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Article

Financial reporting quality of financial institutions: Literature review

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS REVIEW ARTICLE

Financial reporting quality of financial institutions: Literature review

Ahmed Mahdi Sahi^{1*}, Alaa Mahdi Sahi^{2*}, Alhamzah F. Abbas³ and Saleh F. A. Khatib³

Abstract: The objective of this study is to examine and synthesize the existing literature on financial disclosure by financial institutions. It presents a systematic literature review of 204 studies on this topic published from 1990 to 2022. The studies were retrieved from Scopus database. In addition, this review highlights the gaps in current literature including contradictory results, explores the potential data sources for empirical researchers, and offers guidance for investigating prospective areas for future studies. The study found monitoring attributes to be the key determinants of financial reporting quality. Yet, the existing literature concentrated on internal/external auditing and audit committee characteristics whilst giving limited attention to the functions of other monitoring mechanisms, i.e., board of directors. Furthermore, there is no clear evidence that efficient financial disclosure could boost the performance and evaluation of firms as well as whether these consequences are influenced by differences in the institutional and protection environment between markets. The contribution of this study resides in the application of systematic literature review to a burgeoning study topic, enabling an examination of the state-of-the-art financial reporting in financial institutions, an area that has received little attention in the literature. Based on the content investigation of the literature, future paths and implications are also presented.

Subjects: Business, Management and Accounting; Accounting; Corporate Governance

Keywords: accounting disclosure; financial institutions; online financial reporting; banks

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1. Introduction

Financial disclosure is a statement issued by a firm, business, or corporation that defines the financial strategies being employed and provides information such as expenses and earnings for a specific period (Alslihat et al., 2017). Corporations are now compelled to fully disclose all financial and non-financial information. Investors are the main beneficiaries of accounting disclosure (Stocken, 2012). Other stakeholders, including employees, the government, distributors, customers, suppliers, and society, also gain from the information transparency (Zamil et al., 2021). However, there is growing disagreement over the optimal method of delivering financial information to users (Khatib, Abdullah, et al., 2022, Al Amosh et al., 2022a; Linciano et al., 2018). The financial report had grown to suit numerous users and objectives, making it challenging for businesses that intend to customize it to the perceived demands of institutional and other more specialized users (Holland, 1999). After the 2008 global financial crisis, financial institutions—particularly those required to report to numerous countries—were confronted with a higher volume, more specificity, and a greater frequency of regulatory reporting. Given the short implementation timelines and the unpredictability of rulemaking, these institutions are compelled to enhance their data quality and integration across business divisions and product lines. Consequently, the poor quality of public information, particularly in financial reports, severely impedes their fund management and corporate governance responsibilities (Holland, 1999).

Furthermore, the number of accounting disclosure researchers and publications has expanded dramatically during the last two decades. A search of the literature revealed the variety of accounting disclosure themes that have been studied. As a result, the field of accounting disclosure determinants has developed and is currently undergoing rigorous investigation. Numerous studies in this field indicate the breadth of the domains associated with accounting disclosure, highlighting the need to examine current data and suggest areas for future research. Only a few works had thoroughly evaluated earlier studies, and most of these works focused on specific aspects of accounting disclosure (Arora, 2021; Waris & Rizwan, 2013). For instance, Gosselin et al. (2021) conducted a review that focused solely on the readability of accounting disclosures, and Arora (2021) conducted a review of human resources accounting disclosure practices. Other review studies covered a specific number of years, settings, or factors (Amernic, 1988; Rodrigues et al., 2021; Tsalavoutas et al., 2020). Therefore, a thorough and systematic examination of the determinants of accounting disclosure is clearly required in order to provide a revision to the current status of previous studies and also to uncover the potential future study agenda. In contrast to prior reviews, this study did not confine its scope to specific time frames, nations, or factors.

In this context, a systematic review article on financial reporting appears useful for addressing the continuing issues associated with the efficacy of and compliance with financial reporting standards and laws, as these issues have remained a key concern despite continuous policy initiatives. Literature reviews are valuable for organizing the numerous facets of research concerns not only because they expose the diverse nature of the information but also because they provide the conceptual frameworks for creating an understanding of the topic. In conducting this inquiry, the researchers created a search string that included the terms “accounting disclosure” and “accounting reporting” in order to find papers in the Scopus database that were relevant to this review. This search was not restricted to any particular time period or journal. The original sample of 918 research publications were subjected to a screening procedure. The list was then narrowed down to a final sample of 204 publications. This study not only examined accounting disclosures but also assessed the theoretical lenses used in the literature, the annual trend, and the geographical dispersion.

RQ1. What has been the yearly trend of previous studies?

RQ2: How are the settings of prior studies distributed?

RQ3: What are the themes discussed in the sample literature?

The rest of the manuscript is structured as follows. The literature review section comes after the introduction and is followed by the research methodology section to present the sample collection and analysis approaches. The results provide a discussion of the research findings. The directions for future research are discussed in the recommendation section. The last section concludes the study and highlights the implications and constraints of the study.

