Determinants of Financial Reporting Quality in Developing Countries

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ABSTRACT

This thesis aims to identify the determinants of financial reporting quality (FRQ) in seven different countries between 2011 and 2019. Accruals Ratio is a crucial accounting and auditing indicator used to build a comprehensive index to assess the quality of financial reporting at the country level. Panel data from secondary sources is used. The majority of the data required for analysis was extracted adequately and conveniently from the audited financial reports of the selected firms during the study period. To examine the study's model, multiple regression is used. The primary determinants used in this study are firm size, leverage, growth, and profitability. The findings revealed that firms with higher debt levels are willing to reveal more information to satisfy their creditors. This study also discovered that firms with higher profits generate higher-quality financial reports. Profitability should therefore be a good predictor of financial reports. Larger companies must provide higher quality information because they are more vulnerable to investigations, highlighting the firm size's importance. The findings also show that firms with greater exposure and visibility have minor information asymmetry between managers and investors. As a result, full-grown firms are more likely to produce high-quality financial reports.

Keywords: Determinants, Accruals Quality, Financial Reporting Quality, Firm size, Leverage, Firm Growth, Profitability, Country-level financial reporting

ÖZ

Bu tez, 2011 ve 2019 yılları arasında yedi farklı ülkede finansal raporlama kalitesinin (FRQ) belirleyicilerini tespit etmeyi amaçlamaktadır. Tahakkuk Oranı, ülke düzeyinde finansal raporlamanın kalitesini değerlendirmek ve kapsamlı bir endeks oluşturmak için kullanılan önemli bir muhasebe ve denetim göstergesidir. Bu çalışmada ikincil kaynaklardan elde edilen panel veri çalışması kullanılmıştır. Analiz için gerekli veriler seçilen firmaların denetlenmiş mali tablolarından alınmıştır. Çalışmanın modelini incelemek için çoklu regresyon kullanılmıştır. Bu çalışmada kullanılan birincil değişkenler firma büyüklüğü, kaldıraç, büyüme ve karlılıktır. Çalışmanın bulguları daha yüksek borç seviyesine sahip firmaların kredi verenleri memnun etmek için daha fazla bilgi vermeye istekli olduklarını ortaya koymuştur. Bu çalışma, ayrıca, daha yüksek kâra sahip firmaların daha kaliteli finansal raporlar ürettiği sonucuna ulaşmıştır. Bu bağlamda karlılık, finansal raporların iyi bir tahmincisi olarak değerlendirilebilir. Daha büyük şirketler, göz önünde olmaları nedeniyle soruşturmalara daha sık maruz kalmakta ve bu nedenle firma büyüklüğünün önemini vurgulayarak daha kaliteli bilgi sağlamaktadırlar. Çalışmanın bulguları, aynı zamanda, daha yüksek görünürlüğe sahip firmalarda, yöneticiler ve yatırımcılar arasında bilgi asimetrisinin daha küçük olduğunu göstermiştir. Bu bağlamda bu çalışma ile gelişmiş firmaların kaliteli finansal raporlar üretme olasılığının daha yüksek olduğu sonucuna ulaşılır.

Anahtar Kelimeler: Belirleyiciler, Tahakkuk Kalitesi, Finansal Raporlama Kalitesi, Firma büyüklüğü, Kaldıraç, Firma Büyümesi, Karlılık, Ülke düzeyinde finansal raporlama

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AISG	Accountants International Study Group
AR	Accruals Ratio
CICA	Canadian Institute of Chartered Account
EEC	European Economic Community
FASB	Financial Accounting Standards Board
FRQ	Financial Reporting Quality
GAAP	Generally Accepted Accounting Principles
GROWTH	Firm Growth
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
LEV	Leverage
OSC	Ontario Securities Commission
PROF	Profitability
ROA	Return on Assets
SEC	Securities and Exchange Commission.
SIZE	Firm Size

Chapter 1

INTRODUCTION

Financial reporting quality (FRQ) is referred to as the degree to which financial statements give transparency and fair information to investors, decision-makers and creditors underlying financial positions and economic performance. FRQ may differ based on various factors, making it difficult to assess, especially cross borders. This study highlights the determinants of FRQ in developing countries and the importance of the findings to investors, creditors, and decision-makers in the following selected countries: Turkey, Iran, Russia, Pakistan, Bulgaria, India, and Poland. These countries are selected because they are among the 166 jurisdictions that use the international financial reporting standards (IFRS), established by The International Accounting Standard Board (IASB) (Ball, 2016).

The IASB, previously known as The International Accounting Standards Committee (IASC), is a private organization that consists of professional accountants who set The International Accounting Standards (IAS) and established a newer version of accounting rules known as the IFRS (Donnelly, 2007). Within five years (2000-2005), IASB has transformed from a private association ran by accountants to an international organization establishing accounting rules and regulations at a national, regional, and international level (Donnelly, 2007). This organization aims to develop worldwide accounting standards to benefit the capital market and provide helpful information for investors (Porter, Brown, Purushothoman, and Scharl, 2006). Accounting rules and

policies are essential for firms because they represent the shape of income, wealth, and risks (Cortese and Irvine, 2010). The demand for these policies by investors and public officials has started to rise since 2000, and that's what IASB delivered besides the visibility of all the financial market transactions on the company's balance sheet.

This following section will cover the main turning points and the transition from IASC to IASB within 27 years (1973-2000).

1.1 Foundation of IASC

After World War II, every nation had its accounting policies. For example, GAAP, U.S. designation, or another valid policy. However, there were significant differences among countries that depended heavily on finance. For example, New Zealand, U.K., and Australian companies always had the opportunity to reassess their plant, property, and equipment (PPE), including investment property. In Canada and U.S., companies were attached to historical costs due to the Securities and Exchange Commission (SEC) (Zeff, 2007, 2012). While in North America, LIFO was used mainly by U.S. investors, but its use was limited in Canada (Murphy, 1973). There was a more significant gap between North American countries and other countries in Europe and Japan. Financial statements could be manipulated by private reserves, where profit is generated, a dividend is claimed, and taxation is the leading accounting practice. In 1947, France settled The National Accounting Plan, a systemize detailed company accounting policy that they exported to Spain and Belgium and later exported to Peru, Portugal, Algeria, Tunisia, and Morocco (Walton, 2012). In developing countries, financial reports were negligible because few firms practiced GAAP besides what they might have taken from their previous colonial countries like the U.K. and France (Nobes, 1983).

