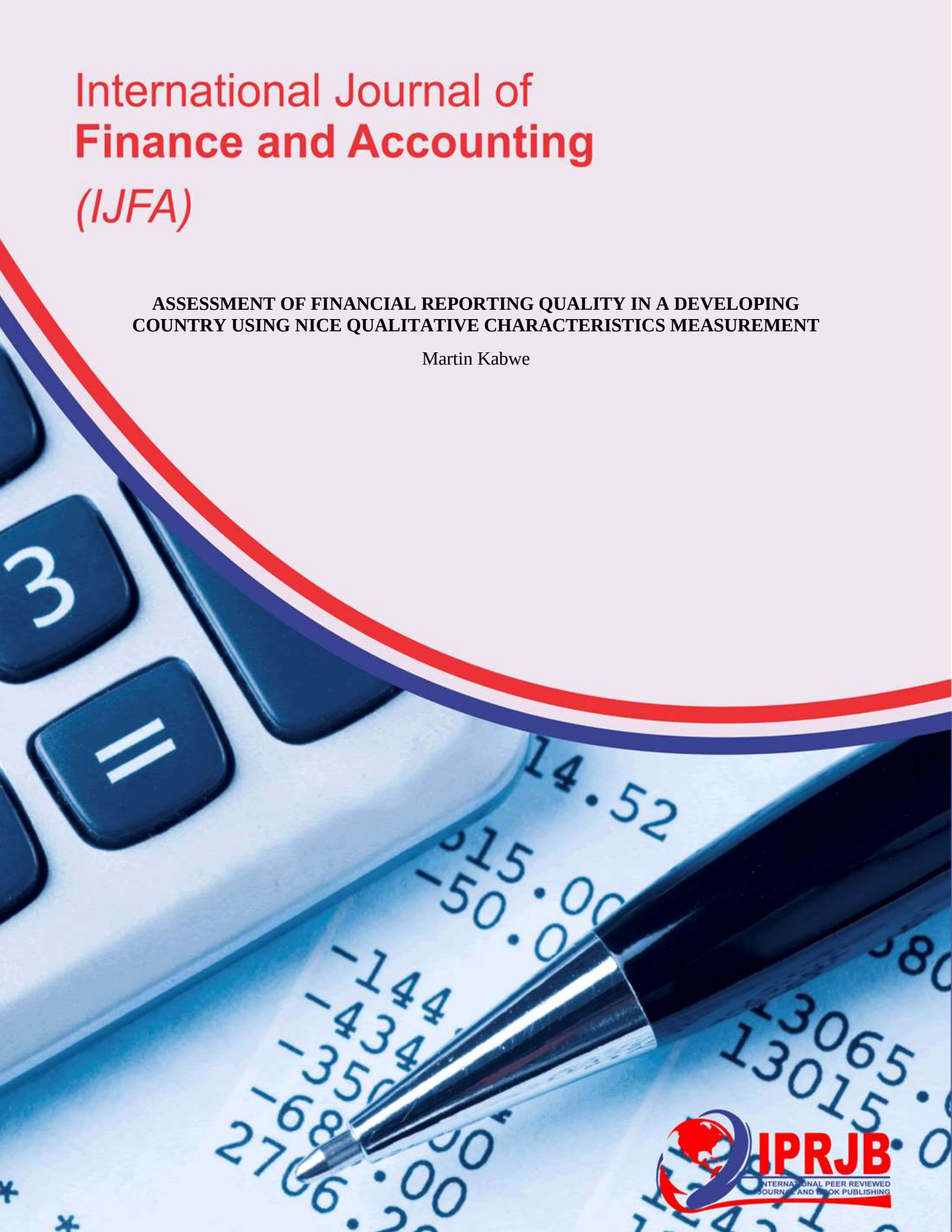
International Journal of
Finance and Accounting
(IJFA)

ASSESSMENT OF FINANCIAL REPORTING QUALITY IN A DEVELOPING COUNTRY USING NICE QUALITATIVE CHARACTERISTICS MEASUREMENT

Martin Kabwe



International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

Assessment of Financial Reporting Quality in a Developing Country Using Nice Qualitative Characteristics Measurement

Martin Kabwe

Directorate of Research and Graduate Studies, University of Zambia, Great East Road Campus, Lusaka, Zambia

Corresponding Author's Email: Kabweha@yahoo.com; +260-978-675-945.

Article History

Received 10th January 2023

Received in Revised Form 20th January 2023

Accepted 3th February 2023

Abstract

Purpose: The use of different indirect measurement methods by prior empirical studies has led to contradictory findings about financial reporting quality. Therefore, this study assessed the extent of financial reporting quality using the direct method.

Methodology: Data was collected through quantitative content analysis of annual reports and audited financial statements of 20 Zambian listed companies for the period 2012 to 2018 using a direct measurement tool developed by the Nijmegen Center for Economics (NiCE). Descriptive statistics were used to assess the extent of financial reporting quality.

Findings: The study showed that the mean and median score for financial reporting quality is 2.62(52.3%) and 2.55(51%) respectively with a minimum of 2.06(41.2%) and maximum of 3.21(64.2%). The level of financial reporting quality was moderately low. Further, relevance and comparability of financial reports were poor, and companies used only or mostly historical cost instead of fair value as basis for measurement as proposed by the IFRS for its FRQ standard. Therefore, the financial reporting quality of listed companies do not meet all the criterion set out in the IFRS conceptual framework.

Unique Contribution to Theory, Practice and Policy: The study contributes to the literature by showing that not all the dimension of financial reporting quality improves following the IFRS adoption as defined by the IFRS conceptual framework. The policy implication is that the financial reporting regulators and policymakers need to strengthen enforcement mechanisms to improve the level of financial reporting quality in the country.

Keywords: *Quality of Financial Information, FRQ Direct Measurement Tool, Developing Country*

INTRODUCTION

The primary purpose of adopting International Financial Reporting Standards (IFRSs) was to unify financial reporting requirements and enhance financial reporting quality (FRQ). Prior to adoption of IFRSs, companies followed a variety of country-specific Generally Accepted Accounting Principles (GAAP). However, around 33% of African countries have fully mandated IFRSs as of 2018 (Tawiah and Boolaky, 2019). Zambia adopted IFRSs for corporate financial reporting for the fiscal year beginning after 1 January, 2005(ZICA, 2004).

