



# THE EFFECT OF USING THE CONTINUOUS AUDIT APPROACH IN IMPROVING THE MEDIA CONTENT OF FINANCIAL REPORTS

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Article history:	Abstract:
<b>Received:</b> 28 <sup>th</sup> May 2024 <b>Accepted:</b> 26 <sup>th</sup> June 2024	The study aimed to identify the continuous audit approach and its impact on improving the media content of financial reports. This was done by conducting a field study on a sample of Iraqi banks using SPSS to test the study hypotheses. The study found that there is a statistically significant correlation and significant effect between continuous auditing and improving the media content of financial reports at a significant level (0.01), Which helps investors make sound decisions. The study recommended the need for banks' boards of directors to support internal audit systems by adopting the continuous audit approach because of its positive effects on the accuracy and reliability of immediate information, which reflects positively on the media content of financial reports.

**Keywords:** Continuous auditing, characteristics of accounting information, informational content of financial reports.

## INTRODUCTION

The tremendous development in information technology in the modern era has led business organizations to design and operate real-time accounting systems to produce and display immediate information that needs continuous auditing. Therefore, what results from the application of instant accounting necessarily requires tangible changes in auditing procedures, so that continuous auditing is applied and traditional auditing procedures for financial statements are dispensed with (Yassin, 2023). It has become an essential element in many risk control strategies for internal audit departments. In addition, continuous auditing has increasingly become a tool for enhancing external auditing (John R. Kuhn & Sutton, 2010). Easily obtaining information, freedom of its circulation, and its credibility have become important issues in the current era, which has supported the concept of media content and was considered a fundamental requirement in the field of finance and business for greater transparency and credibility in the information obtained and making it available to all parties using it. It can be said that one of the important reasons for the collapse of institutions and economic units is the ineffectiveness of information content through the use of fraudulent and unethical policies (Karbou, 2020). Which led to the necessity of shifting to the continuous audit approach to meet the needs of users to obtain accurate, timely, reliable and comparable information in financial reports that is meaningful to decision makers (Muhahal, Jaafar, and Shuaib, 2023).

**RESEARCH PROBLEM:** The research problem is as follows

- Does activating the continuous auditing method affect improving the media content of financial reports?

**Importance of the research:** The research is concerned with providing an addition to the accounting literature, as the topic of continuous review is considered one of the recent topics in this field, in addition to the scarcity of academic research in this field.

**Research objectives:** The research aims to identify the continuous audit approach and its impact on improving the media content of reports and thus increasing investors' confidence in financial reports.

**Research hypotheses:** They are as follows

- H1 There is a significant relationship between continuous auditing and improving the informational content of financial reports.
- H2 There is a significant effect of continuous auditing on improving the informational content of financial reports.

## LITERATURE REVIEW

### Continuous Auditing:

The developments that accompanied the Fourth Industrial Revolution led to the insufficiency of traditional auditing services for decision makers, and the need emerged to make changes in the auditing process in terms of implementation methods and communicating results to decision makers. Hence the importance of continuous auditing to keep pace with these developments.

### The Concept Of Continuous Auditing:

The continuous audit approach is considered a modern tool in the field of auditing and includes two



characteristics: continuity and immediate reporting in preparing reports (Al-Jundi, 2021). Terms such as continuous monitoring, continuous assurance, real-time auditing, or online auditing are often used and refer to similar concepts, aiming to improve internal control systems and the transparency of business processes (Eulerich, et al., 2024). There are many definitions of continuous auditing, and some of these definitions are reviewed as follows:

Defined in the 1999 AICPA/CICA Red Book, it is a methodology that enables auditors to provide assurance on any matter within management's responsibility by issuing reports immediately or after the occurrence of the financial transactions under audit within a short period (Bumgarner & Vasarhelyi, 2018). It is also defined as "data flowing through the system that is continuously monitored and analyzed using a set of rules determined by the auditor and thus will raise alarms aimed at drawing the auditor's attention" (Eulerich, et al., 2024). From the above, the researcher defines continuous auditing as the effective use of technology through monitoring the collection of flowing data stages to achieve efficient audits and issue immediate reports.

#### **Objectives of Continuous Auditing:**

The primary goal is to develop the auditing process as an alternative approach to traditional auditing. To achieve this goal, there are several sub-goals that must be achieved, which are as follows: (Mahmoud, 2022), (Mohamed, 2018)

- Providing audit reports in a timely manner and within a much shorter period of time than under the traditional system.
- Protection from crises by improving the quality of information and disclosing it in a timely manner, through continuous examination of internal control.
- Rapid detection and correction of errors helps ensure the accuracy of information, which contributes to increasing user confidence
- Assisting the company's shareholders and the Financial Market Supervisory Authority in exercising continuous and immediate control over companies.

Through the previous objectives, the researcher believes that relying on the continuous auditing approach which depends on immediate monitoring, has become necessary nowadays, because the delay in submitting audit reports makes the information contained in them less useful and less relevant to users financial statements and reports.