Accounting practices were highly diverse worldwide, and differentiating financial statements between one country and another was difficult (Nobes, 1983). In the 1950s, rapid growth began regarding international trade, and firms began to broaden their reach and resources apart from their borders. Leaders of accounting saw that expanding beyond borders as the new objective. The Eighth International Congress of Accountants was hosted by The American Institute of Certified Public Accountants (AICPA) in 1962. The first significant measurements to observe auditing, accounting, and professional standards worldwide were established by the AICPA within 25 countries in 1964 (Camfferman and Zeff, 2007; Zeff, 2012). The 1960s were highlighted with many global acquisitions and mergers, when U.S. corporations took over European firms, and when local firms began to locate their operations and management internationally. In 1963, a new business organization called "Multinational Companies" was established to separate and differentiate between the local firms with international operations and the completely international firms. This was an important step that highlighted the desire to compare financial reports prepared in different countries.

Sir Henry Benson, the president of the Institute of Chartered Accountants in England and Wales (ICAEW) between 1966 and 1967, started a movement to diversify accounting practices across countries. In 1966, he formed the Accountants International Study Group (AISG) consists of the Institute of Chartered Accountants in Ireland, the Canadian Institute of Chartered Accountants (CICA), and the AICPA after he convinced them to join the ICAEW. The AISG released a sequence of folders that differentiate between the auditing and accounting practices in the U.S, Canada, and the U.K. within more than ten years; the AISG issued another 20 folders, which

constitutes a significant impact on comparing accounting practices among the leading countries. The AISG folders marked the diversity in accounting practices within the three countries and the unmatched financial reports across borders (Camferman and Zeff, 2007; Zeff, 2012).

1.2 The launching of IASC

In 1973, Sir Henry Benson was even more ambitious. His main plan was to unify the international accounting standards and eliminate the differences in accounting approaches across countries. After meeting with accounting leaders worldwide, Benson formed the International Accounting Standards Committee (IASC). He believed that the cooperation between the IASC and the Anglo-American practices to accounting would stand in the face of developing the European Economic Community (EEC), which was recently called the European Union (Zeff, 2012).

Internationally, the first strive to form accounting policies was the IASC. However, some countries already had boards regarding accounting practices, such as U.K., France, Canada, Japan, U.S., New Zealand, and Australia. On the other hand, South Africa and the Netherlands had formed such boards lately in 1973. Benson invited national accounting boards to join the IASC from nine countries such as Germany, United Kingdom, Ireland and France to represent Europe, Canada, Mexico, and United States to represent North America, Australia, New Zealand and the only Asian country was Japan. Each country sent three representatives; two representatives had the privilege to vote and an observer. Each delegation had only one vote; each panel was sponsored. U.S. delegation was supported by the AICPA alone. Then, the Institute of Management Accountants and Financial Accounting Standards Board (FASB) became co-sponsors for them. These nine delegations were an academic, a financial executive,

audit firm partners, executives of national accounting boards, and sole audit practitioners. Those delegations attended three or four times yearly to the IASC meetings to read the technical staff's reports and write down the new standards. These committees consist of volunteers selected worldwide and led by a board member to prepare the initial reports. The main objective for the IASC was to construct a basic standard called International Accounting Standards (IAS), which was hoping to unify accounting standards internationally.

The national Accounting boards, which Benson invited, signed an IASC agreement, declaring that they would use and promote the IASC standards in their countries (Zeff, 2012). A group of multinational European firms started to adopt IAS, which was preferred over GAAP, between 1987 and 2000 such as the Swiss firms like Roche, UBS, Nestle, Ciba-Geigy/Novartis, and Holderbank/Holcim. In the U.S., essential firms started to apply IAS to their financial statements like Microsoft, Salmon Inc., and CPC International (Camfferman and Zeff, 2007; Zeff, 2012).

1.3 The restructure of IASC 1997-2000

The IASC had a belief that a small part-time board consists of 60 to 70 volunteers sitting around a table to draft standards would not earn the confidence and endorsement of the International Organization of Securities Commissions (IOSCO) or the SEC. In this case, the IASC had to establish a Strategy Working Party, consisted of the board's chairman, vice-chairman, another board member (David Tweedie), and a top shape to illustrate the financial dividends of the accounting profession sector and regulators. The IASC believed that this working party would be a more effective and efficient standard-setting board. Frequent meetings were scheduled to discuss plans and projects by national accounting boards and national standards setters in different

versions of the new standard-setting structure they wanted to construct within more than 12 months. In September 1999, SEC's chief accountant, Lynn E. Turner, contacted the working party to clarify the SEC's insistence about the restructured board to be independent, assisted by research staff, full-time, and relatively small to earn authority and legitimacy.

On the contrary, leaders from Europe, including the European Commission, favored a giant board of directors with part-time staff and representatives of all the countries committed to implement the standards. The board voted on and agreed with the restructuring plan based on the requirements of the SEC at the IASC board meeting in Venice in November 1999. It was logical to earn the country's support who has the world's largest capital market for its global standard setter.

The working party started to put down the new structure's details, consisting of 19 different countries and backgrounds administrators. The trustees had three main objectives (1) monitor the board's effectiveness; (2) designate the board's members, which was an approach that the IASC issued in 1997; and (3) raise funds. Technical expertise was an essential qualification for a Board Member, and geographical representation would not serve as the basis for selecting Board members. The board consists of 14 members, two part-time members, and 12 full-time members. Seven of the 14 members would directly connect with national standard setters, which would help the IASC reach an assemblage of accounting standards around high-quality solutions. All of the IASC members in more than 100 countries voted for the restructuring.

1.4 The launching of IASB

David Tweedie led the restructured board, who was a member in the U.K. delegation since 1995, the chairman of the U.K. Accounting Standards Board, and the originator of the G4+1. The trustees had to go through an extensive search for candidates to choose the remaining 13 members. The result was: two from the U.K., five from the U.S., and one from Germany, France, Canada, Australia, South Africa, and Japan. The board was structured among professionals and former accounting setters. Four members had done the G4+1—eight of the 14 members with representatives or observers at the old IASC Board. The new board's communication between members was not an issue because most of them knew each other from previous experiences in other boards and meetings. The new board consisted of at least three companies, one academic, five members from audit firms, and three from the user community. The most complex members to select were the users; only one of the three was a professional user in the securities markets for a while (Zeff, 2012).

The trustees had claimed the funding from the Big 5 firms, central banks, financial institutions, companies, and the board. The first official meeting was held in April 2001 under the new name of the IASB, and their standards were known as the International Financial Reporting Standards (IFRS).

