

**THE QUALITY OF THE ACCOUNTING INFORMATION SYSTEM AND ITS ROLE IN THE GOVERNANCE OF NON-PROFIT NGO, A CASE STUDY IN ZAKHO SMALL PROJECTS LOCAL NGO IN IRAQ.**

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**Abstract**

This study aims to demonstrate the quality of the accounting information system and its role in the governance of service organizations. The accounting information system is one of the fundamental pillars on which institutions in general, and service institutions in particular, should be based. Through checking and controlling the inputs of the accounting information system and producing them in the form of high-quality information for use in various decisions on one side and processing them, the institution on the one hand, and all parties related to the institution on the other hand. To support this study, a field study was conducted in the Zakho Organization for Small Enterprises in the city of Dohuk - Iraq, by looking at its various departments and conducting and examining the necessary reports (financial reports, auditors' reports for the years 2018-2019-2020-2021), as Zakho Small Enterprises Organization applies The accounting information system to a high degree, in addition to its adoption of governance principles, because it was found through the continuity of projects from the same financiers and obtaining new financiers after visiting them and reviewing their financial reports and ensuring the quality of financial statements and the efficiency of financial information.

**Keywords:** quality of financial information, accounting information system, corporate governance, non-profit organizations.

**Introduction:**

Global and local organizations face many changes and challenges. These challenges called for the emergence of new concepts in managing the organizations that seek to achieve the aim of survival and the continuation in the world of the competitor, and that is to change their traditional methods that do not forget what the organizations face from the limitations and the adoption of modern concepts that enable the regulations that the regulatory news of the regulatory is allowed to deal with It is better. These organizations may use efficient and effective accounting information systems to achieve their goals. The interest in these systems has increased because of the critical role they play in the development of organizations, where they provide all the administrative information to support the various appropriate tasks at all times and most appropriate times Improving and developing the movement of communications and the flow of information between those levels. All of that would contribute positively to their performance. Therefore, accounting information systems have

played a significant role. In evaluating the performance and descriptive and quantitative data for the departments responsible for making decisions with the speed and accuracy required in terms of their knowledge of all the information that occurs during the daily work in the facility, therefore, accounting information plays the leading role in which the performance and evaluation process is located. (Abdul-Rahman, 2016, 7)

From the preceding, the following problem can be posed:

What is the role of the quality of the accounting information system in the governance of the Enterprises for the Zakho Small Village Project Organization? To answer this question, we must ask the following sub-questions:

- What is the quality level of the accounting information system of Zakho Small village Organization?
- What is the level of adoption of the principles of corporate governance by the Zakho Small village project Organization?
- What is the nature of the correlation between the quality of the accounting information system and the principles of corporate governance in the Zakho Small village project Organization in Iraq?

Study hypothesis:

There is a positive, statistically significant relationship between the level of system quality, The accounting information of Zakho Organization for Small Enterprises, and the level of its adoption of corporate governance at a substantial level of 5%

### **The importance of studying:**

The importance of the study lies in highlighting the influential role of the accounting information system in service institutions in general and Zakho systems for small projects in particular by explaining the part of the quality of accounting information in corporate governance.

Objectives of the study:

Studying the quality of the accounting information system in the Zakho Organization for Small Enterprises  
Exploring the reality of the accounting information system on the governance of Zakho Small Enterprises Organization

- Determining the role of the accounting information system in corporate governance and what can contribute to achieving the planned goals of all parties.

### **Limits and scope of the study:**

- Spatial limits: This study was conducted on the Zakho Organization for Small Enterprises in Iraq.
- Time limits: The practical aspect was done on the Zakho Organization for Small Projects in Iraq in 2022.

### **Study Approach:**

To answer the research problem, the subject of the study, we relied on the descriptive analytical approach through the theoretical rooting of the issue and a case study of the Zakho Organization for Small Enterprises.

### **Previous studies:**

1- Study (Mounir Koutal 2014) on the role of internal auditing in the governance of Algerian companies (analysis of the opinions of a group of academics and professionals)

This study concluded that the application of corporate governance must have the capacity, independence, and

objectivity of the internal auditor, in addition to the quality of work performance. The internal audit also has a role in implementing governance through the part of the internal audit in evaluating the internal control system and its role in risk management, in addition to the excellent interaction of the internal audit with the rest of the corporate governance parties.