2. Literature review

Corporate financial reporting refers to any deliberate release of financial information whether via informal or formal channels, voluntary or required, or in a qualitative or numerical form. Firms provide financial information to external users via various channels including websites, press releases, interim reports, conferences, and annual reports. Financial disclosure is crucial for both businesses and stakeholders because it is the main channel for management to communicate with outside investors and market participants. The body of research on financial disclosure is vast and covers a wide range of topics, including the factors influencing voluntary disclosure, how regulatory changes affect the amount of disclosure, and the effects of disclosure on the economy (Hassan & Marston, 2019).

In recent years, scholars have become more interested in understanding the determinants of accounting disclosure owing to a variety of factors, including a significant shift toward increased globalization, the relaxation of financial laws, the development of technology, and the economic and financial crises that have forced businesses to meet the high demand for information from external users by disclosing information clearly and intelligibly in order to keep up with rapid expansions and strong competition (Setiyawati & Doktoralina, 2019). Several characteristics, such as the capacity for change, management changes, political and bureaucratic support, professional and academic support, and communication have reportedly been documented in the literature to significantly influence how corporations disclose information (Mnif & Znazen, 2020). However, the past literature's conclusions on most of these characteristics remain equivocal. The discrepancy between past research findings and current research necessitates a thorough evaluation of the components of the accounting disclosure literature. The authors of this study looked at the theoretical frameworks and financial reporting components that had been covered in earlier research, particularly those on financial institutions, in addition to the financial disclosure drivers.

Financial reporting plays two crucial roles in market-based economies. First, it reduces information asymmetry and enables capital providers to value businesses, thereby fostering the transparency that is necessary for an efficient capital market operation. This is known as the valuation role of accounting information. Second, financial reports enable external capital suppliers to assess management performance, and this is known as the stewardship role of accounting information (Pinnuck, 2012). Outsiders use accounting information for these two reasons. Whether the financial statements that are best for valuing businesses are also the greatest for assisting shareholders and boards in hiring CEOs to reduce the agency conflict is a crucial question.

Firms are increasingly devoted to social responsibilities, and they include the implications of their actions on these issues in their operational management and worldwide strategies (Rodrigues et al., 2021). In this setting, the financial report has become too complicated, difficult, and lengthy for many users. It is seen as a source of information overload for inexperienced users, and some fund managers have reacted negatively to the sheer quantity and complexity of financial reporting.

Whilst many studies have investigated the financial disclosure by private sector companies, others have looked at the public sector and not-for-profit organizations. However, relatively limited

research has been conducted on financial institutions, including the banking, investment, and insurance industry (Attia et al., 2019; Oberson, 2021). This study therefore reviewed the existing research pertaining to financial reporting in this sector and provides some guidelines for further research using systematic literature review.

3. Methodology

The systematic literature review (SLR) method is widely used in management, finance, and economics (Hedin et al., 2019). In comparison to a standard review, an SLR may provide much more impartial findings (Hazaee et al., 2022). Subjective and biased outcomes may be reduced and the inquiry status may be enhanced when SLRs are used to restrict academics' preferences in identifying the sample literature (Khatib, Abdullah, et al., 2022, Al Amosh et al., 2022a; Khatib, Abdullah, Elamer et al., 2021b; Massaro et al., 2016). Research using the SLR may testify to the analysis's openness by permitting replication (Easterby-Smith et al., 2015), and it is distinct from conventional reviews in that it is produced according to precise and stated guidelines. Therefore, in this study, we employed the SLR methodology and utilized the Scopus database. Omitting or excluding important publications was prevented from our investigation by using the Scopus database, which has been suggested as being the largest abstract indexing database (Abbas, Jusoh et al., 2022; Abbas et al., 2020; Abbas, Qureshi et al., 2022; Hatzijordanou et al., 2019; Khatib, Abdullah, Elamer et al., 2021; Sahi, Khalid, Abbas et al., 2021, 2021; Sahi, Khalid et al., 2022). Additionally, this database has information on a variety of subjects and has complex search tools that assist researchers in developing search strings that provide reliable results, particularly in broad domains such as finance and management (Khatib, et al., 2021b, 2022b).

Several keywords related to financial reporting by financial institutions (banks, investment firms, and insurance corporations) were used to search the literature. To cover a wide variety of possibly pertinent phrases, a search for synonyms of the main ideas was conducted in addition to the keywords. The final search string utilized in this study includes the terms "financial disclosure" OR "financial reporting*" OR "accounting disclosure" OR "accounting reporting*" AND "financial firm*" OR "financial company*" OR "financial institution*" OR "financial sector*" OR "financial industry*" OR bank* OR "insurance firm*" OR "insurance compan*" OR "insurance institution*" OR "insurance sector*" OR "insurance industr*". Asterisks such as in "reporting*" were used to find all derivatives of the word. These keyword have been used in several prior

Figure 1. The flowchart depicting the sample collection procedure.