1.5 The adoption of IFRS

Since adapting IFRS improves the transparency and quality of the financial statements, the main points related to IFRS adoption should be emphasized. In this regard, according to the IASB plan, most European Union companies switched from GAAP to the IFRS in their financial statements in 2005. Some studies had confirmed and observed that IFRS financial statements represent a solid national identity (Nobes,

2011). In 2007, the SEC published a new concept to allow U.S. companies to use IFRS in their financial statements and observe them. Then, In August 2008, a roadmap had been established by the SEC towards the adoption of the IFRS within U.S. firms with all the support of different divisions and staff offices (Jacob and Madu, 2004). Currently, more than 120 countries already require or approve the adoption of IFRS by domestic listed businesses, with the number likely to rise to 150 by 2012 (Bengtsson, 2011). It is important to emphasize that there are empirical studies which support the influence of IFRS on accounting quality. These studies highlight the effects of IFRS implementation detail both the benefits and challenges of the process. Several studies suggest that using IFRS improves financial reporting comparability, transparency, and quality (Jermakowicz, 2004; Veneziani and Teodori, 2008). There was also a significant impact on firms' reported equity, rising volatility of results, and a loss of conservativeness (Jermakowicz and Gornik-Tomaszewski, 2006; Callao et al., 2007). On the other hand, Albu, Bunea and Calu (2011), stated that all jurisdictions will adopt the same standards, but the institutional arrangements that give rise to financial reporting incentives differ, in some cases dramatically, across jurisdictions. Factors such as economic development, the country's history and culture, as well as the legal and educational environment, all influence the IFRS implementation process. In this regard, Ebaid (2016) conducted a research in Egypt to examine the post adoption effects of IFRS. He stated that accounting quality measured by earnings management had decreased, demonstrating that the accounting system is just a complementing element of the overall institutional structure of the country. The Egyptian government did not make institutional adjustments in tandem with the implementation of IFRS. This finding explains that even if IFRS are higher quality

standards, the institutional characteristics of the Egyptian market may restrict any improvement in accounting quality as a result of IFRS adoption.

1.6 The quality of IFRS

Several studies will be discussed below on the quality of IFRS issued by the IASB regarding its impact on analyst's forecast accuracy, foreign mutual fund ownership, earnings management, and some other studies comparing the IFRS to U.S. GAAP due to their value relevance.

Evidence has been provided that firms adopted to IFRS experienced an improvement in analysts' forecast accuracy (Ashbaugh and Prince, 2001). A sample selection of different firms within the E.U. provided a shred of evidence that agree with the same finding that the adoption of IFRS has led to an improvement in forecast accuracy (Cuijpers and Buijink, 2005). A greater foreign mutual fund ownership has been found within firms using the IFRS rather than other firms using GAAP. This research used a sample period from 1999 to 2002, including firms from 29 countries outside of the U.S. capital markets (Covrig, 2007). Several studies regarding value relevance have reported that countries with the same accounting practices, like Anglo-Saxon countries using their local GAAP, experience similar correlations between stock returns and accounting amounts. IFRS is also being used by several European and Anglo-Saxon countries, which experience the same results. Thus, these studies confirm no significant difference between IFRS and GAAP regarding the relationship between accounting amounts and stock returns (Pope and Walker, 1999; Alford, 1993). Bartov (2005) has also compared IFRS, U.S. GAAP, and the German GAAP in terms of value relevance by examining the correlation between earnings and stock returns, which have indicated a more significant correlation between earnings and stock return in

IFRS and U.S. GAAP than the German GAAP. Simultaneously, there is no significant difference between IFRS and U.S. GAAP in that correlation. Another research examines the differences between U.S. GAAP and IFRS in terms of market liquidity and information asymmetry. The theory says that accounting quality depends on the flow of information in the market, which leads to better liquidity in the capital markets. This research examines a sample of 268 outside of U.S. capital markets in 1999 and 2000; the study found the difference between IFRS and U.S. GAAP in information asymmetry is insignificant. However, the findings may or may not be relevant to the capital markets in the United States (Leuz, 2003).

The above studies and researches discussed that there is no actual difference between IFRS and U.S. GAAP in terms of value relevance (Pope and Walker, 1999; Alford, 1993; Leuz, 2003; Batrov, 2005). However, the SEC had come to a point where it had to choose a high-quality accounting standard applicable and used around the world. The empirical research recommends that IFRS could be the desired high-quality standard since the capital markets are becoming more linked together, leading to better comparability between financial reports worldwide. That enhancement in comparability would result in a better optimal resource allocation and more investment decisions in the world's economy (Jacob and Madu, 2009).

1.7 Accounting scandals

Within the last 20 years, many accounting scandals such as Enron, WorldCom, and Parmalat have been revealed globally, which raised investors' concerns regarding the financial reports and increased the criticism towards FRQ. Some studies had identified the factors affecting these scandals like corporate transparency, corporate values and behavior, money culture, and legalistic culture, which have an enormous impact on

manipulating financial reports (Low, Davey, and Hooper, 2008). Between the late 90s and the early 21st century, The United States had experienced misreporting in almost 1944 public firms (Grant and Visconti, 2006). One of these firms is Enron who established a new strategy to enhance their financial reports and inflate their earnings, and another firm is WorldCom. They hid their actual expenses and revenues and gave fake reports to meet analysts' expectations (Sorensen and miller, 2017).

Parmalat, an Italian firm that is a world leader in dairy products operates in 50 different countries, had one of the biggest scandals in history. They used some of their owned subsidiaries to hide losses and inflate their incomes (Sorensen and miller, 2017). From these scandals, this study addresses the importance of FRQ and its impact on accounting quality, which provides reliable and relevant information to investors to protect them and provide better decision-making.

1.8 The significance of the study

In a comprehensive review of the literature regarding the determinants of FRQ, previous studies have stated several financial reporting determinants. Still, most of these determinants are only applicable to developed countries (Pivac et al., 2017). Furthermore, they will not be suitable for developing countries because they have different rules, regulations, and accounting policies (Alfraih and Almutawa, 2014; Kuznetsova et al., 2017; Rasha Mahboub, 2017).

In this regard, this study aims to fill this gap by testing one primary factor: Accruals Ratio among different developing countries and explaining its relationship with FRQ by mainly using firm characteristics to determine a country-level FRQ. The findings will explain the positive impact of firm characteristics of FRQ, which will be discussed

and explained in detail. The study concludes that the quality of financial reports is critical for investors, decision-makers, and creditors to make informed decisions about a company's value and creditworthiness, allowing them to set price targets and determine whether a stock's price is reasonable. Furthermore, the findings provide a key for creditors to better assess a company's creditworthiness by analyzing its financial reports using the variables highlighted in this study.