2- Studying (Abdul Razzaq Hassan Al Sheikh, 2012) the role of corporate governance in achieving the quality of accounting information and its repercussions on the share price

The researcher reached a set of results, including:

- share stock companies listed on the Palestine Stock Exchange are keen to apply corporate governance to achieve the quality of accounting information.
- The companies listed on the Palestine Stock Exchange agreed that applying the financial and accounting system contributes to controlling the quality of accounting information.
- The principle of disclosure and transparency occupied the first place in the order of influence on the stock.
- Applying governance ensures disclosure, dissemination of information to all, and non-monopolization of information.

3- (Hamdi Ali's study, 2011) The impact of the quality of accounting information on decision-making in Algerian economic institutions, the case of the Uras Batna Mill Corporation, the commercial production unit "ARES."

**The study reached the following results:**

- The application of corporate governance requires a framework that respects the principles of government, which allows and facilitates the work of its mechanisms; for the institution to benefit in the end, the characteristics and advantages of governance are represented in transparency and disclosure.

The policy of institutions adopting the governance system varies according to their economic position and philosophy.

While some studies deal with the issue of governance and the accounting information system, they differ from ours. It is the only study conducted in non-profit units (civil society organizations). The researcher conducted a case study of the institution by reviewing financial statements, reports, and internal and external audits. The study contributed to an attempt to study the reality of the governance of the accounting information system in a non-profit organization in line with international accounting standards.

### **The quality of the accounting information system and its role in corporate governance**

Accounting information systems are one of the essential elements of corporate governance with various components. In this part, we will address the role of information quality in achieving corporate governance.

First: The importance of the accounting information system in achieving the principles of governance

The importance of the accounting information system in achieving the principles of governance can be summarized in the following points: (Saidi et al., 2015, 18).

1- One of the duties of the internal audit is to ensure that there is a system of governance in the institution and

that it is applied correctly, and this achieves the effectiveness of the institution's administration - accounting, with its tools and objectives, is an integral part of the governance framework.

2- Information systems help achieve corporate governance by promptly providing relevant and accurate financial information to the appropriate parties.

3- One of the governance functions is to provide financial information to related parties and indicate any changes, whether on the financial position or the income statement. It is an information system that helps achieve governance by applying accounting standards by providing financial statements to the beneficiaries and the necessary clarifications about any financial activities during the financial period appropriately and clearly.

4- Corporate governance works to preserve the rights of the shareholders or related parties in a fair manner that can be achieved by protecting the rights of the minority and disclosing them in the financial statements.

### **Second: Activating the accounting information system in achieving corporate governance**

It has become necessary for all economic units, whether profit-making units or non-profit units, to activate the accounting information system to keep pace with the current developments in the business world, as it is required for each team or institution to have an effective accounting information system to fulfill the objectives for which it was established. As a result of the current developments, institutions have different goals than the previous ones. To achieve their goals, their accounting information system must be ordered to provide the necessary information promptly to the decision-making bodies. 13).

1- Institutions are interested in designing and developing an accounting information system through the optimal use of technology and accounting programs that help prepare and analyze accounting information accurately and quickly.

2- Commitment to applying the internal laws and instructions for providing information and communicating it to the beneficiaries so that this information achieves disclosure and transparency to ensure corporate governance.