Financial reporting quality requires that financial information be relevant and faithfully represented in the financial statements to improve the decision usefulness of financial information for investors and creditors (IASB, 2010). Therefore, it is important to measure the extent of financial reporting quality following the adoption of IFRSs in order to ascertain if the objective is being met.

However, different measurement methods have been employed in an attempt to measure financial reporting quality. These measurement methods include value relevance, credit relevance, earnings management, timeliness and conservatism (Pascan, 2015). All these measurements methods are indirect measures. Beest et al., (2009) argue that the measurement of the quality of financial information is questionable because the measurement tools used in most prior studies have emphasized the importance of earnings quality or specific variable instead of financial reporting quality which is a broader concept. They argue further that measurement of quality of financial information should be based on the qualities as defined by IASB which include both fundamental and enhancing qualities as opposed to focusing on only specific variables or dimensions of financial reporting quality. Nevertheless, the reason advanced for the use of indirect measurement methods by prior studies is that some of the financial reporting qualities are unobservable (Abernathy, 2010).

The use of different indirect measurement methods by prior empirical studies has led to contradictory findings about the questions as to what extent accounting standards contribute to the decision usefulness of financial reporting information (Beest et al., 2009). Therefore, this makes it difficult to conclude on the effectiveness of IFRS adoption on financial reporting quality. To remedy the problem of focusing on a single dimension of FRQ, a comprehensive measurement tool was developed by the Nijmegen Center for Economics (NiCE) to assess all the dimensions of FRQ of financial reports proposed by IASB (Beest et al., 2009). These dimensions of FRQ include the fundamental and enhancing qualitative characteristics as defined by IFRS conceptual framework for financial reporting.

It can be argued that following the adoption of IFRSs, financial reporting quality should be measured using the IFRS conceptual framework qualitative characteristics (Pascan, 2015). Musa (2019) observed that differences in financial reporting quality is related to country's overall infrastructure setting and therefore, variations in financial reporting quality is expected (La Porta et al., 1998, 2000; Soderstrom & Sun, 2007; Barth et al., 2008; Holthausen, 2009; Chen et al.,

2010). Therefore, a country specific study on the extent of financial reporting quality (as defined in the IFRS conceptual framework) following the adoption of IFRSs is inevitable.

Despite the adoption of IFRSs for purpose of improving financial reporting quality in Zambia, there is no know empirical study that has examined the extent of financial reporting by Zambian listed companies. Lack of knowledge of the extent of financial reporting quality would make it difficult for the policy makers and regulators to ascertain if the objective of adopting IFRSs is being achieved. However, all things being equal, Chen et al., (2010) argue that adopting IFRS would make an improvement in financial reporting quality beyond managerial incentives. They attribute this to the fact that IFRSs restrict management's discretions in determining accounting numbers and thus, can reduce earnings management. Osasere and Ilaboya (2018) in Nigeria confirmed improvement in financial reporting quality following IFRS adoption across the five qualitative features. Mensah (2021) in Ghana also found improvement in accounting quality after the adoption of IFRS. Meanwhile, Jeanjean and Stolowy (2008) and Van Tendeloo and Vanstraelen (2005) did not find a positive relationship between IFRS disclosures and FRQ in Europe. Ames (2013) in South Africa found that financial reporting quality did not improve significantly following the adoption of IFRS. Also, Elbannam (2011) in Egypt found no relationship between IFRS compliance and FRQ.

Therefore, the purpose of this study is to assess the extent of financial reporting quality by Zambian listed companies following the adoption of IFRSs using a comprehensive financial reporting quality measurement tool. The present study employed the direct financial reporting quality measurement tool which operationalizes all the dimensions of financial reporting quality defined under the IFRS conceptual framework developed by NiCE (Beest and Braam, 2013).

THEORETICAL REVIEW

There is lack of a well-established theory about the complex nature of financial reporting quality and, most empirical studies aimed at evaluating information quality use quantitative measures that focus on specific attributes (earnings quality and value relevance) as proxies of financial reporting information (Braam and Beest, 2013). The empirical studies such as Kargin (2013); Zeghal et al., 2012; Watts (2003) (Lev and Nissim, 2004; Beaver and Ryan, 2000) have employed indirect measurement methods such as value relevance, credit relevance, earnings management, timeliness and conservatism (Pascan, 2015).

Value relevance measures financial reporting quality through the statistical relations between information presented by financial statements and stock prices or returns (Kargın, 2013). Barth et al. (2001) contend that the value relevance approach does provide insights useful to standard setters as it is based on well-accepted valuation models. They also argue that investors are the main users of accounting information and empirical valuation models can be used in a value relevance research design. In addition, value relevance research is not designed to test the usefulness of accounting amounts and statistical techniques can be used to deal with common econometric issues in research. On the other hand, Brimble, (2003) cited that value relevance approach has been criticised as focusing on investors only ignoring other groups of users, has not provided conclusive

evidence of the association between stock prices and accounting information. Further, results are certainly influenced by externalities that weaken the inferences that can be drawn and concerns have been expressed as to whether the complex statistical association models employed can be interpreted by investors. In addition, standard setters require decisive results and stress the need to comprehensively deal with an issue and not in an incremental the way like value relevance studies do.

Kosi, (2010) defined credit relevance as "the relative ability of accounting risk measures to explain default probability captured by S&P's issuer credit ratings". The assumption is that mandatory IFRS adoption makes financial statements more informative which should contribute to an increase in the credit relevance of accounting information. However, it can be argued that this measure narrowly focuses on specific user group, the creditors and lenders.

The earnings management approach assumes that IFRS adoption reduces the extent of opportunistic earnings management and therefore contributes to the improvement of financial reporting accounting quality. Barth et al. (2008) argue that IFRS adoption eliminate certain accounting alternatives thereby reducing managerial discretion. Timeliness is defined as the ability of earnings to reflect good news and bad news incorporated in returns Pascan (2015). Conservatism has attracted different definitions. For instance, conservatism is viewed as the differential ability of accounting earnings to reflect economic losses versus economic gains (Zeghal et al., 2012; Watts (2003). Conservatism can also be defined as a persistent downward bias in book value relative to market value and downward bias in earnings (Lev and Nissim, 2004; Beaver and Ryan, 2000). However, all these measurement methods measure financial reporting quality indirectly and narrowly. Financial reporting quality is a broader concept as defined by IASB (2010) which does not focus on a single or a specific variable.