#### **Media Content Of Financial Reports:**

It is considered one of the most important modern topics in the financial and accounting field at the corporate level, as financial statements are

considered the primary means for preparing reports and communicating with parties benefiting from the company's activity, and through them, those parties will be able to identify the main elements affecting the company's financial situation, and good media content. Which can be measured through the availability of qualitative characteristics of accounting information.

#### **The Concept Of Media Content For Financial Reports:**

Media content, according to accounting theory, is the content in which financial standards are rich in events and useful information. It is not just a specific value, but beyond that, and this content is created as soon as new information arrives before adopting it from its original source. The economic data contained therein from the point of view of the users of this report in making economic decisions related to the project (Khallawy & Abbas, 2023). It is defined as the value of economic information related to the company included in the financial report, for example: the decisions made by investors regarding the use of their money or the decisions of lenders regarding granting them banking facilities (Hamid, 2021). It is also known as the content of appropriate financial information that helps in making correct economic decisions in the circumstances in which the company subject to accounting exists (Mohamed & Ahmed, 2017). The researcher believes that the media content of financial reports represents the maximum amount of appropriate information contained in financial reports to meet all the needs of the groups that use financial reports.

#### **Objectives Of The Informational Content Of Financial Reports:**

The media content of financial reports includes a set of objectives, which we explain through the following: (Hamid, 2021)

- Evaluating companies' performance and the extent to which they achieve the most important goals set by management.
- Estimating the degree of liquidity that the company enjoys currently and in the future, its needs for funds, and its ability to borrow.
- Verify the efficiency and effectiveness of managers and verify the efficiency of management.
- Published financial reports must include useful information for investors about the most important risks to which they are likely to be exposed.

#### **The Role Of Continuous Auditing In Improving The Characteristics Of Accounting Information**

The informational function of accounting is related to the extent to which it provides good information to users, and this is known as accounting disclosure. Therefore, certain characteristics and qualities must be



present in the accounting information to achieve the quality of this information and the reports it contains, so that these characteristics encourage decision makers to rely on this information and reports (Al-Nasr, 2022).

▪ **The contribution of the continuous audit approach to achieving appropriateness of information**

Relevance means that information is capable of changing the economic decisions of its users, and the suitability of information is related to its nature or relative importance, and for information to be relevant, it must be available to users at the appropriate time to make decisions (Al-Amoudi, 2024). Continuous auditing also works to reduce information asymmetry and thus the quality of financial reports, as continuous auditing plays a notable role in enhancing the predictive value of accounting information in addition to its confirmatory value, which improves the suitability of the information for decision makers (Mahmoud, 2022).

▪ **The contribution of the continuous audit approach to achieving the credibility of information**

Financial reports must provide accurate and reliable accounting information and fairly present the essence of the transaction they are intended to represent, that is, present the information honestly so that the numbers express resources and events truthfully to the greatest extent possible and are complete, neutral, and free of errors (Wally, 2024). The continuous auditing approach is based on helping to achieve the credibility and reliability of the accounting information that is published in the financial reports by management through continuous verification by auditors of the accuracy of the published information (Amin & Mohamed, 2016).

▪ **The continuous audit approach contributes to achieving the appropriate timeliness of information.**

Timeliness represents the provision of information for decision-making before it loses its value, With regard to periodic financial reports, there are two aspects to this characteristic. The first is the periodicity of reporting, the length of the time period over which reports must be prepared. The second is the period during which these reports are published and made available for circulation (Al-Ibrahim, 2015). Continuous auditing helps auditors examine the customer’s financial operations with high accuracy and within a short time compared to traditional auditing, and thus contributes to reducing costs, saving time for auditors, and improving the quality and auditing processes. Continuous auditing thus contributes as an appropriate means of discovering errors immediately instead of waiting until the end of the financial period (Amin & Mohamed, 2016).

**METHODS**

**Research design:**

The descriptive approach is adopted in this study for the purpose of reviewing the literature to construct the theoretical background. The analytical approach is also used to develop the research hypotheses, test them, and verify their validity.

**Research population and sample**

The research community is represented by private banks listed on the Iraq Stock Exchange, where the banking sector recorded the largest contributing sectors. The percentage of shares traded in the market reached (95.90%) compared to the rest of the sectors listed. The banking sector was addressed without the rest of the sectors because It has an important role in stimulating and supporting the economic process in the future and the weak activity of the rest of the sectors in the national economy. While the research sample consisted of eight banks, an electronic questionnaire was prepared, numbering (82). It targeted all administrative formations, accountants and auditors within the bank, and Table (1) displays the banks in the research sample.