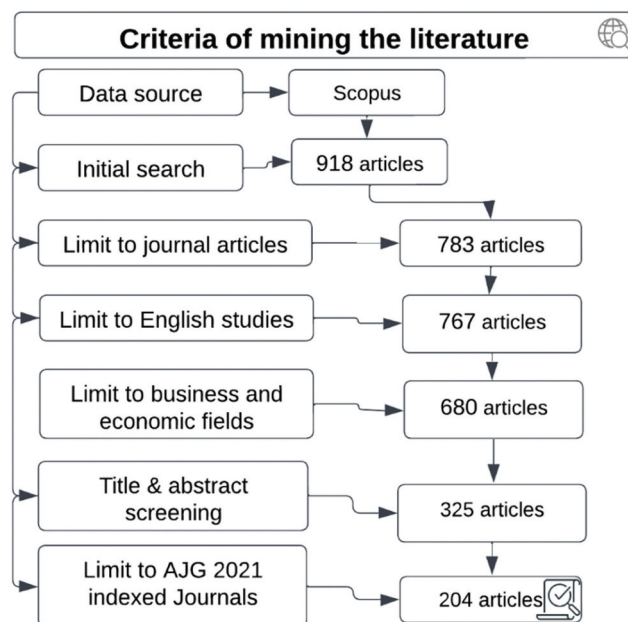
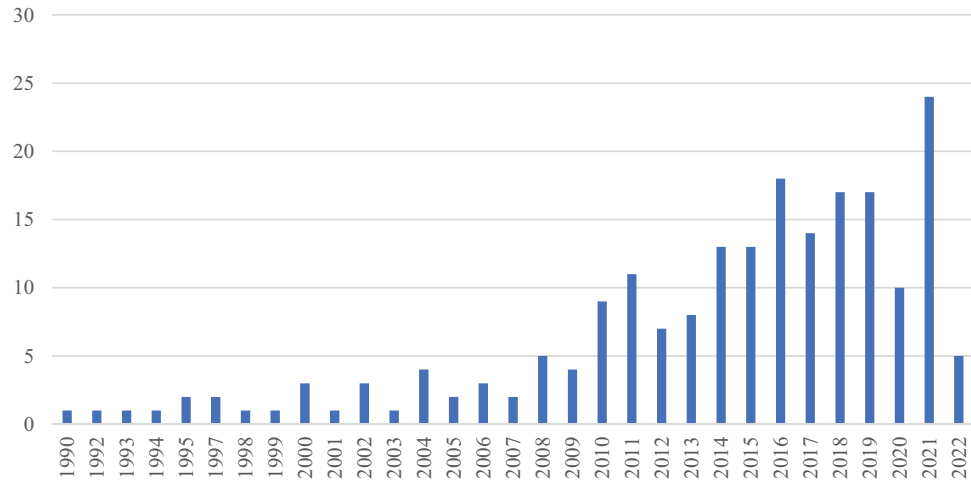


Figure 2. Publication trend of prior studies.



research in the areas of financial reporting and financial firms (i.e., Hassan & Marston, 2019; Khatib, Abdullah, Elamer et al., 2021b).

Figure 1 illustrates the exclusion and inclusion criteria used for the literature search on Scopus database. The initial sample included 918 research papers from the Scopus database using the aforementioned keywords to search the titles and abstracts of the studies. This research is not tied to a particular year or publication due to the intention to investigate the subject's evolution holistically and to include a comprehensive assortment of articles from this field of study. We omitted the papers that were not published in the English language or in journals due to the researcher's language ability. After excluding the papers that did not discuss business, management, finance, or economics, the sample was reduced to 680 publications. According to the research objective, each study should explicitly address the financial reporting by financial institutions in order to be included in this investigation. By screening the sample titles and abstracts, a large number of studies were excluded due to the broad search string utilized in this study. For example, over 100 research articles had the term "non-financial reporting / disclosure". The screening process resulted in 325 research articles that addressed the topic under investigation.

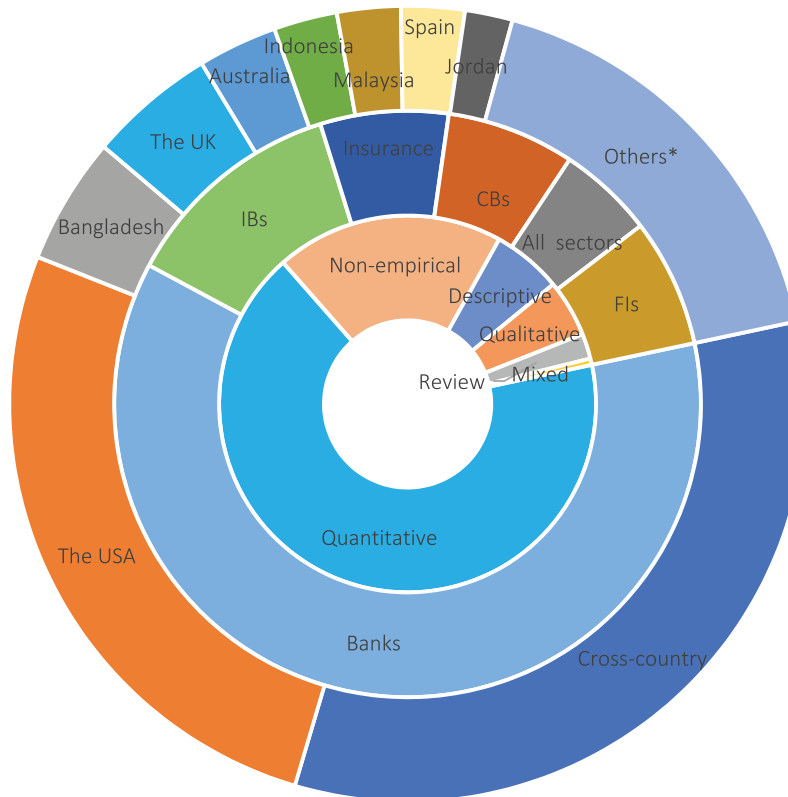
Following several SLRs (i.e., Farah et al., 2021; Hatzijordanou et al., 2019), we limited the research sample to journals included in the academic journal guide (AJG) ranking 2021. We sought to base our evaluation on the most rigorous and influential research by considering only publications from reputable journals. In their reviews, Hatzijordanou et al. (2019) focused on ABS-rated journals, and Farah et al. (2021) focused on first quartile (Q1) journals. During the quality evaluation, the number was reduced by 121 articles, resulting in 204 studies published in high-quality journals.