Therefore, following the adoption of IFRSs, financial reporting quality should be measured using the IFRS conceptual framework qualitative characteristics (Pascan, 2015). According to the IFRS conceptual framework (2010), the qualitative characteristics of financial information include fundamental qualities (Relevance and Faithful representation of a phenomenon) and enhancing qualities (Comparability, Understandability, Timeliness). All the qualitative characteristics of financial information contribute as a whole towards financial reporting quality and not as a single variable (Beest and Braam, 2013; Kadous et al., 2012; Gassen and Schwedler, 2010).

Relevance

The IASB (2010) defines relevant financial information as information capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both. Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. On the other hand, financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

Faithful Representation

According to the IASB (2010), to be a perfectly faithful representation, a depiction would have three characteristics. It would be *complete*, *neutral* and *free from error*. A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. A neutral depiction is without bias in the selection or presentation of financial information. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Comparability

As an enhancing qualitative characteristics, comparability requires that information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date (IASB, 2010). But some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. On the other hand, verifiability focuses more on faith representation. Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Timeliness

According to IASB (2010), timeliness means having information available to decision-makers in time to be capable of influencing their decisions. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

Finally, understandability refers to clear and concise classification, characterisation and presentation of information (IASB, 2010). Understandability is achieved when the quality of information enables users to understand their meaning (IASB, 2008). However, some phenomena are inherently complex and cannot be made easy to understand. Therefore, user should consult on these complex economic phenomena.

Conceptual Framework

The conceptual framework employed in the present study is based on the IFRS conceptual framework for financial reporting and literature reviewed. *Figure 1.0* below shows the dimensions of FRQ measurement framework proposed by IASB (2010). The dimensions of FRQ was operationalized by Beest et al. (2009) and subsequently updated by Beest and Braam (2013). The present study employed the updated FRQ measurement tool. There are two categories of financial reporting quality dimensions. The first category is the fundamental qualitative characteristics which include two main dimensions of the FRQ framework i.e. relevance, and faithful

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

representation (neutrality, completeness, accuracy or freedom from material error, verifiability and corporate governance). The second category is the enhancing qualitative characteristics which includes three dimensions of FRQ i.e. understandability, comparability and timeliness (Beest et al., 2009; Beest and Braam.2013; IASB, 2008; 2010).

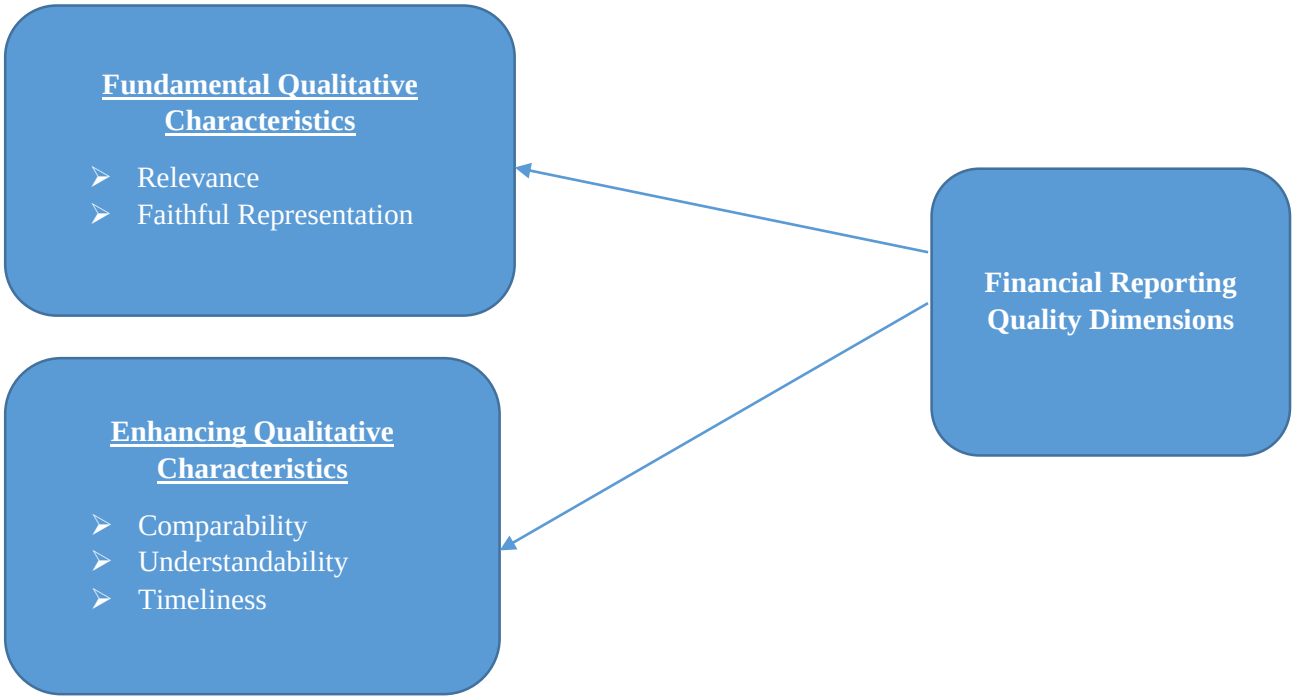


Figure I: Conceptual Framework

METHODOLOGY

Population and Sampling

The population consisted of companies listed on the Lusaka Securities Exchange beginning or before 1st January, 2012 and are still trading on the exchange as of 31st December, 2018. The effective date of 1st January, 2012 was chosen because it follows the adoption of three tier in the financial reporting framework in Zambia. Using this criterion only 20 listed companies were included in the population. It is a requirement by LuSE and ZICA that all listed companies should comply with IFRS disclosure requirements. We employed the purposive sampling where the entire listed companies were sampled because the population was small (Etikan et al., 2016).

Data Collection

The main data source for ascertaining the extent of Financial Reporting Quality is from the annual reports and audited financial statements of Zambian listed companies. All the annual reports and annual audited financial reports were collected from LuSE and also some downloaded from the

respective companies' websites. The study employed content analysis to collect the secondary data from the annual reports and audited financial statements.

