DETERMINANTS OF TRANSPARENCY AND DISCLOSURE IN ANNUAL REPORTS: EVIDENCE FROM IRAQI COMPANIES

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ABSTRACT

The present study aims to empirically verify the factors affecting the level of transparency and disclosure provided in the annual reports of Iraqi companies listed in Iraq Stock Exchange. The level of transparency and disclosure was measured in the published annual reports of 30 Iraqi companies listed on the market for the period 2013-2017 distributed across five sectors using the Standard and Poor's methodology. The results showed that the average rate of transparency and disclosure for all companies for the five years was approximately 42%. A regression analysis conducted on the same sample indicated five factors (determinants) that influence transparency and disclosure levels. Three factors were positively related: size, age and activity of the company, while leverage and auditor type were negatively related. Moreover, no significant effect of profitability ratios was identified on transparency and disclosure levels. Such findings are not only useful in providing support for some previous studies, but also suitable for those who need to learn about the determinants of transparency and disclosure in Iraq from local and foreign investors. Furthermore the regulators can benefit from these results to improve the level of disclosure and transparency.

Keywords: Corporate Transparency and Disclosure, Corporate Annual Reports, Iraq Companies

INTRODUCTION

The last two decades witnessed an increasing interest in the process of disclosing information. The financial crisis in the global market; especially after the events of black September in 1997 and the financial scandals of Enron and some European and American companies in 2000, gave the transparency and disclosure issue a deep interest in the financial reporting possess (Mohammedi & Nezhad, 2015). More transparency and enhanced information provided on capital and control configurations make corporate stakeholders well informed with regard to how the institution is administered (Patel & Dallas, 2002).

Approaches of full disclosure and transparency in financial reporting can create a safe condition, ensure the protection of investors, and increase profits. Moreover, they are vital techniques often utilized to bring back public faith in capital markets (Bauwhede & Willekens, 2008). Besides, previous researches proposed that enhanced disclosure often plays a constructive role in the effective operation of these markets (Healy & Palepu, 2001; Patel & Dallas 2002; Djokić & Duh, 2015). Previous studies indicated a relationship between the transparency of the company and the disclosure it provides with the evaluation of the market.

The company that provides enough data enables shareholders to observe administrative choices and decisions easily. This would definitely decrease monitoring rate as well as the firm cost of capital. In case transparency is anticipated by stockholders, companies are invited to provide more information voluntarily. Consequently, a positive reflection in the valuation of the company in the market is expected. Hence, a positive relationship between company assessment and voluntary disclosure is observed here, and thus it should be taken into account by company managers (Jaing & Tan, 2010). On the other (Hand & Merton, 1987) reveals how and to what extent corporate disclosure could influence the value of a firm when assessed based on the model of capital market equilibrium with inadequate disclosure of information.

On the contrary to customary Capital Asset Pricing Model (CAPM), inadequate data setting may result in what is so called market segmentation. Moreover, it may preclude stockholders from attaining the necessary statistics and facts for portfolio variation. Accordingly, these investors might identify guarantees with incomplete information disclosure hazardous, and thus require greater rates as they believe that they are investing in a risky setting (Easley & O'Hara, 2004; Chiyachantana et al., 2013). Lack of disclosure and transparency will cause information asymmetry, which leads to a rise in the costs of external financing of the company. More specifically, if a particular firm releases equity to raise capital because of inconsistent information, investors may believe that the firm's share price is overrated. The uncertainty here is around the firm potential desire to make the most of exaggerated price *via* rising equity to obtain more incentives from the capital issuance. Therefore, investors will try to lessen the price paid to purchase the firm stocks. At the end, the cost of equity of the firm will increase (Le, 2018, P. 72).

The predominant belief that disclosure is useful to achieve the objectives mentioned above is motivated by the fact that financial disclosing statements of high quality are indispensable to investors, who need to understand and analyze the real and most transparent insight of the financial performance of the company they are investing in. In fact, investors need to know enough to have a better understanding of the risks and uncertainties they might go through and their influence on probable investment prospects. Thus, investors can be able to fittingly price and take investment choices based on these risks and uncertainties (CFA Institute, 2018). The present study upholds that it is the complication of these so current aspects, which has triggered the necessity for novel and vigorous disclosure needs and requirements. In other words, the complexity of these aspects has motivated volume, not the opposite (CFA Institute, 2018). However, some recent studies pointed out the possible negative role of disclosure and transparency. Most studies indicated the dark side of disclosure from different dimensions, but the negative indirect effects mainly occur through a crowding-out of private information production.

