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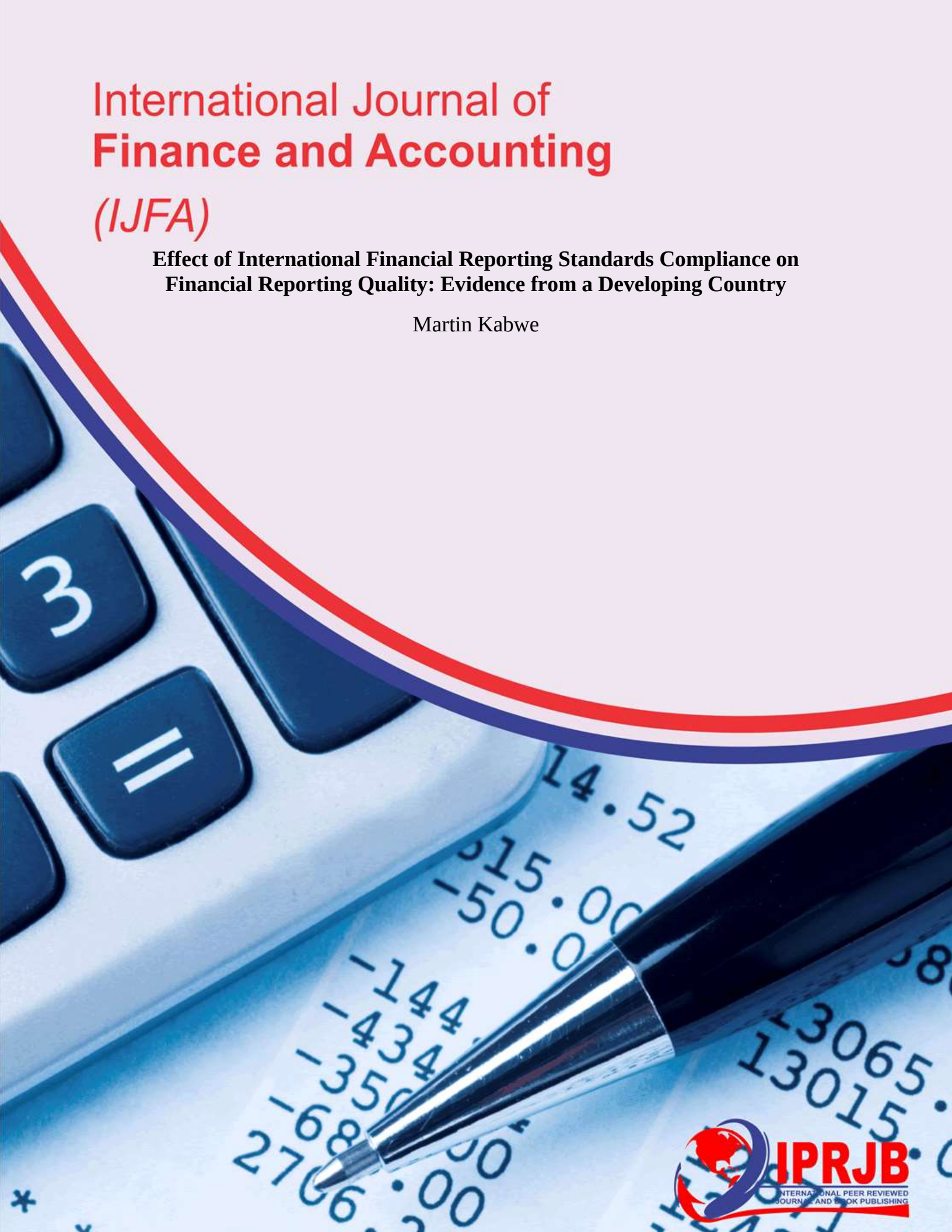
Effect of International Financial Reporting Standards Compliance on Financial Reporting Quality: Evidence from a Developing Country

Martin Kabwe



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Effect of International Financial Reporting Standards Compliance on Financial Reporting Quality: Evidence from a Developing Country

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Abstract

Purpose: Despite global adoption of International Financial Reporting Standards to improve financial reporting quality, there is still inconclusive and limited empirical evidence of improving financial reporting quality especially from developing countries. Therefore, the study analysed the relationship between International Financial Reporting Standards compliance and Financial Reporting Quality from an African country perspective.

Methodology: Financial Reporting Quality was measured using measurement tool developed by the Nijmegen Center for Economics and International Financial Reporting Standards compliance was measured using dichotomous and partial compliance methods. Study period was 2012 to 2018 involving 20 Zambian listed companies. Study involved panel data analysis and hence, Hausman test was conducted to select the model. Multiple linear regression was used as a data analysis method.

Findings: The results indicated a statistically insignificant relationship between International Financial Reporting Standards compliance and Financial Reporting Quality. Therefore, the implication of the study is that the adoption of International Financial Reporting Standards does not influence financial reporting quality among Zambian listed companies. The low compliance with International Financial Reporting Standards among the listed may have contributed.

Unique Contribution to Theory, Practice and Policy: This is first study in Zambia looking at the influence of IFRS Compliance on Financial Reporting Quality and therefore, contributes to the extant empirical studies analysing whether IFRS compliance influences the financial reporting quality given the mixed results across.

Keywords: *African Perspective, IFRS Adoption, Quality Financial Information*

JEL: C33, F65, M41, M40, M49

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INTRODUCTION

The purpose of adopting International Financial Reporting Standards (IFRSs) is to improve the financial reporting quality (FRQ) of reporting entities. The IFRS conceptual framework requires that reporting entities must comply fully with IFRSs in order to produce quality financial information (IASB, 2010). However, there is a non-compliance problem with IFRS disclosures which can compromise the quality of financial information reported as evidenced by research (e.g. Glaum et al., 2013; Samaha and Khlif, 2016; Al-Mutawaa and Hewaidy, 2010; Al-Shammeri et al., 2008; Karim and Ahmed, 2005). The non-compliance problem could even be worse for Africa because African countries are plagued with low compliance with global standards such as IFRSs due to the weakness in the institutional and enforcement mechanism (Word Bank, 2019; Bova and Perera, 2012; Nobes, 2011). In Zambia, there is also non-compliance with IFRS disclosure requirements problem (Kabwe et al., 2020; World Bank, 2017).

