



THE EXTENT OF APPLICATION OF SUSTAINABILITY ACCOUNTING STANDARDS IN IRAQI INSURANCE COMPANIES

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| Article history: | Abstract: |
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| Received: November 10 th 2022 Accepted: December 6 th 2022 Published: January 6 th 2023 | The aim of the research is to study the FNO103 sustainability accounting standards and their application in Iraqi insurance companies in general. The annual reports of the insurance companies from the period (2016-220) were analyzed by statistical programs. There is a weak percentage in the application of indicators of sustainability accounting standards. According to this conclusion, several recommendations were reached, the most important of which is raising awareness of the issue of sustainability accounting through the publication of research and case studies because the field is relatively new and has not received appropriate attention, especially at the local and Arab levels. Training Iraqi negotiators to increase their skills. In dealing with local and foreign investors, in order to obtain guarantees for the benefit of society that are reflected in the environmental and economic aspects of sustainability., Reporting on substantial sustainability issues with the annual financial reports of companies, as they help to make rational decisions based on the financial and material aspect |

Keywords: sustainability accounting, SASB sustainability accounting standards, FNO103 standard

INTRODUCTION

Over the past decades, financial reports have evolved to meet the changing needs of users, as reports have evolved from simply reporting basic financial data, especially after the financial crisis that swept recently in 2008 and led to the collapse of many companies and affected the giant economies of the United States of America, especially the economies of United States of America, the question about the relevance and reliability of the current reports, especially the annual financial reports and those reports with a short-term financial dimension and the failure to provide investors with a comprehensive picture of the company's performance and its ability to create value, especially in light of the current economic challenges, led to the inclusion of more detailed information. Includes environmental, economic and social impacts for businesses and society Sustainability reports may vary in quality due to their voluntary nature and the lack of a legal framework requiring companies to choose freely

To regulate this new and important branch of accounting, many regulatory frameworks have emerged that regulate the measurement and reporting process on sustainability topics. Among these frameworks at the international level are the Global

Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) in addition to many others. One of the most important reasons behind the importance and development of sustainability accounting is the repercussions resulting from the reporting of sustainability issues, as it provides information on important topics that affect the decisions of all beneficiary parties, and therefore there will be sufficient conviction among these parties about the correct evaluation of the economic unit, especially in the long term, which is reflected in improving the performance of these units, the incentive will be for them to report more on sustainability issues, and this is what has already happened with many international companies that have improved their performance compared to companies that have not disclosed sustainability issues.

RESEARCH METHODOLOGY

Research Problem

The research problem is represented in the existence of deficiencies in the annual financial reports of the companies, as they do not include clear information about the aspects of economic, social and environmental sustainability. In addition, there are no



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Therefore, the research problem can be formulated according to the following questions:

- 1- Can the local environment be adapted to meet the requirements of sustainability accounting?
- 2- Is it possible to adopt sustainability accounting standards in the local business environment, nominally financial standards for sustainability accounting?
- 3- Does the adoption of sustainability accounting standards affect the quality of financial reporting of business units in the local environment?

Research objectives

The research aims to study sustainability accounting standards in general, especially financial standards for sustainability accounting, and then explore ways to apply these standards within the local environment, thus contributing to enhancing the quality of financial reporting for business units in the local environment. This requires a statement of deficiencies in the current financial reporting within the unified accounting system in the areas of measurement, presentation and disclosure of aspects of economic, environmental and social sustainability, leading to the development of a proposed framework for financial reporting in Iraqi business units.

Research hypotheses

The research is based on the basic hypothesis of the research, is there a significant effect of applying the FON103 sustainability standard on the quality of financial reporting for insurance companies.

Research objectives

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Research importance

The importance of the research is embodied by discussing the issue of the importance of adding sustainability standards in detail and the extent of their use in the process of adopting SASB standards by banks and insurance companies that have a role in enhancing confidence in financial reports. Especially after the wide economic and investment developments that the year witnessed in companies implementing investment projects, strengthening and improving the current situation of companies, by forming a comprehensive vision of the current and expected future conditions, improving the quality of profits, and enhancing investor confidence by issuing sustainability reports as a means of reporting financial and non-financial information. Through the application of sustainability standards in the local environment, which may increase its impact on the quality of profits and this is reflected in the company, its continuity and sustainability, and that the process of applying sustainability is also important for all companies to know the degree of their responsibility in the economic, environmental, social and governance aspects, which is in the interest of the general economy of the country .