Han et al.. (2014) concluded that there are negative consequences of disclosure in emerging markets controlled by uninformed retailers that can play an important role not only in setting stock prices, but also in taking real investment decisions. Thus, they recommended authorities responsible for managing these unqualified emerging markets to control noise traders, who blindly push for more transparency and disclosure before those markets become more mature (Han et al., 2014). Edmans et al. (2013) stated that a high disclosure policy can distort managerial real investment decisions and result in underinvestment. (Clinch & Verrecchia, 2011) conclude that economic intuition that explains why increased voluntary disclosure and the discount are positively associated in these circumstances is straightforward. A change in an exogenous feature of the economy, which pushes investors to apply a higher discount to the firm's expected cash flow, will also motivate the firm to increase its disclosure to counteract the higher discount (Clinch & Verrecchia, 2011).

After 2003, the Iraqi model was transferred from a Centralized Economy into Mixed Economy Model. A mixed economic system features traits of capitalism and socialism as well. This system allows a level of private economic independence in terms of using the capital. Likewise, it encourages managements to interfere in economic events and actions so as to achieve community aims. Within such kind of accounting model, companies that are privately owned adopt the standards recommended by the IASB, for example private banks. Whereas, entities that are possessed by the government adopt the uniformed accounting system, which is recommended by the same governmental units.

With regard to disclosure and transparency, the Iraqi economic entities are subject to many laws and instructions: the Iraqi Companies Law No.21 for the year 2004, Iraqi Accounting Rules, the law and instructions of the Securities Commission, and the Common Accounting System. Laws and instructions include information that must be disclosed by the economic entity, as it includes all of the financial statements such as the basic management report, the external auditor report as well as detailed information to clarify the total accounts.

This study aims to measure the level of transparency and disclosure in the annual financial reports of Iraqi economic entities (the research sample) in the period 2013-2017 by employing

Standard & Powers Indicators. Then, on the basis of these results, multiple regression analysis will be conducted to test the extent to which some of the company's features and other variables affect the transparency and disclosure of these entities.

In the second section of this study, a concise account of published studies concerned with the association between T&D levels to some features of the economic entity will be provided. The third section explains the study methodology, while the fourth section displays the experimental results obtained from conducting statistical analysis (regression model), and the study finally provides a summary of the results obtained.

LITERATURE REVIEW

The efficiency of financial information revealed in annual company financial accounts attracted much of researches' efforts in most countries of the urbanized and developing world alike. However, this review is limited to surveying the literature in developing countries and countries, whose economies have shifted from the planned central economy to market economies. Market economics can be describes as having somewhat similar social, economic and political environments for Iraq**.** (Alsaeed, 2006) assessed the level of disclosure in the annual reports of non- financial Saudi firms to empirically investigate the hypothesized impact of several firm characteristics on the extent of voluntary disclosure. The results showed that disclosure index means were below average. Also, it was indicated that the size of the firm was considerably positively associated with the disclosure level; however, other variables, namely, age, profit margin, ownership dispersion, liquidity, debt, return on equity, audit and industry types have been insignificant in explaining the variation of voluntary disclosure.

Soliman (2013) tested the level of relationship associating the level of voluntary disclosure in yearly accounts and specific features of the firm. The results indicated that firm size and profitability had significant positive association with voluntary disclosure level in annual reports. On the other hand, auditor size and firm age did not have any significant association with voluntary disclosure level. (Feyitimi, 2014) examined the relationship associating the level of disclosure and several firm features. The researcher found that "size, profitability, board composition, and market discipline variables are significant and other variables such as age, complexity of business and asset in place are insignificant in explaining the level of disclosure" (p. 176).

Aksu & Kosedag (2016) evaluated the disclosure and transparency procedures of 52 large firms involved in "Istanbul Stock Exchange" (ISE) according to the Standard & Poor's methodology, and by relying on yearly financial accounts and official web pages of these companies. The study found that the corporate disclosure practices of (ISE) firms, were at best moderate, and they vary with respect to the three sub-categories of T&D. Concentrating on the causal side of the model (determinants of T&D scores), the study provided evidence that firm size, financial performance and market-to-book equity best explain the variation in T&D scores in the (ISE). (Han & Danh, 2017) used information related to corporates involved in Ho chi Minh Bursa to examine disclosure level in the economic reports they issued. In concord with previous studies, the study findings showed that factors such as corporate size, financial control, and observation panel can positively affect disclosure level. Additionally, auditing is a key factor regulating the amount of data disclosed by the corporate. Contradictory to the state of art, the study reported that public possession and the ratio of non-executive persons in manager panel are negatively related to disclosure level.

