

RESEARCH ARTICLE



Financial Reporting Quality of Licensed Financial Institutions in Sri Lanka: A Comparative Analysis Across Historical Cost and Fair Value Accounting Regimes

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Abstract: This study aims to develop a comprehensive framework to measure the financial reporting quality (FRQ) of licensed financial institutions (LFIs) in Sri Lanka and assess the FRQ of the fair value accounting regime over the historical cost regime. This study uses a quantitative design based on positivism to assess the FRQ. The sample size comprised 44 LFIs where the historical cost and fair value accounting regimes were assessed considering annual reports published in 2011 and 2021 respectively. Structured content analysis is used to collect data to assign a quantitative or numeric value for each item to capture FRQ dimensions under the conceptual framework. A comprehensive set of FRQ indices were developed to assess FRQ and the indices were compared using a *t*-test across historical cost and fair value accounting regimes. The analysis reveals that the FRQ of LFIs in Sri Lanka has improved significantly in the fair value accounting regime over the historical cost regime. However, regulatory disclosure requirements adhering to the strengthened corporate governance regime were also effective during the transition period. Therefore, the IFRS adoption may not be the sole contributing factor to the improved FRQ in the fair value accounting regime. Hence, future studies may focus on assessing FRQ considering fair value-based earnings management practices and extend the scope of FRQ to evolving financial technology which may play an important role in FRQ.

Keywords: financial reporting quality, relevance, faithful representation, comparability, verifiability, timeliness, understandability

1. Introduction

Licensed financial institutions (LFIs) of Sri Lanka commenced adopting International financial reporting standards (IFRS) or compatible local standards which are based on fair values from 01.01.2012.¹ Financial reporting quality (FRQ) is an important prerequisite for financial intermediaries where agency conflicts between owners and creditors are intensified. The concept of FRQ does not mean only containing financial information but also non-financial, which will be useful in making an economic decision [1, 2]. Jayasekara et al. [3] suggest that the quality reporting aspect is important in the Sri Lankan context because the adoption of fair value-based reporting standards provides opportunities for the users of financial information to assess how it has translated FRQ dimensions over historical cost accounting to influence the users and to attract more foreign direct investments where the investors expect a high-quality financial reporting regime.

¹ICASL, *Accounting Standards* (The Institute of Chartered Accountants of Sri Lanka, 2020).

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Iqbal et al. [4] suggest that intense product market competition enhances the FRQ. On the other hand, FRQ may lead to product market competition which is beneficial for all stakeholders.

The literature on FRQ provides two approaches. The first group considers both accrual-based and real earnings management practices to measure reporting quality using various econometric models [5, 6]. The second group focuses on measuring FRQ using the qualitative characteristics of reporting in terms of accounting conceptual frameworks [7–10]. Tran [11] also shows that qualitative characteristics play a more significant role in reducing information asymmetry than earnings quality. These studies have used the IASB (2008)² framework which has been replaced by the IASB (2018)³ conceptual framework. The literature on quality reporting has developed around the IASB (2008) framework [7–10]. However, these studies have not considered the updated conceptual framework as a comprehensive study. In the global context, there is no comprehensive study which captures all the

²IASB, *Conceptual Framework for Financial Reporting (Conceptual Framework)* (The IFRS Foundation, 2008).

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qualitative characteristics of financial reporting dimensions and subcomponents of the dimensions. Jayasekara et al. [3] developed a comprehensive framework, and this study expects to fill the empirical research gap by testing the developed composite index across historical cost and fair value accounting (FVA) regimes of the financial institutions in Sri Lanka.

The remainder of this paper is structured as follows. Section 2 provides a theoretical framework for the study which discusses reporting quality and the identification of instruments to measure the main dimensions of the FRQ. Section 3 explains our sample, and methodology which includes the measurement and operationalization of variables and the statistical approach of the study. Section 4 provides results and discussion, and Section 5 concludes with recommendations.

2. Theoretical Framework of FRQ

High-quality information disclosure reduces information asymmetry because disclosure can effectively mitigate adverse selection and moral hazards [12–14]. Therefore, high-quality information disclosure leads to fewer opportunities for managers to act and thus reduces agency costs and increases accounting information comparability [15]. Hence, ElBannan and Farooq [12] show theoretically that voluntary disclosure quality decreases agency conflicts, leading to higher returns on investment. Also, better reporting supports internal stewardship functions providing more information to the board of directors to supervise managers. Van Beest et al. [10] first conceptualised the FRQ in terms of the IASB framework which is known as the NiCe framework. This framework had some limitations because it did not capture verifiability and materiality under the relevance. The conceptual framework of IASB (2018) identifies relevance and faithful representation as the fundamental qualitative characteristics of useful financial information. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. In summary, IASB (2018) proposes two groups of qualitative characteristics of FRQ i.e., fundamental and enhancing. In this context, Kaawaase et al. [16] state that the purpose of financial reporting is to provide users with financial information that is useful for making economic decisions [16] and hence, a valid decision can be made if the information in the financial statements meets the quality of financial information, including being presented in an appropriate, relevant, comparable, understandable, timely and verifiable manner [1]. This study uses the composite index developed by Jayasekara et al. [3] to measure FRQ in terms of the conceptual framework of IASB (2018).

The first fundamental reporting quality is relevance which is the capability of making a difference in the decisions if it has predictive value, confirmatory value, or both (IASB, 2018; [17]). Firms with better quality of value reporting deliver better future operating performance and obtain greater economic value added [18, 19]. Van Beest et al. [10] introduce three items to measure the predictive value of financial reporting (R1, R2, and R3). R1 assesses the extent to which annual reports provide forward-looking information which is useful for capital providers and other users of the annual reports because internal information is not available to other stakeholders to make forecasts [17]. R2 considers whether annual reports disclose information in terms of business opportunities and risks which should include both financial and non-financial information for useful decisions [2]. This information should be able to provide insight into business opportunities, and risks as well as a possible future scenario for

the company [3]. R3 is developed to see whether a company uses fair value as a measurement basis in reporting. Literature shows that fair value presents a better predictive value of financial reporting information than historical cost [20, 21]. This happens because fair value presents current up-to-date information over historical cost which provides previous transaction costs. Therefore, fair value is one of the most important methods to increase relevance [20]. Previous studies have considered some additional items to capture predictive value which includes R4: insight into the risk profile of the company [22], R5: information on corporate social responsibility (CSR) [22], R6: analysis concerning cash flow [9, 23], R7: disclosure of intangible assets [22], R8: disclosure of “off-balance sheet” activities [22], and R9: information concerning the company’s going concern [22]. Annual reports provide feedback to the users for their confirmation of expectations. R10 will capture feedback information on how various market events and significant transactions affected the company. Mbobo and Ekpo [23] expand the confirmatory value of reporting by introducing an item to capture analysis and feedback on annual reports (R11). Al-Dmour et al. [24] propose three items to expand the measuring confirmatory value of relevance. The first two items related to undue delay in the presentation of financial reports and presentation of financial reports as required by regulatory bodies of accounting. However, this study assumes that these two variables are related to measuring timeliness. The third item is related to the extent to which information helps you to confirm the profitability levels of the business (R12). Agienohuwa and Ilaboya [22] propose to use the disclosure of the extraordinary gains and losses (R13), information regarding personnel policies (R14), information concerning division (R15), and disclosure of the financial structure disclosed (R16) to capture predictive as well as confirmatory value. Materiality is the third component of relevance and as proposed by Jayasekara et al. [3], this study uses R17, R18, R19, and R20 to capture materiality.