Time and spatial limits for research

1. The spatial limits of the research: the insurance companies listed in the Iraq Stock Exchange, and that the criteria used apply to them.
2. The temporal limits of the research: reports of insurance companies for the period (2016-2020)

Sustainability accounting

The changing global business environment forces business units to look beyond financial performance, and business units have recognized the importance of integrating environmental and social issues into business strategies. Sustainability accounting and sustainability reporting are relatively new concepts. Sustainability accounting is a subcategory of financial accounting that focuses on reporting to outside parties (such as investors, creditors, governments, and other authorities) disclosure of non-financial information about a business unit's performance. It differs from financial accounting because it deals with economic, social and environmental performance. This is done with the help of sustainability and corporate social responsibility reports as well as non-financial reports (Palit, 2018:1).

Gray 1987 defined sustainability accounting as the process of transferring the social and environmental effects of economic activities carried out by business units to social interest groups, while Ringelet al, 2018 defined it as an accounting innovation resulting from the process of organizational change. As organizations



face increasing demands from their sectors, they embrace innovation to develop new ways to disclose sustainability information, while Arum, 2019 defined it as the process of identifying, measuring, evaluating, and disclosing the costs of activities related to the environment.

The researcher believes that this is a new branch of accounting that requires business units to pay attention to environmental and social aspects in addition to economic aspects, and to disclose non-financial information in annual reports. This helps the stakeholders to make the right decisions for the business unit. The most important reasons that prompted companies to establish sustainability accounting systems (Al-Jajjawi and Al-Khafaji, 150: 2020)

Sustainability Accounting Standards Board (SASB)

The American Accounting Standards Board officially initiated the creation of the Sustainability Accounting Standards Board, a non-profit organization based in the United States, which began work on drafting and issuing sustainable development accounting standards in 2012. Its purpose is to produce comprehensive reports relevant to sustainable development issues in the industry, but it is dedicated For widely recognized journals of international importance to organizations wishing to report on governance, social and environmental issues. (Zeinab, 2018)

The SASB approach is to first classify segments and then use the ramifications for each segment to determine materiality for specific sustainability accounting standards. This assessment of materiality is a key differentiator that other reporting frameworks do not offer. Practices for reporting various metrics related to governance, environmental factors, and social factors for most businesses that follow the reporting framework. <https://www.ibm.com/blogs/internet-of-things/what-is-sasb-sustainability-accounting-standards-board>.

The researcher believes that adherence to specific standards for preparing sustainability reports as a main means of presenting the company's contributions to sustainability issues will help in the consistency of those reports through the use of established rules and methods in preparation and disclosure by the company, which enhances the credibility of these reports.

Dimensions of Sustainability Accounting for the Sustainability Standards Board (SASB).

Sustainability accounting reflects the environmental and social effects of the company arising from the production of goods and services as well as its

management of the environmental and social capital of the crisis to create long-term value. broad dimensions of sustainability.(2: SASB Conceptual Framework: 2017)

1. . Human Capital: This dimension is concerned with managing the company's human resources and employees as key assets to provide long-term value. It also includes issues affecting employee productivity, managing labor relations, managing employee health and safety, and the ability to create an occupational safety culture. (Al-Jubouri et al., 2019: 306)

2. The environmental dimension: This dimension includes the impact of companies on the environment either through the use of non-renewable natural resources as inputs for production factors (such as water, minerals, ecosystems and biodiversity) or through harmful releases into the environment (such as air, land and water) that may negatively affect By nature, resources that lead to effects on the company's financial position or operational performance.(2: SASB Conceptual Framework: 2017)

3. Social capital: This dimension is concerned with managing the relationship with the external and internal entities of the unit such as customers and protecting natural groups and employees (Al-Tamimi et al., 2020: 190).

4. Business model innovation: This dimension deals with the integration of environmental, human, and social issues into the company's value creation process, including resource recovery and other innovations in the production process as well as products (Al-Jubouri et al., 2019: 306).