Research Instrument

In line with prior studies (e.g. Mbawuni, 2019) a self-administered, structured questionnaire was developed in line with the FRQ measurement tool developed by the Nijmegen Center for Economics (NiCE) to assess FRQ based on the fundamental and enhancing qualitative characteristics of (*see Appendix A*). It consisted of five FRQ dimensions which include, relevance and faithful representation, understandability, comparability and timeliness. Each of the dimensions of FRQ had different numbers of measurement items that reflected the construct it represents: Relevance had 13; Faithful Representation had 7; Comparability and Understandability had 6 and Timeliness had 1 measurement item. These measurement items summed up to 33 in all. The FRQ dimensions were measured using a five-point Likert type scale, coded 1 to 5 respectively as developed by Beest and Braam (2013) that reflected the magnitude of the FRQ dimension being measured.

Content Validity FRQ Measurement Tool

Content validity refers to the degree that the research instrument covers the content that it is supposed to measure (i.e. in this case, measuring financial reporting quality) and is a subjective judgment of experts about the degree of relevant construct in the research instrument employed in the study (Yaghmale, 2003). The financial reporting quality measurement tool constructed by Braam and Beest (2013) was tested for content validity by the authors through using multiple items that have been applied in the prior studies and the preliminary checklist drawn up screened and refined by three practicing auditors and a financial manager.

The present study adopted the empirically validated Financial Reporting Quality measurement tool developed by the Nijmegen Center for Economics (NiCE) to assess Financial Reporting Quality based on the fundamental and enhancing qualitative characteristics of annual financial reports based on IFRS conceptual framework (Beest et al., 2013). Initially the FRQ measurement tool contained 21-items but was later updated to 33-items as given in *appendix A.* Prior studies such as Yurisandi and Puspitasari (2015); Osasere and Ilaboya (2018); Mbawuni (2019) have employed the same financial reporting quality measurement tool. Yurisandi and Puspitasari, (2015) and Mbawuni, (2019) used the 21-items and Osasere and Ilaboya, (2018) used 33-items.

Reliability Test FRQ Measurement

Heale and Twycross (2015) refer reliability as being concerned with the consistency of a measurement and, that if a measurer completes a research instrument meant to measure a phenomenon, it should have approximately the same responses each time the test is completed. According to Vlachos (2001), the main threat to reliability derives from the subjective judgement exercised in completing the research instrument.

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

To control for subjectivity in the interpretation of the listed companies' annual reports, two independent scorers (Chartered Accountants) assessed the quantitative and qualitative information in the annual reports, to determine the measurement score. To ensure the reliability and consistency of the scores of individual raters and also between raters, the study employed the test-retest and inter-rater reliability of their scores (Braam and Beest, 2013).

To test for individual scorer consistency, the scorers were asked to assess each annual report twice. The second assessment was made after all annual reports had been scored in a first round, rather than after each initial separate report assessment, so as to reduce the chance of the first scoring influencing the second scoring results. The results of the paired-samples *t*-tests showed no significant differences, signifying that the scorers scored the annual reports in a consistent manner. The final average score for each scorer was finally agreed which was taken as the score for the individual scorer.

In order to test for inter-rater reliability, the study employed the inter-rater reliability kappa coefficient and percent agreement approach. *Table 1 and table 2* show the results for the percent agreement and kappa coefficient test respectively. The average percent agreement is 90% with a minimum of 76% and maximum of 100%. The kappa coefficient for relevance (Rater1 R and rater2 R) indicate 0.9254 and faithful representation (rater1 F and rater2 F) is 0.8232. The kappa coefficient for understandability (rater1 U and rater2 U) show 0.8436 and comparability (rater1 C and rater2 C) indicate 0.8461. The kappa coefficient for timeliness (rater1 T and rater2 T) is 1. The analysis for each qualitative characteristic show kappa coefficient above the required 0.70. The implication of these results is that the quality of the scores were reliable, and scorers agreed on the quality of the assessments made. The average scores between the scorers was taken as the final measurement score.

Table 1: Percent Agreement Results for FRQ

R1	80%	F1	80%
R2	76%	F2	79%
R3	100%	F3	80%
R4	77%	F4	81%
R5	96%	F5	100%
R6	100%	F6	84%
R7	100%	F7	100%
R8	100%	U1	79%
R9	100%	U2	84%
R10	100%	U3	80%
R11	100%	U4	88%
R12	100%	U5	100%
R13	100%	U6	95%

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

Table 2: Kappa Test Results for FRQ

Kap Rater1R Rater2R					
Agreement	Expected Agreement	Kappa	Std. Err.	z	Prob>z
94.56%	27.05%	0.9254	0.0137	67.78	0.0000
Kap Rater1F Rater2F					
Agreement	Expected Agreement	Kappa	Std. Err.	z	Prob>z
86.12%	21.51%	0.8232	0.0165	49.98	0.0000
Kap Rater1U Rater2U					
Agreement	Expected Agreement	Kappa	Std. Err.	z	Prob>z
87.74%	21.61%	0.8436	0.0178	47.47	0.0000
Kap Rater1C Rater2C					
Agreement	Expected Agreement	Kappa	Std. Err.	z	Prob>z
89.05%	28.83%	0.8461	0.0201	42.14	0.0000
Kap Rater1T Rater2T					
Agreement	Expected Agreement	Kappa	Std. Err.	z	Prob>z
100.00%	2.55%	1	0.0135	74.21	0.0000

R=Relevance, F=Faithful Representation, U=Understandability, C= Comparability T= Timeliness

Data Analysis Methods

The final FRQ score for each company for a particular year was taken as total score in all the items under each dimension of FRQ divided by the total items (33) in the index (Beest and Braam,2013). In line with Mbawuni (2019), the descriptors used for percentage of FRQ are as follows:

- 0% to 39.9 very poor,
- 40% to 49.99 poor,
- 50 to 59.99 average,
- 60 to 69.99 good,
- 70 to 79.99 very good,
- 80 to 89.99 excellent, and
- 90% to 100% outstanding.

Descriptive statistics were employed in the present study and STATA 13.1 was used as a statistical package to analyse that data.

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

PRESENTATION AND DISCUSSION

The main purpose of this study was to examine the extent to which published financial reports of Zambian listed companies reflect the fundamental and enhancing quality aspects of FRQ following the adoption of IFRS in Zambia. This section presents and discusses the study findings in order to address the research objective.

Results on Extent of Financial Reporting Quality by Zambian Listed Companies

Table 3 shows the descriptive statistics results on the extent of financial reporting quality of Zambian listed companies.