Notwithstanding, the non-compliance problem with IFRS disclosures, empirical studies on the effect of IFRS compliance on FRQ show contradictory results and hence inconclusive. For instance, Kimouche and Rouabhi (2016); Tsalavoutas and Dionysiou (2014); Kargin (2013) revealed a significant positive relationship between the level of compliance with IFRS disclosures and FRQ. Meanwhile, Jeanjean and Stolowy (2008) and Van Tendeloo and Vanstraelen (2005) did not find a positive relationship between the level of compliance with IFRS disclosures and FRQ. The contradictory results could be related to the significant variation in the level of compliance with IFRSs across the globe and that several prior studies have employed different indirect methods to measure FRQ (Glaum *et al.,* 2013; Horton *et al.,* 2013; Pascan, 2015; Beest and Braam, 2009).

Prior studies in Africa also show varied evidence on the relationship between the level of compliance with IFRSs and FRQ. This is possible because of the different indirect methods used to measure FRQ and variation in IFRS compliance as well. 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. On the other hand, Agyei-Mensah (2013) in Ghana found that FRQ improved significantly after adopting IFRSs, and in Nigeria Uwuigbe *et al.,* (2016) also found a significant positive relationship. Therefore, there is limited knowledge of the effect of IFRS compliance on the quality of financial information contained in the financial statements from African countries perspective.

Given the limited knowledge of IFRS compliance and FRQ in the African countries, the study analysed the effect of IFRS compliance on the financial reporting quality in an African context. Zambia was chosen for one main reason. There is lack of empirical evidence regarding the effect of IFRS compliance on financial reporting quality. Therefore, this study contributes to extant literature on IFRS compliance and financial reporting quality using Zambian listed companies.

LITERATURE REVIEW

Financial reporting quality is the accuracy with which a company's financial reporting conveys information about the company's operations, in particular its expected cash flows that inform equity investors (Biddle et al., 2009). Therefore, the objective of financial reporting quality is to produce quality financial information that is useful for economic decision making. According to

the IFRS conceptual framework for financial reporting, the objective of general purpose financial reporting is to provide useful financial information to the primary users about the reporting entity (IASB, 2010). Although, the framework identifies the primary users as existing and potential investors, lenders and other creditors who use the information to make decisions about providing resources to the entity, there are also other important users of the financial information who should be recognized. Therefore, the usefulness of the financial information should not be focused on one user group (providers of capital).

Financial reporting quality (FRQ) is determined by the quality of accounting standards such as IFRSs and compliance with the standards (Kothari, 2001). Therefore, compliance with IFRS disclosure requirements entails provision of high quality financial information which can support the effective operation of the capital market. Musa (2019) notes that compliance with IFRS standards leads to higher financial reporting quality which reduces the scope for earnings management, increases more timely loss recognition and leads to more value relevant accounting information. In addition, a legal system with Investor protection is important in order to achieve financial reporting quality and the need for regulators to design mechanisms that limit managers' earnings management practice.

On the other hand, low compliance with IFRS disclosure requirements among listed companies can lead to provision of low quality financial information and hence affect negatively the operations of capital market. Laeven (2014) noted that the success of capital market indeed will depend on the quality and flow of information used to value the securities. In addition, Litan et al., (2003) argue that besides other factors, capital markets cannot function effectively without the timely disclosure of Information about the financial soundness and future prospects of companies to give investors' confidence to invest. Similarly, Levitt (1998, p.80), chairman of SEC in United States stated that:

"I firmly believe that the success of capital markets is directly dependent on the quality of the accounting and disclosure system. Disclosure systems that are founded on high quality standards give investors' confidence in the credibility of financial reporting -- and without investor confidence, markets cannot thrive."

Individual investors will rely on the disclosures made by the company because they cannot demand for specific information from the company especially in developing countries where there is limited source of information. Therefore, investors desire to invest their money in companies where they have access to high quality financial information (Hoogervorst, 2016). High quality financial information helps to reduce information asymmetry between management of the company and stakeholders (Kothari, 2001). Consequently, the availability of high quality corporate financial information enhances efficiency and effectiveness of the economic decisions that market participants take in a modern economy (World Bank, 2007).

Mandatory disclosures as required under IFRS reporting framework forces management to disclose quality information which reduces information asymmetry and opportunistic behaviour by managers (Horton et al., 2013; Eisenhardt, 1989). However, the determination of useful financial information is debatable because of different preferences of information among users. Besides, the IASB conceptual framework has only defined one group of users (capital) as primary

users of financial statements. In addition, information preferences among the primary users may defer depending on the category of investors (i.e. domestic and foreign, institutional and individual e.t.c). According to IASB (2010) the IFRS standards does not provide information that is useful to all the users of the financial statements but allows respective companies to provide additional information that may be most useful to a particular subset of primary users. Therefore, this pose a challenge to measure financial reporting quality that is holistic.

Nonetheless, considering the lack of a well-developed theory about the complex nature of financial reporting quality, most empirical studies aimed at evaluating financial reporting quality employ quantitative measures that focus on specific attributes mainly value relevance and earnings management (Pascan, 2015; Braam and Beest, 2013). Since Ball and Brown (1968) work many empirical studies have been done in the accounting area on value relevance of accounting information although the focus is largely on developed countries. In addition, the studies have tried to investigate the extent to which IFRS standards and US GAAP contribute to producing high quality financial information which is useful for economic decision making. However, the results are contradictory with some studies showing positive, insignificant and negative differential effects.