The second fundamental reporting quality is faithful representation which is measured in terms of neutrality, completeness, freedom from material error, and verifiability [17, 25, 26]. Faithful representation is very difficult to measure directly by only assessing the annual report since information about the actual economic phenomenon is necessary to assure faithful representation. However, Maines and Wahlen [27] maintain that estimates and assumptions that closely correspond to the underlying economic constructs and the standards pursued can enhance faithful representation. Frequent estimates and assumptions are used in the annual report which requires to examination of the argumentation provided for the different estimates and assumptions [28]. If valid arguments are provided for the assumptions and estimates made, they are likely to represent the economic phenomena without bias (F1). Further, the accounting principles behind reporting are also important and will increase the likelihood that preparers fully understand the measurement method, and this will reduce the possibility of unintentional material errors in their financial report [27, 28]. F2 is used to capture whether the selected accounting principles are clearly described and well-founded to increase the probability of reaching a consensus and detect misstatements for the user of the financial report as well as for the auditor [10]. Some studies have used these two items to measure verifiability [22, 25] even though it is not a component of faithful representation in terms of IASB (2018).

Neutrality is also an important component of faithful representation which does not colour the image of information to influence behaviour in a particular direction. Hence, neutrality is about objectivity and balance [28] which refers to the intent of the preparer; the preparer should strive for an objective presentation of events rather than focusing solely on the positive events that occur without mentioning negative events [10]. A financial report is assumed to be neutral if it highlights both the positive and negative events in a balanced way (F3). Agienohuwa and Ilaboya [22] consider additional two items to capture neutrality i.e., compliance explanation (F4) and disclosure of payment of bonuses to the members of the board of directors (F5). Further, there are some common items which have been used to capture completeness, neutrality, and free from error together. The type of audit opinion is one such item which adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully [17, 29]. Hence, an unqualified audit report is a necessary condition to perceive the financial reporting information as reliable or faithfully represented [27]. Item F6 is used to capture the type of auditor report i.e., qualified or unqualified which may affect the quality of financial reporting. Corporate governance is another area which is used to capture faithful representation considering all the components. Some studies examine the association between FRQ and corporate governance, internal control, earnings manipulations and fraud, and find that poor governance and internal controls reduce the quality of financial reporting [16, 30]. Therefore, corporate governance information adds value to capital providers. More specifically, corporate governance information increases the probability of faithfully represented information [16, 30]. Strong corporate governance practices improve the quality of reporting where users can get more information from the extensive disclosures from the annual report (F7). Oluwagbemiga [9] considers the use of the same accounting policy for five years (F8), analyses the risk exposures in the annual report (F9), and full disclosure of the director's information (F10) to capture faithful representation.

Comparability is also important to improve the reporting quality with consistency. Jonas and Blanchet [28] operationalize consistency by referring to coping with change and uncertainty. C1 and C2 are used to capture new information, rules or regulations which generally cause companies to change their estimates, judgements, and accounting policies [10, 31]. The comparability of earnings figures is also important in the evaluation of the firm's performance over time [9]. C3 is used to capture changes in estimates, judgements, or accounting policies which may adjust previous years' earnings figures to visualize the impact of the change on previous results. Since consistency refers to using the same accounting procedures every year, this year's figures should be comparable to previous years' figures. When a company provides an overview in which they compare the results of different years, even when no changes in estimates, judgements, or accounting policies occurred, this will improve the comparability of financial reporting information [10, 31]. C4 is used to capture this area. Comparability refers not only to the consistency of the use of accounting procedures by a single company but also to comparability between different companies (IASB, 2018). When assessing the comparability of annual reports of different companies, the accounting policies used, the structure of the annual report, and the explanation of transactions and other events are of special importance [28]. C5 is used to capture this area. C6 is used to capture the presentation of ratios and indices

which are useful when comparing companies' performance. In the case of LFIs, the outside users do not have comparable information to calculate industry-specific ratios. For example, risk-weighted assets, and core capital in LFIs. Agienohuwa and Ilaboya [22] use the information on shares of companies (C7) and benchmark information on competitors (C8) to extend the measurement of comparability.

Verifiability has been considered in a limited manner in previous studies under the dimensions of faithful representation [7, 8]. IASB (2018) explains that the verification can be direct or indirect where direct verification means verifying an amount or other representation through direct observation. On the other hand, indirect verification refers to checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. Some studies have operationalised verifiability under different dimensions. The above-discussed F1 and F2 have been used to measure verifiability under the faithful representation [22, 25]. Further, Agienohuwa and Ilaboya [22] use one item to measure verifiability under comparability. Oluwagbemiga [9] uses five items to measure verifiability, and this study also uses the same items (V1 to V5) to capture verifiability.

Timeliness is another enhancing financial reporting quality dimension which relates to the decision usefulness of financial reports referring to the time it takes to reveal the information in annual reports [32]. Previous studies have used the number of days it takes for the auditor to sign the accounts after the end of the financial year to measure timeliness [17, 33]. Mbobo and Ekpo [23] use the extent to which the early signing of an auditor's report after the book-year end enhances the quality of financial reporting to measure the timeliness. A natural logarithm of the difference between the book year-end and the date of signing of the auditor's report is used to measure the item (T1). This item will also capture the undue delay captured by Al-Dmour et al. [24] to capture relevance. Oluwagbemiga [9] considers how many days the company has taken to hold the annual general meeting after book year-end to measure timelines (T2) Natural logarithm of the difference between the statement of financial position date and the date of the annual general meeting will be used. The analysis of the annual reports of LFIs reveals that it takes substantial time to hold an annual general meeting from the date of signing the audit report. Therefore, this study recommends using an item to capture this time difference (T3). Al-Dmour et al. [24] consider to the extent which financial statements are presented annually as required by regulatory bodies of accounting to capture relevance. Therefore, this study proposes to use presenting financial statements as required by the regulator to measure timelines (T4).