Rakiv (2017) investigated the relationship between voluntary acts and specific features of the firm. The study concluded that "firm-specific characteristics such as size of the business, profitability, leverage and age positively affect voluntary disclosure reporting practices while industry type has a negative effect on the practices used by the companies" (p. 298). (Ha et al., 2019) analyzed the aspects related to disclosure level effect on financial reports in the trade ventures comprised in "Ho Chi Minh stock exchange". The study indicated six factors "that positively affect the level of information disclosure. These include: the scale of business, duration of operation, audit firm reputation, solvency, financial leverage and return on equity (ROE**)"** (p. 93). (Soa et al., 2017) assessed issues that can have an impact on levels of disclosure of information related to environmental accounting of building companies in Vietnam. The results indicated that accounting disclosure levels are "influenced by factors of firm size, profitability, financial leverage, number of years listed, and independent audit" (p. 255).

Among the experimental studies conducted in an emerging market (the case of Egypt). (Elfeky & Nasiri 2017) examined the relationship between levels of voluntary disclosure and a comprehensive set of corporate governance attributes (firm size, firm age, firm profitability, firm leverage, board independent, the existence of audit committee, director ownership, block-holder ownership, auditor specialization, and auditor type). The results reported that firm size, age, and profitability, auditor specialty, as well as director ownership all positively impact voluntary disclosure. Nevertheless, the results revealed that voluntary disclosure might be negatively affected by the firm debt-equity ratio. (Aljifri, 2008) examined yearly financial statements of thirty one Emirates companies in 2003. He reported major variances amongst divisions; yet, the study reported inconsequential association concerning firm size, leverage ratio, and firm profitability in one hand and voluntary disclosure on the other hand**.** Also in (Aljifri et al., 2014), provided experimental data on the influence of corporates' exact features on their economic disclosure. Data collected from 153 (whether listed or not) public joint-stocks corporates was analyzed using descriptive and inferential statistics. Multiple regression analysis was conducted to examine the association between firms' features and the degree to which these features can affect Disclosure level. The study showed that the factors firm size, industry type, and listing status were significantly related to disclosure level.

Arsov & Bucevska (2017) aimed at assessing T&D levels to determine whether there are factors that can systematically affect the behavior of companies in terms of T&D. This study found that companies in the firms examined lag behind their peers from all over the world in terms of transparency and disclosure. The study concluded that firm size and the necessity for exterior funding were in positive association with transparency level. However, the latter was negatively linked to ownership attentiveness. Moreover, the study observed significant country impacts on T&D. On the other hand, transparency-profitability association was statistically not insignificant. Soyemi & Olawale, (2019) tested the effect of firm features on the excellence of economic statement with regard to several Nigerian industrial firms. The study showed that both size and profitability of a firm has been in a positive relationship with accounting statement quality; on the other hand, the latter was negatively associated with firm growth.

METHODOLOGY

T&D Levels Measurement

In this paper, the level of transparency and disclosure represents a dependent variable, and therefore we need to measure it in a quantitative form in order to be able to define the variables that can have a regular impact on that level. Previous accounting studies offered two main approaches to measuring transparency and disclosure. The first approach includes disclosure proxies, who do not rely directly on the test of the original disclosure vehicle (s). The evaluation is carried out according to surveys made *via* questionnaires or interviews that investigate the perceptions of financial analysts, investors and other user groups.

Hassan & Marston (2010), explained that a well-known instance that is commonly referred to when discussing "disclosure survey" is extracted from two studies piloted by the "Financial Analysts Federation (FAF)/the Association for Investment Management and Research (AIMR)" that were previously employed as "proxies for disclosure quantity and quality in a number of prior studies see, for example, (Lang & Lundholm, 1996; Sengupta, 1998; Healy, Hutton & Palepu, 1999; Botosan & Plumlee, 2002);(Hassan & Marston, 2010, p. 10).

Similarly, another example of disclosure survey employment was introduced by the "Credit Lyonnais Securities Asia (CLSA)", which reported that this technique can be used to examine "financial analysts’ perceptions about corporate governance at both company and country levels for hundreds of companies from emerging markets". The evaluation of these companies was based on the results of a questionnaire administered on CLSA experts in every state for the corporations covered by CLSA (Hassan & Marston, 2010, p. 12). The main problem with this approach lies in the design of the questionnaire. When the questionnaire is weak, it can give shady results about disclosure and transparency. The objectivity of respondents' opinions obtained through questionnaires can be questioned; hence, verifications are required (Scaltrito, 2015, p. 468).