Black and White (2003) compared the value relevance of earnings relative to book value of equity in Germany, Japan and the US owing to the size of their capital markets and differences in accounting systems and institutional structures. They found that book values are more value relevant than earnings in Germany and Japan while earnings are more value relevant in the US, because capital providers in Germany and Japan are more concerned with balance sheet measures such as liquidity. The book value of equity is more value-relevant than earnings, particularly in Germany, with mixed results for Japan. In the US, positive earnings are more value relevant than book value of equity, but not negative earnings. Therefore, the value relevance of financial information is influence by the accounting and institutional structures. Ultimately, these are influenced by the national culture of respective countries (Kwok and Tadesse, 2006).

Tsalavoutas and Dionysiou (2014) examined value relevance of IFRS mandatory disclosure requirements. The study revealed that the levels of mandatory disclosures are value relevant. Additionally, not only the relative value relevance but also the valuation coefficient of net income of high-compliance companies is significantly higher than that of low-compliance companies. Therefore, compliance with IFRS disclosure requirements increases the quality of financial reporting.

Elshandidy (2014) examined whether or not the accounting information had value relevance in China. The study separated between prior to and post 2007 whereby the converged IFRS became mandatory for firms trading in the A-share, B-share and H-share markets in China. The study showed that in all the three stock markets, each segment maintained its own characteristic relating to the value relevance of accounting information. The accounting information had value relevance in both A-shares and B-shares. With regard to H-share market, the results were more apparent while observing the impact of accounting on market value rather than on stock price.

Kargin (2013) investigated the Impact of IFRS on the Value Relevance of Accounting Information on Turkish Firms. The results show that value relevance of accounting information has improved

in the post-IFRS period (2005-2011) considering book values while improvements have not been observed in value relevance of earnings.

Pervan and Bartulović (2013) examined the value relevance of accounting information from five stock exchange involving 97 corporations from South Eastern European countries for the period 2005–2010. Results of conducted research have shown that accounting information, i.e. book value and earnings are value relevant on all the observed capital markets. The analysis of regression and determination coefficients has shown that on the observed capital markets value relevance of book value is higher than value relevance of earnings.

Adibah Wan Ismail et al., (2013) investigated the differences in earnings quality of Malaysian companies after the adoption of IFRS-based accounting standards named FRS using a sample of 4,010 observations over a three-year period before and a three-year period after the adoption of the IFRSs.The results show that IFRS adoption is associated with higher quality of reported earnings and that earnings reported during the period after the adoption of IFRS is associated with lower earnings management and higher value relevant.

Kimouche and Rouabhi (2016) in French investigated the impact of intangibles on the value relevance of accounting information. They found that intangibles and traditional accounting measures as a whole are value relevant. However, the amortization and impairment charges of intangibles and, cash flows do not affect the market values of French companies, unlike other variables, which affect positively and substantially the market values. Also goodwill and book values are more associated with market values than intangible assets and earnings respectively. Finally, they found that intangibles improve the value relevance of accounting information.

Contrary to the findings from the above empirical studies, other prior studies show no significant effect of IFRSs on financial reporting quality. For instance, Jeanjean and Stolowy (2008) analyzed the effect of the mandatory introduction of IFRS standards on earnings quality, and more precisely on earnings management in Australia, France, and the UK. The results show that the pervasiveness of earnings management did not decline after the introduction of IFRS, and in fact increased in France. They concluded that sharing rules is not a sufficient condition to create a common business language, and that management incentives and national institutional factors play an important role in framing financial reporting characteristics.

Van Tendeloo and Vanstraelen (2005) did not also find increase in value relevance in accounting information following the adoption of IFRS measured in terms of earnings management. The authors investigated whether German companies (with weak investor protection rights) that have adopted IFRS engage significantly less in earnings management compared to German companies reporting under German generally accepted accounting principles (GAAP), while controlling for other differences in earnings management incentives using a sample containing 636 firm-year observations relating to the period 1999–2001. The study revealed that IFRS-adopters (voluntary adopters) do not present different earnings management behavior compared to companies reporting under German GAAP and in addition voluntary adopters of IFRS in Germany cannot be associated with lower earnings management.

Palea (2013) reviewed extant empirical research on the effects of IFRS adoption on financial reporting Quality with a value-relevance perspective and focusing on the European experience following the adoption of IFRSs for listed companies starting from 2005. The study indicate that empirical evidence postulates some beneficial effects from the mandatory adoption of IFRSs such as improving the quality of financial reporting, thereby increasing its usefulness to investors. In addition, the study revealed that the benefits differ according to the institutional setting of firms adopting IFRSs and factors different from accounting regulation play a key role in determining financial reporting quality. Consequently, this have actually led to an application of IFRSs, which is not uniform across Europe which also affects accounting quality both in absolute and relative terms. Furthermore, cross-country differences in accounting are also likely to remain after IFRSs adoption. Musa (2019) also observed that differences in accounting quality is related to country's overall infrastructure setting.

In a related study, Christensen et al., (2015) examined the impact of managerial financial reporting incentives on accounting quality changes around International Financial Reporting Standards (IFRS) adoption using a sample of 177 Germany companies. They found that accounting quality improvements following adoption of IFRSs are confined to firms with incentives to adopt, that is, voluntary adopters. Therefore, financial reporting incentives dominate accounting standards in determining accounting quality. They argue that it is unwarranted to conclude that IFRS adoption improves accounting quality.