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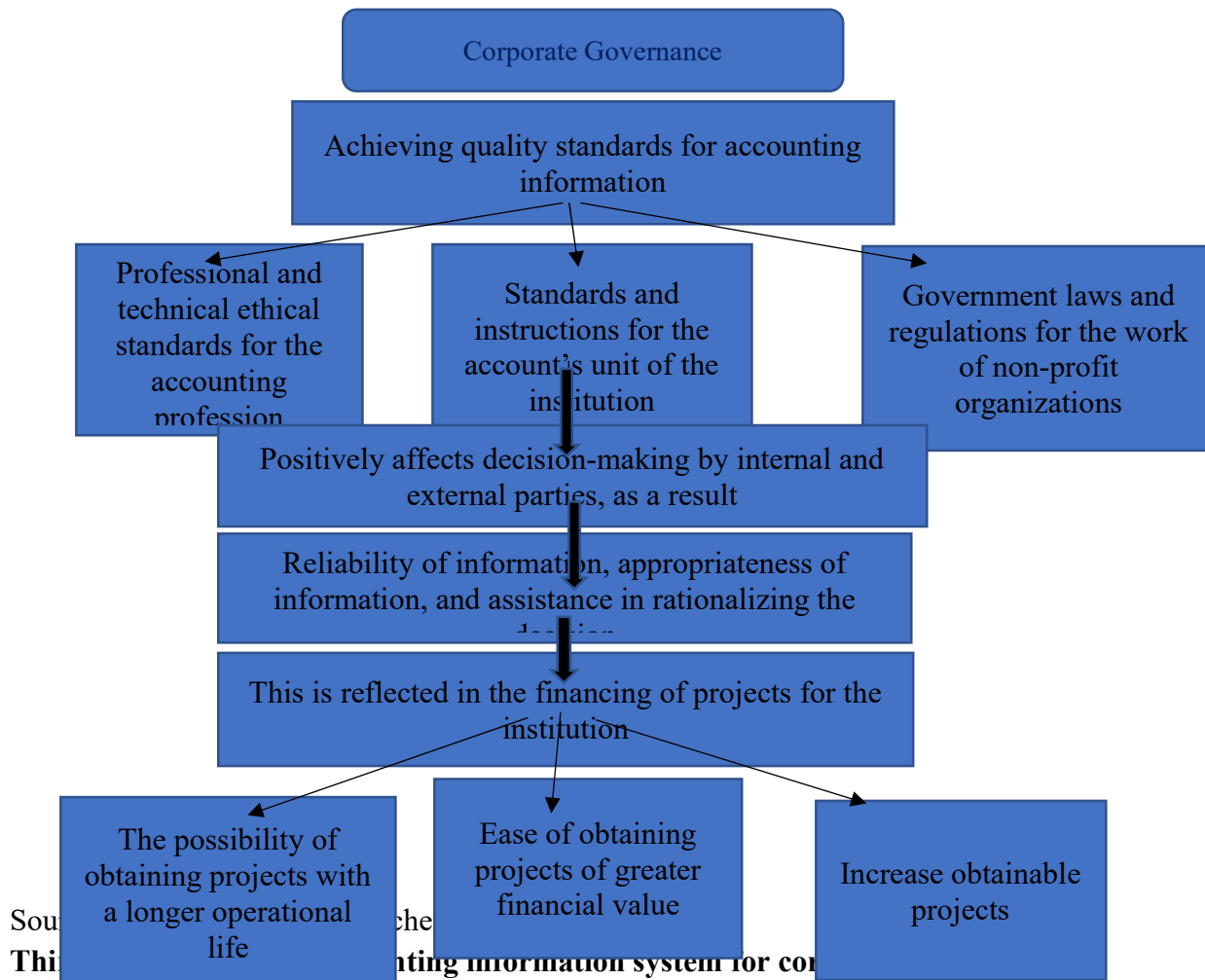
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3- To achieve the administration's objectives, the accounting information system provides accounting information promptly, is easy to understand for comparison, and is genuinely expressive of the institution's

reality.

There is a reciprocal relationship between corporate governance and the quality of the accounting information system, so corporate governance seeks to improve the performance of the accounting information system to serve its requirements, which is to find expressive and easy accounting information for all users to benefit from. Institutions.