Tables 3: Descriptive Statistics for financial reporting quality

Table: Descriptive Statistics for Financial Reporting Quality

Mean	2.62
Standard Error	0.02
Median	2.55
Mode	2.55
Standard Deviation	0.25
Sample Variance	0.06
Kurtosis	0.24
Skewness	0.22
Range	1.15
Minimum	2.06
Maximum	3.21
Sum	366.21
Count	140

Year to Year Mean

Year	Mean	percent
2012	2.58	51.5%
2013	2.61	52.2%
2014	2.61	52.3%
2015	2.62	52.4%
2016	2.63	52.6%
2017	2.63	52.6%
2018	2.63	52.6%
Overall	**2.62**	**52.3%**

Overall score for each Qualitative Characteristic

Qualitative Characteristic	Mean Score	Percent
Relevance	2.3	46.4%
Faithful Representation	2.8	56.8%
Understandability	2.9	58.8%
Comparability	2.5	49.7%
Timeliness	3.8	75.7%

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

The mean and median score for financial reporting quality is 2.62(52.3%) and 2.55(51%) respectively with a minimum of 2.06(41.2%) and maximum of 3.21(64.2%). The standard deviation is 25.4%. Based on the year to year mean, the results a movement in score of 2.58(51.5%) in 2012 to 2.63(52.6%) in 2018. According to the result in *table 3* above on the financial reporting dimensions, the average score for Relevance is 2.3(46.4%), Faithful Representation 2.8(56.8%), Understandability (2.9) 58.8%, Comparability 2.5(49.7%) and Timeliness 3.8(75.7%) with the highest being timeliness.

Table 4: Score per Item of each Qualitative Characteristic

FRQ Item	Mean Score	Percentage
Relevance		
R1	2.3	45.5%
R2	3.4	67.4%
R3	2.5	49.9%
R4	3.3	66.5%
R5	2.2	43.1%
R6	1.1	22.0%
R7	1.6	31.4%
R8	1.9	38.0%
R9	2.9	58.0%
R10	1.9	38.0%
R11	1.1	21.0%
R12	3.0	59.0%
R13	3.2	63.0%
Average score for Relevance	**2.3**	**46.4%**
Faithful Representation		
F1	3.1	62.5%
F2	2.8	55.1%
F3	4.1	81.5%
F4	3.5	70.8%
F5	1.3	25.0%
F6	3.3	65.7%
F7	1.8	36.7%
Average score for Faithful Representation	**2.8**	**56.8%**
Understandability		
U1	2.0	40.3%
U2	2.9	57.4%
U3	4.4	88.0%
U4	1.2	23.3%
U5	3.4	67.9%
U6	3.8	75.6%
Average score for Understandability	**2.9**	**58.8%**
Comparability		
C1	2.7	53.7%
C2	2.8	56.3%
C3	1.8	35.9%
C4	2.4	48.1%
C5	3.1	61.0%
C6	2.2	43.0%
Average score for Comparability	**2.5**	**49.7%**
Timeliness (T1)	3.8	75.7%

Furthermore, *table 4* shows the score per item of each financial reporting quality dimension. Further analysis of each FRQ dimension, the results show that for all the period under review, the following items received considerably low mean ratings below 2.5, demonstrating poor Financial Reporting Quality:

i) R1 Mostly Historical cost are used
ii) R3 Mostly limited insights into risk profile
iii) R5 Mostly limited information on Corporate Social Responsibility
iv) R6 Mostly no proper disclosure
v) R7 Mostly no information regarding personnel policies
vi) R8 Mostly no information concerning divisions
vii) R10 mostly limited disclosure
viii) R11 Mostly no disclosure
ix) F5 Mostly no disclosure
x) F7 Mostly no information concerning bonuses
xi) U1 Mostly poor presentation
xii) U4 Mostly no glossary
xiii) C4 Mostly companies presents little financial index numbers and ratios, just 1 to 5 ratios
xiv) C6 Mostly limited benchmark information

On the contrary, the following items received high mean scores, indicating good Financial Reporting Quality:

i) F3 mostly unqualified opinion: financial figures plus internal control
ii) F4 sufficient description of corporate governance
iii) U3 Mostly limited use of jargon
iv) U6 Annual report good understandable
v) T1 takes less than 3 months to for auditors to sign off the audit report.

DISCUSSION OF RESULTS

The study findings in *table 3* imply that the financial reporting quality of Zambian listed companies can be described as average or moderate and these results are consistent with the findings from Mbawuni (2019) in Ghana. Contrary to Chen et al., (2010); Osasere and Ilaboya (2018); Mensah (2021) who found significant improvement in FRQ following IFRS adoption, the year to year mean results show no significant increase (1.1%) in the financial reporting quality over the period

under review (2012 to 2018). Further, there is considerable variation in the financial reporting quality given the standard deviation of 25.4%. However, these results are consistent with Ames (2013) in South African who did not find significant improvement in accounting quality following IFRS adoption.

The results show a poor score for Relevance and Comparability as dimensions of financial reporting quality. On the other hand, the financial reports reflected more of timeliness, understandability and faithful representation.

The financial report did not reflect relevant information because mostly companies were using historical costs compared to fair value(R1) consistent with Mbawuni, (2019) findings in Ghana. Further, listed companies mostly provided limited insights into risk profile of the company in the risk section(R3); provided mostly limited information on Corporate Social Responsibility in the annual report(R5); provided no proper disclosures of the extraordinary gains and losses in the annual report(R6); provided mostly no information regarding personnel policies in the annual report (R7); provided mostly no information concerning divisions in the annual report(R8); provided mostly limited disclosures on the intangible assets (R10) and; provided mostly no disclosures on the "off-balance" activities(R11). In addition, the financial reports of Zambian listed companies reflected poor comparability because companies mostly presented little financial index numbers and ratios, just 1 to 5 ratios (C4) and limited benchmark information concerning competitors in the annual report. (C6) consistent with Mbawuni, (2019) findings in Ghana.

The study results indicate that listed companies also scored poorly on other measurement item under faithful representation and understandability. Listed companies mostly made no disclosures concerning the "comply or explain" application in the annual report(F5) and provided mostly no information concerning bonuses of the board of directors in the annual report(F7). Further, companies provided no glossary in the annual reports(U4) consistent with the findings by Mbawuni, (2019) in Ghana.