4. Research results

4.1. Quantitative analysis of selected literature

The annual trend of publications indicates that interest has grown over the years as shown in Figure 2. Over 51% of the literature in this research is from the most recent time quantile, 2015–2022, highlighting the significance of a survey. The quantity of articles mostly rose after 2010 (65% of the sample), long after the commencement of research on financial reporting some 30 years ago. We could think of two practical causes for this delay: the evolution of technology and legislation. Corporations with publicly traded stocks are required to produce a set of periodic financial statements each year in compliance with new laws and directives from stock exchanges that have been implemented over the last few years in all markets (Aladwan & Shatnawi, 2019). In

Figure 3. The research settings of prior literature.



addition to altering the public’s mentality, the technology revolution has altered the manner in which a corporation’s business and process information is communicated. Furthermore, the year 2020 has the most publications with 27 papers due to the COVID-19 pandemic that has brought environmental concerns to the forefront of researchers’ minds. Also, there is concern about the ramifications of COVID-19 and its influence on the economy. For example, Velayutham et al. (2021) looked at how COVID-19 disrupted supply systems and how accounting information might be used to manage these supply chains in the face of the disruptions. Their study concluded that COVID-19 impacted output. Such disruptions might be prevented by providing managers with precise accounting information at every stage of the supply chain. Additionally, external stakeholders that are attempting to reduce their own risks might find this accounting information beneficial.

4.2. Prior research settings

The geographical distribution analysis revealed that the majority of previous studies concentrated on industrialized countries. As Figure 3 shows, data from advanced economies, for instance, the United Kingdom and the United States, were more numerous. In recent years, financial institutions in developing and transition economies throughout the globe have been pushed to modify their lending and financial reporting policies as a result of their nations’ economic transitions. Overall, evidence from a cross-country sample set was used to support 33% of the empirical publications in the sample. Prior cross-market studies used samples from as many as 49 countries (Tadesse, 2006) to as few as five countries (Bin-Ghanem & Ariff, 2016). The cross-country studies concentrated on Asian and European markets, and only one study considered the African market (Osemene et al., 2021). Moreover, no study was conducted on Latin America. This scenario necessitates a greater comparative cross-country investigation of these regimes. This investigation would provide insights into the effects of economic policy, regulatory and legal limits, and the size of economies on disclosure efforts, which may vary by country.

Accounting methods (for instance, financial reporting policies) may vary not just across nations but also within nations (Akgün et al., 2021). It has been stated that the legal and institutional context of a country may influence the financial reporting incentives and, therefore, the quality of financial information disclosed to stakeholders. Herath et al. (2011) argued that environmental variations across nations might explain the disparities in financial reporting methods, and international reporting standards serve to harmonize the discrepancies that cannot be explained by environmental variations. The issue of non-compliance may cast doubt on the openness, dependability, and quality of financial information between nations (Yamani et al., 2021). Also, it has been observed that the majority of IFRS users have their own interpretations of IFRS compliance. Their interpretations may vary considerably from those stated by the International Accounting Standards Board (IASB), creating varying degrees of IFRS compliance that have become a contentious issue. Even though their policies for IFRS adoption may differ, countries should not underestimate the necessity of correct implementation as advised by the IASB. Inequalities in national infrastructure also have an undeniable influence on non-compliance, particularly in developing nations, and the effectiveness of enforcement regimes.

However, certain African, Latin American, and Middle Eastern nations have been neglected. Consequently, experts encourage researchers to focus their efforts on countries that have received little attention. The experience of implementation and advantages, as well as the motives for acceptance, will differ among nations based on their accounting and regulatory systems, their historical context, and other factors. Therefore, a country-specific study was required to comprehend the impacts of local characteristics. Considering the expanding effect of developing economies on the global economy, the necessity for research became more apparent. Comparatively, these economies have less developed regulatory and financial institutional architectures. This research gap in the IFRS adoption and convergence sector was the major inspiration and reason for the exploratory study on India's huge and rising economy, with the aims of making a substantial addition to the current IFRS research literature.

Despite the disparities in social, legal, and cultural systems, empirical data highlights the notion that accounting rules and laws are successfully transmitted across borders. Consequently, the formulation and acceptance of IASB's global accounting standards might have a favorable effect on the profit quality of enterprises in the adopting nations, regardless of the social, legal, and cultural variations (Lee & Seo, 2010). Kim et al. (2011) discovered no substantial difference between nations with strong and weak creditor rights regarding the adoption impacts.