This can be summarized in the following diagram:



The accounting information system for corporate governance is supported by the following:

- 1- Vertical accountability and accounting control: The board of directors must follow up well on the work of the administration, from the higher administrative levels to the lower organizational levels, as well as horizontal accountability and control, which is mutual between the board of directors, shareholders, and stakeholders in the institution. (Omar Sharif, 2010, 7)
- 2- The success and effectiveness of the application of corporate governance require adherence to international or local accounting standards. (Badisi, 6, 2010)
- 3- The role of internal audit: the internal audit process helps in the process of corporate governance by evaluating and improving the internal operations of the institution, as well as achieving internal control. (Omar Sharif, 2010, 8-9)

4- The role of the external auditor: the external auditor must give confidence and credibility to the accounting information by expressing his opinion on the extent of truthfulness and fairness of the financial statements prepared by the institution through his report supported by the financial statements, where his role is essential and effective and limits the problem of Asymmetry of accounting information and the resulting negative deviations;

5- Achieving disclosure and transparency: As disclosure and transparency in the presentation of accounting information is a fundamental pillar of corporate governance, the role of corporate governance is emphasized in achieving these two factors, especially since they are effective methods and since corporate governance must include accurate disclosure to achieve the interests of the various parties with Relationship.

6- Evaluating the performance of institutions: the importance of corporate governance appears through its role in increasing the efficiency of resource use, maximizing the value of the institution, and strengthening its capacity in the work environment, which makes it able to find new job opportunities and this is what makes accounting dimensions a great interest and a more significant space compared to other measurements within the different methods To implement corporate governance.

#### **Fourth: Financial and accounting systems and their relationship to corporate governance**

The application of mechanisms for corporate governance helps to activate the accounting information system, as by imposing governance mechanisms, the maximum benefit from the accounting information system increases the transparency of information available from these systems, as the application of governance mechanisms increases confidence and disclosure of accounting information in a way that can be used Including by the parties using this information to describe this information with impartiality and transparency.

##### **1- Accounting Systems and Principles of Governance:**

The principles and standards of governance have emphasized a set of guidelines in the context of the relationship between corporate governance and accounting systems, as follows: (Jamil, Safir, 2012, 9)

- To be sure that the policies and procedures prevent the possibility of having sham transactions or entering incorrect data into the accounting information system.
- That these policies and procedures prohibit the use or access to the information contained in the accounting system, except for persons authorized to do so.
- Ensure the effectiveness of policies and procedures to secure information technology resources such as hardware, ready-made software, and electronic data.

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## 2- Accounting disclosure requirements according to the concept of corporate governance

Disclosure is among the essential principles of corporate governance, and this is evident in that the exposure related to the accounting information included in the financial statements of institutions directed to stakeholders enables institutions to become at a high level of transparency, as improving disclosure will lead to improvement in clarity, which is one of the essential elements To run an excellent corporate governance system. The following elements clarify the extent to which disclosure in general and accounting disclosure, in particular, are related to the requirements of transparency according to the concept of corporate governance, where the most important of them can be mentioned in the following points: (Illah, Quman, 2012, 11)

- Disclosure of the accounting system used;
- Disclosure in the auditor's report of the financial statements;
- Disclosure of the financial and administrative position, performance, and ownership of the enterprise;
- Accurate disclosure of financial information promptly.

The practical part:

The Zakho Small Enterprises Organization was selected as the research sample. The case study was conducted on the Zakho Small Non-Profit Enterprises Organization by studying and reviewing the annual financial and external and internal audit reports for the years from 2018 to 2021 to analyze them and demonstrate the role of the quality of the accounting information system in the governance of non-profit institutions. The information was obtained from the Director-General of the organization, the financial director, the project manager, and the technical and financial advisor of the organization.

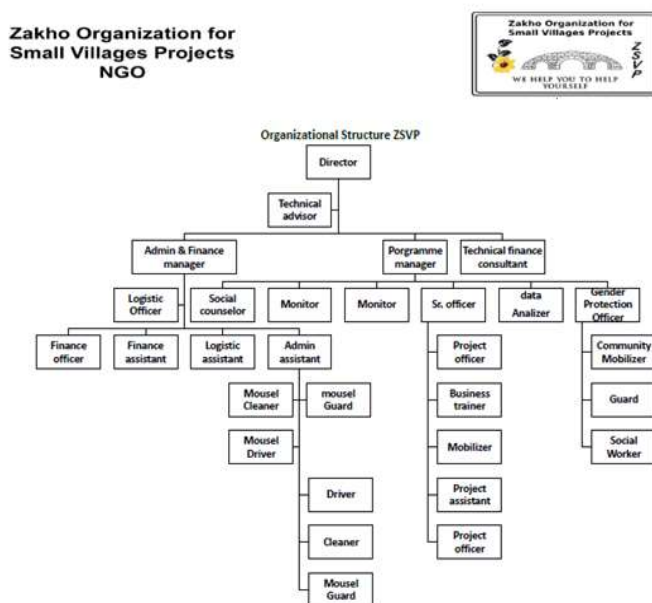
ZSVP ORG: Who are we?