On the other hand, financial reports reflected faithful representation, understandability and timeliness. Regarding faithful representation, auditors' report included in the annual report was mostly unqualified opinion: financial figures plus internal control(F3) and Provided sufficient description of corporate governance in annual reports (F4) consistent with the findings by Mbawuni, (2019) in Ghana. In addition, financial reports reflected understandability because of limited use of technical jargon(U3) and the annual report were understandable (U6). Lastly, it took less than 3 months to for auditors to sign off the audit report(T1) which is within the period required by law in Zambia for audited financial statements to be published.

Conclusion

The adoption of IFRS across the globe was meant to improve financial reporting quality of reporting entities. However, the use of different indirect measurement methods by prior empirical studies has led to contradictory findings about the level of financial reporting quality following IFRS adoption. Therefore, the purpose of this study was to assess the extent of financial reporting quality using the direct method following IFRS adoption. The study findings show a mean and

median score for financial reporting quality of 2.62(52.3%) and 2.55(51%) respectively which implies that the financial reporting quality of Zambian listed companies is moderately low. Based on the year to year mean, the results show no significant improvement in the financial reporting quality over the period under review (2012 to 2018). Further, there was considerable variation in the financial reporting quality given the standard deviation of 25.4%.

Notably, the study shows a poor score for Relevance and Comparability as dimensions of financial reporting quality. The implication is that the financial reports did not provide information that is relevant and comparable as required by IFRS conceptual framework for financial reporting (2010). Therefore, policy makers and financial reporting regulators should put in place enforcement mechanism that would ensure that Zambian listed companies improve on the financial reporting quality. However, the results show a good score for timeliness implying the listed companies issue their financial reports on time. They issue their audited financial reports within 3 months from the year end which is within the provisions of the Companies Act, 2017.

Contribution to Literature and Limitations

This study contributes the extant developing literature using a single country on the understanding of conceptually-based financial reporting quality assessment by empirically testing the linkages between multiple measures of financial reporting quality and the underlying qualitative characteristics of the decision usefulness of information (Beest and Braam, 2013; Yurisandi and Puspitasari, 2015; Osasere and Ilaboya, 2018; Mbawuni, 2019).

As earlier pointed put by Mbawuni, (2019), this study also confirms the gradual adoption and integration process proposed in the innovation diffusion theory (Rogers, 2003) and endogenous innovation growth theory (Uzawa, 1965) applied to IFRS adoption. Consistent with Mbawuni, (2019) this study showed that Zambian listed companies used only or mostly historical cost instead of fair value as basis for measurement as proposed by the IFRS for its FRQ standard. The study findings suggest that following the adoption IFRS Zambian listed companies do not fully comply with FRQ standards because they might be constrained to employ local or previously familiar accounting principles instead of those proposed by IFRS.

One of the limitations of this study is related to the validity of the FRQ measurement tool. Beest and Braam (2013) postulate that the tool could be further enhanced by investigating the extent to what capital providers and other stakeholders perceive the different items included in the quality index as useful indicators for assessing the decision usefulness of financial reports. Further, we support the view that the different items included in the quality index as useful indicators for assessing the decision usefulness of financial reports should take into account the different cultures regarding financial reporting needs. In other words, it should be context specific as the information needs of capital providers and other stakeholders in a developing country might different from a developed country or otherwise. The other limitation of this study is the narrow focus on listed companies only which cannot be generalized to other public interest and private companies in Zambia. Future research should address these limitations as areas of research.

Despite the limitation, the study makes a significant contribution to the existing knowledge on the extent of Financial Reporting Quality in the developing countries especially in Africa where the empirical evidence in scant.

REFERENCES

Abernathy, J. L. (2010). Three essays on audit committees and financial reporting quality (PhD Thesis). The University of Alabama, Tuscaloosa, Alabama, United States of America.

Ames, D. (2013). IFRS adoption and accounting quality: The case of South Africa. Journal of Applied Economics and Business Research, 3(3),154- 165

Barth, M., Beaver, W., & Landsman, W. (2001). The relevance of the value relevance literature for financial accounting standard setting: another view. Journal of Accounting and Economics, *31*, 77-104. https://doi.org/10.1016/S0165-4101(01)00019-2

Barth, M.E., Landsman, W.R., & Lang, M. (2008). International accounting standards and accounting quality. Journal of Accounting Research, 46(3), pp. 467-498.

Beaver, W. H. & Ryan S. G. (2000). Biases and Lags in Book Value and their Effects on the Ability of the book-to- market Ratio to Predict Book Return on Equity. Journal of Accounting Research, 38, pp. 127-148.

Beest, F. V., Braam, G., & Boelens, S. (2009). Quality of Financial Reporting: measuring qualitative characteristics. NiCE Working Paper 09-108.

Beest, F. V., & Braam, G. (2013). Conceptually-Based Financial Reporting Quality Assessment: An Empirical Analysis on Quality Differences between UK Annual Reports and US 10- K Reports. NiCE Working Paper *13*-106. http://www.ru.nl/nice/workingpapers

Brimble, M., & Hodgson, A. (2003). The Inter-Temporal Value Relevance of Conventional Financial and Accounting in Australia. International Journal of Accounting and Finance, 47, pp. 599-622.

Brimble, M. (2003). The Relevance of Accounting Information for Valuation and Risk. PhD Thesis. Griffith University. Australia.

Chen, H., Tang, Q., Jiang, Y., & Lin, Z. (2010). The role of International Financial Reporting Standards in accounting quality: Evidence from the European Union. Journal of International Financial Management and Accounting, *21*(3), 220-278.

Elbannan, M. (2011). Accounting and stock market effects of international accounting standards adoption in an emerging economy. Review of Quantitative Finance and Accounting, 36(2), pp.207-245.

Etikan, I., Abubakar M, S., & Alkassim. S, R. (2016). Comparison of Convenience Sampling and Purposive Sampling. American Journal of Theoretical and Applied Statistics,5(1), pp. 1-4.

Gassen, J., & Schwedler, K. (2010). The decision usefulness of financial accounting measurement concepts: Evidence from an online survey of professional investors and their advisors. European Accounting Review, *19*(3), 495-509.

Holthausen, R. W. (2009). Accounting standards, financial reporting outcomes, and enforcement. Journal of Accounting Research, 47(2), 447-458.

IASB. (2010). Conceptual Framework of Accounting. London, United Kingdom: International Financial Reporting Standards Foundation.

IASB. (2008). Exposure Draft on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision. London.

Jeanjean,T., & Stolowy,H.(2008). Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption. Journal of Accountingand Public Policy, 27(6), pp. 480-494.