The second method offers scales of disclosure *via* scrutinizing the first vehicles of disclosure such as "annual reports, companies’ web-sites etc.". Examination of these vehicles might be executed *via* "content analysis" and *via* using "Disclosure Index" (Hassan & Marston, 2010. P. 12). When employing the "Content Analysis" approach, the entire amount of data is assessed based on corporation groups. For the purpose of counting the sum of accessible data related to a particular topic, the number of sentences and words are both considered (Hackston & Milne, 1996).

In accounting, "Disclosure Indexes" approach is regarded as a very common approach utilized in accounting researches to measure the reporting disclosure level. According to this approach, the information, voluntary/mandatory, is measured based on one or more precise information source (Scaltrito, 2015, p. 471). Researchers who work on creating disclosure indexes may have full control on the creation process, and this is called "Full Involvement", while researchers who make use of indices offered in previous researches are not involved at all in the process, and this is called "No Involvement". Several previous studies used "Standard and Poor’s Transparency and Disclosure scores, the Securities and Exchange Commission ratings of the Management Discussion and Analysis disclosure, the Center for International Financial Analysis and Research (CIFAR)" (Hassan & Marston, 2010, p. 12).

This research uses the methodology developed by Standard and Poor's, and applied by (Patel & Dallas, 2002). Consequently, "Standard & Poor’s examines company annual reports for 98 possible information items [attributes] broadly divided into three sub-categories: ownership structure and investor rights; financial transparency and information disclosure, and Board and management structure and process"(Patel & Dallas, 2002, p. 3). Although, "Standard & Poor’s T&D" research is mostly concerned with disclosure, it never attempted to measure the excellence of the data delivered. Besides, the study was unable to regulate disclosure accuracy. Its purpose was not to recognize "forensically any disclosure that may be incorrect or fraudulent". The work is rather dependent on the data revealed in "key public document". Nonetheless, for the comparison to be consistent, impartial, and inclusive, the study depends on "core public disclosure documents" (Khanna et al., 2004, p. 481).

Data Collection Method

The investigation of determinants of transparency and disclosure attempted in the current study included a group of Iraqi companies acknowledged by the "Iraq Stock Exchange" 2013-2017. The studied sample consists of 30 profit-making companies that are distributed over five sectors; 6 banks; 6 in various service businesses; 6 hotels; 6 agricultural and 6 industrial sectors. These companies are owned by the private sector, with the exception of 4 companies that are owned by the government or the mixed sector.

In order to attain the required data, both the "Iraqi Securities Commission" website and the website of involved companies were both checked out. These websites provide both the interim and annual financial reports of the research sample. Transparency and disclosure scores were manually calculated according to the Standard and Poor's methodology by examining 150 published annual reports for the period 2013-2017. It is important to note that the checklist, on which the evaluation was based, is made up of 98 items. Five items were excluded from the first section "Ownership Structure", because they are related to preferred shareholders, knowing that the Iraqi Companies Law does not allow the issuance and trading of preferred shares. Thus, the evaluation will be based on 93 items only. These items are classified into three areas (a) ownership structure (23) items, (b) Financial matters (35) items, and (c) Formation of the Board of Directors (35) items.

The methodology adopted in this research is like a binary system that gives values for items (1 and 0), therefore the company is granted (1) for each item that has been disclosed, and given (0) if otherwise. The total transparency of the company in a given year is extracted from the sum of what it got in the three axes, whose proportions are calculated from the division of the items disclosed in that axis/93. Overall results for measuring transparency and disclosure in Iraqi companies distributed by sectors for the period 2013-2017 are tabulated in Table (1).

Table 1
TRANSPARENCY & DISCLOSURE RATES IN IRAQ FOR THE PERIOD 2013-2017

Sector	2013	2014	2015	2016	2017	Average
Banks	45.16	45.33	49.67	53.51	53.33	49.40
Services	39.07	39.25	38.87	39.25	39.43	39.17
Hotels	40.77	41.19	43.53	44.55	43.18	42.64
Agriculture	35.30	35.30	35.30	35.30	35.30	35.30
Industry	39.96	40.54	41.22	41.81	42.10	41.13
Average	40.05	40.32	41.72	42.88	42.67	41.53

Source: Authors

The overall results presented in the above table may not be surprising to Iraqi researchers because most of them believe that Iraqi economic entities operate in a non-dead environment. Although Iraq possesses enormous natural and human Resources, the Iraqi economy is still suffering from various difficulties. There is an imbalance in the production structure, a deficit in the budget and the trade balance, high unemployment rates and the spread of the phenomenon of financial and administrative corruption (Afulla & Ali, 2010, P. 127). All these factors negatively affect the investment climate and the economic and administrative performance of economic entities, which are reflected in the characteristics of their annual financial reports and the disclosures required to be presented to stakeholders.

