

## EFFECT OF ACCOUNTING INFORMATION SYSTEM ON THE QUALITY OF FINANCIAL REPORTING OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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### ABSTRACT

The quality of financial reporting has been questioned in the past decades. This has necessitated the need to examine the process through which the financial reports are produced. Thus, this study examined the effect of accounting information system on the quality of financial reporting of listed manufacturing companies in Nigeria. Cross-sectional survey research design was employed. Primary data was used through the administration of questionnaire on two hundred and seventy-six respondents selected for the study. Variables used included system quality, user competence, faithful representation, relevance, timeliness and understandability. Structural Equation Modelling was used to analyze the data collected. The findings of the study revealed that system quality ( $\beta = 0.342$ ,  $p=0.000<0.001$ ,  $t=3.107>1.96$ ) and user competence ( $\beta = 0.014$ ,  $p=0.000<0.001$ ,  $t=2.232>1.96$ ) have significant and positive effect on the quality of financial reporting. The study recommended that firms should always maintain a high quality of their AIS through constant update of the AIS hardware and software to meet up with the demands for quality financial reporting. Also, firms should employ people who are sound and competent in using the AIS and knowledgeable in financial reporting standards to prepare the financial reports.

**Keywords:** Accounting information system; Faithful representation; financial reporting; System quality; DeLone and McLean Model.

### 1.0 INTRODUCTION

#### 1.1 Background to the Study

The advent of information technology has brought about immense changes to the process of organizational functions. An obvious example of this is the Accounting Information System (AIS) which has been integrated by companies to enhance the preparation and production of their financial reporting. AIS is the combination of computer technologies, human resources and accounting standards that can record data and process it into information that can be used for various purposes. This translates to the fact that AIS an important ingredient in the preparation and production of financial reporting by organizations. This is also asserted by Daoud and Triki (2013) that the purpose of integrating AIS is to provide relevant information in real-time, and frequently report on the most important events and provide rapid feedback.

It is also opined by Borhan and Bader (2018) that AIS is a system which contains a group of harmonized business, components, and resources which process, manage, and control the data for producing and providing the relevant information for decision makers in the organization. Similarly, AIS, as defined by Meiryani, Suzan, Tsudrajat and Daud (2020), are computerized information system for processing financial data related to transaction data in an accounting cycle and presenting it in the form of financial reports to its users. AIS play an important role in a firm's active flow and in making economic decisions, as many economic decisions are based on the information obtained from the AIS. Organizations in the manufacturing sector are now automating and integrating their business operations by using AIS, (Hla & Teru, 2015).

The manufacturing sector is crucial to the growth of any economy, Nigeria inclusive. In Nigeria, the sector contributes 8.98% to the Gross Domestic Product of the country as at 2021 (Nigeria Bureau of Statistics), therefore their financial reporting is expected to be of good quality. The financial reporting, which is one of the important outputs of AIS, is the presentation of the activities and performance of an entity for an accounting period. The quality of financial reporting is important because it influences capital providers and other stakeholders in making investment, credit and similar resource allocation decisions, enhancing overall market efficiency (IASB, 2018). Accordingly, the major objective of the financial reporting is to make available all the necessary information that will allow its different categories of users to make economic and business decisions, (Adewoye & Olayemi, 2020) therefore necessitating it to be of high-quality to make it useful for decision making.

Likewise, Fasina and Adegbite, (2014) affirmed that the quality of financial reporting is indispensable to the need of users who require them for investment and other decision-making purposes. This is also in congruence with Kenneth (2012) that financial reporting can only be regarded as useful if it represents the "economic substance" of an organization in terms of relevance, reliability, comparability, understandability, timeliness and simplifying the interpretation of accounting numbers. These qualitative characteristics make financial reporting more valuable for stakeholders with different needs. However, the quality of the integration and appropriate functioning of the AIS, which include system quality and user competence have a bearing on the quality of financial reporting. According to Salehi, Rostami and Modgadam (2010) AIS is a major factor that influences and determines the quality of financial reporting in an organization. A properly integrated AIS promotes the production of high-quality financial reporting.

## 1.2 Statement of the Problem

Full disclosure of information of an organization's activities in the financial reports is of paramount importance as the information contained in the report is used to make economic and business decisions. Taking into consideration the current trend of globalization, it has become imperative for manufacturing firms in Nigeria to produce high-quality financial reporting to attract potential investors and retain the existing ones. However, Akeju and Babatunde (2017) asserted that the quality of financial reporting has been criticized by various stakeholders across different countries, due to the insufficiency of the quality of financial reporting including Nigeria, (Fung, 2014; Mahboub, 2017). The adoption and integration of AIS by an organization are expected to enhance the quality of financial reports being released. It is asserted by Azhar

and Meiryani (2018) that the quality of an AIS has a significant effect on accounting information quality.

According to Wilkin and Tayan (2003) the relationship between quality of financial reporting and AIS is contingent, among other things, on system quality. Bad system quality could affect the quality of financial reporting produced by AIS (Xu, 2009; Ogah, 2013; Azhar et al., 2018). Evidence from literature showed that there have been complaints of persistent system failure due to a large amount of data being processed, a lack of system stability, operating system crashes, and undetected data transmission errors (Dandago & Rufai, 2014; Ekwueme, Egbunike, & Okoye, 2012). The aforementioned issues have led to the production of misleading financial reporting that could consequently lead to wrong decision-making by users of the reports. Therefore, this study examines the effect of system quality on quality of financial reporting.

Furthermore, user competence determines the quality of financial reporting of organizations. This is also ascertained by Xu (2009) that competent employees are important to the data/information quality of AIS. The importance of user competence in the successful integration and operation of AIS to produce high-quality financial reporting is heightened by research conducted by Astrawan, Wahyuni and Herawati (2016), Evicahyani and Setiawina (2016), Shintia and Erawati (2017), Tawakal and Suparno (2017), Mutiana, Diantimala and Zuraida, (2017). According to Mutiana et al. (2017), employees with minimal knowledge of their duties and functions encountered problems in the data compilation process and the subsequent preparation of financial reports. Thus, this study examines the effect of user competence on the quality of financial reporting produced by AIS.

Empirical studies showed that there have been various researches on AIS and quality of financial reporting. However, most of the studies have been on AIS as it relates to organizational administration, profitability, and internal control while studies of quality of financial reporting concentrates more on its determinants, corporate governance, and market performance. It is also discovered that most studies made use of one or two variables for quality of financial reporting. In light of this, this study fills the gaps in literature by examining the effect of accounting information system on the quality of financial reporting of listed companies in the manufacturing sector in Nigeria. Specifically, the study postulates two testable hypotheses for the study;

**H01:** System quality has no effect on the quality of financial reporting of listed manufacturing companies in Nigeria.