Understandability of financial reporting also enhances the reporting quality. The studies which focus on NiCe framework use five items to capture the understandability. U1 considers how well an entity organizes the information in the annual report to enhance its understandability. If the annual report is well-organized, it is easier to understand where to search for specific information [28] and users can have a better understanding of the firm's financial position [34]. The disclosure of information through notes to the financial statements will be valuable in terms of explaining and providing more insight into earnings figures [10]. U2 is used to capture this aspect. U3 is used to capture the presence of tabular or graphic formats which may improve understandability by clarifying relationships and ensuring conciseness. The use of technical jargon may limit understandability. Therefore, it is useful to assess whether the

financial statements are devoid of technical jargon. U4 is used to capture the extent to which the absence of jargon and technical terminologies may enhance the understandability of financial reporting, and thus its FRQ. The inclusion of a glossary of unfamiliar terminologies will enhance understandability and U5 is used to capture this aspect. Al-Dmour et al. [24] extend the measurement of understandability by introducing two items i.e., understandability of expenditure (U6), and business assets and nature (U7). This study will consider the size of unclassified expenditures as a ratio of total expenditure for U6 where the bigger ratio will reduce the understandability and the size of unclassified assets as a ratio of total assets for U7 where the bigger ratio will reduce the understandability. Agienohuwa and Ilaboya [22] use information concerning mission and strategy (U8) and understandability in the perception of a researcher (U9). Oluwagbemiga [9] also adds the following additional items to capture the understandability. Foreign subsidiary translated to the financial reports (U10), availability of table of contents (U11), quality of chairman's review (U12). This study proposes that the disclosure of more information enhances the understandability of financial reports. Therefore, the size of the annual report is included as an item, U13, to measure understandability.

The analysis of the literature shows that previous studies have used a mixed approach of using the IASB (2018) conceptual framework with some academic work. Therefore, this study expects to use the comprehensive IASB (2018) framework to assess the reporting quality of LFIs in Sri Lanka. The qualitative characteristics of useful financial information which are proposed by this conceptual framework are used to assess the FRQ. This study is developed based on the hypothesis that FVA will disclose value information, and improve financial reporting quality, to the users of financial statements which is theoretically

related to agency theory that says value information reduces agency conflicts [13]. Therefore, it is hypothesized that FVA information provides high-quality financial reporting over the historical cost.

The conceptualized overall financial reporting quality is shown in Figure 1.

3. Methodology

3.1. Research design

This study is developed under the philosophy of positivism because it is based on the deduced hypothesis that FVA improves the financial reporting quality of LFIs. Positivists suggest that knowledge can only be acquired through empirical research, which is based on measurement and observation. In other words, all knowledge is viewed as posterior knowledge. A quantitative strategy is used where the variables are measured through the developed items to analyze data using statistical procedures. The overall research design is shown in Figure 2 [35].

3.2. Sample and data collection

The sample of the study comprises all listed licensed financial institutions and government-owned financial institutions operated during the period of study. The sample includes licensed commercial banks (LCBs), licensed specialized banks (LSBs), and licensed finance companies (LFCs). Non-listed foreign licensed financial institutions will not form a part of the sample because such institutions do not publish comprehensive annual reports to capture quality reporting dimensions proposed by IASB (2018). These institutions include the branch offices of foreign financial

Figure 1
Components of financial reporting quality

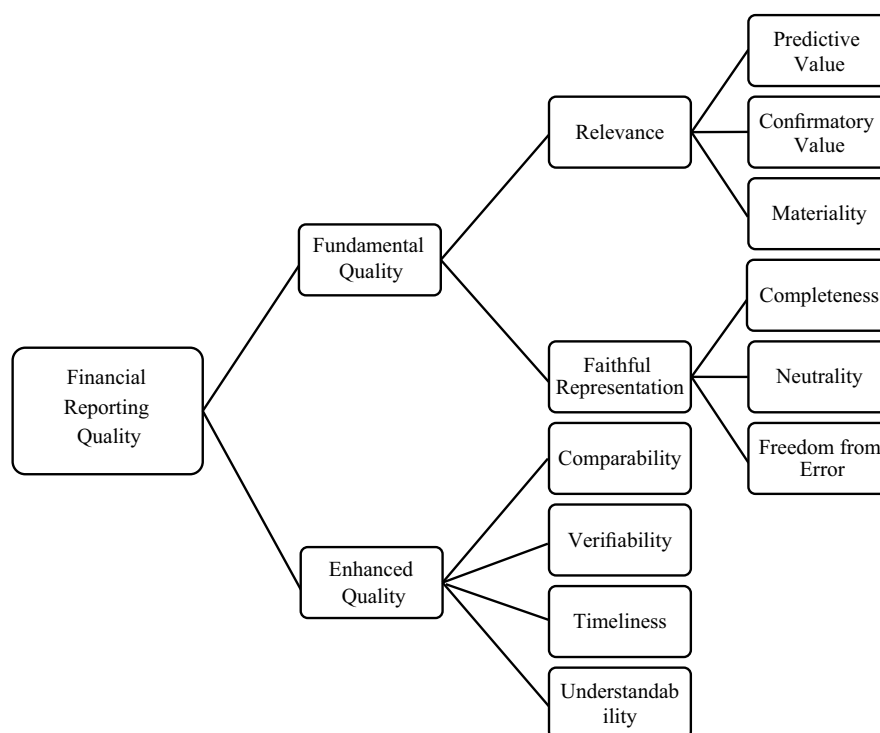


Figure 2
Research design of the study

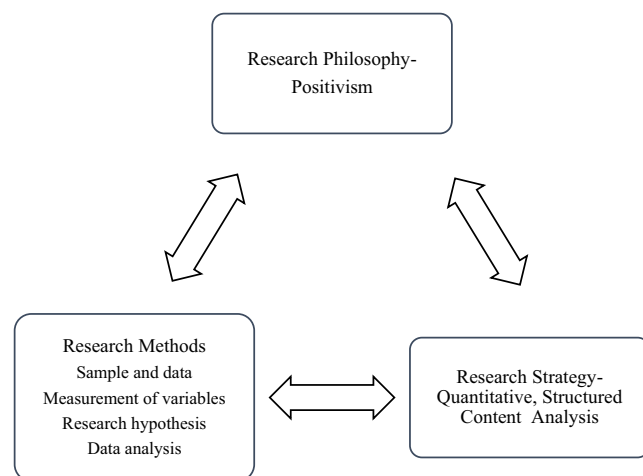


Table 1
Population and relevant samples of the study

Description	LCBs	LSBs	LFCs	Total
Population	24	06	36	66
Sample for the study	12	05	27	44

institutions located in Sri Lanka of which comprehensive annual reports are published in the respective jurisdictions where they have been incorporated. However, all the domestic financial institutions owned by the government will be included in the sample because they publish comprehensive annual reports to comply with regulatory requirements. The sample for the study will be selected as shown in Table 1 [36].