5. Leadership and Governance: This dimension is concerned with managing issues related to the business model and work that are conflicts with stakeholders, which ultimately creates potential responsibility, including risk management, safety, corruption, bribery, conflicts of interest, and the like (Al-Tamimi et al., 2020: 19)

SASB standards for sustainability reporting

The Sustainability Accounting Standards Board standards across most areas of business, representing eleven sectors with 77 industries including consumer goods, healthcare, services, extracts, minerals, infrastructure, technology, telecommunications, finance, renewable resources, alternative energy, transportation, and food. Beverages, conversion resources, SASB standards can be used by investors, analysts, auditors and companies, through which investors can compare Significant sustainability issues affect business performance and depending on company or industry level, capital sustainability. Sustainability risks and opportunities can also be



assessed at the industry level. Companies use SASB standards to interpret key sustainability information, improve performance, and reduce risks. Companies can measure, manage and demonstrate the impact of sustainability, through industry-specific indicators, and compare your performance with your competitors in the same industry. <https://www.sasb.org/>

The SASB Sustainability Standards Board relies on the sustainable industry application system to issue sustainability standards if it publishes standards for (79) industries in (11) sectors that include disclosure issues and sustainability standards, and these standards are intended for various business companies. (Al-Awwad, 11:2021)

Description of the research sample

The research community of Iraqi insurance companies listed in the Iraq Stock Exchange was determined. The insurance sector was chosen because it has characteristics in terms of contractual quality between the insurer and the insured. Insurance was chosen because it has a connection with society in terms of securing the life of the community and has a role in providing services.

The sample was selected on the basis of insurance companies that have integrated financial reports for the period from 2016 to 2020, to determine 4 companies accordingly, as companies that do not have integrated financial reports for the mentioned period were excluded, and indicators or requirements of sustainability accounting standards were used to measure the extent of application Insurance companies for sustainability indicators, and the qualitative characteristics approach was used to measure the quality of financial reporting for Iraqi insurance companies for the period (2016-2020).

Data integrity check and hypothesis testing

After completing the measurement of the variables used in the research, which were presented and discussed in the previous section, and for the purpose of providing data appropriately for testing hypotheses, the researcher coded the data for the purpose of entering it into the statistical program used, as follows:

Table (1) Coding the research variables

| Variable name | variable type | N O |
|-------------------------------------|---------------|-----|
| Sustainability accounting standards | independent | 1 |
| Quality of financial reporting | Follow | 2 |

In order to provide the appropriate basis for testing hypotheses, the researcher examined the integrity of the data and ensured its validity for testing, by ensuring that there are no missing values in the data,

following the normal distribution, and forming the correlation matrix, as follows:

1- Descriptive statistics

The descriptive statistics of the data of the variables that will be used in testing hypotheses can be summarized in the following table:

Table (2) descriptive statistics of the research variables

| Descriptive Statistics | | | | | |
|------------------------|----|----------|---------|---------|----------------|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| SAS | 85 | .143 | .778 | .46415 | .198324 |
| FRQ | 85 | -3.48763 | 2.2455 | .000000 | 1.000000 |
| Valid N (listwise) | 85 | | | | |

The above table shows the lower and upper limits of the values of the two variables as well as the arithmetic mean and standard deviation. The most important thing to note from the above table is that the sample size for all variables is 85 observations, which means that there are no missing values in the data of both variables.

2- Correlation Matrix

The following table shows the binary correlation matrix between the search variables:

Table (3) Matrix of correlations between research variables

| Correlations | | | |
|--------------|---------------------|--------|--------|
| | | FRQ | SAS |
| FRQ | Pearson Correlation | 1 | .378** |
| | Sig. (2-tailed) | | .000 |
| | N | 85 | 85 |
| SAS | Pearson Correlation | .378** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 85 | 85 |

** . Correlation is significant at the 0.01 level (2-tailed).

It is noted from the previous table the weakness of the bilateral correlation coefficients between the two variables, and this is a useful feature indicating that the variables measure different dimensions.