**H02:** User competence has no effect on the quality of financial reporting of listed manufacturing companies in Nigeria

### 1.3 Significance and Scope of the Study

Accounting information system is integrated with the expectation of enhancing the preparation of financial reporting and improving its quality. A lot of literature exist on AIS and quality of financial reporting. However, evidence from the literature showed that previous studies on AIS and quality of financial reporting of listed manufacturing companies in Nigeria focused on AIS as it pertains to organizational performance, administration effectiveness, financial

performance. This study will therefore widen the knowledge if the integration of AIS has enhanced the quality of financial reporting. The study is limited to companies in the manufacturing sector that are quoted on Nigeria Exchange Group. Respondents are limited to staff of the selected companies and auditors from selected audit firms.

The section constitutes the introduction and background to the study while the remaining of this paper is structured as follows: section two reviews literature that are related to the study, theoretical framework and the conceptual framework. Section three is about the methodology of the study and model for the study. Section four is on results and discussion of findings while section five centres on conclusion, and recommendations based on findings of the study.

## 2.0 LITERATURE REVIEW

### 2.1 Concepts of Accounting Information System, System Quality and User Competence

Accounting Information System (AIS) has become an important part of an organization. It is the integration of two different specialties which are accounting and information system. It is integrated to enhance the timely availability of reliable and relevant information that would enhance decision-making by users. According to Stair and Renoid (2010) AIS is defined as a system that processes data and transactions to provide users with the information they need to plan, control and operate their businesses. Also, Borhan and Bader (2018) defined an AIS as a system that contains a group of harmonized businesses, components, and resources that process, manage, and control the data for producing and carrying the relevant information for decision-makers in the organization.

As asserted by Whittington and Pany (2004) an efficient AIS should among other things, identify and record all valid transactions, describe on a timely basis the transactions in enough detail to permit proper classification of transactions for financial reporting, measure the value of transactions for reporting their proper monetary value in the financial statements, determine the time in which transactions occurred to permit recording of transactions in the proper accounting period, and present properly the transactions and related disclosures in the financial statements. AIS is a system that assists in the collection, storage, processing, retrieval and analyzing of financial and non-financial information using computer technology, to provide a wide range of users with the information they need. It is important to the active flow of the firm and in making informed decisions.

### 2.2 Concepts of System Quality

System quality refers to the effectiveness and efficiency with which AIS operates in collecting, processing, analyzing and retrieving information for use by users. System failure and system error can affect operational activities and decision-making as well as impede the production of quality financial reporting. Shagari, Abdullah and Saat (2015), define system quality as the degree of technical efficiency of the system, in terms of user interface consistency, ease of use, documentation quality, programming error and maintainability of the system. The quality of a system can also be determined by the following; access to the system, convenience and ease of use, its efficiency, flexibility, mode of integration, interactivity with other systems, response time and system features, (Gable, Sedera and Chan, 2008 and Iivari, 2005).

## 2.3 Concepts of User Competence

A very important element of AIS is the human resource which is involved in the designing, developing, integrating and maintaining the systems. As asserted by Ganyam and Ivungu (2019) individuals play a vital role in ensuring that the accounting information system achieves its purpose. The competence of the users determines the quality of financial reports produced by an organization. Competence refers to the associated skills, abilities, knowledge and personal characteristics of employees which enable them to work successfully, (Hellenbeck & Wright, 2015). In his work, Mahdavian et al. (2016) categorized the user skills into three major dimensions: Technical skill, human skill and conceptual skill in Information System (IS) application. Likewise, Peterson and Van Fleet (2004), defined technical skills as the understanding of specific activities that require the use of specialized tools, methods, processes, procedures, techniques, or knowledge. According to them, human skills are the abilities individuals possess which direct them to work supportively with others, communicate effectively, solve problems and conflicts and work as a team. Furthermore, conceptual skills are considered as the ability of a person who treats the organization as a whole.

## 2.4 Quality of Financial Reporting

There have been various perceptions and definitions of quality of financial reporting. Financial reporting provides an effective means of reducing or removing information asymmetries and enhancing investors and stakeholders' confidence in the financial reporting of an organization. The activities and operations of an entity are disclosed via the financial reporting which is made available to different users for their various needs. The financial reporting includes statements of comprehensive income, financial position, cash flow, and other financial information. Financial reporting is very important to all stakeholders; thus, it provides them with the necessary information to reduce uncertainty and helps them to make salient economic and financial decisions, Nassar, Uwuigbe, Uwuigbe and Abuwa, (2014). According to Verdi, (2006), quality of financial reporting can be defined as the precision with which information about the firm's operations, and its cash flows is conveyed to equity investors. According to O'Brien and Marakas (2010), the quality of accounting information can be described in three dimensions, namely, time, content and format. The financial reporting of an entity contain quantitative and qualitative information about its operations.

Qualitative characteristics of the financial reporting are the attributes that make financial information useful and consist of relevance, faithful representation, comparability, timeliness and understandability, (Ahmed, Maysam & Naim Salameh, 2018). These characteristics can be divided into two major categories which are fundamental and enhancing. The fundamental characteristics, which are faithful representation and relevance, increase the decision usefulness of the financial report while the enhancing characteristics, which are timeliness, understandability, comparability and verifiability, aggravate the effect of the fundamental characteristics. Understandability means that the users must be able to understand the contents of the financial reporting. Faithful Representation means that the contents of the financial reporting should be complete, free from error and bias. It should give a fair and true representation of the firm. Relevance means that the information of the financial reporting must be able to influence decision-making of the users. Comparability means that the users must be able to compare the financial reports of a firm over a certain period, to discover trends in its

financial performance and position. Timeliness means the information of the financial reports must be available when needed.

## 2.2 Theoretical Framework

The study is anchored on DeLone and McLean Model (2003) and contingency theory. DeLone and McLean's model was first proposed in 1992 when the two scholars came up with a model for measuring Information System (IS) in research. The model popularly referred to as D&M IS Success Model was based on theoretical and empirical research from the 1970s to the 1980s. The 1992 model comprised six IS success factors which were information quality, system quality, use, user satisfaction, individual impact and organizational impact. The factors are used to measure IS success and effectiveness, (DeLone & McLean, 2003). The model was updated in 2003 to include service quality, while individual impacts and organizational impacts were collapsed into parsimonious benefits. The contingency theory is premised on the fact that there is no single method to manage an organization, and that each situation may require different approaches of management style. The theory was proposed by Otley in 1980. Furthermore, Tiessen and Waterhouse (1983) expanded the contingency theory with the claim that the structure of an organization depends on the company's technology and environment.