Based on what is shown in table (1), the following notes can be indicated: (a) Low rate of transparency and disclosure in all sectors with a slight increase during the period 2013-2017 was identified (b) The index of transparency and disclosure in the banking sector was greater compared to other sectors. This is due to the strict control exercised by the Central Bank of Iraq on the activities of private banks, as well as the obligation of those banks to organize their accounts and display them according to "International Financial Reporting Standards" (IFRS) as of 2015. Also, foreign ownership in the capital of Iraqi private banks contributed to improving the way in which they managed these banks, including upgrading the level of disclosure provided in their accounts and annual reports.

Development of the Regression Model

From previous related studies, we selected a set of variables that were often potential determinants of transparency and disclosure provided by companies taking into consideration some specificity related to the Iraqi economy and its development during the past two decades. The dependent variable in this model is the level of transparency and disclosure that was manually calculated and reported in Table (1). As for the independent variables, they are explained in the following sections.

Firm Size

Several previous studies indicated positive links between firm size and the level of disclosure the firm offers. Hence, considering the size of the company is one of the important determinants of the level of disclosure and transparency (Abdel-Fattah, 2008; Ajfiri et al., 2014; Foyeke & Aanu, 2015; Han & Dauh, 2017; Elfeky & Nasiri, 2017; Hung et al., 2019; Eng, L., & Mak, 2003; Madhani, 2016; Ha et al., 2019). The reasons behind the behavior of large companies, which provide greater disclosure compared to small companies, are the following: (a) (Jensen & Meckling, 1976) report that "Agency theory defines an agency relationship as a contract under which one or more persons (principals) engage another person (agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (p. 308). The agency's relationship leads to a problem of asymmetry in the information, because managers can access more information than shareholders do. Disclosure is a way to mitigate the agency's problem, as managers reveal more information that reduce agency costs (Barako et al., 2006), and also to convince external users that managers act in an optimal way (Watson et al., 2002; Shehata, 2014, p. 20). **(**b**)** Within the predictions of "Stakeholders Theory", big companies embrace more Shareholders pressurizing the managing staff to reveal further information compared to small companies, which embrace a less number of shareholders (Elfeky & Nasiri, 2017, p. 3). **(c)** Bigger firms are supposed to be more transparent due to the fact that such companies can undertake the consequences of T&D (Ashbaugh et al., 1999, p. 251). (d) Large companies increase disclosure for the purpose of reducing political costs (Watts & Zimmerman, 1990). In the current study, two aspects are used to identify the company volume, total assets, and sales (TA, TS) respectively).

Profitability of Company

It is commonly believed that the firm's willingness to unveil financial and non-financial reports is definitely connected to profitability in a positive course. The motivation behind this behavior might be extracted through "Agency Theory". The managers of companies that achieve satisfactory profit levels disclose more in order to give their shareholders the impression that they behave properly and according to the interests of their agents, which justifies their rewards (Urquiza et al. 2010, pp. 396-397). Several previous studies such as (Rakiv 2019; Soliman 2013; Hung & Binh 2019; Habbash et al., 2015; Ha et al., 2019; Hung et al., 2019) confirmed a positive relationship between profitability and the level of disclosure and transparency provided in the annual reports. However, several studies such as (Han & Danh, 2017) indicated that the level of profitability does not affect the rate of transparency and disclosure provided by the company in this study, two proxies, namely ROA & ROE, were used so as to avoid the intervention of differences in percentages that may emerge with the course of time. Hence, the analysis conducted herein comprises the geometric means of the intended factors for five years.

Leverage of Company

It is generally assumed that agency costs are higher when the proportion of debt increases. Agency theory predicts that a highly leveraged company has more of an obligation to satisfy the information needs of long-term creditors; hence, it may provide more details to meet those needs than would a less leveraged firm do (Urquiza et al., 2010, p. 396; Alfraih & Almutawa, 2014, p. 73; Ha et al., 2019, p. 93). According to FASB (2001), voluntary disclosure may be greater due to the struggle for the capital, and the justification for this could be that "a company's cost of capital is believed to include a premium for investors' uncertainty about the adequacy and accuracy of the information available about the company". Some previous studies indicated that disclosure is positively associated with leverage (Das & Das, 2015; Hau & Danh, 2017; Rakiv, 2019; Hung et al. 2019, p. 214). The leverage-transparency association was reported to be inverse in (Eng & Mak, 2003); yet, it was found insignificant in Berglof and Pajuste (2005). The variable we used in the regression equation is the ratio of total debt to total assets and the ratio of total debt to equity. TD/TA and TD/OWE.

