is the risk? Is the company in a good cash position?
iii In going to school: - How much money will it take to get through the next school year? Will there be enough money for rent, food and transportation next month?
iv. In taking a job: - Is the company financially sound? Are they the most profitable? What are the company's benefit plan and retirement program?

There are just few of many important uses of accounting information. As a member of various groups in management and society, the student of business and financial accounting will be doing accounting daily as an aid in making difficult decisions. The users of accounting can be divided into three (3) groups according to Needles (1976), they are; Those who manage a business (Management), those outside a business enterprise who have direct financial interest in the business; and those persons, groups or agencies that have an indirect financial interest in the business. The management decision and analysis in financial condition and results of operation focuses on the financial statements as a whole rather than on the summary of operations and call for discussion of at least three (3) aspects of the organization, these are the liquidity, capital resources and results of operations. Needles (1976) stated than within each area of discussion, Favorable and unfavorable trends and the identification of significant events or uncertainties are to be emphasized.

One thing to note is that, the group of people in a business has overall responsibility for achieving the company's goals. Business enterprises have many goals. According to Richard (1982) these goals include "providing quality goods and services at low cost, creating new and improved products, increasing the number of jobs available, improving the environment and accomplishing many other social tasks. In order to achieve these goal (profitability and liquidity).Liquidity means having enough funds in hand to pay debts when fall due. Management at all levels is responsible for a company's successful operation. In a small business, the greatest responsibility is often with the owner who also manages the company's operation. In a large corporation, the company's goal will be assigned to many people from the board of directors and officers of the firm to the management, departmental heads and supervisors. Managers must constantly decide what to do, how to do it, and whether the result matches the original plans. Successful managers consistently make the right decision on the basis of timely and valid information. Many of these decisions are based on the flow of accounting data as one of the most important uses of accounting information, and a major function of accounting is to provide management with relevant and useful information.

Empirical Discussion

Khaled and Abdulqawi (2015), analyzed the role of accounting information systems and the effect of their use in improving the value chain of the business organizations using a study tool (questionnaire) based on the theoretical framework and previous studies. Using the appropriate statistical analysis tools for the study data (arithmetic mean, standard deviation, and testing of T-test One Sample) the research found a deficiency in the level of the availability of the basic components of accounting systems and the level of the quality of accounting information required to improve the value chain of business organizations in public shareholding industrial companies in the Kingdom of Bahrain in general, and recommended the need to work on improving the level of the basic components of accounting systems to improve the quality of accounting information, in order to improve the value chain of public shareholding industrial companies in the Kingdom of Bahrain; specifically in regards to the existence of clear and specific work procedures in the accounting system, the level of the effectiveness of internal control measures, clear definition of responsibilities and authority, and management's attention in training and continuing education programs for employees.

Iskandar (2015) conducted deductive analysis which supported the phenomenon. He sought evidence through empirical facts and analysis of factors affecting the success of the application of Accounting Information System with a purpose to find solutions for problems related to the quality of accounting information systems of State-Owned Enterprises (SOEs). The study concluded that the quality of accounting information system is affected by management commitment and user competence. Thus, for an improved management commitment and user competence, emphasis should be placed on the linking theories to organizational culture.

Henry, Adeniran and Olawale (2014) examined the extent to which Accounting Information Management has enhanced the profitability of Nigerian banks. The study model specified, accounting information on Liquidity, credit quality, cash flow, wage rate, exchange rate and Inflation rate as the Jointly Pre-determined variables while, Profitability as the determined variable. The work involves the use of Ordinary Least Square (OLS) Regression technique to fit a realistic model into the collected time data, and several model's validity techniques such as Coefficient of determination (R2), Multiple Correlation coefficient(r), Durbin-Watson, Akaike info Criterion (AIC), Schwarz Criterion (SWC) and F-statistic were employed to validate this model. The model was also tested for Stationary using Unit Root test and Augmented Dickey Fuller (ADF). The result revealed that accounting information had impacted significantly on the growth of Profitability in Nigerian banking industry observed in the R2 of 80.24%, Correlation coefficient of 0.90, Durbin-Watson of 1.76, AIC of 7.48, SWC of 7.87 and F-result of 43.13 with significance value of 0.000034. Also, the Stationary test carried out for the model shows that there is a short run relationship at First Difference between Profitability and all the explanatory variables considered in this research. Hence, the availability of sufficient accounting information has positively impacted on the Profitability of Nigerian banking industry and the implication of this is that pragmatic policy options need to be taken in the banking industry to effectively manage credit quality, cash flow among other explanatory variables to enhance banking industry performance in the country.

Tazik and Mohamed (2014) examine the Impact of Accounting Information System Effectiveness and Foreign Ownership Structure on Audit Report Quality. Data was obtained through structured questionnaire survey administrated on senior accountants from companies listed on Bursa Malaysia and secondary data was collected from participants' financial annual reports in 2011. A multiple regression analysis was used in this study, modeling audit reporting quality as a function of explanatory variables. The results indicate that foreign ownership structure (FOS) is a strong moderator for the relationship between accounting information system effectiveness (AISE) and audit report quality (ARQ). Further, a significant negative relationship is found between AISE and FOS with ARQ. Overall, the findings in this study provide some evidence supporting the resource based theory, which identify AISE as a resource that could improve timeliness of corporate reporting.