Despite the contradictory empirical evidence on effect of IFRS compliance on FRQ, very few studies have focused on developing countries especially African countries. However, the available empirical evidence shows inconclusive results in Africa as well. For instance, Mbir et al., (2020) examined the relationship between IFRS compliance and financial reporting quality in Ghana and found that the significant positive effect of IFRS adoption on financial reporting quality depends on IFRS compliance. Therefore, the study results postulate that actual compliance with IFRSs plays a defining role in improving the level of financial reporting quality. Agyei-Mensah (2013) investigated the quality of financial reports before and after adopting IFRSs by firms listed on the Ghana Stock Exchange. The study revealed that the quality of financial reports has improved significantly after adopting IFRSs and thus, confirms that the implementation of IFRSs generally reinforces accounting disclosure quality. Also, Mbawuni (2019) concludes that the FRQ of the listed companies is moderate but needs considerable improvement in Ghana.

Uwuigbe et al., (2016) in Nigeria examined the effects of value relevance of financial statements on a firm's share price and found that earnings per share were relevant in explaining the variation in the share prices relative to book value per share. Similarly, Osasere and Ilaboya (2018) in Nigeria found that financial reporting quality increased in the post-IFRS adoption.

Meanwhile, Ames (2013) in South Africa examined the impact of IFRS adoption on earnings quality and value relevance. The results showed that earnings quality did not improve significantly and not all components of the balance sheet changed in value relevance post-IFRS adoption. Also, Elbannan (2009) in Egypt found that the prevalence of earnings management does not decrease post-adoption of IFRS. This was attributed to the lack of improvements, lack of enforcement of these standards by regulators, and inadequate training of practitioners. Hillier *et al.,* (2016)

concluded that IFRS improvements in Africa are more related to cultural foundations. Ngole (2016) posits that while culture influence the predictive ability of IFRS earnings and cash flows, the legal origin is indifferent in Africa.

It is evident from the prior literature that the contradiction in the empirical results can be attributed to country-specific institutional settings and the measurement methods employed in the studies (Soderstrom and Sun, 2007; Beest et al., 2009: Palea, 2013; Musa, 2019). Soderstrom and Sun (2007) pointed out that accounting quality (value relevance and earnings quality) is determined by the accounting standards, legal and political systems, and incentives of financial reporting. Even though the conversion to the IFRS is likely to affect financial reporting, it is only one of the determinants of the overall accounting quality. Now that other determinants will continue to differ across countries, accounting quality may continue to differ across countries following the IFRS adoption. Therefore, it is also important to undertake a country specific study to analyse the effect of IFRS compliance on financial reporting quality following IFRS adoption. In Zambia, since the adoption of IFRS, there is lack of empirical evidence regarding the effect of IFRS compliance on the quality of accounting information.

Conceptual Framework

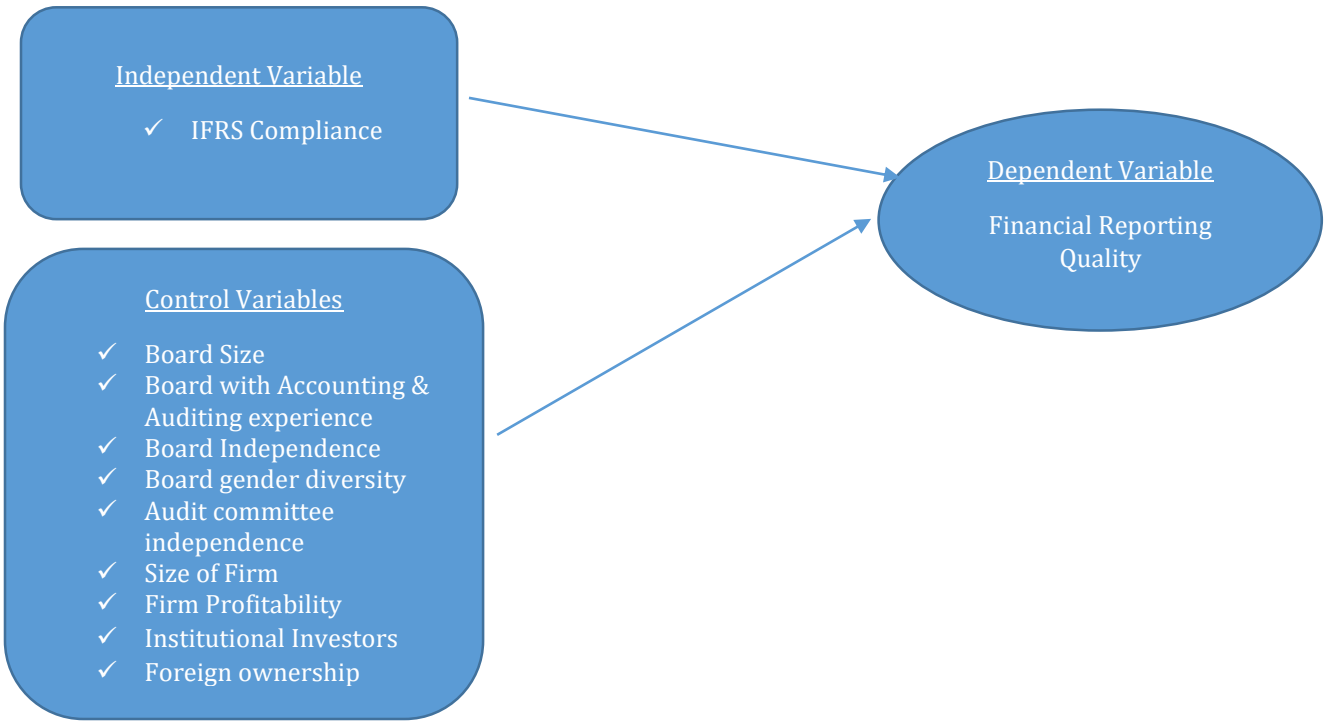

Figure 1: Conceptual Framework for Financial Reporting Quality

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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 study analysed the relationship between financial reporting quality and IFRS compliance by Zambian listed companies. Financial reporting quality was used as the dependent variable and IFRS compliance as independent variables. Corporate governance attributes and firm characteristics were used as control variables. The main data source was from the annual reports and audited financial statements of listed companies. All the annual reports and 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 report and audited financial statements.