Age of Company

According to many previous related studies, a company that has a long life span has more information to disclose in comparison with recent companies at work, because the data that is disclosed will be less harmful in the competitive situation as it is for startups (Ha et al., 2019, p. 93, Alfraih & Almutawa, 2014, p. 55; Istiningrum, 2016, p. 54; Rakiv, 2019, p. 309). As for age and knowledge acquired, mature companies tend to possess deep-rooted accounting practices, which can provide more through information compared to newly established companies (Alfraih & Almutawa, 2014, p. 72). However, (Feyitimi, 2014, p. 176) found no impact of age of the firm on determining disclosure level. The variable we used in the regression equation is age, which is measured based on the years passed since the firm has been established until the end of 2017.

Activity Type (Industry)

The disclosure and transparency practices differ among companies due to their affiliation with different industries. This behavior is justified by companies, because some of them are more sensitive to the environment, or have business that may affect the environment differently (Rakiv, 2019; Aljifiri et al., 2014). The reason may be related to the fact that these companies provide services directly to the public, thus this is likely to lead to more disclosures (Alfraih & Almutawa, 2014), while (Owusu-Ansah, 1998), cited in (Alfraih & Almutawa 2014), supports the idea that the disclosure procedures employed by a firm may differ based on the kind of industry or service the firm offers. Owusu-Ansah also proposes that the extent to which industry nature is relevant to both the country as a whole and investors in particular "might explain expected differences in corporate disclosure levels across industries". Some kinds of industry are extremely controlled providing their whole aid to the income of the nation. Such industry kinds "might be subject to more rigorous regulations" (Alfraih & Almutawa, 2014, p. 65). The independent variable that expresses the industry type in the regression model adopted in this study is ACTIVITY TYPE.

Auditing Type

According to Das & Das (2015), previous studies identified an association linking the kind of auditor and the nature and amount of disclosure provided by the company (Ahmad & Nicholls, 1994; Bonson & Thomas, 2006; Raffournier, 1995). This is justified by the fact that the audit company is responsible for the financial reports addressed to shareholders, and that it affects the quantity and quality of information disclosed in the annual reports of the company. Therefore, the company is expected to support its clients to adhere to the disclosure requirements (Ahmad & Nicholls, 1994, pp. 66-67). On the other hand, (Palmer, 2008) argues that auditing firms have a reputation, and therefore have more to lose if they fail to report a breach that was later discovered, or when distortions appear in the reports of the firms they are auditing (Alfraih & Almutawa, 2014, p. 65).

Specifically, large and well-known auditing firms exert greater influence on corporate disclosure policies compared to other smaller and less well-known companies. In Iraq, according to Policy No. 3 of 2000, auditors are classified according to experience and practice into categories. Sequence 1 to 20 were given to companies, and Sequence 21 and above were given to individual auditors, and thus, it is expected that there will be a difference in the level of disclosure provided in the annual reports that each class audits. With regard to the present study, the independent variable that refers to the auditing type in the regression model is AUIDITING TYPE.

To examine the assumed connection between company transparency and its characteristics, the study regressed individual firm's transparency and disclosure scores on measures of size, company profitability, leverage, activity type, and auditing type. More precisely, the study estimated the cross-sectional regression as follows:

$$TDSj = \alpha + \beta_1 SIZE + \beta_2 \ PROF + \beta_3 \ LEVE + \beta_4 \ AGE + \beta_5 \ ACTIV + \beta_6 AUDIT + \varepsilon$$

The symbol TDS refers to predictable transparency as well as disclosure score, α symbolizes the intercept, SIZE obviously refers to company size, PROF is the profitability of the company, LEVER refers to leverage, AGE is age of company, ACTIV is industry type, and AUDIT is auditing type.

Based on the form described above, some other regression qualifications were developed. The variation refers to the transposable utilization of variables related to sales and assets such as representations of size, as well as the employment of a dummy variable as a proxy for the type of activity (whether it is my service or not), and the type of auditor (whether it is an auditing company or an individual). Following the model proposed by (Arsov & Bucevska, 2017), the current study conducted an O.L.S. test.

RESULTS & DISCUSSION

Results of Descriptive Statistics and Correlations

The results presented in table (2) show a variation in the values of the rates of assets and equity on returns symbolized as (ROE) and (ROA) respectively, where the minimum value for (ROE) rate was (-54.42), while its highest value was (61.26). This variation is one of the most important reasons for the lack of significant return on equity in our study. On the other hand, (ROA) showed a lesser variation, as its minimum value was (-30.55) and its highest value was (31.62), which also caused the return on assets to be insignificant. These results can be mainly due to the varied results of the financial performance of the study sample distributed over more than one sector.