Theoretical framework

The theoretical framework of this study forms the bedrock of the study as it viewed past studies necessary to draw objective conclusions of the study. According to the American Institute of Certified Public Accountants (1970) which defined accounting as the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character and interpreting the result. Some of the theories underpinning accounting information system on financial reporting quality include: Contingency theory, Innovation Diffusion Theory, Theory of Reasoned Action and Its Derivatives in User Acceptance, Innovation Diffusion Theory, Theory of Planned Operational Control, Socio-Technical Systems Theory of Information Technology Acceptance, and Activity Theory.

Contingency Theory

Contingency theory suggests that an accounting information system should be designed in a flexible manner so as to consider the environment and organizational structure confronting an organization (Nzomo, 2013). Gordon and Miller (1976) laid out the basic framework for considering accounting information systems from a contingency perspective where the accounting information systems also need to be adaptive to the specific decisions being considered within a framework.

Innovation Diffusion Theory

Diffusion innovation theory predicts the process by which is perceived to be new by a unit of adoption is communicated through certain channels amongst members of a system over time. According to Shy (1997), diffusion theory posits five characteristics of innovations that affect their diffusion: trialability (the opportunity to try an innovation before committing to use it), relative advantage (the extent to which a technology offers improvements over currently available tools), compatibility (its consistency with social practices and norms among its users), complexity (its ease of use or learning), and observability (the extent to which the technology's outputs and its gains are clear to see).

Theory of Reasoned Action and Its Derivatives in User Acceptance

Theory of Reasoned Action (TRA) defines relationships between beliefs, attitudes norms, intentions, and behavior. According to this theory, an organizational behavior (e.g., use or rejection of technology) is determined by one's intention to perform the behavior, and this intention is influenced jointly by the organizational attitude and subjective norm, defined as "the organization's perception that most businesses/clients who are important to it think it should or should not perform the behavior in question" (Zozak, 2005). According to TRA, attitude towards a behavior is determined by beliefs about the consequences of the behavior and the affective evaluation of those consequences. Belief is defined, by Zozak (2005), as the organizational subjective probability that performing a given behavior will result in a given consequence. Affective evaluation is "an implicit evaluative" to the consequence; thus the attitude construct in TRA is general in nature and is not anchored to any given belief set. This approach represents an information processing view of attitude formation and change which states that external stimuli influence only through changes in the organization's belief structure (Zozak, 2005).

Theory of Planned Operational Control

According to Model (1996), the Theory of Planned Operational Control (TPOC) is a descendant of the theory of reasoned action (TRA) and adds a third antecedent of intention, perceived operational control, to the TRA model. Perceived operational control is determined by the availability of skills, resources, and opportunities, as well as the perceived importance of those skills, resources, and opportunities to achieve outcomes. The Theory of Planned Operational Control (TPOC) holds that attitudes, subjective norms, and perceived operational control are direct determined of intentions, which in turn influence accounting operations

Socio-Technical Systems Theory of Information Technology Acceptance

The socio-technical systems perspective has become influential in the analysis of the organizational impact of information technology. The theory views any organization as an open system of interdependent sub-units transforming inputs to desired outputs. The gainful employment of any technology hinges on the ability and willingness of users to employ it for worthwhile tasks (i.e., those deemed central to the organization's goals). Socio-technical systems theory has given birth to a framework for technology design that emphasizes holistic job satisfaction (rather than just task performance) and user participation throughout the development process. Thus, socio-technical theorists recommend the analysis of all stakeholders, not just the direct users of a technology, the formation of planning groups to oversee the design, the performance of prototyping exercises, and the analysis of likely impact the technology will have on the organization. In studying technology acceptance, socio-technical theorists conceptualize acceptance in terms of two competing forces: control and enhancement. Control factors are those that impose rules or structures upon the users, thereby removing autonomy (control over their own actions) from them. Among the control issues raised with respect to technology design are: access, reliability, confidentiality, monitoring, pacing, stress, social contact. Low or high presence of certain factors (e.g., low reliability, high pacing) with the introduction of a new technology is likely to reduce the user's perception of control and thus increase the risk of resistance (Connor, 1997). Enhancement factors include sense of mastery, growth of knowledge, discretion, ability to act informally, requirement for certain skills, and enabling worker cooperation. A technology that is designed to support such factors is likely to increase user acceptance in an organization.

METHODOLOGY

The effect of AIS implementation on financial reporting quality has been studied by several researchers using different analytical methods. This paper is an empirical study on the effect of accounting information and communication system on financial reporting quality. It employs the secondary source of information by making use of available relevant literature on accounting information systems with respect to enhancing financial reporting quality.