The data is collected through a self-administered content analysis to provide a quantitative or numeric value of items to measure the variables.

3.3. Measurement of variables

The FRQ dimensions are measured using a five-point scale, coded 1 to 5 respectively, that reflects the magnitude of the FRQ dimension being measured as developed by van Beest et al. [10] and subsequent literature. The lowest quality will be represented by one and the maximum reporting quality will be represented by five. However, previous studies which followed van Beest et al. [10] had misinterpreted the meaning of measuring timeliness. This error is explained below in Table 2 using an arbitrary number of

days to capture natural logarithm values to match with the proposed scale of van Beest et al. [10]. Measurement and operationalization details of financial reporting quality dimensions are given in Table A1.

The above example shows that the measurement of items of timeliness does not capture the real meaning of the dimension, and it misinterprets the concept of timeliness. Therefore, previous studies have not measured the dimension to capture its true meaning. Further, natural logarithm is not a suitable approach to measure the timeliness because as shown in the above table it is unlikely that the natural logarithm values capture the distribution of dates appropriately to capture the timeliness. Therefore, this study proposes to use the revised measures to capture the timeliness.

3.4. Data analysis

This study will adopt the empirically validated NiCE framework [10] with proposed modifications to measure FRQ and extend the list of items based on the IASB (2018) conceptual framework. The FRQ dimensions are measured using a five-point scale, coded 1 to 5 respectively, that reflects the magnitude of the FRQ dimension being measured as developed by van Beest et al. [10] and subsequent literature. This study will follow the procedure adopted by Oluwagbemiga [9] to calculate indices for different qualitative characteristics as discussed below. The index for each qualitative characteristic is calculated by adding all the values of the items in that characteristic and dividing the total sum of items by the number of items in that category. The standardized score for fundamental qualitative characteristics will be calculated by adding the scores for relevance and faithful representation and dividing them by 2. The same procedure is adopted to calculate enhancing qualitative characteristics by adding the total score of comparability, verifiability, timeliness, and understandability, and dividing it by 4 indicating that in each case qualitative characteristics are weighted equally. Finally, the overall financial quality index will be computed as a composite index by adding the total score of fundamental and enhancing qualitative characteristics and dividing it by 2. This process is summarized in Table 3.

The *t*-test as shown below will be used to assess whether there are significant differences between the above indices across historical cost and FVA regimes.

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad (1)$$

where *t* is the *t* statistic value, *x*₁ and *x*₂ are the means of FRQ-related indices of the two groups being compared i.e., historical cost and fair

Table 2
Measurement error of timeliness

Time period (Days)	Natural Log value	van Beest et al. [10]		Proposed approach	
		Natural Log value	Scale	Number of days	Scale
7	1.94	1.00–1.99	1	121 and above	1
15	2.71	2.00–2.99	2	91–120	2
30	3.34	3.00–3.99	3	61–90	3
60	4.09	4.00–4.99	4	31–60	4
150	5.01	5.00–5.99	5	0–30	5

Table 3
Components of the FRQ index

Qualitative characteristic index	The sum of the rating of items (A)	Number of Items (B)	Index = A/B
(1) Fundamental Qualitative Characteristics Index = (2 + 3)/2		xxx	
(2) Relevance	R1 to R20	20	xxx
(3) Faithful Representation	F1 to F10	10	xxx
(4) Enhancing Qualitative Characteristics Index = (5 + 6 + 7 + 8)/4			
(5) Comparability	C1 to C8	8	xxx
(6) Verifiability	V1 + V2 + V3 + V4 + V5	5	xxx
(7) Timeliness	T1 + T2 + T3 + T4	4	xxx
(8) Understandability	U1 to U13	13	xxx
(9) FRQ Index = (1 + 4)/2	xxx		

value, s^2 is the pooled standard error of the two groups, and n_1 and n_2 are the number of observations in each of the groups.

4. Results and Discussion

Tables 4 and 5 present the descriptive statistics related to FRQ indices of LCBs, LSBs, and LFCs with respect to historical cost and FVA regimes respectively.

Table 6 presents the *t*-test results of the FRQ indices which were developed for the historical cost regime (2011) and FVA regime (2021). The significance level of the *t*-test denoted in *, ** and *** indicate the significance of *t*-tests at 10%, 5% and 1%, respectively.

The fundamental quality index shows a significant improvement in the FVA regime as a result of the improved quality of relevance and faithful representation. The relevance of the FRQ has improved significantly across all LFIs in the FVA regime. Item nos. R1, R3, R4, R7, R9, R14, R17, and R18 were influential in improving the relevance. Items R1 and R3 are related to the predictive value of relevance and improvement shows that FVA improves the predictive value. Firms with better value reporting quality deliver better future operating performance [19]. Hence, predictive value is considered an important indicator of relevance [10]. On the other hand (R3), fair values present a better predictive value of financial reporting information than historical cost [21]. Hence, the FVA regime improves its relevance. The insights of the risk profile of an LFI which was captured by item R4 show a substantial improvement is a

contributory factor to enhance predictive value [22]. The information disclosure on the analysis of intangible assets and going concern of LFIs have improved significantly in respect of all LFIs. The materiality concept which is covered under relevance is another area that has been improved under the FVA regime. Previous studies had not captured materiality using different items. Out of four items which were used to capture materiality, R17 and R18 show a significant improvement. However, overall LCBs show a substantial improvement in FRQ in contrast to the other two sectors. These items include R2, R5, R6, R8, R10, R11, R13, and R15. LCBs have improved a lot in making disclosures in terms of business opportunities and risks (R2), information on corporate social responsibility (R5), analysis concerning cash flow (R6), and “off-balance sheet” activities (R8) where the relevance in terms of predictive value has improved. On the other hand, confirmatory value has further improved by providing feedback information on how various market events and significant transactions affected the company (R10), analysis and feedback on annual reports (R11), disclosure of the extraordinary gains and losses (R13), and information concerning division (R15). LSBs show additional improvements only in information on corporate social responsibility (R5) and disclosure of “off-balance sheet” activities (R8) improve the predictive value. LFCs show additional improvement in item R14 which captures information regarding personnel policies for confirmatory value.