The adoption of the DeLone and McLean model for this study is premised on the fact that the study adopted the system quality variable from the model This is because the model is a comprehensive evaluation of Information Systems (IS) which has been validated by many empirical studies, (Urbach, & Muller, 2012; Wu & Wang, 2006; Xu et al., 2013). Contingency theory is chosen because there is no universally appropriate AIS that can be used for every situation or organization. Each organization integrated AIS according to its strategy since the effectiveness and efficiency of AIS are contingent on factors like technology used. And system quality.

## 2.3 Empirical Review

Several studies have been carried out in the area of Accounting Information System (AIS) and Quality of Financial Reporting (QFR) both in developed and developing countries. Some of the empirical studies reviewed are:

Puspitawati, Hilmi, Virginia and Hertati (2022) examined user competence and business digitalization for the successful performance of the financial statements. 98 Small and Medium Enterprises in Indonesia were used while PLS-SEM was employed to analyze the data. The variables used include knowledge, skills and experience for user competence, security, easy to access, and availability for use for financial application, and understandability, reliability, time period and accuracy for quality of financial statements. The results showed that user competence and the use of financial applications have significant effects on the quality of financial reports.

Fraij, Haddad and Romman (2021) examined the quality of accounting information systems, firm size and business sector in Jordan. They used 504 Jordan-based businesses which comprise 452 small and medium-sized corporations and 52 major companies in the agricultural industry, construction and trade services sectors. The result from the one-way ANOVA analysis showed that there are variations (significant difference) in the system quality and

information quality among business sectors in Jordan. Mardi, Perdana, Suparno and Munandar (2020) examined the effect of AIS, teamwork and internal control on the financial reporting timeliness of 60 cooperatives in Indonesia. Using primary data and multiple regression to analyze the variables, their results showed that AIS, teamwork, and internal control had a positive and significant effect on the timeliness of financial reporting.

Binh, Tran, Thanh and Nga (2020) examined the impact of accountant resource on quality of accounting information system of small and medium enterprises in Vietnam. Variables such as system quality, information quality and usefulness were used to measure accounting information system while accounting resource was proxied by competence and relationship of the employees with the firm. One hundred and thirty-four respondents were used and path analysis of the structural equation model was employed to analyze the data. The findings showed that a positive direct effect of accountant resources on system quality, information quality and usefulness existed.

Fitriati, Tubastuvi and Anggoro (2020) studied the role of AIS success on accounting information quality. The variables used are system quality (integration and accessibility), AIS success (perceived usefulness, ease of use, and AIS usage) and accounting information quality (relevant, accurate, timelines, and complete). Data was collected through the administration of questionnaire on 114 respondents. The results of the study revealed that system quality influences the successful implementation of AIS which in turn affects the quality of accounting information produced.

Elsharif (2019) examined the impact of AIS elements (which are people, procedures and instructions, data, software, information technology infrastructure, and internal control) on the relevance of financial information in Banks in Libya. Pearson correlation and regression analysis were used to analyze the data collected. The findings of the study showed that only three elements; people, data and internal controls impact on positively the relevance of financial information. Sujud and Hachem (2019) examined the effect of the quality of AIS outputs on customer satisfaction in Lebanese commercial banks. Data gotten from 400 questionnaires were analysed using multiple regression. Variables such as relevance, reliability, comparability and consistency were used to proxy AIS. Their studies found that there is a statistically significant effect of the quality of AIS output on customer satisfaction in the Lebanese banking sector.

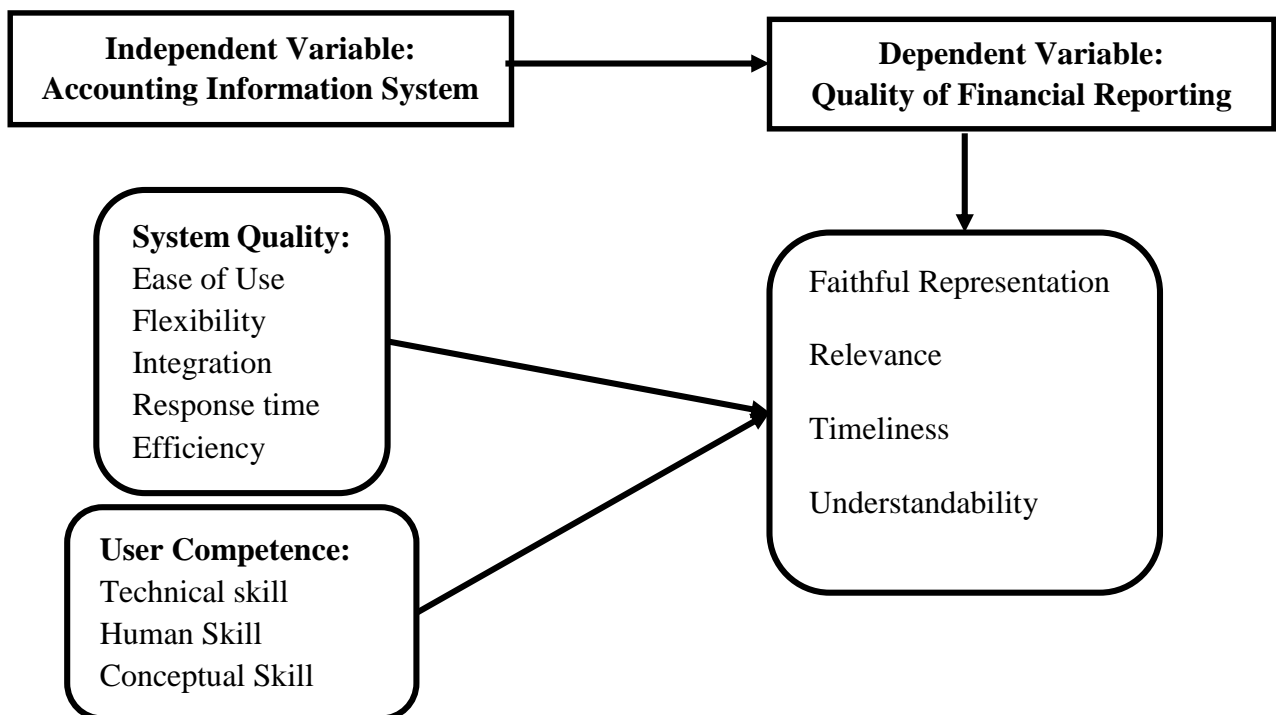
Mbobo and Ekpo (2016) operationalized the qualitative characteristics of financial reporting to measure the quality of financial reporting. The study employed a survey research approach, using 300 professional accountants as respondents. They made use of faithful representation, relevance, comparability, timeliness, understandability and verifiability. The result of the study which was analyzed descriptively showed that each of the characteristics are necessary to promote the quality of financial reporting with faithful representation and relevance leading the pack.