Chapter 2

LITERATURE REVIEW AND DETERMINANTS OF ACCOUNTING QUALITY

2.1 Financial Reporting Quality

According to FASB and IASB, FRQ refers to financial statements that accurately and fairly reflect an entity's underlying financial status and economic performance. The most crucial factor to consider when evaluating FRQ is the consistency of the objectives and the quality of the revealed information in a company's financial reports. These qualitative features make it easier to evaluate the usefulness of financial reports, resulting in a high degree of quality. Financial reports must be accurately portrayed, comparable, verifiable, timely, and intelligible to achieve this level. As a result, the emphasis is on creating transparent financial reports that do not mislead investors, creditors, decision-makers and the necessity of precision and predictability as markers of strong FRQ (Gajevszky, 2015).

2.2 Measures of FRQ

Implications on financial reporting are often used in accounting studies to evaluate financial reporting quality. Many factors influence the quality of financial reporting. Earnings management, accounting conservatism, and accruals quality will be discussed as some of the main factors that influence and control the quality of financial reporting (Gajevszky, 2015).

2.2.1 Earnings management

High-quality financial data, which can be generated by having high-quality earnings, is one of the essential indicators of capital market efficiency. When evaluating a firm's financial health and determining the level of trustworthiness of the declared earnings, earnings management is one of the most crucial factors to examine (Hassan, 2013). Changes in accounting standards, external audits, enforcement, corporate governance, and the cost of capital have all been studied using this indicator. Value relevance, predictability, persistence, earnings variability, conservatism, smoothness, and timeliness are some of the criteria offered in the literature to proxy earnings quality (Ewert and Wagenhofer, 2011). The quality of earnings heavily influences the usefulness of decision-making. Other factors, like managerial incentives and regulatory measures, also influence these decisions. However, based on previous research, firms that get involved in more earnings management practices have lower quality of financial reports (Choi and Pae, 2011).

2.2.2 Accounting conservatism

According to Statement No. 2 of Financial Accounting Concepts, the FASB defines conservatism as "a reasonable approach to uncertainty to strive to guarantee that uncertainty and risks inherent in business settings are effectively considered" (Herath and Albarqi, 2017). Furthermore, accounting conservatism is a critical component of high-quality financial reporting (LaFond and Watts 2008). According to Watts (2003), accounting conservatism restricts managers' ability to falsify earnings. On the other hand, it's also utilized as a proxy for financial reporting quality (Dechow, 1996). In addition, many corporations identify accounting conservatism as one of the audit committee's priorities (Abernathy, 2010).

2.2.3 Accruals quality

Accruals quality is one of the leading models that has been used as a measurement for FRQ, and it can be defined in accounting that expenses and revenues are acknowledged and separated from cash payments. Revenues are acknowledged and separated from cash collection (Herath and Albarqi, 2017). Cash flows should, in general, follow the firm's accrued revenues and expenses throughout the operating cycle. As a result, firms may have varying degrees of success in matching the two. In this case, the actual cash collected from revenues or paid for costs could be greater than the generated revenues or derived costs. Accruals Quality has been the topic of research, which has led to this methodology's recognition and approval (Pounder, 2013). The Accrual Quality method is concerned with the level of uncertainty in a company's cash flow about the accrual correspondence. The wider the difference between accruals and cash flows in a company's operating cycle, the less its Accrual Quality, and thus the more inferior its accounting quality (Pounder, 2013).

2.3 Other factors that influence FRQ

2.3.1 Audit committees' expertise, independence, and overlapping membership

The Audit Committee is one of the critical board committees that help the board of directors maintain the financial reporting process (Klein, 2002). Kusnadi, Leong, Suwardy, and Wang (2016) examined 432 firms in the fiscal year 2010 in Singapore to find any association between audit committees and FRQ. They tested three different characteristics for audit committees which are expertise, independence, and overlapping membership. They found that audit committees with accounting expertise have a greater impact on improving the FRQ than financial or supervisory expertise. Another research done by Irwandi and Pamungkas (2020) agrees with this point.

However, they also found that accounting expertise alone is not enough, and a mix of accounting, financial and supervisory expertise is a must.

On the other hand, they could not find any significant effect of audit committee independence on FRQ. At the same time, Klein (2002) stated that the audit committee should have more independent members since it operates to check on management's opportunistic behavior. They also failed to find any relationship between overlapping membership and FRQ. However, Chandar, Chang, and Zheng (2012) were able to find a significant relationship between overlapping membership in audit committees and FRQ. Regarding the audit committee expertise, Rashid (2020) tested a sample of 351 companies between 2015 and 2016 in Bangladesh and reported that a professional accountant within the top management would lead to a higher FRQ.

2.3.2 Board size

Beasley (1996) suggested that a larger board size can increase misleading financial statements. Vafeas (2000) also found that having a larger board size will decrease the effectiveness of their monitoring duties since it will be spread out among different directors. The author also stated that larger boards have difficulties in making decisions relating to conducting high-quality reports. However, Dewata, Hadi, and Jauhari (2016) have conducted a study regarding multiple determinants of FRQ, including board size, the composition of the independent commissioners, and the audit committee's effectiveness. These researchers have found that only the audit committee's effectiveness has a significant positive effect on FRQ. The rest of the factors do not have any significant impact on FRQ. Still, they also stated that the size of the board of directors and the audit committee's effectiveness have a significant positive effect on financial performance.

2.3.3 Internal audit quality

Johl, Johl, Subramaniam, and Cooper (2013), conducted a research regarding the relationship between internal audit quality and FRQ in Malaysia using a sample of 64 firms. They have found that internal audit quality is higher in companies with higher earnings management but lower FRQ. Gras-Gil and Marin-Hernandez (2012) also reported the significant relationship between internal audit and FRQ in Spain.

2.3.4 Gender Diversity

Gender diversity has also a significant effect, as it's examined by Dobija, Hryckiewicz, Zaman, Puławska (2021) using a sample of 350 polish firms across 17 different industries, for the years between 2010 and 2015. These researchers have found that increasing the number of women on board and gender diversity, in general, would improve the FRQ; the research also suggests that increasing the participation of women on board will reduce the time between the financial year-end and reports publications. Another research was conducted in Pakistan by Din, Cheng, Ahmad, Sheikh, Adedigba, Zhao, and Nazneen (2020), which also agrees on increasing the number of women in audit committees would improve the quality of financial reporting due to the different behavior of risk-taking, the behavior of investment, the style of leadership and the ethical considerations.