Table 2
DESCRIPTIVE STATISTICS

	(1)	(2)	(3)	(4)	(5)
VARIABLES	**N**	**mean**	**sd**	**min**	**max**
AGE	150	27.93	7.056	8	43
LEVE	150	67.65	26.53	9.620	194.6
AUDIT	150	0.400	0.492	0	1
ACTIV	150	0.333	0.473	0	1
ROE	150	8.868	15.17	-54.42	61.26
ROA	150	5.198	9.279	-30.55	31.62
INASSETS	150	10.36	1.171	8.363	13.08
LNSALES	148	9.599	1.174	6.409	12.35
TDS	149	0.416	0.0613	0.300	0.600

Source: Authors

Results of Regression Analysis

The results of the regression test that was run in four variants including models one to four are provided in table (3). Several models were run in this study to examine the significance of similar variables *via* utilizing various representations, and the results obtained from regression were explicit. The results displayed in the table below indicate that the total assets and sales indicated a positive and significant relationship with the level of transparency and disclosure in the four models. It appears from the first model that the (TA) statistically showed a significant positive relationship at the level of (1%), and this statement is applied to Model No. 3. However, sales (TS) showed a positive association with T&D levels at level (10%) in the third model and at the level (5%) in the fourth model. The findings arrived at in the current study are in accordance to the results of many earlier works such as (Lang & Lundholm, 1993; Gray & Rahman, 2002; Alves et al., 2012; Ajfiri et al., 2014; Foyeke & Aanu, 2015; Han & Dauh, 2017; Elfeky & Nasiri, 2017; Hung et al., 2019; Eng, & Mak, 2003; Madhani, 2016; Ha et al., 2019). These studies confirmed that large companies disclose more information in a mandatory or voluntary way compared to small companies, first due to their need for financing, and second for their large number of stakeholders, and third for their ability to bear the costs of more inclusive disclosure.

The results empirically obtained based on the regression analysis tabulated in table (3) indicated that the type of commercial activity the company engages in can affect the level of transparency and disclosure provided. Based on the study results, Iraqi companies operating in the services sector are more transparent compared to companies operating in the industrial and agricultural sectors. Iraqi private banks show a high level of information disclosure, because this sector is the mostly organized by the central bank and the Iraqi state. The results also support Aljifiri, et al., (2014) regarding the disclosure provided by UAE companies listed on the "Emirates Stock Exchange", where the banking sector was identified as the most disclosing among other sectors.

Table 3
REGRESSION RESULTS- DETERMINANT OF TRANSPARENCY AND DISCLOSURE

	(1)	(2)	(3)	(4)
VARIABLES	**Model 1 TDS**	**Model 2 TDS**	**Model 3 TDS**	**Model 4 TDS**
LNASSET	0.0101***		0.0101***	
	(0.00186)		(0.00189)	
ROA	0.000702*	0.000542		
	(0.000370)	(0.000409)		
ACTIV	0.0728***	0.0892***	0.0712***	0.0874***
	(0.0105)	(0.0121)	(0.0105)	(0.0120)
AUDIT	-0.0351***	-0.0332***	-0.0337***	-0.0322***
	(0.00830)	(0.00951)	(0.00819)	(0.00933)
LEVE	-0.000185	-0.000347**	-0.000157	-0.000320**
	(0.000139)	(0.000149)	(0.000143)	(0.000150)
AGE	0.00249***	0.00184***	0.00250***	0.00186***
	(0.000628)	(0.000628)	(0.000612)	(0.000617)
LNSALES		0.00449*		0.00473**
		(0.00232)		(0.00235)
ROE			0.000223	0.000186
			(0.000262)	(0.000283)
Constant	0.103*	0.270***	0.103*	0.264***
	(0.0545)	(0.0614)	(0.0549)	(0.0614)
Observations	149	147	149	147
R-squared	0.529	0.466	0.521	0.462
Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1				

Source: authors

As shown in Table 3, the connection between the type of auditor and T&D levels is inverse, and has a significant effect in the four models. This result supports the results of previous studies that have found a similar relationship such as (Long, 2017; Thoa, 2019; Alfraih & AL Mutawa, 2014; Dey et al., 2018). However, individual audit firms, but not audit firms with limited liability, surprisingly showed higher levels of disclosure. As expected, firms that experience greater financial leverage unlikely showed high T&D levels. The same conclusion was made by (Uyar et al., 2013; Arsov & Bucevska, 2017; Berglöf & Pajuste, 2005). Nevertheless, other works reported positive links between T&D levels and ratio of total debt to total assets such as (Rakiv 2019; Hung et al., 2019; Ha et al., 2019). This can be explained by the widespread practice of financing through banks on the one hand, and perhaps the managers of companies, who explain the property trading process in its negative aspects, on the other hand. This appears to be a feature of the emerging transitional economies, in which the performance of financial markets remains weak.