3- The normal distribution test

The researcher also conducted a normal distribution test for the data of the study variables, using the One-



Sample Kolmogorov-Smirnov test, and the results were as follows:

Table (4) test the normal distribution of the data

| One-Sample Kolmogorov-Smirnov Test | | | |
|------------------------------------|----------------|---------|-----------|
| | | SAS | FRQ |
| N | | 85 | 85 |
| Normal Parameters | Mean | .46415 | .0000000 |
| | Std. Deviation | .198324 | 1.0000000 |
| Most Extreme Differences | Absolute | .143 | .119 |
| | Positive | .136 | .080 |
| | Negative | -.143 | -.119 |
| Test Statistic | | .143 | .108 |
| Asymp. Sig. (2-tailed) | | .000 | .016 |

Although the results indicate that the significance of (Sig) for both variables is less than 0.05, which initially means that its data is not close to the normal distribution, but based on the theory that if the sample size exceeds 30 observations, it is normally distributed and valid for analysis. It was considered that the data met the test of normal distribution. (2013) Sekaran & Bougie.

After making sure that the condition of non-linear overlap was passed, and that the autocorrelation and normal distribution were weak, statistical analyzes were performed to test the hypotheses, using the SPSS statistical program, and the results were as follows:

Hypothesis: - "There is an acceptable level of application of sustainability standards in Iraqi insurance companies."

This hypothesis will be tested using statistical analysis one sample T-test. The idea of this test is to discover the extent to which there is a significant difference in the average of the population from which the sample was drawn from a constant value, in addition to the possibility of estimating the confidence interval for the population average, and a value of 0.50 (which represents the limit) will be adopted. The acceptable level of application of sustainability accounting standards) as a test value to conduct a T-test analysis, and with the help of the statistical package for social sciences SPSS program, the results were as follows:

Table (1) results of hypothesis testing

| One-Sample Statistics |
|-----------------------|
|-----------------------|

| | N | Mean | Std. Deviation | Std. Error Mean | |
|-----------------|-------|--------|-----------------|---|---------|
| | 85 | .46415 | .198324 | .021511 | |
| Test Value = .5 | | | | | |
| | | | | 95% Confidence Interval of the Difference | |
| | T | Df | Sig. (2-tailed) | Mean Difference | |
| SA | - | | | Lower | Upper |
| S | 1.667 | 84 | .099 | -.035854 | -.00692 |

(115) above shows that the calculated value of T was 1.667, which is much greater than its tabular value at 84 (n-1) degrees of freedom, amounting to 1.667, and that the mean standard deviation of the estimation error is Std. Error Mean reached 0.021511, which is a very low value, and the less this type of error is, the better. The table also shows that the level of significance of the test Sig. (2-tailed) amounted to 0.099, which is greater than the accepted error level in the social sciences, which was previously determined by 0.05, and this indicates that the sample data provided convincing evidence for the rejection of the research hypothesis, and this means that there is no acceptable level of application of sustainability accounting standards in general in All Iraqi insurance companies.

CONCLUSIONS

- 1- Reporting on sustainability reports can eliminate manipulation of earnings management, accounting preservation and information asymmetry because it reflects adherence to the rules of sustainability standards.
- 2- Sustainability reports help in preparing reports on environmental, social and economic aspects that cannot be reported in the financial statements because the conceptual framework of financial accounting does not comply with the requirements of sustainability.
- 3- One of the important criteria in sustainable development that must be communicated and stakeholder involved in defining strategic goals.
- 4- There are challenges faced by business establishments when preparing and reporting sustainability reports, and this was demonstrated by the discrepancy in the content of annual reports issued



by companies and the method of reporting on sustainability.

5- Reporting on sustainable development practices achieves many benefits that may reflect positively on the value of the company and the quality of its accounting profits through the comprehensive information it provides to decision-makers, reducing information asymmetry, reducing profit management practices, and giving. A good image for the company's traders and the same investors who favor investment sentiment and enhance its competitive position.

RECOMMENDATIONS

- 1- Activating the role of sustainability accounting by establishing specialized sustainability departments within banks and insurance companies that operate in accordance with sustainability accounting standards issued by the Sustainability Accounting Council. (SBSA)
- 2- Conducting future studies related to reporting on sustainability accounting in other sectors and adopting other financial indicators.
- 3- Companies are committed to applying sustainability accounting standards due to their importance in increasing transparency and activating accounting conservatism.
- 4- The importance of applying sustainability standards because they encourage the non-profit social aspects necessary for Iraqi society.

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