2.3.5 Foreign ownership

The research was carried out by Albornoz and Rusanescu (2018), between 1997 and 2013 with a sample of 2 055 Spanish companies owned by local and international groups. They found that firms owned by foreign shareholders have lower accruals quality, which leads to a lower FRQ than the ones that are locally owned. The study further suggests that the foreign parent company comes from countries of higher

institutional quality than those of local companies that the negative relationship between foreign property and the accounting quality is based upon.

2.3.6 Trust in both upper and lower-level employees

Several studies have proved that trust between employees and their managers have a positive impact on FRQ because the level of trust between managers and employees can impact the way which private information is produced and shared within the firm (Bart, 1988); (Mayer and Gavin, 2005); (Jollineau, Vence and Webb, 2012). Similarly, when lower-level employees have essential information for high-quality financial reports, they tend to share this information when trust is higher (Dirks and Ferrin, 2001). Garrett, Hoitash, and Prawitt (2014) found that trust increases the quality of financial reports only in decentralized firms. Trust has a better influence on FRQ when trust is solid at both the upper and lower levels of the organization.

2.4 Firm characteristics and FRQ:

The main focus of this study will be on firm characteristics, which will be tested among the selected developing countries and these characteristics are Leverage (LEV), Firm size (SIZE), Firm growth (GROWTH), and Profitability (PROF).

2.4.1 Leverage

Ferguson (2002) found a positive relationship between leverage and information disclosure using SIZE, LEV, industry, and multiple-listing status as independent variables, while information disclosure is the dependent variable in a sample consists of 142 firms in China. His finding summed up the willingness of companies with higher debts to provide more information to satisfy their creditors. In this regard, firms with more significant financial leverage will experience higher agency costs.

However, a research conducted by Uyar (2013) by using manufacturing companies in Turkey at the end of year 2010. This sample consists of 131 Turkish manufacturing companies. The main variables used in this research are leverage, total sales revenue, total assets and return on equity. The author highlighted the negative relationship between leverage and information disclosure, which explains that high leveraged firms will likely disclose less information in their financial reports. This finding also indicates that firms with low leverage will generate higher financial reports to draw more attention to their financial structure. Furthermore, Monday and Nancy (2016) agree with Uyar's findings after experiencing the same results in sample consisting of 61 non-financial firms in Nigeria.

Another study has been conducted by Rahman, and Akbari (2013) regarding the relationship between leverage and earnings management which is an essential measure for FRQ. Accordingly, they used abnormal discretionary, abnormal cash flow, and abnormal production cost models in a sample consist of 3,745 firm-year observations listed in Malaysia between 2006 and 2011. As a result, they stated the negative relationship between leverage and earnings management, explaining that leveraged firms are most likely to reduce their earnings management, which will lead to higher quality financial reports. In this regard, the following hypothesis is developed:

H1: *Leverage is negatively associated with FRQ.*

2.4.2 Firm Size

Many studies have been attempted to investigate the relationship between SIZE and earnings management, which is discussed earlier as one of the most critical measures of FRQ. These studies are conducted in developed and developing countries as follows;

Paiva and Lourenco (2013) researched the relationship between SIZE and earnings management. Earnings management was the study's dependent variable. It was estimated using discretionary accruals as a proxy. The Jones model was used to calculate discretionary accruals. The size of family businesses was one of the study's independent factors. In this study, a family firm was defined as one in which the family owns 25% of the stock and one representative is officially responsible for the organization's authority. Secondary data was gathered from 2006 to 2010 among British firms in London. According to the findings of this study, large family businesses have a lower level of earnings management, but small family businesses have a high degree of earnings management. Gong (2009), discussed the tactics utilized to influence the firm's earnings. In addition, the factors that lead management to modify the actual data in financial statements were explored. In this study, three strategies through which managers manage the firm's earnings were clarified. The accruals are the first tool a firm can employ to influence its earnings. The number of accruals was calculated by subtracting the operating cash flow from the firm's net income. When items are sold on credit, for example, this type of transaction results in revenue accrual. These accruals are called non-discretionary accruals. When these firms tend to manage their earnings, they may increase or decrease these accruals. Furthermore, the firm's profitability can be influenced by modifying the value of discretionary accruals such as inadequate debt reserves, warranty costs, and inventory write-downs. The second method of income management is based on actual transactions. The income is handled in this manner by arranging the actual business activity and time. The third sort of earnings management is to take measures to adjust analysts' expectations downward. The handling of expectations is reflected in this

category. The study also showed that company executives are given various incentives to disclose earnings figures that meet analysts' expectations.

In Albania, Llukani (2013) generated data on the relationship between SIZE and earnings management. To determine the size of the company, the logarithm of total assets was utilized as a proxy. In this study, discretionary accruals were used as a surrogate for earnings management. The Jones model was used to determine discretionary accruals. Seventy-five private-sector companies were chosen to acquire secondary data from 2009 to 2011. The study's findings were achieved with regression analysis, which revealed that companies of all sizes manipulate their returns to hide their losses or to portray a favorable trend in their earnings, which leads to poor financial reporting.

Swastika (2013) examined the impact of corporate governance and SIZE on earnings management for beverage and food companies listed on the Indonesian Stock Exchange. 51 food and beverage companies provided secondary data between 2005 and 2007. The firm's size was calculated using the log of total assets. To measure earnings management, discretionary accrual is used as a proxy. The board of directors, audit quality, and board independence were used as proxies to assess corporate governance. Multiple regression tests were used to obtain the results. According to the findings of this study, corporate governance, such as the number of directors, is positively related to the management of discretionary accruals. However, board size has a negative correlation with earnings management in the Indonesian food and beverage companies listed on the stock exchange. On the other hand, the size of the firm had a positive effect on earnings management.