Faithful representation has also improved significantly across all LFIs in the FVA regime. However, no single item shows a

Table 4
Summary statistics of group 1, historical cost accounting regime (2011)

Index	LSBs					LFCs				
	Mean	Median	Maximum	Minimum	Std.Dev	Mean	Median	Maximum	Minimum	Std.Dev
(1) Fundamental Quality	2.78	2.80	2.93	2.55	0.15	2.72	2.70	3.00	2.43	0.13
(2) Relevance	2.53	2.60	2.65	2.30	0.15	2.51	2.50	2.75	2.15	0.17
(3) Faithful Representation	3.02	3.00	3.20	2.80	0.15	2.92	2.90	3.30	2.70	0.13
(4) Enhancing Quality	3.20	3.38	3.42	2.84	0.27	3.24	3.20	3.55	2.94	0.18
(5) Comparability	3.43	3.50	3.63	3.00	0.24	3.21	3.25	3.50	2.63	0.21
(6) Verifiability	3.16	3.20	3.20	3.00	0.09	3.19	3.20	3.20	2.80	0.08
(7) Timeliness	3.00	3.00	3.75	2.25	0.64	3.65	3.50	4.50	2.75	0.46
(8) Understandability	3.20	3.23	3.69	2.85	0.34	2.93	2.92	3.46	2.31	0.33
(9) FRQ	2.99	3.09	3.15	2.69	0.21	2.98	2.98	3.19	2.73	0.13

Table 5
Summary statistics of group 2, fair value accounting regime (2021)

Index	LCBs					LSBs					LFCs				
	Mean	Median	Maximum	Minimum	Std.Dev	Mean	Median	Maximum	Minimum	Std.Dev	Mean	Median	Maximum	Minimum	Std.Dev
(1) Fundamental Quality	3.52	3.53	3.70	3.30	0.13	3.13	3.15	3.33	2.90	0.16	3.06	3.08	3.28	2.85	0.10
(2) Relevance	3.47	3.48	3.80	3.25	0.18	2.97	3.05	3.15	2.70	0.19	2.95	3.00	3.25	2.60	0.14
(3) Faithful Representation	3.57	3.60	3.80	3.20	0.18	3.28	3.30	3.50	3.10	0.15	3.17	3.20	3.30	2.90	0.08
(4) Enhancing Quality	3.76	3.79	3.85	3.67	0.06	3.19	3.26	3.50	2.83	0.28	3.36	3.36	3.77	2.84	0.23
(5) Comparability	3.68	3.69	3.88	3.38	0.15	3.48	3.63	3.63	3.13	0.22	3.39	3.50	3.63	2.88	0.19
(6) Verifiability	3.40	3.40	3.60	3.20	0.15	3.20	3.20	3.20	3.20	0.00	3.21	3.20	3.40	3.20	0.04
(7) Timeliness	4.21	4.25	4.25	3.75	0.14	2.70	2.75	3.50	1.75	0.65	3.56	3.50	4.25	1.75	0.59
(8) Understandability	3.76	3.77	4.00	3.31	0.19	3.37	3.46	3.69	3.00	0.35	3.30	3.31	3.92	2.54	0.36
(9) FRQ	3.64	3.65	3.75	3.51	0.07	3.16	3.28	3.33	2.87	0.20	3.21	3.21	3.48	2.92	0.15

Table 6
T-test results of the comparison of fair value accounting with historical cost to asses FRQ

Index	LCBs*		LSBs		LFCs		All LFI's	
	t statistics	P-value	t statistics	P-value	t statistics	P-value	t statistics	P-value
(1) Fundamental Quality	-9.5887	0.0000*	-4.7194	0.0091*	-16.2299	0.0000*	-18.7874	0.0000*
(2) Relevance	-14.0553	0.0000*	-7.9026	0.0013*	-17.1143	0.0000*	-21.4392	0.0000*
(3) Faithful Representation	-2.7848	0.0089*	-2.5253	0.0649***	-9.2299	0.0000*	-8.3139	0.0000*
(4) Enhancing Quality	-4.1437	0.0016*	0.1805	0.8655	-2.6461	0.0136**	-4.0960	0.0001*
(5) Comparability	-3.8062	0.0029*	-1.0000	0.3739	-4.1050	0.0003*	-5.3295	0.0000*
(6) Verifiability	-4.6904	0.0006*	-1.0000	0.3739	-1.3628	0.1846	-3.7094	0.0005*
(7) Timeliness	-1.6294	0.1315	1.2377	0.2835	0.7609	0.4535	0.6065	0.5473
(8) Understandability	-3.4437	0.0055*	-2.1573	0.0971***	-8.8834	0.0000*	-9.0413	0.0000*
(9) FRQ	-12.6659	0.0000*	-3.4394	0.0263***	-9.7127	0.0000*	-13.4675	0.0000*

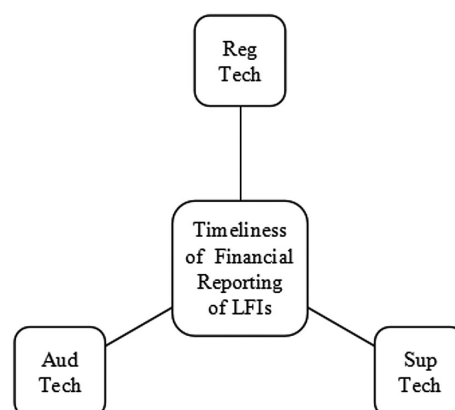
substantial improvement across all LFIs. LCBs have shown substantial improvements in items F1, F2, F5, F8, and F9 which is an indicator of improvement of faithful representation in terms of free from bias, neutrality, and completeness. LCBs have improved faithful representation by providing valid arguments (F1) to represent the economic phenomena without bias [28] and disclosing accounting principles (F2). The disclosure of accounting principles will reduce the possibility of unintentional material errors in their financial report [27, 28]. The neutrality of reporting has improved by disclosing more information on the payment of bonuses to the members of the board of directors (F5) and completeness by using the same accounting policy for five years (F8 [9]). LSBs also show an improvement in F5 and F8. Further, LSBs have improved neutrality by highlighting both the positive and negative events in a balanced way (F3 [10]) and completeness by disclosing extensive corporate governance practices (F7). LFCs also show an improvement in this area. However, these disclosures are not extensive as LCBs. The improvement is an only indicator of the development of the LSB and LFC sectors from where they stood in the historical cost regime. In addition to F7, LFCs have improved neutrality by explaining compliance (F4 [22]) and improving the quality of audit reports (F6 [27]).