Financial markets, which include stock markets, wholesale money markets, bond markets, and lending outside of traditional bank channels, are major components of the financial sector, and they play distinct roles in the economic activity. Financial institutions include banks, insurance providers, investment managers, funds, and other non-bank financial institutions. The majority of existing studies have focused on the banking industry, while others have specified one type of bank, such as commercial (Gallemore, 2022; Lefanowicz & Mclelland, 2002) and Islamic banks (H. Ahmed et al., 2019; Authors, 2008). Islamic banks are interest-free, and their banking operations are based on various financing forms of sharing the foundation of payment responsibilities with income accrual, hence eliminating the key drivers of market volatility. Their unique characteristics require them to adhere to stringent financial reporting requirements (Almutairi & Quttainah, 2019). Gharbi (2016) argued that benchmarking interest rates could not fully discriminate between Islamic transactions and commodities; hence, stakeholders lose trust in Islamic branding. This scenario indicates that more works need to differentiate between banks' types. Yamani et al. (2021) suggested that academics might compare the accounting standards of these two types of banks. Lastly, very limited existing literature focuses on the insurance sector.

4.3. Qualitative analysis of selected literature

4.3.1. Financial reporting on corporate governance and auditing

The financial sector is a vital, competitive, and high-profile business; its top firms must preserve their market credibility in the face of exposures of unethical or illegal conduct and a lack of accountability. In the last two decades, the 2008 financial crisis that almost caused the banking industry to collapse and the failure of the financial reporting of several banks (e.g., National Australia Bank in 2004) to provide an authentic depiction of their activities highlighted the arbitrary nature of audited financial reporting and emphasized the increasing necessity for robust corporate governance measures. Also, the globalization of financial markets and the impact of investors who need accurate information about the economic and financial state of organizations have led to the harmonization of corporate governance and accounting (Gras-Gil et al., 2012). These occurrences indicate that financial institutions have been able to preserve their credibility within the arbitrary institutional context in which they operate that necessitates the tightening of corporate governance measures to avoid fraud and mismanagement (Abraham et al., 2008; Gras-Gil et al., 2012).

Prior studies have emphasized the roles of internal/external audits and audit committees in improving the quality of financial reporting (Aanu et al., 2016; Bratten et al., 2019; Coffie & Bedi, 2019; Gras-Gil et al., 2012; Krishnan & Zhang, 2014a). However, little work has considered the functions of other monitoring mechanisms, i.e., the board of directors (Abraham et al., 2008; Higson, 2013; Holland, 1999). It is widely accepted that audit rules matter and that the influence of audit regulations on the reporting quality of a financial institution varies based on the kind of audit regulation. Scholars have suggested that the quality of financial reporting is improved with more experts on the audit committee (Aanu et al., 2016), audit firm tenure (Bratten et al., 2019), internal audit involvement (Gras-Gil et al., 2012), audit committee disclaimer language (Naaman et al., 2021), and audit fees (Kanagaretnam et al., 2010; Krishnan & Zhang, 2014b). Furthermore, Anu et al. (2016) argued that the reliability and relevance of financial reporting are enhanced by the presence of an accounting expert on the audit committee, suggesting that the presence of an accounting expert on the audit committee has a more favorable impact on the financial report quality than on financial and supervisory expertise. Gras-Gil et al. (2012) discovered that enhanced financial reporting resulted from improved internal and external communication during the annual audit. However, does the collaboration with other monitoring mechanisms (including the audit committee) serve to reinforce accountability, leading to better disclosure? Do these effects hold true for all types of financial institutions? These questions have yet to be answered. Bratten et al. (2019) maintained that the financial reporting quality improves with audit firm tenure, particularly in banks that have more complex operations. A short tenure would have a detrimental effect on audit firms' investments in client-specific knowledge, especially in circumstances where this information is most needed.

Other scholars discussed the effect of IFRS adoption on auditing fees. They reported that higher fees are paid after the switch to the new standards (Cameran & Perotti, 2014; Coffie & Bedi, 2019), suggesting that the implementation of IFRS increases auditors' efforts in terms of time and the complexity of some aspects of the standards.

Interestingly, few studies have focused on board characteristics and committees even though the financial crises of 1998 and 2008 almost led to the collapse of the financial industry and were linked to ineffective governance roles. The development of corporate governance may be substantially hampered by a lack of understanding of financial statements, which are seen as a crucial component of accountability (Higson, 2013). The public publication of financial statements and the financial reporting cycle are fundamental to corporate governance (Holland, 1999). Public and private information sources are used to establish a financial institution's knowledge advantage. The institutions use this information to identify issue areas in strategy, management quality, and board effectiveness, as well as their influence on financial performance. The accountability of directors and the effectiveness of corporate governance are in question in the absence of