RESULT AND DISCUSSION

Most businesses use a large amount of non-financial information. Their marketing departments for example, are interested in the style or packaging of competitor products. Personnel departments keep health and employment records of employees. With the wide spread of computers and computer applications today, many of these varied computerized accounting information needs are being organized into what is called Management Information System (MIS). According to Esiefa (2005) he stated that the management information systems consist of interconnected subsystems that provide the information needed to run a business" The accounting information system is the most important subsystem because it plays the primary role of managing the flow of economic data to all parts of the business and to all interested parties outside the business.

Accounting is the financial nub of the management information system; it gives both management and outsiders a complete view of the business organization. Some organizations have many operational activities, but how to express the achievement of the operation requires qualification of the operational activities and accounting services as a tool for quantifying such activities and the result is the accounting information. Simply put, accounting information is to use the language to reflect the operational achievements but why is accounting information so important? Mainly it has too much close relation with all. As economic cells of the society, all enterprises or organizations are associated with people who rely on accounting information that enhance financial reporting quality. For instance, Graham (1990) stated that an investor has to take decision based on accounting information; enterprises (management) has to take operational and other decisions according to accounting information, banks have to take decisions on loans base on accounting information. This is because the society and economy are in alienable from accounting information". This is the reason for the need of accuracy and reliability of accounting information and communication.

CONCLUSION AND RECOMMENDATION

Based on the findings of this study, it has been deduced that Accounting setting standards/policies have evolve over the years to guarantee business performance in Nigeria. The vast directions of accounting policies and information on financial reporting quality presents the most important relations between the challenges and technological responses in pointing out the way for future research in order to improve the alignment between adopted technology and organization performance. Like many other aspects of education, accounting education is of paramount importance and it embodies the task of instructing accountants systematically. The instructions given in this regard will educate accountants and help them realize the skills and expertise that should qualify them to improve organization performance in the competitive market. In addition, accounting education polishes accountants and widens their understanding of accounting practices that positively influence organization or management performance.

There is some opportunity in increasing the percentage of using accounting information in strategic decision making in service industries. Therefore, service industries should use accounting information always for increasing the accuracy of their decisions. The study also recommends that service organization should increase the uses of accounting information in marketing decisions to increase the sales volume and to take better marketing strategy. The study recommends that service organizations should increase the use of accounting information also in service decisions. Service organizations should increase the use of accounting information in human resource related decisions for increasing the accuracy and effectiveness of the decisions.

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Impact of Audit Trails on the Financial Audit of Nigerian Banking Sector

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Abstract

Every human endeavour attracts foot-prints in the sands of time. These foot-prints can be positive or negative, beneficial or detrimental in the nearest future. This is synonymous with the workings of audit trails. This study examines the impact of Audit Trails on the Financial Audit of Banking Sector. A causal research design was adopted with reliance on primary and secondary data obtained from published and unpublished literatures to explain the relationships between the variables*. A simple random sampling technique was used in the selection of Audit Firms of twenty (23) Commercial Banks in Nigeria to confirm the veracity of the subject. Data collected were analyzed by descriptive statistics and presented through frequency distributions and percentages using the Likert scale. The chi-square contingency procedure was used to test the hypothesis. The findings revealed that Audit Trails have significant positive impact on the financial audit of the banking sector. It further reveals that Audit Trails of the Financial Audit of Banking Sector has impact on fraud detection; disaster recovery; assist in the recovery of lost transactions and have impact on regulatory compliance. The study affirms that Audit Trails are not only used as tools in determining the validity of an accounting entry, source of funds or trade, but protect businesses from liability during legal battles, help monitor data for security breaches, ensures that proper protocols are followed and demonstrate compliance.*

Keywords: Audit Trials, Financial Transactions. BankingSector, Financial Audit.

INTRODUCTION

Every audit is carried out on the basis of managing the ''who, what, and when of business transactions'. Having an accounting audit trail for every transaction combats errors in financial reporting by reducing the risks that come with both missing or incomplete data and fraud. Full transparency makes it easy for auditors or examiners to confirm that information is accurate and complete, and aid the team in identifying areas for potential process improvement. An audit trail is a step-by-step record by which accounting or trade data can be traced to its source. It provides basic information to backtrack through the entire trail of events to its origin, usually the original creation of the record. This may include user activities, access to data, login attempts, administrator activities, or automated system activities. Audit trails are used to verify and track many types of transactions including accounting or banking transactions. An audit trail is most often utilized when the accuracy of an item needs to be verified. Audit trails can be useful tools when determining the validity of an accounting entry, source of funds or trade**.** At its most basic level, every business needs an audit trail of its financial transactions, which includes accounts receivable, accounts payable, invoices and purchase orders. In other words, audit trails comprise what was once referred to as the "paper trail" of business. Having a detailed audit trail can protect a business from liability during legal battles, help monitor data for security breaches, ensures that proper protocols are followed and demonstrate compliance.

LITERATURE REVIEW

Conceptual Framework

Auditing, Types and Objectives

Auditing refers to the periodic examination of accounts, documents, and vouchers in a corporate world. It is nothing but an inspection of all the financial and statutory records relating to the company's financial position. Auditing takes place in both the corporate and public sectors and it recognizes all the possible pieces of evidence that evaluates and formulates the opinion base on communication they carry out. It is