The data on the dependent variable, FRQ was obtained from the study by Kabwe (2023) in Zambia which employed a FRQ measurement tool developed by the Nijmegen Center for Economics (NiCE). IFRS compliance was measured using two prominent method of measuring IFRS Compliance, dichotomous disclosure index approach and partial compliance unweighted approach. The present study employed both methods as this provides a more robust results which is informative compared to just a single method (Tsalavoutas et al., 2010).

The dichotomous method requires that the disclosure index for each company is calculated as the ratio of the total items disclosed to the maximum possible score applicable for that company. The formula is given in *equation 1*:

$$C_j = \frac{T = \sum_{i=1}^{n} d_i}{M = \sum_{i=1}^{m} d_i} \qquad \textit{Eq. (1)}$$

Where Cj is the total compliance score for each company and $0 \leq Cj \leq 1$. T is the total number of items disclosed (di) by company j and M is the maximum number of applicable disclosure items for company j that could have been disclosed. If a required item is disclosed, it is scored as 1 and if it is not disclosed, it is scored as 0. However, some items may not be applicable to every company and are therefore scored as "not applicable".

The partial compliance unweighted approach (PC method) gives unequal weighting to the disclosure items in different accounting standard as given by the formula in *equation 2*:

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$$PC_j = \frac{\sum_{i=1} X_i}{R_j}$$ *Eq. (2)*

Where PCj is the total compliance score for each company and $0 \leq PCj \leq 1$. Xi is the level of compliance with each standard's mandatory disclosure requirements. Firstly, we will calculate the compliance with each standard separately and subsequently, the sum of the compliance scores (X) is divided by the total number of relevant/applicable standards for each company j, i.e. R_j.

A compliance level dummy variable is included among the independent variables to capture the influence of IFRS compliance on the financial reporting quality (Alfaraih, 2009). The dummy variable is equal to one (1) if the IFRS compliance is above the median or zero (0) otherwise in each year. In addition, similar to prior studies (e.g. Alfaraih, 2009), this study also used the percentile approach to further analyse the effect of IFRS compliance on financial reporting quality. The study classified the level of compliance as high/medium/low instead of just high/low as above. The dummy variable of two (2) was used if the compliance level is above the 75 percentile, one (1) if the level of compliance was between 75 and 25 and zero (0) otherwise.

However, the study employed the dichotomous method as the primary measure method of the independent variable and partial unweighted compliance as an alternative method to check the robustness of the results. The dichotomous method has been adopted as the primary because it is the most widely used method based on prior literature and PC unweighted approach as a robustness analysis (Tsalavoutas, 2010; Abdullah et al., 2012).

The control variables, corporate governance attributes and firm characteristics were operationalized as given in table 1 below:

Table 1: Operationalization of the Control Variables

S/N	Variable	Proxy Description
1	Board Size	Measured as natural log of total number of directors on the board (e.g. Agyei-Mensah, 2017; Beasley *et al.* 2005; Cheng & Courtenay, 2006; Elzahar and Hussainey, 2012)
2	Board with Accounting & Auditing experience	The proportional of board members with financial reporting experience and expertise and total number of directors on the board. (e.g. Sellami and Fendri, (2017).
3	Board Independence	The proportion of non-executive directors to total number of board members. (e.g. Agyei-Mensah, 2017; Haniffa and Cooke, 2002; Eng and Mak, 2003).
4	Board gender diversity	The proportion of number of women board members to the total number of board members (e.g. Agyei-Mensah, 2019)
5	Audit committee independence	The proportion of number of non-executive director on audit committee members and total number of Audit committee members (e.g. Rahman and Hamdan, 2017).
6	Size of Firm	Measured as a natural Log of total assets (e.g. Al-Shammari et al, 2008; Glaum and Street, 2003; Agyei-Mensah, 2017)
7	Firm Profitability	Measured by the ratio profit after tax to equity (e.g. Al-Akra et al.,2010; Bova and Pereira,2012)
8	Institutional Investors	Ratio of institutional investors to total shareholding (Eng and Mak, 2003; Barako et al., 2006; Agyei-Mensah, 2017)
9	Foreign ownership	Ratio of foreign ownership to total shareholding (Bova and Pereira, 2012)

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Data Analysis Models

To test the hypothesis, the study used FRQ as the dependent variable and IFRS compliance as independent variable while controlling for corporate governance attributes and firm characteristics. The Multiple linear regression models took the following forms:

$$FRQ = \beta0 + \beta1(DIF) + \beta2(BS) + \beta3(BAA) + \beta4\ (BI) + \beta5\ (BD) + \beta6\ (ACI) + \beta7\ (FSLN) + \beta8\ (FP) + \beta9\ (Instl) + \beta10\ (FI) + \varepsilon \quad \textit{Eq. (3)}$$

$$FRQ= \beta0 + \beta1(PCF)+ \beta2(BS) + \beta3(BAA) + \beta4\ (BI) + \beta5\ (BD) + \beta6\ (ACI) + \beta7\ (FSLN) + \beta8\ (FP) + \beta9\ (Instl) + \beta10\ (FI) + \varepsilon \quad \textit{Eq. (4)}$$

$$FRQ = \beta0 + \beta1(DIF2) + \beta2(BS) + \beta3(BAA) + \beta4\ (BI) + \beta5\ (BD) + \beta6\ (ACI) + \beta7\ (FSLN) + \beta8\ (FP) + \beta9\ (Instl) + \beta10\ (FI) + \varepsilon \quad \textit{Eq. (5)}$$

$$FRQ= \beta0 + \beta1(PCF2) + \beta2(BS) + \beta3(BAA) + \beta4\ (BI) + \beta5\ (BD) + \beta6\ (ACI) + \beta7\ (FSLN) + \beta8\ (FP) + \beta9\ (Instl) + \beta10\ (FI) + \varepsilon \quad \textit{Eq. (6)}$$