In Pakistan, Naz et al. (2011) used annual data from 74 sample firms over five years to investigate the impact of SIZE and capital structure on earnings management. Sugar, cement, and chemical corporations were chosen as the sample companies. Total assets were utilized as a proxy to determine the SIZE. As a proxy for capital structure, the capital structure gearing ratio was used. By looking at discretionary accruals, the Jones Model was utilized to examine earnings management. In the study, the capital structure was discovered to be negatively related to earnings management. They also noted that firms with higher debts have creditors watching over their cash management methods. SIZE has a positive relationship with earnings management, according to the study. Similarly, in Pakistan, Ali, Noor, and Khurshid (2015) collected data from 50 textile firms between 2004 and 2013 in order to test the relationship between SIZE and earnings management. SIZE was the independent variable measured by the log of total assets and earnings management as the dependent variable measured by discretionary accruals. The modified Jones Model, the most extensively used, influential, and acknowledged model for determining earnings management techniques, was utilized to determine discretionary accruals. The studies revealed that SIZE and earnings management have a positive relationship.

According to these previous studies, the findings describe that small firms would generate higher-quality reports to earn more public visibility and competitive advantages. Moreover, large firms are under more pressure from investors and financial analysts to demonstrate positive earnings or earnings growth. They have more bargaining power with auditors, more transaction treatments available, and more substantial management power, making it possible to manipulate earnings. As a result,

large firms will most likely practice earnings manipulation, leading them to generate misleading financial reports. In this regard, the following hypothesis is developed:

H2: *SIZE is positively associated with FRQ.*

2.4.3 Profitability

Previous studies showed additional evidence on the relationship between Profitability and FRQ. In Malaysia, Haniffa and Cooke (2002) studied the relationship between voluntary disclosure and Profitability, where Profitability is considered an item of information disclosure. They used a sample which consists of 167 firms published in the Kuala Lumpur stock exchange. The dependent variable in this study is voluntary disclosure, measured using the index of disclosure based on the selected voluntary items. One of the independent variables is Profitability, which is measured as the net income to total owner's equity. The main findings highlighted the positive relationship between PROF and FRQ, indicating that firms with high PROF are willing to disclose more information in their financial reports.

Furthermore, Uyar (2013) (performed in Turkey) and Soyemi and Olawale (2019) (performed in Nigeria), have stated in their studies that PROF is significantly positive to FRQ which means that firms with high performance will generate higher quality reports. This result also explains that firms with high PROF have better growth opportunities. Therefore, they generate higher quality to boost their reputation by the accuracy of their earnings.

Contrarily, Camfferman and Cooke (2002), and Monday and Nancy (2016) stated the opposite of which PROF is negatively associated with FRQ. These results explain that generating higher financial reports will increase the competitive costs for the firms with higher PROF. This is because these firms do not want to exploit their advantage

over competitors. Therefore, this may decrease the quality of their financial reports (Prencipe 2004).

H3: *Profitability is positively associated with FRQ.*

2.4.4 Firm Growth

Park, Lee, and W.Park (2020) studied the association between firm growth, financial openness, and information asymmetry in a sample of 25 emerging markets. Firm growth is the dependent variable, and the primary measure of firm growth is the book value of assets. However, sales and market capitalization are utilized as proxies for firm growth in robustness tests. Chinn-Ito index (KAOPEN) (Chinn and Ito, 2006) and international balance sheet measurements (Financial GDP, FDI GDP, All GDP, and Equity GDP) are used to assess financial openness. The findings of this study have stated that high-growth firms, with higher exposure and visibility experience less information asymmetry, have more financial openness, and grow faster. Thus, having less information asymmetry will lead to higher-quality reports.

Krishnan, Myllymaki, and Nagar (2020) studied the relationship between FRQ and firm life-cycle changes, including growth and its effect on material misstatements in financial reports in a sample of 143,601 firm-year observations in emerging markets. In this study, they examine FRQ based on the contemporaneous revenue-expense matching. Then, focus on the likelihood of material weakness measured by internal control over FRQ. They found that smaller firms in terms of growth are more likely to have material weaknesses in internal controls and increase the likelihood of restatements in financial reports. In this regard, Doyle (2007) stated that firms in the growth stage with higher complexity have difficulties maintaining adequate internal controls. Charitou (2011) also stated that it is understandable for low-growth firms to

face losses since they do not have a strong incentive for earnings manipulation. These studies prove that low-growth firms have higher chances to experience misleading financial reports compared to larger or more mature firms, indicating the positive correlation between firm growth and FRQ.

In Nigeria, Soyemi and Olawale (2019) studied the relationship between firm growth and FRQ among 25 non-financial firms between 2009 and 2016. The dependent variable is FRQ, measured by the modified Dechow and Dichev's (2002) model. GROWTH is the independent variable measured by the market value of equity to the book value of equity. The main finding of this research was that GROWTH has a significant negative effect on FRQ in Nigerian firms.

Moreover, in emerging countries, Tang, Chin, and Lin (2016) examined the relationship between GROWTH and FRQ in 38 countries, where FRQ was the dependent variable and measured using six dimensions of accounting and auditing quality audit-fee ratio (AFR), non-Big four auditor ratio (NBAR), profit decline avoidance ratio (PDAR), qualified audit opinion ratio (QAOR), accruals ratio (AR) and loss avoidance ratio (LAR), and growth was measured using current sales minus lagged sales divided by lagged sales. The main findings indicate that GROWTH is negatively associated with FRQ. Furthermore, they stated that firms with higher growth would be most likely involved in more earnings management practices.

In this regard, the following hypothesis is developed:

H4: *Firm Growth is positively associated with FRQ.*

Chapter 3

METHODOLOGY

3.1 Sample selection

Firms with available data are included in calculating reporting quality indicators between 2010 and 2019, excluding 2020, to avoid covid-19 effects.

Companies operating in Turkey, Iran, Russia, Pakistan, Bulgaria, India, and Poland have been downloaded. The industries of these companies are; Utilities, Communication, Computer hardware, Agriculture, Horticulture and Livestock, Chemicals, Petroleum, Rubber and Plastic, Construction, Food and Tobacco Manufacturing, Industrial, Electric and Electronic Machinery, Metal and Metal Production, Leather, Stone, Clay and Glass products, Mining and Extraction, Printing and Publishing, Retail, Textiles and Clothing Manufacturing, Transport Manufacturing, Travel, Personal and Leisure, Wholesale and Wood, Furniture and Paper Manufacturing. The details can be seen in Table 3.1.