Enhancing-quality index also shows a significant improvement as a result of the quality improvement of comparability, verifiability, and understandability. Comparability of the FRQ has improved significantly in LCBs, LFCs and all LFIs in the FVA regime. However, there is no significant improvement in LSBs. LCBs show a substantial improvement in comparability over LSBs and LFCs where the extent to which the notes to changes in accounting policies explain the implications of the change (C1), comparability with the information provided by other organizations (C5), presenting financial index numbers and ratios (C6), and providing benchmark information concerning competitors (C8) improved in FVA regime. LSBs also improved in C5. However, LFCs show only an improvement in C4 which is the comparison of the results of the current accounting period with previous accounting periods.

Verifiability of the FRQ has improved significantly only in LCBs and hence in all LFIs. However, there is no significant improvement in LSBs and LFCs. Even within LCBs, only V4 shows a substantial improvement when it assesses the ability to calculate the revenue and profit figures from the disclosed information [9]. All the other items show a slight improvement in verifiability which is less than 10 percent. These results also emphasize the difficulty of improving verifiability in an ever-changing environment. This may be one reason for the limited use of this aspect under the faithful representation [7, 8].

There is no difference in timeliness across both regimes. This may be characterized mainly due to the regulatory allocation of an extended period to submit audited financial statements. For example, section 38(1) of Banking Act, No.30 of 1988 requires every licensed bank to transmit within five months after the close of its financial year to the Director of Bank Supervision and section 29(1) of Finance Business Act, No. 42 of 2011 required every LFC to transmit audited financial statements to the Director within three months after the closure of each financial year. Even though LFCs are given a shorter period to submit audited financial statements to the regulator, it was observed frequent breaches of the provision (5 LFCs in 2021 and 4 LFCs in 2011 of the sample had violated). These legislative provisions force LFIs to remain at the level that they were at under the historical cost regime. Therefore, the timeliness may be improved reducing the

Figure 3
Financial technology to enhance the timeliness of financial reporting



extended period given by the various legislations in a consistent manner across all sectors. On the other hand, strict regulatory actions for non-compliance will also improve the timeliness of reporting. LCBs show only an improvement in the natural logarithm of the difference between the book year-end and the date of signing of the auditor's report (T1). However, in the case of LSBs, there is a delay which shows a substantial percentage change. This may be due to a delay in preparing fair value-based financial statements due to limited resources including proper systems and competencies in LSBs over the LCBs. This is also in LFCs where all the items do not show a positive percentage change in the fair value regime. LSBs show a substantial change in T2 where it assessed how many days an LFI has taken to hold the annual general meeting after book year-end, and a substantial negative change in T3 where it captures the financial position date and the date of the annual general meeting. Timeliness is especially important for fair values because delay may make information irrelevant and obsolete. Therefore, reducing the statutory period given and moving to technology is important to improve the timeliness of financial reporting. The evolution of financial technology (Fintech) can be used to further improve FRQ through timeliness. The traditional reporting structures and infrastructures may not be effective in ever-growing complex business environments. Fintech solutions are used to improve and automate the delivery and use of financial services. This study proposes to use fintech in the regulatory compliance, supervision, and auditing process of LFIs to improve timeliness as shown in Figure 3.

Regtech is the use of fintech to comply with regulatory requirements efficiently. Investopedia [37] defines Regtech as the management of regulatory processes within the financial industry through technology which involves the application of emerging technology to improve the way businesses manage compliance, regulatory monitoring, reporting, etc. This process will improve the timeliness of reporting in comparison to the traditional submission of periodical returns. World Bank⁴ also emphasizes Regtech as a sub-set of fintech which focuses on technologies that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities. This facilitates the reporting institutions to use new technologies to solve regulatory and compliance requirements more effectively and efficiently. This may also include sophisticated models built with technology to calculate impairment in terms of IFRS.

On the other hand, regulators also need to move into technology for effective supervision and regulation which is recognized as Suptech. Broeders and Prenio [38] define Suptech as the use of innovative technology by supervisory agencies to support supervision. According to World Bank⁴ (2018), Suptech is the use of technology to facilitate and enhance supervisory processes from the perspective of supervisory authorities which helps supervisory agencies to digitise reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions. The implementation of a comprehensive Suptech mechanism replacing conventional periodical returns-based offsite surveillance systems will improve the efficiency of the regulatory regime as well as the timeliness of reporting. On the other hand, external auditors also play a very important role in facilitating timely financial statements where they have to be on par with Regtech and Suptech. The traditional computer-aided audit techniques may not be adequate in a modern fintech-driven environment. Therefore, novel audit technology (Audtech) needs to be evolved to support Regtech and Suptech. This evolution will enhance the timeliness as well as the overall FRQ of LFIs.

Understandability of the FRQ has also improved significantly across all LFIs in the FVA regime. Only the availability of a detailed glossary (U5) and disclosure of more information which was measured using the size of the annual report (U13) were substantially improved in all three segments. Item U13 was introduced by this study, and it shows evidence that disclosure of more information enhances understandability. LCBs show substantial improvement in some additional items related to the understandability of expenditure (U6), business assets and nature (U7), understandability in the perception of a researcher (U9), and availability of table of contents (U11) under the FVA regime. LSBs show additional improvement in the presence of tabular or graphic formats (U3) in understandability. In contrast, LFCs have improved in organizing the information in the annual report (U1), using information concerning mission and strategy (U8), understandability in the perception of a researcher (U9), and availability of table of content (U11) in FVA regime.

The analysis reveals that overall FRQ has improved in the FVA regime. However, the improvement cannot be solely assigned to the FVA regime because stringent regulatory requirements which were effective during the FVA regime had forced LFIs to make more disclosures by which the FRQ has improved. The evolution of corporate governance practices since 2011 and advanced information technology may be some attributes of the improved FRQ. The corporate governance regime has been further strengthened by the code of best practices on CA Sri Lanka (2017)⁵ in addition to the disclosure requirements of the corporate governance regime of the regulator.