ZSVP (Zakho Small Villages Projects), a local NGO, Non-profit established in 1991, is interested in community development to promote the ability of vulnerable groups of rural communities and help them for fair, sustainable life.

In 1991, after the First Gulf War, ZSVP took part in the relief efforts for the refugees and internally displaced people and in reconstructing the infrastructure of rural areas of Dohuk governorate through rebuilding (shelters, water projects, schools, clinics, irrigation channels, and roads) to enable people to return to their villages and start their life. After the UN resolution in 1996, ZSVP moved from a relief-oriented approach to a more developmental one. Since 1998, ZSVP has disseminated environmental information and conducted workshops and training courses for diffusing sustainable agriculture methods and environmentally sound technologies, integrated pest management techniques, nutrition methods, water, and environmental health care to various groups (farmers, rural women, extension agents, students, and NGOs). Since 2003, ZSVP has changed its interests and activities to respond to new conditions in Iraq because of the

last Gulf War – ZSVP Contributed to managing refugees camps in the emergency program prepared by international agencies and local administration to provide critical needs to displaced people and fled families from fighting area post the war. In April 2003, ZSVP was the first organization to be established in the liberated areas of Mosul. It focused on IDP issues to assist them in improving their living conditions and reporting their problems and needs to the relevant parties. Since April 2003, ZSVP has implemented hundreds of projects and activities in the newly liberated area of Mosul, Erbil, and Kirkuk by providing clinic centers with medical equipment, distributing food and other materials to IDPs and returnees, building capacity activities for IDPs and health awareness program, cash for work and income generation project for refugees.

### Zsvp Organization Chart



Source: ZSVP Admin Department

### Mission and Objectives

Mission:

I am interested in community development to promote the ability of vulnerable groups of rural communities and help them for fair, sustainable life.

### ZSVP strategic objectives

1. To enhance the food security of rural poor people and conserve their resource base.



2. To promote income-generating activities and create vocational skills for youngsters, women, and IDPs to become self-sufficient and reduce poverty.
3. Participation in developing potable water supply and proper sanitation through supporting and implementing new projects and maintenance of existing projects, especially in rural areas, and organizing awareness courses on water handling and conservation.
4. To promote gender equality and end violence against women, children, and youth in the IDP locations. In particular, it seeks to promote the health and empowerment of young women through critical reflections on gender, rights, and health.
5. To activate the role of rural women in the economic and social life of their communities.
6. To help and support individuals, groups, IDPs, and returnees and reintegrate them within the community, especially those in underserved and poor areas.
7. To enhance sustainable use and management of land and water resources.
8. To increase the status of agriculture and rural societies to be a priority in the development process in the region.
9. To use, as far as possible, renewable resources in farming or elsewhere

#### **The sector focuses on headlong ZSVP**

1. Agricultural infrastructure and livestock
2. Returnees, IDPs Reintegration and psychosocial support
3. Livelihood support
4. Gender equality and ending violence against women, children, and youth
5. Water and Sanitation
6. Emergency Operation/food assistance
7. Vocational skills training and creating employment opportunities
8. Humanitarian Emergency Assistance
9. Assessments. /Environmental, need and skill, marketing.

#### **Second: The relationship of governance to the accounting information system, the pros and cons of the accounting system in the organization under study**

1- Scopes of accounting for governance and supporting the information system for control in the organization: (interview with the director of accounts in the organization)

The accounting dimensions of governance and the support of the information system for corporate governance will be discussed in this chapter.

1.1- Accounting dimensions of governance: The accounting dimensions in Zakho Organization for Small Enterprises are of great importance and in several stages:

1.1.1- The stage of control over the accounting work The process of controlling the preparation of a budget for the project and the location of power after the activities includes the so-called post control.