Kanakriyah (2017) studied the impact of accounting information systems (AIS) on banks success in Jordan. Variables used include flexibility, simplicity of use and information quality, system quality. Correlations and multiple regressions were applied, and findings showed that accounting information systems have significant effects on banks success. Onaolapo and

Odetayo (2012) examined the effect of accounting information systems on organizational effectiveness with special reference to selected construction firms in the Ibadan metropolis. The purposive sampling technique was adopted in selecting a total of ten personnel from each of the selected companies as the sample for the study. The results show that an accounting information system has effect on organizational effectiveness.

## 2.4 Conceptual Framework

The independent variable is Accounting Information System (AIS) and it is proxied by system quality and user competence. System quality is adopted from the updated information systems success model of DeLone and McLean (2003). This variable is selected because it is one of the major quality dimensions and is considered essential for evaluating the effectiveness of AIS (DeLone & McLean, 2003; Basel, Bakar and Omar, 2016; Shagari et al., 2017) while user competence is an important element of AIS (Haleem and Teng, 2018). The dependent variable is Quality of Financial Reporting (QFR). QFR is proxied by relevance, faithful representation, timeliness and understandability. The variables are adopted from the qualitative characteristics of the financial reporting specified by the International Accounting Standard Board (2018). Relevance and faithful representation are the fundamental qualitative characteristics while timeliness and understandability are the enhancing qualitative characteristics of financial reporting. Figure 1 shows the conceptual framework of the study.



**Figure 1: Conceptual Framework for the Study**

Source: Compiled by the researcher, 2023.

## 3.0 METHODOLOGY



## 3.1 Study Area

The study area covered companies that are listed in the manufacturing sector of Nigeria. The sector comprises consumer goods, healthcare, industrial goods, conglomerate, natural resources, and agriculture.

## 3.2 Research Design

This study adopted a cross-sectional survey research design. This design is chosen for the study because it involves collecting information from a given sample size only once at a different location but done at the same period, (Al-Okaily 2020; Olaniyan, Ojo, & Taiwo, 2018). Also, it will help to elicit information from respondents on accounting information systems and the quality of financial reports.

## 3.3 Population of the Study

The population for this study comprised the companies in the manufacturing sector that are quoted on the Nigerian Exchange Group (NGX). Sixty-four companies in the manufacturing sector are listed on the NGX. (NGX website, 2021). The population also consisted of auditors from the largest four audit firms in Nigeria. These audit firms are selected because they are the largest professional services networks both in terms of revenue and workforce.

## 3.4 Sampling Technique and Sample Size

Multi-stage sampling techniques, comprising four stages, was used to select the sample for the study. The first stage was the use of stratified sampling technique to categorize the manufacturing sector into different sub-sectors as provided on the Nigerian Exchange Group. The second stage is the use of random sampling technique to select companies from each sub-sector. Twenty firms constituted the sample size for the study – Consumer goods (7), Healthcare (3), Industrial goods (4), Conglomerates (1), Natural resources (1), Agriculture (1) and Oil and Gas (3). Firms selected are those that have been listed on NGX for 15 years and above. The third stage was the use of the purposive sampling technique to select respondents from the finance/accounting departments of the selected firms.

The staff of these departments were chosen because they are involved in the preparation of financial reports and usage of AIS. The fourth stage was the use of the convenience sampling technique to select ten respondents from each company. Ten questionnaire was administered in each selected firm which makes it a total of 200 questionnaire. Also, a convenience sampling technique was used to select twenty-five respondents from each of the audit firms which give a total of 100 respondents. This gives an overall total of three hundred respondents for the study.

## 3.5 Sources of Data and Method of Data Collection

Primary data was used for the study. The use of primary data is in line with the studies of Elsharif (2019), Sujud et al., (2019), Okaily et al., (2020), and Mardi et al., (2020). The choice of primary data is to seek the opinion of the respondents on AIS and quality of financial reporting. The data collection instrument was the questionnaire which was administered to

respondents chosen from each of the selected firms. The questionnaire was based on a 5-point Likert scale which was designed in alignment with related studies to ensure their validity and reliability. The questionnaire was divided into two sections. Section A is based on the demographic characteristics of the respondents. Section B was divided into two parts and each part was developed to address a specific objective of the study. Part A is on the effect of system quality on financial reporting and part B is on the effect of user competence on quality of financial reporting.

### 3.6 Validity and Reliability Tests

The questionnaire was subjected to both validity and reliability tests. The validity test was carried out to ensure that the questionnaire measure what they are designed to measure. The reliability test was carried out to confirm the accuracy and the consistency of the instrument. The tests that were done include Cronbach alpha testing, consistency review, and pilot testing.

### 3.7 Description and Measurement of Variables

Table 1 depicts the measurement of variables used for the study. The tables shows measurement items for each of the variables and where they are adopted from.

**Table 1: Variables, Measurement Items and their Sources**

| <b>Independent Variables: Accounting Information System (AIS)</b> |   |   |
|---|---|---|
| <b>Variables</b>  | <b>Measurement Items</b>  | <b>Sources</b>  |
| System Quality  | Ease of use, flexibility, integration, response time and efficiency | DeLone and McLean (2003), Gable <i>et al.</i> , (2008), Iivari (2005), Shagari <i>et al.</i> , (2015)                           |
| User Competence   | Technical skill, human skill and conceptual skill                   | Mahdavian <i>et al.</i> , (2016), Haleem and Teng (2018)  |
| <b>Dependent Variables: Quality of Financial Reporting (QFR)</b>  |   |   |
| Faithful representation   | Freedom from material error, completeness.                          | Gaeremynck and Willekens, 2003; Cohen <i>et al.</i> , 2004; Maines and Wahlen, 2006; Kim <i>et al.</i> , 2007; Willekens, 2008) |
| Relevance   | Confirmatory value, predictive value,                               | Bartov and Mohanram, 2004, Maines <i>et al.</i> , (2006), Schipper and Vincent (2003)   |
| Timeliness  | Audit lag, total lag.   | Ettredge <i>et al.</i> , 2006, Beest <i>et al.</i> , 2009, Zaitul, 2010; Ohaka <i>et al.</i> 2017,                              |
| Understandability   | Format, clarity   | Iu and Clowes (2004), Courtis (2005)  |

**Source:** Researcher's compilation, 2023.

## 3.8 Method of Data Analysis

Both descriptive and inferential statistics were used for testing hypotheses and data analysis. Descriptive statistics employed include percentage frequency and standard deviation while inferential statistics include the Structural Equation Modelling (SEM) used to examine the effect of System Quality (SQ) on QFR and the effect of User Competence (UC) on QFR. The model was employed in two stages which are the measurement model and the structural model.