In Table (3), it appears that company age (AGE) is a significant aspect in explaining variances in T&D levels for companies listed on the Iraqi Stock Exchange ($p<0.01$). This result is ascribed to the maturity and benevolence of the longer-lived companies, as they probably have built well-known accounting practices that can provide comprehensive information compared to newly established companies. This conclusion supports studies such as (Cafeman & Cooke, 2002; Ha 2019; Rakiv, 2019; Alsaeed 2006; Istiningrum, 2016). The variable of profitability was found to be insignificant in three models and very weak in the fourth because of the difference in performance during the study period. This could be partly due to the unusual security situation that lasted for some years, and partly due to the cash liquidity crisis Iraq witnessed due to the decrease in oil prices. This result coincides with the results of previous studies, which referred to the absence or weakness of profitability variable impact on T&D levels provided by the company. This was reported by several studies such as (Hanifa & Rashid, 2005; Al jifiri, 2008; Hau & Danh, 2017; Arsov-Bucevska, 2017) However, the results obtained in the current study contradict the results of other previous studies such as (Rakiv, 2019; Soliman, 2013; Hung & Binh 2019).

Verifying Reliability

For the purpose of enhancing results attained in the four models shown in Table 3, and for the purpose of verifying whether the appropriate variables still significantly affect the level of transparency and disclosure presented in the annual reports of Iraqi companies and the lack of significance of both Return on Assets (ROA) and Return on Equity (ROE) at the level of (10) %), they were excluded from the fifth and sixth models as shown in Table 4 below.

Table 4
FIFTH AND SIXTH MODELS

VARIABLES	Model 5 TDS	Model 6 TDS
LLSALES	0.0115**	
	(0.00525)	
ACTIV	0.0855***	0.0691***
	(0.0115)	(0.0105)
AUDIT	-0.0327***	-0.0340***
	(0.00939)	(0.00830)
LEVE	-0.000335**	-0.000176
	(0.000152)	(0.000142)
AGE	0.00186***	0.00250***
	(0.000611)	(0.000599)
LNASSET		0.0238***
		(0.00436)
Constant	0.261***	0.102*
	(0.0615)	(0.0552)
Observations	147	149
R-squared	0.460	0.518

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The results of the robustness test indicated that associations established based on the results of the regression test are steady and consistent. Hence, it may be assumed that company size, activity in which the company operates, the type of auditor certifying the integrity of the financial statements, and the age of the company are variables affecting all models.

CONCLUSIONS

The characteristics of a specific company can be vital elements affecting T&D. Generally, exploring the relationship between them requires recognizing the elements related to T&D, and clarifying the variations in their ranges between companies. The purpose of this study was to investigate experimentally the correlation between the special features of Iraqi companies and the T&D levels of those companies in their yearly financial accounts. The results showed that the average level of T&D for firms under investigation throughout five years (2013-2017) is approximately 42%. It is considered a low level compared to the level of transparency and disclosure for companies operating in the countries of the regional periphery of Iraq.

The results of the study indicated to five factors that have an influence on the information transparently disclosed in firms' annual reports. Three of these factors are positively related: company size and age, and activity type. The other two factors; leverage and quality of the auditor, are related to the level of transparency and disclosure in an opposite way. Moreover, it was found that profitability ratios are not effective. This study is hopefully one among few studies in that provides a better understanding of the transparency and disclosure requirements provided by Iraqi companies listed on the Iraq Stock Exchange and the factors affecting it. It also contributes to the existing literature on emerging markets such as Iraq that has economic, social, and cultural characteristics that are different from others.

Nonetheless, this study is not without restrictions. First, the investigation of annual reports comprises a degree of subjectivity that can reduce confidence in the findings. Second, this study was based on a relatively small sample, which included 150 published annual reports for the period 2013-2017. Third, the study focused on the available annual reports published on the website of the Iraqi Securities Commission. Fourth, the study was concerned with six determinants only, and there are still several determinants that may affect the level of disclosure and recovery. All of these restrictions could be addressed in future studies.

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