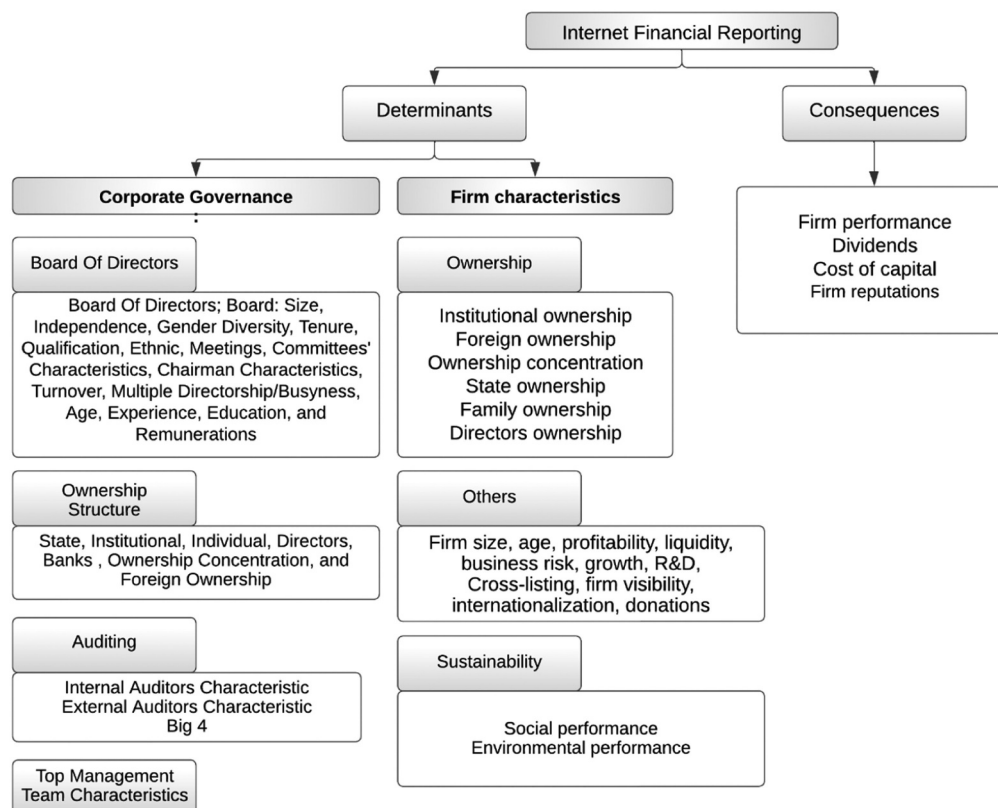
a complete understanding of the boundaries and restrictions of the financial statements. Abraham et al. (2008) stated that only disclosures concerning corporate governance processes have a significant legitimizing function, boosting the view that financial reports are consistent with the organization’s reality. Karajeh (2022) focused on the monitoring mechanisms individually and discovered that nationality and the presence of women on the board had a significant moderating impact on managers’ incentives to boost the quality of financial disclosure processes and bank dividends.

4.3.2. Online financial reporting

Financial transparency and disclosure are two cornerstones of corporate governance that communicate a corporation’s financial situation and performance to capital markets. Online financial disclosure has been considered one of the main channels utilized by corporations worldwide to communicate with decision-makers. Online financial information disclosure is a kind of voluntary disclosure regarding the trading of products, including shares. Recently, the internet has undergone a rapid growth and has gained increasing acceptance among its users. This development has a significant influence on the ways to communicate information. Businesses have started employing a new kind of voluntary disclosure, referred to as online financial disclosure, since traditional paper-based disclosure procedures are costly and constrained.

Empirically, although some researchers have discussed the determinants and consequences of the online reporting by financial institution, their findings are still indecisive. For example, inconsistent conclusions regarding the relationship between online financial transparency and corporate success were published (see, Al-Sartawi & Reyad, 2019; Bin-Ghanem & Ariff, 2016). Even the degree and breadth of internet reporting have little effect on stock returns (Hussein & Nounou, 2021). However, in a study that focused on Islamic banks, Musleh Al-Sartawi (2018) showed a correlation between the degree of online financial transparency and performance measures.

Figure 4. Online financial reporting quality.



These mixed findings raise the question of whether the consequences of online reporting differ among various types of financial institutions.

As Figure 4 shows, among the determinants of internet financial reporting practice, it was found that profitability, size, ownership structure, liquidity, and leverage are under firm characteristics (Adugna & Kumar, 2021; Elsayed et al., 2010; Sarea et al., 2021). Several factors pertaining to online disclosure that have not been considered by previous researchers could be addressed in future research. Standardization of online financial reporting is another promising area. The disclosure requirement stipulates that organizations must disclose sufficiently standardized business-related information to enable current and prospective shareholders, creditors, and other users to make meaningful comparisons of crucial facts.

4.3.3. *Transparency and timeliness*

The timeliness of financial reporting is the amount of time between the end of the corporation's fiscal year and the publication date of the audited annual report. Providing information that will help external users make educated decisions is one of the most important objectives of financial reporting. Accounting data must be relevant, dependable, comparable, timely, and easy to comprehend in order to be valuable. Information must be made accessible quickly to prevent it from losing its economic worth. However, few scholars have highlighted reporting timeliness in the financial sector (A. A. A. Ahmed, 2010; Alali & Elder, 2014; Ben Rejeb Attia et al., 2019; Huang et al., 2017; Mohsin et al., 2021). For example, Attia et al. (2019) maintained that the association between stock price and reporting timeliness varies across bigger and riskier banks operating in an active stock market. However, these studies were conducted in the banking sector, and no studies were found to consider other types of firms within this industry (i.e., insurance, investment, or certain types of banks).