Where:

FRQ= Level of Financial Reporting Quality
DIF = Level of IFRS Compliance using Dichotomous Compliance index
PCF= Level of compliance using the Partial Compliance (PC) Unweighted index
DIF2 = Level of IFRS Compliance using Dichotomous Compliance index (Percentile approach)
PCF2= Level of compliance using the Partial Compliance (PC) Unweighted index (Percentile approach)
LNBS = Board Size
BAA = Board Accounting and Auditing experience
BI = Board Independence
BD = Board Diversity
ACI = Audit Committee Independence
FSLN = Firm Size
FP = Firm Profitability
Instl = Institutional Investors
FI = Foreign Investment Ownership
ε = Error term

RESULTS AND DISCUSSION

Summary Descriptive Statistics

The table 2 below presents descriptive statistics for both the dependent and independent variables. 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%. According to Kabwe (2023), the financial reporting quality is average or moderate in Zambia.

Based on the Dichotomous method, the overall average IFRS compliance score by listed companies in Zambia is 65%, while the maximum and minimum scores are 77% and 54% respectively with standards deviation of 5%. On the other hand, using the PC method the overall average compliance score by listed companies in Zambia is 56%, while the maximum and minimum scores are 74% and 39% respectively and standards deviation of 7%. Both IFRS compliance scores show that the level of compliance with IFRSs in Zambia is low (Kabwe *et al.*, 2020).

Table 2: Descriptive Statistics for Dependent and Independent Variables

Variable	Mean	Standard Error	Median	Standard Deviation	Kurtosis	Skewness	Minimum	Maximum
FRQ	2.62	0.02	2.55	0.25	0.24	0.22	2.06	3.21
DI	0.65	0.00	0.65	0.05	-0.16	0.45	0.57	0.77
PCI	0.56	0.01	0.56	0.07	0.48	0.05	0.39	0.74
LNBS	2.00	0.03	1.95	0.31	0.52	0.97	1.61	2.89
BAA	0.29	0.02	0.24	0.22	0.85	1.18	0.00	0.83
BI	0.68	0.01	0.67	0.16	-0.09	-0.47	0.33	1.00
BD	0.17	0.01	0.17	0.13	0.45	0.61	0.00	0.63
ACI	0.88	0.02	1.00	0.25	4.80	-2.36	0.00	1.00
FSLN	21.25	0.15	21.27	1.77	0.66	0.32	16.26	26.36
FP	0.11	0.07	0.13	0.78	27.33	-2.02	-5.50	4.44
InstI	0.17	0.02	0.12	0.22	1.13	1.39	0.00	0.89
FI	0.70	0.02	0.75	0.26	-0.23	-0.79	0.05	1.00

Multiple Linear Regression Analysis

Econometric Considerations

Before conducting the multiple regression analysis, we first tested the linear regression assumptions which included testing for linear relationship, normal distribution, multicollinearity, autocorrelation (serial correlation) and homoscedasticity.

To test for linear relationship between each independent variable and dependent variable, scatter plots were drawn and the result indicates some level of linearity between the independent variables and dependent variables. The normality and multicollinearity tests were conducted using skewness/kurtosis test and Pearson's correlation matrix respectively. The results indicated normal distribution and there is no problem of multicollinearity as indicated in *table 3* and *table 4* below.

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Table 3: Normality Test Using Skewness/Kurtosis Test-FRQ

```
. sktest FRQ

                    Skewness/Kurtosis tests for Normality
                                                      ------ joint ------
    Variable |   Obs   Pr(Skewness)   Pr(Kurtosis)  adj chi2(2)  Prob>chi2
-------------+-------------------------------------------------------------
         FRQ |   140        0.2691         0.4675         1.78      0.4110
```

Table 4: Pearson's Correlation Results among Independent Variables

```
. pwcorr DIF2 PCF2 DIF22 DIF23 PCI22 PCI23 LNBS BAA BI BD ACI FSLN FP InstI FI
```

	DIF2	PCF2	DIF22	DIF23	PCI22	PCI23	LNBS
DIF2	1.0000						
PCF2	0.5872	1.0000					
DIF22	-0.0286	0.1842	1.0000				
DIF23	0.5774	0.2398	-0.5941	1.0000			
PCI22	-0.2001	0.0450	0.2296	-0.1980	1.0000		
PCI23	0.5230	0.5477	-0.0168	0.3397	-0.5718	1.0000	
LNBS	0.2004	0.1026	-0.3513	0.3754	-0.2579	0.3447	1.0000
BAA	0.0233	0.0809	0.1819	-0.0523	0.2481	-0.0375	-0.1227
BI	-0.0112	-0.0214	-0.2273	0.0053	-0.2314	0.2030	0.0985
BD	0.2473	0.1767	0.1881	-0.1258	-0.0136	0.2245	0.0234
ACI	-0.1518	0.1495	-0.0009	-0.1885	-0.0134	0.1104	0.2844
FSLN	0.1540	-0.0191	-0.3410	0.2838	-0.1624	0.1704	0.4015
FP	0.0517	0.0790	0.0500	0.0169	-0.0083	-0.0242	0.0118
InstI	-0.1499	-0.0805	-0.2164	-0.1282	0.0514	-0.0380	0.2005
FI	0.1964	0.0531	0.0586	0.1612	-0.1152	0.0970	0.1001