## 4.0 RESULTS AND DISCUSSIONS

Two sets of questionnaires and two sets of respondents were used for the study. Questionnaire on accounting information system were administered to the first set of respondents who are those working with AIS in the selected companies. Questionnaire on quality of financial reporting were administered on the second set of respondents who are the auditors working in the audit section of the selected audit firms. Three hundred copies of questionnaire (200 for manufacturing companies and 100 for auditors) were administered, however, two hundred and seventy-six were found usable, 186 and 90 copies of questionnaire from the non-financial companies the audit firms respectively. This showed a response rate of 92% on the questionnaire administered.

### 4.1 Socio-Demographic Information of the Respondents

Table 2 shows the socio-demographic information of the respondents selected for this study. A large percentage of the respondents are male (210, 76.0%) while 24.0% (66) are female. 75.4% (208) of the respondents are within the age range of 21 to 40 while 24.6% (68) are of the age bracket 41 to 60. For the academic qualification of the respondents, 19.2% (53) have BSC/HND, 66.7% (184) have MSC/MTECH/MBA while 14.13% (39) have PHD. For the professional qualification, 93.5% (258) of the respondents are certified members of ICAN/ACCA while 6.5% (18) are qualified members in ANAN. Their work experience level showed that 35.5% (98) of the respondents have between 0- and 10-years' experience, 53.6% (148) have between 11- and 20-years' experience, 10.9% (30) have between 21- and 30-years' experience.

Thus, it can be deduced from the above results that most of the respondents are male, within the age bracket of 21 to 40, are highly educated with MSC/MTECH/MBA certificates and certified members of ICAN/ACCA. This implied that the respondents used for this study are those who are knowledgeable enough in the areas of accounting information system and quality of financial reporting. For those working with Accounting Information System (AIS), respondents are limited to manufacturing companies and only those working with the AIS were given the questionnaire to fill.

### Table 2: Socio-Demographic Information of the Respondents

| Categories                                       |                | Frequency  | Percentage |
|--|----------------|------------|------------|
| Gender   | Male           | 210        | 76.0       |
|  | Female         | 66         | 24.0       |
|  | <b>Total</b>   | <b>276</b> | <b>100</b> |
| Age  | 21 to 40       | 208        | 75.4       |
|  | 41 to 60       | 68         | 24.6       |
|  | <b>Total</b>   | <b>276</b> | <b>100</b> |
| Academic Qualification                           | BSC/HND        | 53         | 19.2       |
|  | MSC/MTECH/MBA  | 184        | 66.67      |
|  | PHD            | 39         | 14.13      |
|  | <b>Total</b>   | <b>276</b> | <b>100</b> |
| Experience                                       | 0 to 10 Years  | 98         | 35.5       |
|  | 11 to 20 Years | 148        | 53.6       |
|  | 21 to 30 Years | 30         | 10.9       |
|  | <b>Total</b>   | <b>276</b> | <b>100</b> |
| Professional Qualification                       | ICAN/ACCA      | 258        | 93.5       |
|  | ANAN           | 18         | 6.5        |
|  | <b>Total</b>   | <b>276</b> | <b>100</b> |
| Working with Accounting Information System (AIS) | YES            | 186        | 100        |
|  | NO             | 0          | 0          |
|  | <b>Total</b>   | <b>186</b> | <b>186</b> |

Source: Author's Compilation, 2023

## 4.2 Test of the Reliability and Validity of the Questionnaire

The reliability of the questionnaire for this study was tested using Cronbach's alpha statistics. The test was conducted to assess the internal consistency of the questionnaire. Cronbach's alpha values of at least 0.7 are regarded as satisfactory. The results of the Cronbach Alpha are presented in Table 3. It shows the value for each of the constructs used for the study. The values, ranging from 0.846 for Relevance (R) to 0.961 for System Quality (SQ) are considered acceptable for this study since they are higher than 0.70.

**Table 3: Reliability Test of Questionnaire**

| Factors                                      | Number of Items | Cronbach's Alpha Value |
|--|-----------------|------------------------|
| Questions related to system quality          | 6               | <b>0.961</b>           |
| Questions related to user competence         | 3               | 0.932                  |
| Questions related to faithful representation | 3               | 0.882                  |
| Questions related to relevance               | 4               | <b>0.846</b>           |
| Questions related to timeliness              | 3               | 0.921                  |
| Questions related to understandability       | 3               | 0.926                  |

Source: Author's Compilation, 2023

## 4.3 Test for Multicollinearity

Multicollinearity test was done to check if there are high correlations among the independent variables. Tolerance and Variance Inflation Factor (VIF) were used to check for multicollinearity among the independent variable. The result showed that there were no issues of multicollinearity. The tolerance values were above the recommended value of 0.20, and the

VIF values were below 5 (Hair, Hult, Ringle and Sarstedr, 2022). This means that the independent variables are not highly correlated. The results are presented in Table 4.

**Table 4. Test for Multicollinearity**

| Constructs       | Collinearity Statistics |       |
|------------------|-------------------------|-------|
|                  | Tolerance               | VIF   |
| Ease of Use      | .769                    | 1.300 |
| Flexibility      | .798                    | 1.253 |
| Ease of Learning | .781                    | 1.280 |
| Response Time    | .548                    | 1.823 |
| Integration      | .504                    | 1.984 |
| Technical Skill  | .518                    | 1.930 |
| Human Skill      | .637                    | 1.569 |
| Conceptual Skill | .445                    | 2.247 |

**Source:** Author’s compilation, 2023

**4.4 Measurement Model of Study Constructs, Goodness of Fit Indices and Factor Loading**

Confirmatory Factor Analysis was used to determine the measurement model of the study. Six latent constructs (two for exogenous and four endogenous variables) and sixteen measuring items (eight indicators for the exogenous variables and eight indicators for the endogenous variables) were used, making it a total of twenty-two items used for the measurement model. The items and their meanings are: for System Quality (SQ) construct; EOU= Ease of Use, FLB= Flexibility, EOL= Ease of Learning, RT= Response Time, IGT= Integration, EFF= Efficiency. For User Competence (UC) construct; TESK= Technical Skill, HMSK= Human Skill, CONSK= Conceptual Skill. For Faithful Representation (FR) construct; FR1= Freedom from material error, FR2= Completeness. For Relevance (R) construct; R1= Confirmatory Value, R2= Predictive Value. For Timeliness (TL) construct; TL1= Audit Lag, TL2= Total Lag. For Understandability (UD) construct; UD1= Format, UD2= Clarity.