Kadous, K., Koonce, L., & Thayer, J. M. (2012). Do financial statement users judge relevance based on properties of reliability? The Accounting Review, *87*(4), 1335- 1356.

Kargin, S. (2013). The impact of IFRS on the Value Relevance of Accounting Information: Evidence from Turkish Firms. International Journal of Economics and Finance, .5(4).

Kosi, U. (2010). Credit relevance of accounting information and mandatory IFRS adoption, An Enterprise Odyssey. International Conference Proceedings, pp. 662-683.

La Porta, R., Lopez-de-Silanes, F., Shleifer A., & Vishny, W.R. (1998). Law and finance. Journal of Political Economy, 106(6), pp. 1113-1155.

Lev, B., & Nissim, D. (2004). Taxable Income as an Indicator of Earnings Quality. The Accounting Review Vo.79, pp. 1039-1074.

Mbawuni, J. (2019). Assessing Financial Reporting Quality of Listed Companies in Developing Countries: Evidence from Ghana. International Journal of Economics and Finance, 11(9).

Mensah, E. (2021). The effect of IFRS adoption on financial reporting quality: evidence from listed manufacturing firms in Ghana. Economic Research-Ekonomska Istraživanja, 34(1), 2890-2905. https://doi.org/10.1080/1331677X.2020.1860109

Musa, A. (2019). The Role of IFRS on Financial Reporting Quality and Global Convergence: A Conceptual Review. International Business and Accounting Research Journal, 3(1).

Osasere, A.O. and Ilaboya, O.J. (2018). IFRS Adoption and Financial Reporting Quality: LASB Qualitative Characteristics Approach. International Accounting and Taxation Research Group, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. Available online at http://www.atreview.org

Pascan, I.D. (2015). Measuring the effects of IFRS adoption on accounting quality: a Review. Procedia Economics and Finance, 32, pp. 580 – 587.

Soderstrom, S.N, & Sun, J.K. (2007). IFRS Adoption and Accounting Quality: A Review. European Accounting Review, 16(4):675-702

Van Tendeloo, B., & Vanstraelen, A. (2005). Earnings management under German GAAP versus IFRS. European Accounting Review, 14(1), pp.155–180.

Vlachos, C., (2001). An empirical investigation of the financial disclosure practices of Cypriot and Greek Companies. *PhD Thesis*, Middlesex University, UK.

Watts, R. (2003). Conservatism in Accounting Part II: Evidence and Research Opportunities. Accounting Horizon, 17, pp. 287-301.

Yaghmale, F. (2003). Content validity and its estimation. Journal of Medical Education, 3(1), pp.25-27.

Yurisandi, T. &Puspitasari, E. (2015). Financial reporting Quality – Before and After IFRS Adoption Using NiCE Qualitative Characteristics Measurement. Procedia – Social and Behavioral Sciences, 211, pp. 644-652.

Zeghal, D., Chtourou, S. M., & Fourati, Y. M. (2012). The Effect of Mandatory Adoption of IFRS on Earnings Quality: Evidence from the European Union. Journal of International Accounting Research, 11(2), pp. 1–25.

International Journal of Finance and Accounting
ISSN 2513-4311X (online)
Vol.8 Issue 1, No.1. pp. 1 - 22, 2023

www.iprjb.org

Appendix A

Table A1 Overview of the Measurement Items Used to Operationalize the Fundamental and Enhancing Qualitative Characteristic (Including the Measurement Scales)

Relevance				
Question No	Question	Operationalisation	Concept	Literature
R1	To what extent does the company use fair value instead of historical cost?	1 = Only historical cost 2 = Mostly historical cost 3 = Balance fair value/historical cost 4 = Most fair value 5 = Only fair value	Predictive value	e.g., Schipper and Vincent (2003); McDaniel et al. (2002); Barth et al. (2001);Schipper 2003)
R2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	1 = No non-financial information 2 = Limited non-financial information, not very useful for forming expectations 3 = Sufficient useful non-financial information 4 = Relatively much useful non-financial information, helpful for developing expectations 5 = Very extensive non-financial information presents additional information which helps developing expectations	Predictive value	e.g., Jonas and Blanchet (2000); Nichols and Wahlen (2004)
R3	To what extent does the risk section provide good insights into the risk profile of the company?	1 = No insights into risk profile 2 = Limited insights into risk profile 3 = Sufficient insights into risk profile 4 = Relatively much insights into risk profile 5 = Very extensive insights into risk profile	Predictive value	e.g., Jonas and Blanchet (2000); Nichols and Wahlen (2004)
R4	To what extent does the annual report contain forward-looking information?	1 = No forward-looking information 2 = Limited forward-looking information 3 = Sufficient forward-looking information 4 = Relatively much forward-looking Information 5 = Very extensive forward-looking information	Predictive value	e.g., McDaniel et al. (2002); Jonas and Blanchet (2000); Bartov and Mohanram (2004)
R5	To what extent does the annual report contain information on CSR?	1 = No information on CSR 2 = Limited information on CSR 3 = Sufficient information on CSR 4 = Very much information on CSR 5 = Very extensive information on CSR	Predictive value	e.g., Deegan (2002); Orij (2010)
R6	To what extent does the annual report contain a proper disclosure of the extraordinary gains and losses?	1 = No proper disclosure 2 = Limited proper disclosure 3 = Sufficient proper disclosure 4 = Very much proper disclosure 5 = Very extensive proper disclosure	Predictive and confirmatory value	e.g., Hoogendoorn and Mertens (2001)
R7	To what extent does the annual report contain information regarding personnel policies?	1 = No information regarding personnel policies 2 = Limited information regarding personnel policies 3 = Sufficient information regarding personnel policies 4 = Very much information regarding personnel policies 5 = Very extensive information regarding personnel policies	Predictive and confirmatory value	e.g., Hoogendoorn and Mertens (2001)
R8	To what extent does the annual report contain information concerning divisions?	1 = No information concerning divisions 2 = Limited information concerning divisions 3 = Sufficient information concerning divisions 4 = Very much information concerning divisions 5 = Very extensive information	Predictive and confirmatory value	e.g., Hoogendoorn and Mertens (2001)