Table 3. 1: Sample Data

Row labels	BG	ID	IR	PK	PL	RU	TR	Grand total
Agriculture, Horticulture & Livestock	18	171	63	45	45	72	9	423
Chemicals, Petroleum, Rubber & Plastic	81	432	756	441	225	396	153	2484
Communications		162	27	36	216	135	36	612
Computer Hardware		18			9		9	36
Construction	72	261	135	27	321	288	54	1158
Food & Tobacco Manufacturing	81	342	270	414	162	198	144	1611
Industrial, Electric & Electronic	144	54	144	126	477	774	72	1791
Leather, Stone, Clay & Glass Products	18	108	432	234	27	171	126	1116
Metals & Metal Products	54	234	216	117	216	405	108	1350
Mining & Extraction	18	387	189	90	63	531	36	1314
Printing & Publishing		27	18	9	63		45	162
Retail		225	18		171	81	63	558
Textiles & Clothing Manufacturing	54	207	18	1098	117	45	108	1647
Transport Manufacturing	9	72	153	126	126	522	63	1071
Travel, Personal & Leisure	81	324	63	63	117	45	108	801
Utilities	27	36		144	156	927	18	1308
Wholesale	90	189	135	54	594	207	135	1404

Wood, Furniture & Paper Manufacturing	45	198	18	90	108	99	90	648
Grand Total	792	3447	2655	3114	3213	4896	1377	19494

TR: Turkey, IR: Iran, RU: Russia, PK: Pakistan, BG: Bulgaria, ID: India, and PL: Poland.

3.2 Selection of FRQ indicator

Tang, Chen, and Lin (2016) have used six indicators of accounting: audit-fee ratio AFR, NBAR, PDAR, QAOR, AR, and LAR based on the previous literature. In this study, only one dimension is used, which is AR.

AR is utilized to estimate the level of aggressiveness in the accounting system. Aggressive accounting is more likely to slow down the recognition of losses and increase profits. On the other hand, conservative accounting systems are more likely to do the opposite (Bhattacharya, 2003). Accounting conservatism diminishes the effect of the misleading information between managers and investors, also provides disclosure of bad decisions done by managers, because involves a high level of investigation before claiming any profits (Ball, 2000). Based on previous studies, total accruals divided by lagged total assets are used to measure accruals quality.

The following model is used to measure firm-level AR (Tang, Chen and Lin, 2016):

$$AR_{i,t} = \frac{(\Delta CA_{i,t} - \Delta Cash_{i,t}) - (\Delta CL_{i,t} - \Delta TP_{i,t}) - Dep_{i,t}}{TA_{i,t-1}}$$

Where $\Delta CA_{i,t}$ the current changes in business assets for firm i in year t, $\Delta Cash_{i,t}$ the cash changes for firm i at in t. $\Delta CL_{i,t}$ is a change in current liabilities of business i in year t. $\Delta TP_{i,t}$ is the change in taxes on income for firm i in year t. $Dep_{i,t}$ are the depreciation and amortization costs for business i at year t. $TA_{i,t-1}$ is the total assets for

firm i in year t. $TA_{i,t-1}$ is the change in the current assets for firm i in year t. A lower AR shows lower management of income, thus lower quality of financial reporting.

3.3 Type of Analysis

The following analysis techniques are used to demonstrate the impact of LEV, SIZE, GROWTH, and PROF on FRQ: Descriptive Statistics, Correlation, and Regression Analysis.

Descriptive statistics are used to show details regarding variables such as minimum and maximum values, mean, standard deviation, skewness, and kurtosis. Correlation is used to determine the strength of the relationship between independent and dependent variables and see if the variables are connected. Finally, regression analysis determines which independent variable has the most impact on the dependent variable, and which variables may be ignored.

3.4 Empirical Model

The following regression model is designed to run multiple tests based on the discussion and prior studies:

$$FRQ_{i,t} = \alpha_0 + \beta_1 SIZE_{i,t} + \beta_2 LEV_{i,t} + \beta_3 PROF_{i,t} + \beta_4 Growth_{i,t}$$

Where FRQ is the dependent variable, which is measured using AR as a proxy, and the independent variables are explained and measured as follows:

SIZE: is the median of the firm-level natural logarithm of sales in USD on the capital market.

LEV: is the median firm-level financial leverage ratio in the capital market (total liabilities divided by total assets).

PROF: The median firm-level return on assets ratio in the capital market, which compares net profit to lagged total assets.

GROWTH: is the median ratio of firm-level growth in the capital market, which equals (current sales – lagged sales)/lagged sales.

Chapter 4

EMPIRICAL RESULTS

4.1 Descriptive Statistics

Table 4.1 reveals the descriptive statistics for the dependent and independent variables used in this study. AR has a mean value of 0.23 and a standard deviation of 35.2. This shows a high deviation from the mean value. At the same time, skewness is positive and greater than 0 (123.398), which indicates an extended right-tailed distribution with higher values than the sample's average (Doane and Seward, 2011). Kurtosis is positive and greater than 3 (15347.725), which reveals the kurtosis as leptokurtic, has a peaked curve, and higher values than the sample's average (Balanda and MacGillivray, 1988). LEV has a mean value of 0.78 and a standard deviation of 9.8, which shows a high deviation from the sample. It has an extended right-tailed distribution with a positive skewness higher than 0 (102.576) and a leptokurtic kurtosis with a positive value above 3 (12057.620). GROWTH has a mean value of 0.63 and standard deviation of 26.3, while the skewness is positive with a value of 79.94, and leptokurtic kurtosis with a value of 7362.341. SIZE has a mean value of 4.69 and a standard deviation of 1.02.

On the other hand, skewness is negative with a value of -0.581, which indicates a long left-tailed distribution with lower values than the sample's average. At the same time, the kurtosis is positive and platykurtic since it is less than 3 with a value of 1.545, which indicates having lower values than the sample's average. Finally, ROA has a

mean value of 3.589 and a standard deviation of 13.2 with a negative skewness of -0.764 and a positive kurtosis with a value of 10.998, which is leptokurtic.

Table 4.1: Descriptive Statistics

Variables	AR	LEV	GROWTH	SIZE	ROA
N Statistics	15579	17693	14838	16836	17527
Min	-218.97	.0000	-1.000	-.6211	-98.406
Max	4377.81	1190.0	2647.037	8.1565	99.539
Mean	.23456	.78765	.63188	4.695	3.589
Std. Deviation	35.20	9.854	26.340	1.0283	13.2568
Variance	1239.4	97.107	693.809	1.057	175.743
Skewness	123.398	102.576	79.946	-.581	-.764
Kurtosis	15347.725	12057.62	7362.341	1.545	10.998

4.2 Correlation Matrix

The correlation matrix in Table 4.2 of Pearson indicates a significant positive correlation between LEV and AR (p=0.000) and the significance of GROWTH and AR (p=0.045) at 0.05. However, a significant negative correlation between SIZE and AR (p=0.000) is found, while AR is positively associated with ROA (p=0.000).