5. Conclusion

FRQ is a prerequisite of financial disclosures of any firm whether it is regulated or not. LFIs are subject to enhanced regulations due to the exposed high risk as a result of high leverage through public deposits which warrants high-quality disclosures of the performance of an LFI. The FRQ is also important for the development of the capital market as well as for

the stability of the financial system. Having understood these requirements, there is a global trend of adopting IFRS which is based on FVA in the banking and finance industry. The literature provides various measures to assess FRQ from different perspectives. This study assessed FRQ in terms of the dimensions proposed by the IASB (2018) conceptual framework. The operationalisation of each dimension included items to capture various aspects of the dimension as described in the conceptual framework contributing to developing a comprehensive mechanism to capture FRQ. The developed framework introduced new items to capture materiality under relevance which the previous studies had not considered. In addition, new items were introduced to capture timeliness and understandability. An error that continued in measuring timeliness was also rectified. The proposed FRQ indices in the Sri Lankan context show that FRQ has improved in the FVA regime over the historical cost regime. During this period, the corporate governance and risk management practices of LFIs have improved significantly as a result of enhanced quality of regulations. These stringent regulations and enhanced requirements of complying with corporate governance practices have also contributed to improving FRQ in the FVA regime. However, this study does not provide any insight into the quality of the disclosed information in terms of accuracy and credibility which are the sole responsibility of the LFIs and propose future studies to consider FRQ in terms of FVA-based earnings management practices and fintech solutions which improve the capabilities of regulators, LFIs and auditors given providing timely dissemination of information to enhance the FRQ of LFIs.

Ethical Statement

This study does not contain any studies with human or animal subjects performed by any of the authors.

Conflicts of Interest

The authors declare that they have no conflicts of interest to this work.

Data Availability Statement

Data are available on request from the corresponding author upon reasonable request.

Author Contribution Statement

S. G. Sisira Dharmasri Jayasekara: Conceptualization, Methodology, Software, Validation, Formal analysis, Investigation, Resources, Data curation, Writing – original draft, Writing – review & editing, Visualization, Project administration.
K. L. Wasantha Perera: Conceptualization, Methodology, Validation, Resources, Data curation, Supervision.
Roshan Ajward: Conceptualization, Methodology, Validation, Resources, Data curation, Supervision.

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⁵CA Sri Lanka, *Code of Best Practice on Corporate Governance* (The Institute of Chartered Accountants of Sri Lanka, 2017).

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How to Cite: Jayasekara, S. G. S. D., Perera, K. L. W., & Ajward, R. (2025). Financial Reporting Quality of Licensed Financial Institutions in Sri Lanka: A Comparative Analysis Across Historical Cost and Fair Value Accounting Regimes. *Journal of Comprehensive Business Administration Research*, 2(3), 174–189. <https://doi.org/10.47852/bonviewJCBAR52024175>

Appendix

Table A1
Operationalization of quality reporting dimensions of financial information

Variable	Item	Concept	Research questions	Operationalization	Literature
Relevance	R1	Predictive Value	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the company?	1 = No forward-looking information 2 = Forward-looking information not an apart subsection 3 = Apart subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation	Pls see the theoretical framework of the study
	R2	Predictive Value	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	1 = No non-financial information 2 = Little non-financial information, not useful for forming expectations 3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps developing expectations	
Relevance	R3	Predictive Value	To what extent does the company use fair value instead of historical cost?	1 = Only historical cost 2 = Mostly historical cost 3 = Balance of fair values and historical cost 4 = Mostly fair values 5 = Only fair values	
	R4	Predicative Value	To what extent does the risk section provide good insights into the risk profile of the company?	1 = No insights into risk profile. 2 = Limited insights into risk profile. 3 = Sufficient much insights into risk profile. 4 = Relatively much insights into risk profile 5 = Very extensive insights into risk profile	
Relevance	R5	Predictive Value	To what extent does the annual report contain information on CSR?	1 = No information on CSR 2 = Limited information on CSR 3 = Sufficient information on CSR 4 = Very much information on CSR 5 = Very extensive information on CSR	Pls see the theoretical framework of the study
	R6	Predictive Value	To what extent does the annual report contain an analysis concerning cash flow?	1 = No analysis 2 = Limited analysis 3 = Sufficient analysis 4 = Very much analysis 5 = Very extensive analysis	
Relevance	R7	Predictive Value	To what extent are the intangible assets disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
	R8	Predicative Value	To what extent are the “off-balance sheet” activities disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Relevance	R9	Predictive Value	To what extent does the annual report contain information concerning the company’s going concern (GC)?	1 = No information concerning GC 2 = Limited information concerning GC 3 = Sufficient information concerning GC 4 = Very much information concerning GC 5 = Very Extensive information Concerning GC	Pls see the theoretical framework of the study
	R10	Confirmatory Value	To what extent do the reported results provide feedback to the users of annual reports as to how various market events and significant transactions affected the company?	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback	
Relevance	R11	Confirmatory Value	The extent to which the inclusion of analysis section and the provision of feedback information to users of financial statements, enhance the quality of financial reporting?	1 = No feedback 2 = Very little extent 3 = Little extent 4 = Large extent 5 = Very large extent	

(Continued)

Table A1
(Continued)

Variable	Item	Concept	Research questions	Operationalization	Literature
Relevance	R12	Confirmatory Value	The extent to which information helps you to confirm the profitability levels of the business?	1 = Not useful 2 = Limited use 3 = Sufficiently useful 4 = Very much useful 5 = Very extensively useful	
Relevance	R13	Predictive value and Confirmatory Value	To what extent does the annual report contain a proper disclosure of the extraordinary gains and losses?	1 = No proper disclosure 2 = limited proper disclosure 3 = Sufficient proper disclosure 4 = Very much proper disclosure 5 = Very extensive proper disclosure	Pls see the theoretical framework of the study
Relevance	R14	Confirmatory Value	To what extent does the annual report contain information regarding personnel policies?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Relevance	R15	Predictive value and Confirmatory Value	To what extent does the annual report contain information concerning division?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Relevance	R16	Predictive value and Confirmatory Value	To what extent is the financial structure disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Relevance	R17	Materiality	To what extent does the annual report contain information to identify the potential to be material events considering requirements in IFRS and primary users' needs?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	Pls see the theoretical framework of the study
Relevance	R18	Materiality	To what extent does the annual report contain information to assess whether the identified information is material considering quantitative and qualitative factors?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Relevance	R19	Materiality	To what extent does the annual report contain information to organize it in a way that communicates the information clearly and concisely to primary users?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Relevance	R20	Materiality	To what extent does the annual report contain information to review the financial statements from a wide perspective and in aggregate?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Faithful Representation	F1	Free from error	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1 = Only described estimations 2 = General explanation 3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc., 5 = Comprehensive argumentation	Pls see the theoretical framework of the study
Faithful Representation	F2	Free from error	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	
Faithful Representation	F3	Neutrality	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as negative events?	1 = Negative events only mentioned in footnotes 2 = Emphasize on positive events 3 = Emphasize on positive events, but negative events are mentioned; no negative events occurred 4 = Balance pos/neg events 5 = Impact of pos/neg events is also explained	
Faithful Representation	F4	Neutrality	To what extent does the annual report contain a disclosure concerning the "comply explain" application?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Faithful Representation	F5	Neutrality	To what extent does the annual report contain information concerning bonuses of the board of directors?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	Pls see the theoretical framework of the study