	BAA	BI	BD	ACI	FSLN	FP	InstI
BAA	1.0000						
BI	-0.1675	1.0000					
BD	-0.0721	0.4367	1.0000				
ACI	0.2840	0.3463	0.1053	1.0000			
FSLN	0.0437	0.3308	0.0514	0.3233	1.0000		
FP	0.1161	-0.2423	-0.1355	0.0972	-0.1166	1.0000	
InstI	-0.3322	0.5078	0.4745	0.0972	0.0211	-0.1468	1.0000
FI	0.3302	-0.5156	-0.3385	0.0374	0.1068	0.1373	-0.5647

	FI

--more--

The regression model was also tested for autocorrelation or serial correlation using the Durbin's alternative test for autocorrelation and Breusch-Godfrey LM test for autocorrelation. Both results in *table 5* indicated the presence of autocorrelation. In addition, the regression model was also tested for heteroscedasticity problem using the Breusch-pagan/Cook-Weisberg test and the results in *table 6* show a significant p-value of 0.0043 indicating existence of heteroscedasticity problem.

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To correct the problem of heteroscedasticity and autocorrelation, the study employed the clustered standard errors approach (Petersen, 2007).

Table 5: Results for Autocorrelation Testing

```
. estat durbinalt

Durbin's alternative test for autocorrelation
```

lags(p)	chi2	df	Prob > chi2
1	187.457	1	0.0000

H0: no serial correlation

```
. estat bgodfrey

Breusch-Godfrey LM test for autocorrelation
```

lags(p)	chi2	df	Prob > chi2
1	83.194	1	0.0000

H0: no serial correlation

Table 6: Results for Heteroscedasticity Testing

```
. estat hettest


Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
        Ho: Constant variance
        Variables: fitted values of FRQ

        chi2(1)      =     8.16
        Prob > chi2  =   0.0043
```

Regression Model Selection

In estimating the panel data model, the Hausman test was employed to select either fixed effect model or random effect model and the results shows an insignificant p-value of 0.9875 and 0.9904 for both equation 3 and equation 4 respectively. Based on these results, the random effect model was used to run the multiple regression models.

Multiple Linear Regression Results

Both table 7 and 8 shows the results of a Multiple Linear Regression analysis of the effect of IFRS compliance, corporate governance attributes and firm characteristics on financial reporting quality among Zambian listed companies.

Table 7: Multiple Linear Regression Results- Random Effects Model (Equation 3)

Variable	Coefficient	Z	P-Value
IFRS Compliance(DIF*)	-0.00512	-0.67	0.502
Board Size(LNBS)	0.08836	2.65	0.008
Board Accounting & Auditing experience (BAA)	0.03778	0.52	0.601
Board Independence (BI)	-0.0287	-0.43	0.667
Board Diversity(BD)	0.0761	0.89	0.376
Audit Committee Independence (ACI)	0.0148	0.40	0.689
Firm Size (LNFS)	0.00315	0.85	0.396
Firm Profitability (FP)	-0.00878	-3.08	0.002
Institutional Shareholding(Instl)	0.1748	1.94	0.053
Foreign Shareholding (FI)	0.1191	1.13	0.260
Intercept	2.2467	14.32	0.0000

R-sq within = 0.1615 Wald CHi2 (10) = 52.47 P-value (F-Statistics) = 0.0000
between= 0.2854 N= 140
Overall=0.2699

*DIF is the dummy variable for the level of compliance with IFRS using the dichotomous index where companies are classified as high/low based on the mean.
Dependent Variable: Financial Reporting Quality
Independent Variables: IFRS Compliance (DIF), Corporate Governance Attributes and Firm Characteristics

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Table 8: Multiple Linear regression results- Random Effects Model (Equation 4)

Variable	Coefficient	Z	P-Value
IFRS Compliance(PCF)	0.0044	0.41	0.681
Board Size(LNBS)	0.0864	2.57	0.010
Board Accounting & Auditing experience (BAA)	0.0375	0.52	0.601
Board Independence (BI)	-0.0292	-0.45	0.654
Board Diversity(BD)	0.0695	0.88	0.578
Audit Committee Independence (ACI)	0.0208	0.64	0.521
Firm Size (LNFS)	0.0025	0.78	0.432
Firm Profitability (FP)	-0.0082	-2.57	0.010
Institutional Shareholding(Instl)	0.1770	1.92	0.055
Foreign Shareholding (FI)	0.1135	1.08	2.281
Intercept	2.257	14.93	0.000

R-sq within = 0.1618 Chi2 (10) = 54.06 P-value (F-Statistics) = 0.0000
between= 0.2797 N= 140
Overall=0.2647

*PCF is the dummy variable for the level of compliance with IFRS using the partial compliance index where companies are classified as high/low based on the mean.
Dependent Variable: Financial Reporting Quality

Independent Variables: IFRS Compliance (PCF), Corporate Governance Attributes and Firm Characteristics

The results for equation 3 and 4 presented in *table 7* and *table 8* above show a positive statistically insignificant relationship between the level of compliance with IFRS and Financial Reporting Quality. This shows that IFRS compliance has no significant impact on financial reporting quality. The results are similar with Ames (2013) in South Africa who found that accounting quality did not improve significantly following IFRS adoption. Further, the results also resonate with Elbannan (2009) in Egypt who found that the prevalence of earnings management does not decrease post-adoption of IFRS. This point to the flaws in the institutional setting supporting the financial reporting in Zambia as suggested by Soderstrom and Sun (2007); Palea (2013); Musa (2019). Besides, these results can be attributed to the lack of enforcement of IFRSs by regulators and inadequate training of practitioners (Elbannan, 2009; Kabwe et al., 2020). In Zambia, the adoption of IFRS was done without consideration for guidance and implementation plan (World, 2007). Enforcement should be part of implementation plan that has been lagging while more emphasis was put on adoption of IFRSs. Therefore, the findings postulate that focusing on accounting standards by the regulators without enforcement has not yielded higher financial reporting quality. As suggested by Kabwe et al., (2020), more effort should be directed on coming up with a more robust enforcement mechanism by the regulators in order to achieve financial reporting quality among listed companies in Zambia.