**Table 1 Research sample banks**

code	The bank	code	The bank
<b>BUOI</b>	Union Bank of Iraq	<b>BNOI</b>	National Bank of Iraq
<b>BMNS</b>	Al-Mansour Investment Bank	<b>BROI</b>	Credit Bank of Iraq
<b>BGUC</b>	Gulf Commercial Bank	<b>BSUC</b>	Sumer Commercial Bank



**BIBI** Investment Bank of Iraqi

**BIME** Middle East Bank

**Source:** Researcher preparation

**The results of the validity and reliability test for the dimensions of the research variables:**

The statistical analysis showed the results of the reliability test using Cronbach's Alpha Coefficient, and

the validity test by finding its square root, respectively, as shown below:

**Table 2: Results of the validity and reliability test for the research variables**

Validity coefficient	Reliability coefficient( $\alpha$ )	Number of phrases	Variables (dimensions)
0,815	(0,665)	8	Continuous auditing
0,796	(0,634)	8	Improving the media content of financial reports
0,896	(0,802)	16	Total survey statements

**Source:** spss program output

It is clear from Table No. (2) that the value of Cronbach's alpha ranged between (0.634 - 0.802), so these values are considered acceptable, reflecting the extent of validity and confidence in the variables..

**Results Of Testing The Research Hypotheses:**

- **H1 There is a significant relationship between continuous auditing and**

**improving the informational content of financial reports.**

To test the nature (strength and direction) of the relationship between the research variables, the Pearson correlation coefficient was used, and the results were as shown below:

Table (3): Correlation matrix between the dimensions of the research variables

Indicators for improving the media content of financial reports	Continuous auditing	Variables
	<b>1</b>	<b>Continuous auditing</b>
<b>1</b>	<b>**0,740</b>	<b>Indicators for improving the media content of financial reports</b>

\*\*Significant at the significance level of 0.01

**Source:** Prepared by the researcher based on (SPSS) program.

It is clear from Table (3) that there is a statistically significant correlation between continuous auditing and improving the media content of financial reports, with a correlation coefficient of (0.740) at a significance level of 0.01.

**informational content of financial reports.**

As a result of the existence of a correlation between the independent variable and the dependent variable, a simple linear regression model can be applied to determine the importance of applying continuous auditing in improving the informational content of financial reports.

- **H2 There is a significant effect of continuous auditing on improving the**

**Table (4): Results of the analysis of the impact of continuous auditing on improving the informational content of financial reports**

) Sig(	)T(	)B(	Dependent variable	Independent variable	ف
<b>0,003</b>	<b>3,075</b>	<b>1,007 B=</b>	<b>Improving the media content of financial reports</b>	<b>Fixed limit</b>	<b>2</b>
<b>(0,000)</b>	<b>9,075</b>	<b>**0,740</b>		<b>Continuous auditing</b>	
<b>R= (0,740) R<sup>2</sup>= (0,547) Adj. R<sup>2</sup> = (0,541) F (Sig.) = 96,638 (0,00)</b>					



\*\*Significant at the significance level of 0.01

**Source:** Results of statistical analysis of Linear Regression test.

**It is clear from Table (4) that:**

- The regression model proved significant, as the value reached ( $F=96,638$ ), which is significant at a significance level of 0.01.
- The value of the adjusted interpretation coefficient was ( $Adj. R^2 = 0,541$ ), which means that continuous auditing explains 54.1% of the variance in improving the media content of financial reports, while the rest of the percentage is due to other variables that were not addressed by the model.
- The regression coefficients for continuous auditing and the fixed term proved significant, as the value reached ( $T=9.075$ ) for continuous auditing at a significance level of 0.01. This means that there is a positive moral effect of continuous auditing on improving the media content of financial reports, with a regression coefficient of ( $\beta= 0,740$ ).

**It is clear from the above that the hypothesis is accepted, as it was found that there is a positive moral effect of continuous review on improving the media content of financial reports at a significance level of 0.01.**

#### CONCLUSIONS AND RECOMMENDATIONS

**Conclusions:** By analyzing the research data and testing the hypotheses, the following results were reached

- Applying the continuous auditing approach contributes to increasing confidence and credibility in financial reports and reducing profit management as a result of continuous evaluation of financial operations after each operation occurs.
- Activating the continuous audit approach improves the content of financial reports from bias and manipulation by detecting fraud and correcting it in a timely manner.
- Financial statements are considered an important tool in making financial decisions, as continuous auditing of them contributes to increasing the accuracy of accounting information, and therefore the financial statements must reveal all the information that makes them not misleading.
- The results of the statistical analysis of the study showed that there is a statistically significant correlation and influence between continuous auditing and improving the media content of financial reports at a significant level (0.01), which helps investors make sound decisions.

**Recommendations:** In light of the results reached in this research, a set of recommendations can be presented, the most important of which are:

- The need for banks' boards of directors to support internal audit systems by adopting the continuous audit approach because of its positive effects on the accuracy and reliability of immediate information, which reflects positively on the media content of financial reports.
- Conducting more development courses, seminars and conferences for auditors on the importance of adopting the continuous auditing approach and working to develop their skills, especially in light of technological progress.
- It is necessary for the supervisory and regulating bodies of the profession to enhance awareness and raise the level of understanding and awareness about the importance of adopting the continuous audit approach and issuing guidelines that require it to be implemented.
- Paying attention to spreading the culture of awareness among institutions by applying the continuous auditing approach, as it works to provide comprehensive and transparent financial reports that contribute to activating the media content of the financial reports.

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