Transparency in financial reporting is seen as vital to enable people to comprehend and form their opinions about organizations. In an attempt to understand the drivers of transparency of financial institutions, scholars reported important determinants such as regulatory oversight (Costello et al., 2019), financial literacy (Jin et al., 2021), and top management and gender diversity (Janahi et al., 2021).

4.3.4. *Determinants of financial reporting quality*

Prior studies on the quality of financial reporting have mostly focused on the effects of non-financial business governance elements (García-Meca & García-Sánchez, 2018). Due to management's opportunistic actions, if the supervision of major financial institutions weakened, the quality of financial reporting would decline. Non-financial firms have fewer informative inconsistencies and a more distinct capital structure than financial companies.

Empirical studies (Almutairi & Quttainah, 2019; García-Meca & García-Sánchez, 2018) have reported that the quality of financial reporting by banks is significantly influenced by managerial skills and governance standards, and competent bank managers are less likely to participate in opportunistic profit management. Also, Altamuro and Beatty (2010) found that, in the case of affected rather than unaffected banks, internal control requirements increased the issues of loan loss provision, cash-flow predictability, and earnings persistence while lowering benchmark-beating and accounting conservatism. However, some studies failed to link the level of financial disclosure to firms' specific characteristics, including profitability and size (Shil & Chowdhury, 2012).

On the macroeconomic level, Kanagaretnam et al. (2014) maintained that all five of the analyzed indicators of earnings quality were greater in economies with more effective political, extralegal, and judicial institutions. Also, loan loss provisions were slightly disclosed in countries with stronger institutions. Amidu and Issahaku (2019) explained cross-country reporting variations, maintaining that banks with relatively good profit quality in emerging nations might be linked to the use of IFRS and the nature of its interaction with globalization, as well as the banking

industry's aim of diversifying its revenue streams to include both interest- and non-interest-bearing ones.

4.3.5. *Consequences of financial reporting quality*

A portion of the sample literature demonstrates the positive effects of financial disclosure for business firms, especially after a financial crisis, which sparks discussion on how to improve the transparency of financial institutions. Researchers agree that financial statements reflect a corporation's real performance at a specific point in time (Aladwan & Shatnawi, 2019). Therefore, it is anticipated that the content of financial statements will accurately represent the economic situation of a corporation. Palea and Scagnelli (2017) showed that IFRS enhanced the predictability of projected cash flows based on net income. Others supported risk-taking reduction (Balakrishnan & Ertan, 2018) and cost reduction influences on reporting quality (Chen & Zhu, 2013; Nahar et al., 2016; Yamani et al., 2021).

However, there is inadequate evidence that efficient financial disclosures could boost the performance and evaluation of firms. Abdallah et al. (2018) found that the majority (but not all) of the factors that contributed to the adoption of IFRS were well received by investors in the insurance industry. Interestingly, some scholars found that the full implementation of IFRS had a detrimental impact on net foreign direct investment due to the comparability effect (Nnadi & Soobaroyen, 2015). Du et al. (2016) found that if banks had higher financial statement transparency, their stocks' equities had less stock return synchronization and lower negative returns. Previously, Lefanowicz and McLelland (2002) found no linear association between equity returns and financial reporting. Similarly, Uzoma et al. (2016) discovered that banks' increased profits were not due to their disclosure of a set of financial statements that adhered to IFRS, suggesting that such performance might have been prompted by other variables such as recapitalization and cross-border listing. Some studies (i.e., ElKelish, 2021; Lefanowicz & McLelland, 2002) highlighted the potential for a nonlinear relationship between information disclosure quality and economic consequences.

Furthermore, are these consequences influenced by the institutional and protection environment? Armstrong et al. (2010) observed a progressively unfavorable response for businesses based in code-law nations, consistent with shareholders' concerns over the implementation of IFRS in such jurisdictions. In a similar vein, regimes with lower depositor insurance and external supervision, as well as regimes with stronger capital markets, might have superior reporting quality results.

5. Discussion and recommendations for future research

Based on our investigation of the quality of financial disclosure by financial institutions, a number of issues for further research have emerged. The majority of studies on financial reporting quality have prioritized non-financial enterprises relative to financial firms (I. E. Ahmed, 2020; Kolsi & Grassa, 2017), with an emphasis on the banking sector. Our assessment indicates that there are a number of determinants and implications of reporting quality in financial organizations that warrant further research. Some of these directions are outlined below.

There are several reasons for the paucity of research in emerging countries and cross-country situations (Hussein & Nounou, 2021; Madugba et al., 2021; Salem et al., 2021). Due to a dearth of yearly reports in the English language from developing nations, some researchers face difficulties to access the data from these nations. However, more and more corporations are releasing their annual reports in English, resulting in greater availability of pertinent information. Therefore, we should anticipate an increase in cross-country research and research undertaken in emerging markets. In addition, most of the research prefers to gather data from a single nation to eliminate variances in accounting, cultural, economic, legal, and political systems.