Table 4.2: Correlation Matrix

	LOGAR	ROA	SIZE	LEV	GROWTH
LOGAR	1	.102**	-.116**	.052**	.028*
ROA	.102**	1	.228**	-.220**	.005
SIZE	-.116**	.228**	1	-.039**	-.008
LEV	.052**	-.220**	-.039**	1	-.001
GROWTH	.028*	.005	-.008	-.001	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

4.3 Multiple regression analysis

In panel analysis, the Hausman test is used to distinguish between the fixed-effects and random-effects models. According to the criteria of the Hausman test (Hausman, 1978), the results of the random effects are rejected, as shown in Table 4.3. However, the fixed and random-effects results can be shown in Table 4.4. Only the results obtained from the fixed-effects are reported because the fixed-effects model is accepted after checking the probability value of the Hausman test, which is less than 0.05 (Hausman, 1978), as shown in Table 4.3. Based on fixed-effects results in table II, the panel regression results show the independent variables (LEV, GROWTH, and PROF) have a significant positive impact on AR while SIZE have an insignificant impact on AR. The estimated coefficient of LEV is 0.067, which indicated the positive relation between LEV and A.R., and it is statistically significant (t=3.03, p>0.002). Compared to studies conducted in developing countries, this finding is similar to the results found by Ferguson (2002); Rahman and Akbari (2013); Uyar (2013), which demonstrates that in developing countries, companies with larger debts are willing to give more information in order to satisfy their creditors, clarifying that hypothesis 1 is rejected. The estimated coefficient between SIZE and AR is 0.004, which means that a 1 percent increase in SIZE will lead to a 0.004 percent increase in AR. This relationship is statistically insignificant (t=0.10, p=0.92). Compared to the result found in a developed country by Paiva and Lourenco (2013), this result is supported. Similarly compared to results found in developing countries, this finding is corresponding to these studies (Naz, 2011; Monday and Nancy, 2016; Tang, Chen, and Lin, 2016), clarifying that hypothesis 2 is accepted. Our findings also show a significant positive relation between ROA and AR (t=9.38, p=0.000) with an estimated coefficient of 0.01. This result agrees with previous studies in developing countries

(Haniffa and Cooke, 2002; Uyar, 2013; Soyemi and Olawale, 2019), indicating that firms with high performance will provide high-quality reports, demonstrating that hypothesis 3 is accepted. Finally, we found a positive relation between GROWTH and A.R., which is statistically significant (t=1.81, p=0.071) with an estimated coefficient of 0.00086. This finding is similar to results found in previous studies (Park, Lee and Park, 2020; Krishnan, Myllymaki and Nagar, 2020), indicating that hypothesis 4 is accepted. Thus, our empirical results establish that LEV, GROWTH, and ROA are significant determinants of FRQ in developing countries, while SIZE being positively insignificant.

Table 4.3: Hausman Test

	—— Coefficients ——			
	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V_b-V_B) S. E.
SIZE	.004136	-.1013836	.1055197	.0404632
LEV	.0674072	.1313294	-.0639222	.0171594
GROWTH	.0008615	.0008687	-7.21e-06	.0002431
ROA	.0101156	.008761	.0013546	.0007606

Table 4.4: Fixed and Random Effects

Panel A: Fixed Effects

LOGAR	Coef.	t	P>|t|
SIZE	.004136	0.10	0.921
LEV	.0674072	3.03	0.002
GROWTH	.0008615	1.81	0.071
ROA	.0101156	9.38	0.000

Panel B: Random Effects

LOGAR	Coef.	z	P>|z|
SIZE	-.1013836	-9.58	0.000
LEV	.1313294	9.30	0.000
GROWTH	.0008687	2.12	0.034
ROA	.008761	11.46	0.000

4.4 Multicollinearity

The multicollinearity of the regression analysis used in this study is reported as a Variance Inflation Factor (VIF), and the findings demonstrate the moderately correlated nature of all the independent variables used in this study, since the values between 1 and 5 are as follows: SIZE (1.18), LEV (1.14), GROWTH (1.01,) and ROA (1.29). These VIF values confirm the reliability of the regression analysis results (Miles, 2014).

Chapter 5

CONCLUSION

In this study, the determinants of the quality of financial reporting in developing countries are identified using panel data selected between 2011 and 2019. The study includes seven different developing countries for this purpose. Findings indicate the essential positive relationship between SIZE, leverage, firm growth, and Profitability with the accrual ratio which is the fundamental indicator used in expressing the quality of financial reporting. For investors, especially on a national level, awareness of the FRQ is essential. This study expands the investigation in this field as the quality of financial reporting in accounting literature needs to be continuously measured.

The findings of this study demonstrate the significant positive relationship between leverage and accruals ratio, which means that companies with higher debts are willing to provide additional information to satisfy their creditors, which indicates that firms with greater financial leverage will incur higher agency costs in this regard. SIZE was also found to be positive with accruals ratio because large firms are more likely to be vulnerable to investigations. Thus, they tend to produce higher quality reports. Furthermore, firm growth has a positive relationship with accruals ratio; this demonstrates that high-growth firms with greater exposure and visibility have minor information asymmetry, greater financial openness, and faster growth. As a result, minor information asymmetry leads to higher-quality reports. Finally, the firm's profitability was found to be significantly positive to accruals ratio, which indicates

that firms with high profitability have more growth opportunities. Thus, firms produce higher quality reports to demonstrate the accuracy of their earnings, resulting in a boost in their reputation. As a result, firms that perform well in terms of returns will produce higher-quality reports.

Based on the findings, the study implies the importance of the quality of financial reports to investors, decision-makers, and creditors to make judgments regarding a company's value and creditworthiness, allowing them to set price goals and decide whether or not a stock's price is reasonably valued. Furthermore, the findings provide a key for creditors to obtain a better understanding of a company's creditworthiness by looking at its financial reports based on the determinants discussed in this study.

Some restrictions were encountered during the study. One restriction is that recent data were not found in 2020-2021 because of COVID-19 effects. Another restriction is that the data only include publicly traded companies, which may not reflect best practices in financial reporting at non-listed firms in the selected countries. Finally, our study remains pertinent to measure the quality of financial reporting in developing countries quantitatively.

However, this field is an open area for future studies. Advanced panel models can be used to identify the differences between the countries and their results regarding FRQ. Furthermore, differences between industries can be identified within the financial reports and comparisons can be made, and that would give more useful information to investors allowing them to have an overall view of the market.

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