Arising from the study findings, IFRS compliance does not influence financial reporting quality and therefore, there could be other factors influencing financial reporting quality. In resonate with

Christensen *et al.*, (2015) mandating IFRS in Zambia alone may not improve financial reporting quality for firms that have no incentives to adopt, and it's not the question of whether the new standards are perceived to be of higher quality. It could also be attributed to the culture foundation for financial reporting in Zambia where IFRS compliance is not prioritised or appreciated. This is echoed by Hillier et al., (2016) who concluded that IFRS improvements in Africa are more related to cultural foundations and Kwok and Tadesse (2006) who posit that national culture plays a primary role on financial system.

Table 9: Multiple Linear Regression Results- Random Effect Model (Equation 5)

Variable	Coefficient	z	P-Value
IFRS Compliance (DIF22*)	0.0155	1.20	0.229
IFRS Compliance (DIF23*)	0.0084	0.67	0.505
Board Size(LNBS)	0.0957	2.72	0.007
Board Accounting & Auditing experience (BAA)	0.0062	0.10	0.923
Board Independence (BI)	-0.0315	-0.48	0.633
Board Diversity(BD)	0.0562	0.78	0.436
Audit Committee Independence (ACI)	0.0172	0.47	0.641
Firm Size (LNFS)	0.0034	0.88	0.378
Firm Profitability (FP)	-0.0078	-2.52	0.012
Institutional Shareholding(Instl)	0.1784	1.95	0.051
Foreign Shareholding (FI)	0.1237	1.03	0.303
Intercept	2.22	12.98	0.000

R-sq within = 0.1652 Wald Chi2 (11) = 43.31 P-value (F-Statistics) = 0.000
between= 0.3401 N= 140
Overall=0.3188

*DIF22 and DIF23 are the dummy variables for the level of compliance with IFRS using the dichotomous compliance index where percentile approach is used to classify companies as high/medium/low based on 75th, between 75th and 25th and below 25th.

Dependent Variable: Financial Reporting Quality

Independent Variable: IFRS Compliance (DIF2), Corporate Governance Attributes and Firm Characteristics

Table 10: Multiple Linear Regression Results- Random Effect Model (Equation 6)

Variable	Coefficient	z	P-Value
IFRS Compliance (PCI22)	0.0075	0.48	0.632
IFRS Compliance (PCI23)	0.0036	0.17	0.868
Board Size(LNBS)	0.0867	2.42	0.015
Board Accounting & Auditing experience (BAA)	0.0378	0.51	0.609
Board Independence (BI)	-0.0279	-0.42	0.672
Board Diversity(BD)	0.0682	0.98	0.329
Audit Committee Independence (ACI)	0.0204	0.66	0.508
Firm Size (LNFS)	0.0025	0.74	0.457
Firm Profitability (FP)	-0.0084	-2.51	0.012
Institutional Shareholding(Instl)	0.1715	1.81	0.071
Foreign Shareholding (FI)	0.1184	1.18	0.240
Intercept	2.257	14.93	0.000

R-sq within = 0.1638 Wald Chi2 (11) = 39.82 P-value (F-Statistics) = 0.000
between= 0.2671 N= 140
Overall=0.2526

*PCF22 and PCF23 are the dummy variables for the level of compliance with IFRS using the dichotomous compliance index where percentile approach is used to classify companies as high/medium/low based on 75th, between 75th and 25th and below 25th.

Dependent Variable: Financial Reporting Quality

Independent Variables: IFRS Compliance (PCI2), Corporate Governance Attributes and Firm Characteristics

Using the percentile approach, the results for equation 5 and 6 are presented in both table 9 and table 10 above which also show a positive statistically insignificant relationship between the level of compliance with IFRS and Financial Reporting Quality. These results are contrary to Yurisandi and Puspitasari (2015) who found that there was an increase in financial reporting quality following the adoption of IFRS in Indonesia. The implication of these results are that IFRS compliance does not play a key role in determining the quality of financial information reported by Zambian listed companies.

CONCLUSION AND RECOMMENDATION

The purpose of this study was to analyze the relationship between IFRS compliance and Financial Reporting Quality among Zambian listed companies. The study finding indicate that there is no significant relationship between the level of compliance with IFRS and financial reporting quality. The implication of these results are that IFRS compliance does not play a key role in determining the quality of financial information reported by Zambian listed companies. The flaws in the institution setting supporting financial reporting in Zambia such as weak enforcement mechanisms

as evidenced by low compliance with IFRS may contribute to the insignificant effect on financial reporting quality.

The study contributes to the extant similar empirical studies analysing whether IFRS compliance influences the financial reporting quality given the mixed results across jurisdictions and to the scant research in developing countries (e.g. Kimouche and Rouabhi, 2016; Tsalavoutas and Dionysiou, 2014; Elshandidy, 2014; Kargin, 2013; Pervan and Bartulović, 2013; Black and White , 2003; Barth et al., 2008; Jeanjean and Stolowy, 2008; Va der Mueulen et al., 2007; Barth et al., 2006; Daske, 2006; Bartov et al., 2005; Ashbaugh and Olsson, 2002; Leuz and Verrecchia, 2000).

Just like other prior studies, generalizing these study findings to other capital market in other countries should be done with caution because of the differences in the institutional settings and cultures. Therefore, country specific studies in developing countries especially in Africa where the empirical evidence is scant should be undertaken. More research should be done on what constitute financial reporting quality in the context of a developing country or different cultures (i.e. both at company and country level). Future research can focus on this area.

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