To ascertain the measurement model, the fitness of the measurement model must be checked using certain criteria which include the goodness of fit indices, factor loading, composite reliability, and convergent and discriminant validity. According to Kline (2005) and Hair et al (2010), the goodness of fit indices to be considered include chi-square ( $\chi^2/df$ ), Goodness of Fit Index (GFI), Normed Fit Index (NFI), Parsimony Normed Fit Index (PNFI), Root Mean Square Residuals (RMSR), Comparative Fit Index (CFI), Adjusted Goodness-of-Fit Index (AGFI), the Root Mean Square Error of Approximation (RMSEA). They postulated that at least six of these indices should be reported. Tables 5 showed that the values of the model fit indices are within the recommended values for each.

**Table 5: Model Fit Indices for the Study**

| FIT INDEX | RESULTS | RECOMMENDED |
|-----------|---------|-------------|
| CMIN/df   | 4.856   | <5          |
| GFI       | 0.910   | >0.90       |
| CFI       | 0.945   | >0.90       |
| NFI       | 0.951   | >0.90       |
| PNFI      | 0.629   | >0.60       |
| RMSEA     | 0.075   | <0.08       |
| SRMR      | 0.074   | <0.10       |

**Source:** Author's compilation through SPSS Amos Software, 2023

The Factor Loading (FL) is to examine the relationship among the different constructs and their corresponding variables for the study in line with the conceptual framework of the study. The factor loading is to show the extent to which each of the observed variables contribute to the latent variables. The values of the factor loading for each of the constructs should be greater than 0.7. Table 6 showed the values of the factor loading for the constructs.

**Table 6: Factor Loading for the Latent Variables and their Indicators**

|       |      | Latent Variable/Indicator | Factor Loading |
|-------|------|---------------------------|----------------|
| RT    | <--- | SQ                        | 0.903          |
| EOL   | <--- | SQ                        | 0.754          |
| FLB   | <--- | SQ                        | 0.957          |
| EOU   | <--- | SQ                        | 0.782          |
| IGT   | <--- | SQ                        | 0.761          |
| CONSK | <--- | UC                        | 0.953          |
| HMSK  | <--- | UC                        | 0.815          |
| TESK  | <--- | UC                        | 0.846          |
| R3    | <--- | R                         | 0.953          |
| R4    | <--- | R                         | 0.916          |
| FR1   | <--- | FR                        | 0.794          |
| FR2   | <--- | FR                        | 0.837          |
| TL1   | <--- | TL                        | 0.917          |

|     | Latent Variable/Indicator |    | Factor Loading |
|-----|---------------------------|----|----------------|
| TL2 | <---                      | TL | 0.926          |
| UD2 | <---                      | UD | 0.969          |
| UD3 | <---                      | UD | 0.758          |

Source: Author’s compilation through SPSS Amos Software, 2023

#### 4.5 Constructs Reliability and Validity

The reliability of the study constructs was checked through Composite Reliability (CR). This is to ensure the internal consistency of the measuring items. The composite reliability values should be above 0.7 to be acceptable. The CR of the constructs was calculated with the formula below:

$$CR = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + (\sum \epsilon_i)}$$

Where:

$\lambda$  = standardized factor loading for item i

$\epsilon$  = error variance for item i

$$\epsilon_i = 1 - \lambda^2$$

The validity tests were done through the convergent and discriminant validity of the constructs. The convergent validity of the constructs was checked to ensure that measuring items for a construct converge to measure the construct. To check the convergent validity, the Average Variance Extracted (AVE) of each construct was calculated. The AVE values should be greater than 0.5 to be acceptable. According to Fornell and Larcker (1981), the AVE can be calculated using the formula below:

$$AVE = (\sum \lambda^2_i) / n$$

Where  $\lambda$  represents factor loadings.

The discriminant validity of the constructs was checked by comparing the square root of Average Variance Extracted (AVE) of each construct with its correlation with other constructs. To establish discriminant validity, the square root of the AVE of each construct should be greater than its correlation with other constructs. The ensuing results showed that the AVE of each construct is greater than their correlation values thus, discriminant validity of the constructs is established. The results of the composite reliability, convergent validity and discriminant validity are presented in Table 7.

**Table 7: Composite Reliability, Convergent Validity and Discriminant Validity for the Study**

| CONSTRUCTS              | CR    | AVE   | SQ           | UC           | R            | FR           | TL           | UD           |
|-------------------------|-------|-------|--------------|--------------|--------------|--------------|--------------|--------------|
| System Quality          | 0.916 | 0.615 | <b>0.784</b> |              |              |              |              |              |
| User Competence         | 0.896 | 0.812 | -0.962       | <b>0.901</b> |              |              |              |              |
| Relevance               | 0.918 | 0.815 | -0.698       | 0.449        | <b>0.903</b> |              |              |              |
| Faithful Representation | 0.806 | 0.676 | 0.658        | 0.502        | 0.405        | <b>0.822</b> |              |              |
| Timeliness              | 0.927 | 0.865 | 0.643        | 0.522        | 0.550        | 0.305        | <b>0.930</b> |              |
| Understandability       | 0.822 | 0.706 | 0.272        | 0.685        | 0.497        | 0.607        | 0.562        | <b>0.840</b> |

**Note:** The discriminant validity values are in bold figures.

**Source:** Author’s compilation, 2023

#### 4.6 Analysis of the Structural Model

The structural model of the study was tested for the two objectives which produced four different results which are the paths coefficient, Coefficient of Determinant (R<sup>2</sup>), Effect Size (F<sup>2</sup>) and the goodness of fit for the model. Figure 2 shows the structural model for the study. The results of the goodness of fit indices for the structural model showed that CMIN/df = 4.825 < 5, GFI = 0.942 > 0.90, NFI = 0.926 > 0.90, PNFI = 0.648 > 0.60, RMSR = 0.088 < 0.10, CFI = 0.949 > 0.90, and RMSEA = 0.076 < 0.08. All the goodness of fit indices falls within the recommended values which showed that the structural model is a good fit for the study.