- Monitoring the budget of projects: in this stage, a budget is prepared for the tasks according to the planned

activities, and the expenses and costs needed by the organization to implement these activities are determined in full detail, and then they are reviewed by the Project Management Department, as the necessary information is collected in preparing This budget is from the concerned departments to prepare an estimated budget through which the project activities can be implemented.

- Post-monitoring: where the organization's financial manager monitors the expenditures and expenses that have been spent, whether they have been paid with what is approved by the donor, and according to the budget items of the project. Here the accountant declares what has been exploited and what is left in full detail.

1.1.2- The stage of actual accounting work: In this stage, work is carried out according to accounting standards on each financial transaction that is disbursed, where the accounting work begins by examining the required documents for each disbursement process and making sure that the information received is correct and was disbursed according to the instructions of the organization and at the same time Taking into consideration the instructions and conditions of the mall when approving the exchange, and this information is recorded according to international and local accounting standards.

1.1.3- The stage after the actual practice of accounting work: At this stage, the accounting work is monitored and followed up, and it includes both internal audit and external audit from my agencies

1.1.3.1- Internal audit: where the internal auditor reviews all activities and the application of the internal financial laws and instructions are emphasized, as well as the implementation of financial operations in the organization by local and international accounting standards.

1.1.3.2- External audit: where there are two types of external audit

- Annual external audit: in which all the activities of the organization are audited together for a fiscal year, during which the external auditor is ascertained by the period of conformity of the accounting work in the organization with the requirements and laws of the organization, i.e., the extent to which the accounting data express the impact of this for the organization as a whole.

- External audit on projects: where they are determined by the financier of the project, through which they verify the extent to which the recorded financial information expresses the reality in which the projects have been implemented. Others to ensure the degree of commitment by the organization to the conditions in the contract concluded between Zakho Small Enterprises Organization and the financier.

As it is the internal and external audit, whether for the organization as a whole or the private audit of the project, their main goal is to ensure the accuracy of the financial information and the extent to which it expresses reality and thus adds reliability to the financial information contained in the financial statements.

2- Supporting the accounting information system for governance in the Zakho Organization for Small Enterprises:

2.1- Monitoring and accountability: the board of directors follows up on all activities, whether directly or indirectly, and is held accountable for any deviation that occurs, whether financial or administrative, in implementing the planned activities. The causes of this deviation are analyzed, and appropriate solutions are found to implement projects to achieve her desired goals.

2.2- The role of the external auditor in supporting governance: by examining the reports of the external auditor of Zakho Small Enterprises Organization, the extent of the credibility of the work carried out by the external auditor was shown by noting that the results and recommendations that the auditor made in his report revealed the extent of the realistic points or suggestions that were reached To the auditor, and this adds more confidence

to the current financiers and the new financiers, as the reports of the external auditor support the reliability of the financial statement in the financial reports of the organization, and this opens up more opportunities for the organization to obtain larger projects and for a more extended period.

2.3- By reviewing the financial reports, it was found that all the information that it considers to be of relative importance in deciding for the parties using these reports, especially the indirect users (new financiers), has been disclosed, as the financial information that it provides is transparent and all financial information is disclosed. These reports have been prepared to be easy to understand for users and meet the general purpose. And that these financial reports are designed promptly so that the financial statement is provided appropriately and timely.

### **Summary**

The governance of the accounting information system in the organization is considered to support the provision of the most significant amount of high-quality information so that a set of tools that will provide this feature is relied upon through the external auditor's report, which includes information that enjoys credibility and reliability. Accordingly, governance can achieve various characteristics and principles. The quality of accounting information to produce information that benefits all parties, especially those that do not have a direct relationship with the institution.

They are maintaining a sufficient and fair level of disclosure and transparency in financial reports and making them available to all stakeholders to feel safe and secure over their money. The institution must be careful of users' manipulations in the quality of financial reports, whether these manipulations are intentional or from ignoring users. ▪ The practitioner of the accounting and auditing profession, when carrying out the work, must act with awareness and always be honest and able to justify his actions in an objective justification.

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