The differentiating economic outcomes (including performance, share price, cost of capital, and growth prospects) of financial reporting quality is that greater quality results in better outcomes,

including performance, share price, cost of capital, and growth opportunities. However, there is no convincing evidence that timely and/or high-quality financial disclosure might improve the performance and evaluation of firms. According to Du et al. (2016), banks with greater degrees of financial statement transparency have less stock return synchronization and fewer highly negative returns, although Lefanowicz and McLelland (2002) found no linear association between financial reporting and equity returns. Some studies (i.e., Elkelish, 2021; Lefanowicz & McLelland, 2002) examined the possibility of a nonlinear relationship between the value of information disclosure and its economic implications. This trend raises the question regarding the type and direction of the causal relationship between disclosure and economic consequences.

Moreover, from an investor's viewpoint, IFRS produces financial reporting of a higher quality than local GAAP does (De George et al., 2016). This is because IFRS focuses on improving information quality by using fair value accounting (Armstrong et al., 2010). However, limited studies have assessed the potential advantages of IFRS adoption from the standpoint of investors in financial institutions (De George et al., 2016). It is also unknown how such a shift would affect the study of financial statements and how it would alter investors' views of the condition and performance of firms (Rodríguez-Pérez et al., 2011).

Literature on financial reporting is complex and diverse, and its quality is heavily impacted by businesses' monitoring techniques. Even though financial institutions have more asymmetric information and a more distinct capital structure than non-financial firms, previous research has devoted little attention to them. Also, prior research has mostly emphasized the roles of internal/external auditing and audit committees in enhancing financial reporting quality (Aanu et al., 2016; Bratten et al., 2019; Coffie & Bedi, 2019; Gras-Gil et al., 2012; Krishnan & Zhang, 2014b), while limited work has considered the functions of other monitoring mechanisms, i.e., the board of directors (Abraham et al., 2008; Higson, 2013; Holland, 1999). In the same context, a number of concerns have remained unresolved, including whether cooperation with other monitoring mechanisms (such as the audit committee) would contribute to strengthening accountability, resulting in improved disclosure. It is also unknown whether these effects apply to all types of financial institutions. Bratten et al. (2019) argued that audit firm tenure would improve the financial reporting quality, especially in banks with more complex operations.

Additionally, there are other unexplored areas in the literature. In their study, Armstrong et al. (2010) observed a progressively unfavorable response for businesses based in code law nations, in line with investors' concerns over the implementation of IFRS in such jurisdictions. In a similar vein, regimes with lower depositor insurance and external supervision, as well as regimes with stronger capital markets, might have superior reporting quality results. Despite the global significance of foreign investment and the financial industry, the timeliness of banks' financial reporting has not been studied on a macroeconomic scale, with the exception of a few studies.

6. Conclusion

The existing literature in the domains of accounting, information systems, and analytics provides valuable insights into the far-reaching impacts of financial reporting fraud at various economic levels. However, despite the increasing attention to financial reporting quality, there are limited works on the reporting practices by financial institutions. In this study, we synthesized the multi-disciplinary research on the financial reporting practices of financial institutions. The systematic approach used resulted in a final sample of 204 publications on the financial reporting by financial institutions. We believe that financial reporting fraud detection initiatives and research will be more effective if the results of these many fields are systematically analyzed.

The findings revealed the various topics explored by scholars concerning financial institutions' reporting practices. However, inconclusive findings have been produced, especially on the economic consequences of financial reporting. Future scholars may be able to conduct more in-depth analyses utilizing updated datasets and empirical models to determine if these inconsistencies are

the result of methodological flaws. Future academics may also bridge the gap between the diverse theoretical assumptions and identify the relevant ramifications of corporations' social actions. Several empirical results in the literature do not seem to be supported by solid theories. Future studies should address these gaps to provide deeper knowledge of corporate and social responsibilities (CSR) and their effects on corporate performance as a whole. Furthermore, the investigation revealed the significance of monitoring attributes in influencing the financial reporting quality. However, the existing literature focused on internal/external auditing and audit committee characteristics, and only a few studies examined the functions of other monitoring mechanisms, i.e., the board of directors. In addition, there is no conclusive evidence that effective financial transparency might enhance the performance and evaluation of companies. In addition, these effects are impacted by institutional and protective environmental disparities across markets. Our analysis of the relevant literature led to the recommendation of several potential research topics.

The research process and the related qualitative methodology are not without limitations. Although the SLR was performed in a coherent manner, this research was time-bound and exclusively examined articles written in English. Several countries publish periodicals in their original languages that we were unable to assess. Also, in accordance with our study's inclusion and exclusion criteria, we included only high-quality academic journals that had been peer-reviewed and excluded several potentially relevant papers from the Scopus database. Future reviews may use other databases to cover a broader spectrum of relevant research. Despite the constraints described above, our thorough literature review technique assembled a diversity of academic publications for evaluation, thereby establishing a solid foundation of literature that reflects the field's financial reporting contributions in terms of quality and influence. Hence, the exclusion of fewer articles should have little impact on the outcome of our research, which provides a foundational knowledge of the present situation of financial reporting.

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Correction

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