(Continued)

Table A1
(Continued)

Variable	Item	Concept	Research questions	Operationalization	Literature
Faithful Representation	F6	Neutrality	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified Opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control	
Faithful Representation	F7	Completeness	To what extent does the company provide information on corporate governance (CG)?	1 = No description on CG 2 = Information on CG is limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG	
Faithful Representation	F8	Completeness	To what extent does the company use the same accounting policy for five years?	1 = No use 2 = Limited use 3 = Sufficient use 4 = Very much use 5 = Very extensive use	
Faithful Representation	F9	Completeness	To what extent does the company analyze the risk exposures in the annual report?	1 = No analysis 2 = Limited analysis 3 = Sufficient analysis 4 = Very much analysis 5 = Very extensive analysis	Pls see the theoretical framework of the study
Faithful Representation	F10	Completeness	To what extent do the financial statements contain full disclosure of director's information?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Comparability	C1	Consistency	To what extent do the notes to changes in accounting policies explain the implications of the change?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	
Comparability	C2	Consistency	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ clear notes 4 = Clear notes + implications (past) 5 = Comprehensive notes	
Comparability	C3	Consistency	To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes	Pls see the theoretical framework of the study
Comparability	C4	Consistency	To what extent does the company provide a comparison of the results of current accounting period with previous accounting periods?	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications	
Comparability	C5	Comparability	To what extent is the information in the annual report comparable to information provided by other organizations?	Judgment based on accounting policies, structure, explanation of events	
Comparability	C6	Comparability	To what extent does the company present financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1–2 ratios 3 = 3–5 ratios 4 = 6–10 ratios 5 = > 10 ratios	
Comparability	C7	verifiability and consistency	To what extent does the annual report contain information concerning companies' shares?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	Pls see the theoretical framework of the study
Comparability	C8	verifiability and consistency	To what extent does the annual report contain benchmark information concerning competitors?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Verifiability	V1	Verifiability	To what extent does the report show how the company arrives at the figure presented?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information	

(Continued)

Table A1
(Continued)

Variable	Item	Concept	Research questions	Operationalization	Literature
Verifiability	V2	Verifiability	Is the depreciation method used in the report consistent?	5 = Very extensive information 1 = No consistency 2 = Limited consistency 3 = Sufficient consistency 4 = Very much consistency	
Verifiability	V3	Verifiability	Are the accounting assumptions clearly disclosed?	5 = Very extensive consistency 1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	Pls see the theoretical framework of the study
Verifiability	V4	Verifiability	Can the revenue and profit figures be calculated from the information disclosed?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Verifiability	V5	Verifiability	Do the cash flow results logically flow from the data?	1 = No disclosure 2 = Limited disclosure 3 = Sufficient disclosure 4 = Very much disclosure 5 = Very extensive disclosure	
Timeliness	T1	Timeliness	How many days did it take for the auditor to sign the auditors' report after book year end?	1 = above 121 days 2 = 91–120 days 3 = 61–90 days 4 = 31–60 days 5 = 0–30 days (Revised the scale to rectify the initial error of measuring)	
Timeliness	T2	Timeliness	How many days did it take to hold annual general meeting after signing the audit report?	1 = above 121 days 2 = 91–120 days 3 = 61–90 days 4 = 31–60 days 5 = 0–30 days (Revised the scale to rectify the initial error of measuring)	Pls see the theoretical framework of the study
Timeliness	T3	Timeliness and absence of undue delay	The extent to which there is an undue delay in the presentation of financial reports.	1 = Very large extent delay 2 = Large extent delay 3 = Little extent delay 4 = Very little delay 5 = No delay	
Timeliness	T 4	Timeliness and compliance	The extent to which financial reports are presented annually as required by regulatory bodies of accounting?	1 = Not presented 2 = Presented after the laps of regulatory requirements 3 = presented on the deadline 4 = presented before the deadline 5 = Presented regularly on annual basis	
Understandability	U1	Understandability	To what extent is the annual report presented in a well-organized manner?	Judgment based on complete table of contents, headings, order of components, summary/ conclusion at the end of each subsection	
Understandability	U2	Understandability	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc..) 5 = Everything that might be difficult to understand is explained	Pls see the theoretical framework of the study
Understandability	U3	Understandability	To what extent does the presence of graphs and tables clarify the presented information?	1 = no graphs 2 = 1–2 graphs 3 = 3–5 graphs 4 = 6–10 graphs 5 = > 10 graphs	
Understandability	U4	Understandability	To what extent is the use of language and technical jargon in the annual report easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation	
Understandability	U5	Understandability	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1–2 pages 5 = > 2 pages	
Understandability	U6	Understandability	Can sources and levels of expenditure be easily understood?	1 = No understanding 2 = Limited understanding 3 = Sufficient understanding 4 = Very much understanding	Pls see the theoretical framework of the study

(Continued)

Table A1
(Continued)

Variable	Item	Concept	Research questions	Operationalization	Literature
Understandability	U7	Understandability	Are business assets easy to know in terms of value and nature?	5 = Very extensive understanding 1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	Pls see the theoretical framework of the study
Understandability	U8	Understandability	To what extent does the annual report contain information concerning mission and strategy?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Understandability	U9	Understandability	To what extent is the annual report understandable in the perception of the researcher?	1 = No understanding 2 = Limited understanding 3 = Sufficient understanding 4 = Very much understanding 5 = Very extensive understanding	
Understandability	U10	Understandability	Are reports from foreign subsidiaries translated into financial reports?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
Understandability	U11	Understandability	Does the annual report include a comprehensive table of contents?	1 = No table of content 2 = Less than 1 page 3 = Approximately one page 4 = 1–2 pages 5 = > 2 pages	
Understandability	U12	Understandability	Does the chairman's statement include a detailed overview of the year's activities?	1 = No information 2 = Limited information 3 = Sufficient information 4 = Very much information 5 = Very extensive information	
	U13	Understandability	What is the size of the annual report?	1 = Less than 100 pages 2 = 101 to 150 pages 3 = 151 to 200 pages 4 = 201 to 250 pages 5 = > 251 pages	

Note: A five-point Likert scale will be used to measure each item of the quality reporting dimensions.