Furthermore, the coefficient of determination (R<sup>2</sup>) of the study was checked. According to Hair et al (2013), R<sup>2</sup> values between 0.26 and 0.50 are considered moderate for endogenous latent variables. The R<sup>2</sup> for this study showed that the exogenous latent variables of SQ and UC combined to explain 48 percent (0.48) variations in quality of financial reporting. This means that AIS moderately explained QFR and one percent change in AIS will result in 48 percent change in QFR. Moreover, the effect sizes (F<sup>2</sup>) of each of the independent variable on the dependent variable were calculated. According to literature, F<sup>2</sup> value that is less than 0.15 is weak, 0.15 to 0.35 is moderate and greater than 0.35 is strong. The result of the F<sup>2</sup> showed that SQ has 0.260 effect on QFR and UC has 0.229 effect on QFR. This indicated that SQ and UC have moderate effects on the QFR.



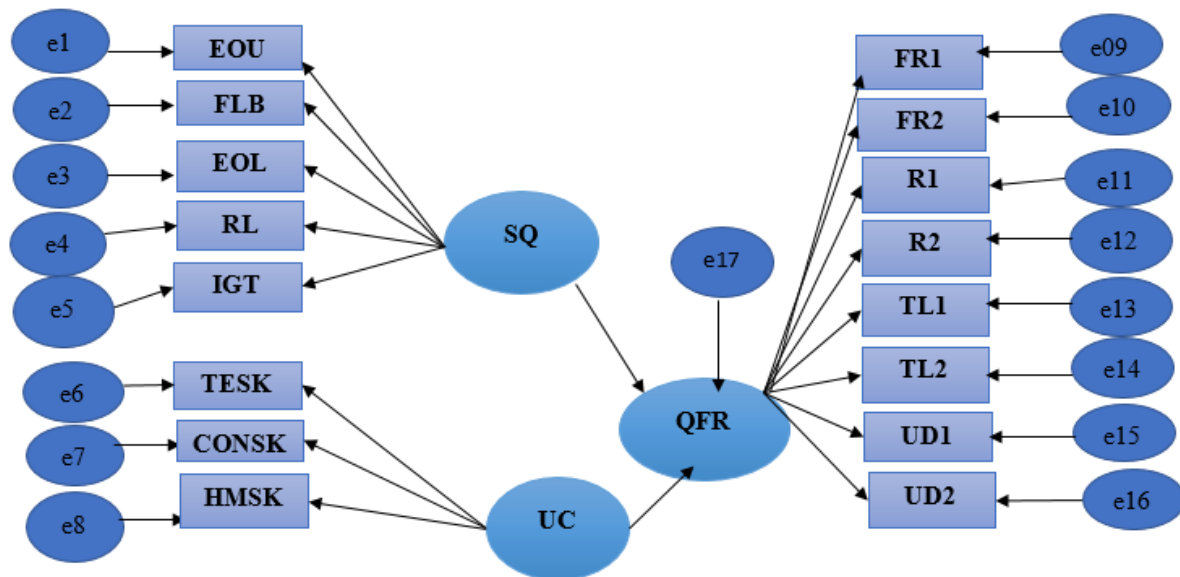


Figure 2: Structural Model of the Study

Source: Author’s compilation, 2023

#### 4.7 Hypotheses Testing for the Study

##### 4.7.1 Effect of System Quality on the Quality of Financial Reporting of Listed Companies in Manufacturing Sector in Nigeria.

##### Findings

To examine the effect of System Quality (SQ) on Quality of Financial Reporting (QFR), Structural Equation Modelling (SEM) was used. The result is presented in Table 8. The results from the unstandardized effects showed that Response Time (RT) at (0.104,  $p < 0.001$ ), Ease of Use (EOU) at (0.620,  $p < 0.001$ ), Flexibility (FLB) at (1.155,  $p < 0.001$ ), and Integration (IGT) at (1.000,  $p < 0.001$ ) were significant and positively related with SQ. Also, SQ has positive and significant unstandardized effect of 0.338 on QFR at 0.000 which is lower than critical p-value of 0.001 level of statistical significance.

Furthermore, the paths coefficients results revealed that Response Time (RT) at ( $\beta = 0.125$ ,  $p = 0.000 < 0.001$ ,  $t = 2.079 > 1.96$ ), Ease of Use (EOU) at ( $\beta = 0.484$ ,  $p = 0.000 < 0.001$ ,  $t = 7.299 > 1.96$ ), Flexibility (FLB) at ( $\beta = 0.762$ ,  $p = 0.000 < 0.001$ ,  $t = 9.880 > 1.96$ ), and Integration (IGT) at ( $\beta = 0.609$ ,  $p < 0.001$ ) were significant and positively related with SQ. Also, result revealed that SQ has 34% significant and positive effects on QFR at ( $\beta = 0.342$ ,  $p = 0.000 < 0.001$ ,  $t = 3.107 > 1.96$ ). Thus, the hypothesis that system quality has no effect on the quality of financial reporting was rejected.

Table 8: Unstandardized Estimates and Path Coefficients of System Quality on Quality of Financial Reporting

| Relationships | Unstandardized Effects | Paths Coefficients | Standard Error | t-Value      | p-Value    |
|---------------|------------------------|--------------------|----------------|--------------|------------|
| RT → SQ       | 0.104                  | 0.125              | 0.050          | 2.079        | ***        |
| EOU → SQ      | 0.620                  | 0.484              | 0.085          | 7.299        | ***        |
| FLB → SQ      | 1.155                  | 0.762              | 0.117          | 9.880        | ***        |
| IGT → SQ      | 1.000                  | 0.609              |                |              | ***        |
| EOL → SQ      | -0.155                 | -0.142             | 0.066          | -2.356       | 0.018      |
| SQ → QFR      | <b>0.338</b>           | <b>0.342</b>       | <b>0.109</b>   | <b>3.107</b> | <b>***</b> |

**Note: \*\*\*\*\* Significant at statistical level  $p < 0.05$ ,  $p < 0.01$ , and  $p < 0.1$ .  $t > 1.96$**

**Source:** Author's compilation through SPSS Amos Software

## 4.7.2 Effect of User Competence on the Quality of Financial Reporting of Listed Companies in Manufacturing Sector in Nigeria.