		concerning divisions		
R9	To what extent does the annual report contains an analysis concerning cash flows?	1 = No analysis 2 = Limited analysis 3 = Sufficient analysis 4 = Very much analysis 5 = Very extensive analysis	Predictive value	e.g., Hoogendoorn and Mertens (2001); Maines and Wahlen (2006); Van der Meulen, Gaeremynck, and Willekens (2007)
R10	To what extent are the intangible assets disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Predictive value	e.g., Camfferman and Cooke (2002)
R11	To what extent are the "off-balance" activities disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Predictive value	e.g., Hoogendoorn and Mertens (2001)
R12	To what extent is the financial structure disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Predictive and confirmatory value	e.g., Vander Bauwhede (2001)
R13	To what extent does the annual report contain information concerning the companies' going concern?	1 = No information concerning going concern 2 = Limited information concerning going concern 3 = Sufficient information concerning going concern 4 = Very much information concerning going concern 5 = Very extensive information concerning going concern	Predictive value	e.g., Gafarov (2009); IASB (2008)
Faithful Representation				
Question No	Question	Operationalization	Concept	Literature
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in annual report?	1 = No valid arguments 2 = Limited valid arguments 3 = Sufficient valid arguments 4 = Very much valid arguments 5 = Very extensive valid arguments	Verifiability	e.g., Jonas and Blanchet (2000); Maines and Wahlen (2006)
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = No valid arguments 2 = Limited valid arguments 3 = Sufficient valid arguments 4 = Very much valid arguments 5 = Very extensive valid arguments	Verification	e.g., Jonas and Blanchet (2000); Maines and Wahlen (2006)
F3	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: financial figures 5 = Unqualified opinion: financial figures + internal control	Free from material error, verification, neutrality, and completeness	e.g., Maines and Wahlen (2006); Gaeremynck and Willekens (2003); Kim et al. (2011); Gray at al. (2011)
F4	To what extent does the company provide information on corporate governance?	1 = No description of corporate governance 2 = Limited description of corporate governance 3 = Sufficient description of corporate governance 4 = Very much description of corporate governance 5 = Very extensive description of corporate governance	Completeness, verifiability, and free from material error	e.g., Jonas and Blanchet (2000)
F5	To what extent does the annual report contains disclosure concerning the "comply or explain" application?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Neutrality	e.g., Jonas and Blanchet (2000)

F6	To what extent does the annual report contains disclosure related to both positive and negative contingencies?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Completeness and verifiability	e.g., Dechow et al. (1996); McMullen (1996); Beasley (1996); Rezaee (2003); Cohen et al. (2004); Sloan (2001)
F7	To what extent does the annual report contains information concerning bonuses of the board of directors?	1 = No information concerning bonuses 2 = Limited information concerning bonuses 3 = Sufficient information concerning bonuses 4 = Very much information concerning bonuses 5 = Very extensive information concerning bonuses	Neutrality	e.g., Burgstahler et al. (2006); Camfferman and Cooke (2002)
Understandability				
Question No.	Question	Operationalization	Concept	Literature
U1	To what extent is the annual report presented in a well organized manner?	1 = Very bad presentation 2 = Bad presentation 3 = Poor presentation 4 = Good presentation 5 = Very good presentation	Understandability	e.g., Jonas and Blanchet (2000)
U2	To what extent does the presence of graphs and tables clarify the presented information?	1 = No graphs 2 = 1-5 graphs 3 = 6-10 graphs 4 = 11-15 graphs 5 = > 15 graphs	Understandability	e.g., Jonas and Blanchet (2000); IASB (2006)
U3	To what extent does the annual report contain technical jargon in the perception of the researcher?	1 = Very much jargon 2 = Much jargon 3 = Moderate use of jargon 4 = Limited use of jargon 5 = No/hardly any jargon	Understandability	e.g., IASB (2006); Jonas and Blanchet (2000); Iu and Clowes (2004)
U4	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately 1 page 4 = 1-2 pages 5 = > 2 pages	Understandability	e.g., Jonas and Blanchet (2000)
U5	To what extent does the annual report contains information concerning mission and strategy?	1 = No information concerning mission and strategy 2 = Limited information concerning mission and strategy 3 = Sufficient information concerning mission and strategy 4 = Very much information concerning mission and strategy 5 = Very extensive information concerning mission and strategy	Understandability	e.g., FASB (2010); Men and Wang (2008)
U6	To what extent is the annual report understandable in the perception of the researcher?	1 = Very badly understandable 2 = Badly understandable 3 = Poor understandable 4 = Good understandable 5 = Very good understandable	Understandability	e.g., Courtis (2005)
Comparability				
Question No.	Question	Operationalization	Concept	Literature
C1	To what extent are changes in accounting policies disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Consistency	e.g., Jonas and Blanchet (2000)
C2	To what extent are	1 = No disclosure	Consistency	e.g., Schipper and

	changes in accounting estimates disclosed?	2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure		Vincent (2003); Jonas and Blanchet (2000)
C3	To what extent does the annual report contain information concerning comparison and effects of accounting policy changes?	1 = No comparison 2 = Actual adjustments (1 year) 3 = 2 years 4 = 3 years 5 = 4 or more years	Consistency	e.g., Cole et al. (2009; 2012); Jonas and Blanchet (2000)
C4	To what extent does the company present financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1-5 ratios 3 = 6-10 ratios 4 = 11-15 ratios 5 = > 15 ratios	Comparability	e.g., Cleary (1999)
C5	To what extent does the annual report contains information concerning companies' shares?	1 = No information concerning companies' shares 2 = Limited information concerning companies' shares 3 = Sufficient information concerning companies' shares 4 = Very much information concerning companies' shares 5 = Very extensive information concerning companies' shares	Consistency	e.g., Lantto and Sahlström (2009); Jonas and Blanchet (2000)
C6	To what extent does the annual report contain benchmark information concerning competitors?	1 = No benchmark information 2 = Limited benchmark information 3 = Sufficient benchmark information 4 = Very much benchmark information 5 = Very extensive benchmark information	Consistency	e.g., De Franco et al. (2011); Barth et al. (2001); Armstrong et al. (2010)
Timeliness				
Question No.	Question	Operationalization	Concept	Literature
T1	How many days did it take for the auditor to sign the auditors' report after book-year end?	Natural logarithm of amount of days 1 = 1-1.99 2 = 2-2.99 3 = 3-3.99 4 = 4-4.99 5 = 5-5.99	Timeliness	e.g., IASB (2008); Leventis and Weetman (2004)

Source: Braam & Beest, 2013 adapted.