### Findings

Structural Equation Modelling (SEM) was employed to examine the effects of User Competence (UC) on Quality of Financial Reporting (QFR). The result is presented in Table 4.11. The result from the unstandardized effects showed that Conceptual Skill at (1.000,  $p < 0.001$ ) and Technical Skill (TESK) at (1.576,  $p < 0.001$ ) was significant and positively related with UC. Also, User competence has positive and significant unstandardized effect of 0.050 on QFR at 0.000 which is lower than critical p-value of 0.005 level of statistical. Furthermore, the paths coefficients results revealed that Conceptual Skills (CONSK) at ( $\beta = 0.491$ ,  $p = 0.000 < 0.001$ ), Technical Skills (TESK) at ( $\beta = 0.440$ ,  $p = 0.000 < 0.001$ ,  $t = 8.976 > 1.96$ ), and Human Skills (HMSK) at ( $\beta = 0.563$ ,  $p = 0.000 < 0.001$ ,  $t = 2.394 > 1.96$ ) were significant and positively related with UC. Also, result revealed that UC has 1.4% significant and positive effects on QFR at ( $\beta = 0.014$ ,  $p = 0.000 < 0.001$ ,  $t = 2.232 > 1.96$ ). Thus, the hypothesis that user competence has no effect on the quality of financial reporting was rejected.

**Table 9: Unstandardized and Standardized Effects of User Competency on Quality of Financial Reporting**

| Relationships | Unstandardized Effects | Paths Coefficients | Standard Error | t-Value      | p-Value    |
|---------------|------------------------|--------------------|----------------|--------------|------------|
| CONSK → UC    | 1.000                  | 0.491              |                |              | ***        |
| TESK → UC     | 1.576                  | 0.440              | 0.176          | 8.976        | ***        |
| HMSK → UC     | 1.857                  | 0.563              | 0.153          | 2.394        | ***        |
| UC → QFR      | <b>0.050</b>           | <b>0.014</b>       | <b>0.216</b>   | <b>2.232</b> | <b>***</b> |

**Note: \*\*\*\*\* Significant at statistical level  $p < 0.05$ ,  $p < 0.01$ , and  $p < 0.1$ .  $t > 1.96$**

**Source:** Author's compilation through SPSS Amos Software

## Discussions

There exist significant and positive relationships between system quality and its indicators (observed variables) RT, EOU, FLB and IGT. Thus, it can be inferred that the quality of the AIS are contingent on important factors such as its RT, EOU, FLB and IGT. Also, the study showed that SQ has positive and significant effect on QFR. This suggested that these factors – RT, EOU, FLB and IGT – combined to have significant effects on the faithful representation, relevance, timeliness and understandability of the financial reporting. This indicated that the AIS are expected to be fast in their response time to input and process data, and produce the output – the financial reports.

Fast response time would enhance the timely availability of information needed for decision-making, which is the financial reports, as the less timely the less relevant the information is to decision-making. Also, AIS should not be difficult to use for its users (EOU) as this would enable the users to maximize the effective and efficient use of the system. Likewise, AIS should be customizable, able to accept new related technologies and adapt to organizational environment easily (FLB). Furthermore, the AIS should be easily integrated into the organization settings (IGT). Flexibility and easy integration of the AIS would allow a firm to take advantage of new technologies which would aid the preparation of financial reports.

Therefore, it is concluded that system quality has significant effect on quality of financial reporting, thus rejecting the hypothesis that system quality has no effect on QFR. The result corroborated the works of Mardi et al, (2020), Kanakriyah (2016) and Amiri et al. (2013) that AIS has a positive and significant effect on the quality of financial reporting and supported. This result is also supported by the contingency theory since “integration” and “flexibility” which determine how AIS are built to suit organizational demands are significant indicators of system quality.

There are significant and positive relationship between user competence and its observed variables CONSK, TESK and HMSK. This means that the users of the accounting information systems are expected to have collaborative and creative abilities to work effectively with the systems. They should also be familiar with the instructions and commands needed to run or operate the accounting information systems seamlessly. The study also revealed that the conceptual, human and technical skills of AIS users, in terms of system skills, problem-skills, and analytical skills are important factors that determine the smooth operations of AIS which in turn affect the quality of financial reports produced. This indicated that user competence in terms of their knowledge of the AIS, accounting policies and principles combined to have significant effects on the QFR.

This suggested that users of AIS in companies played important roles in determining the quality of financial reports. Therefore, it is concluded that user competence has significant effects on QFR, thus rejecting the hypothesis that user competence has no effect on QFR. This result confirmed the result of Haleem et al, (2018) that user competence has significant effect on AIS. This result is also supported by the contingency theory since the design and structure of AIS for an organization are contingent on components such as user competence.

## 5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary

This study examined the effect of Accounting Information Systems (AIS) on Quality of Financial Reporting (QFR) of listed firms in Nigeria non-financial sector. It specifically examined: the effect of System Quality (SQ) on QFR and the effect of User Competence (UC) on QFR of listed firms in Nigeria manufacturing sector. The study made use of primary data through the administration of questionnaire. Respondents were selected from audit firms and twenty companies from the manufacturing sector. Data collected from two hundred and seventy-six respondents were used for the study. Descriptive and inferential statistics such as percentage frequency and Structural Equation Modelling (SEM) were used to analyse the data collected. Results from the study showed that ease of use, response time, flexibility, and integration of SQ combined to have significant effects on QFR. Also, it was discovered that conceptual, human and technical skills of user competence have significant effects on QFR

## 5.2 Conclusion

Following the findings of the tests and the analyses from this study, it can be concluded that the proxies for accounting information system, which are system quality, and user competence, have significant effects on the faithful representation, relevance, timeliness and understandability qualities of financial reporting. Generally, the study concluded that DeLone and McLean model can be used to measure accounting information system which is a subset of information system.

## 5.3 Recommendations

In the light of the findings and conclusions of this study it became imperative to recommend that firms should always maintain a high quality of their AIS through constant update of the AIS hardware and software to meet up with the demands for quality financial reporting. Also, the study recommends that firms should employ people who are sound and competent in using the AIS and knowledgeable in financial reporting standards to prepare the financial reports.

## 5.4 Contributions to Knowledge

The study has extended empirical evidence of accounting information system and quality of financial reports through its findings. The findings of the study have provided both foundational and additional knowledge by using constructs from DeLone and Mclean, which has been sparingly used in this context

## 5.5 Suggestion for Further Research

The study focused on the effect of accounting information system and quality of financial reports on listed companies in Nigeria non-financial sector. The study made use of the system quality constructs from DeLone and McLean, and four variables (faithful representation, relevance, understandability and relevance) to measure the quality of financial reporting. This study suggested that further research can be done to explore more variables for quality of financial reporting (comparability and verifiability) and consider more constructs from DeLone and McLean model.

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