

A LITERATURE REVIEW ON THE IMPACT OF IAS/IFRS AND REGULATIONS ON QUALITY OF FINANCIAL REPORTING

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Abstract

The International Accounting Standards Board (IASB) in its objectives and preamble, presume that IFRS adoption and perceived compliance to regulatory framework is associated with increased financial reporting quality. Based on these assumptions, this desktop study reviewed several documents to determine whether the IFRS adoption has led to increased financial reporting quality in Zimbabwe. The researchers reviewed literature on how the IAS/IFRS and regulations affect the financial reporting quality of listed companies. The factors around IFRS adoption were identified (mandatory, voluntary and convergence) and discussed in relation to the financial reporting quality. Evidence from previous studies conducted in line with this same issue shows that there is no conclusive evidence on how IFRS and regulations affect the financial reporting quality. Issues to be addressed in further studies include the importance of financial statements prepared under IFRS framework and the importance of compliance with accounting and auditing requirements.

Keywords: Reporting Requirements Compliance, IAS, IFRS, IASB, Reporting

1. INTRODUCTION

In this theoretical study, academic materials about the impact of the IAS/IFRS and regulations on financial reporting quality are examined, summarized and reviewed. The principle intention was to ascertain how prior literature attempts to address the following research objectives (i) the relationship between IAS/IFRS and financial reporting quality (ii) the relationship between regulatory framework and financial reporting quality (iii) the relationship between regulations, IAS/IFRS and financial reporting quality. The study systematically analyzed prior literature, described and justified what has been done in this present study and the experiences of other countries. Bases of agreements and disagreements between various scholars, institutions, schools of thought and the relationship between the IAS, regulations and financial reporting quality according to past studies as well as the basic principles of quality financial reporting as purported by various schools of thought were discussed. The study also disclosed the research gap. Also in addition, studies similar to this one were evaluated and methodologies used were examined to inform this research work. Insights from literature were also highlighted.

1.1. Structure of the Paper

The authors firstly presented arguments towards relevance of the study. Thereafter the study systematically scrutinized relevant literature looking at critical issues such as: accounting standards and

financial reporting quality. Under this section authors of this study looked at issues such as: Financial reporting quality changes around voluntary IAS/IFRS adoption, financial reporting quality changes around mandatory IAS/IFRS adoption and financial reporting quality changes around IFRS convergence. This was followed by a detailed discussion on regulatory framework and financial reporting quality. Relationship of IAS/IFRS, regulations and financial reporting were also discussed in detail.

1.2. Significance of the Study

The study begins by positing that the association between financial reporting quality and investment efficiency relates to a reduction of information asymmetry between firms and external suppliers of capital. Such information is of paramount importance to the survival of any business. For example, higher financial reporting quality would allow constrained firms to attract capital by making their positive net present value (NPV) projects more visible to investors and by reducing adverse selection in the issuance of securities. Alternatively, higher financial reporting quality as shall be discussed in this study would curb managerial incentives to engage in value destroying activities such as empire building in firms with ample capital. This could be achieved, for example, if higher financial reporting facilitates writing better contracts that prevent inefficient investment and/or increases investors' ability to monitor managerial investment decisions.

2. LITERATURE REVIEW

2.1. Accounting Standards and Financial Reporting Quality

Following the IASB goal to develop the global acceptable set of high quality IAS/IFRS that consider current and potential investors as the primary users of financial statements (IASB, 2010) which are often described as principle based system (Chen et al 2010; Atwood et al 2011; Sun et al 2011; Dimitropoulos et al, 2013) are anticipated to ensure a high level of transparency of financial reporting to get better quality financial reporting. It is then expected that IFRS earnings management must be of better quality than local standards.

Consistently prior studies prop up the economic merits of the IAS/IFRS adoption. The expected benefits are based on the premise that the use of IAS/IFRS enhances transparency and limit the options available to managers to manipulate the financial reporting and then improve the quality of financial reporting. Worldwide, researchers in the academic arena suggest that the implementation of IAS/IFRS enhances the increase of quality financial reporting (Bruggemann et al, 2013). Most researchers document substantial economic benefits following voluntary IFRS adoption. However most prior literature often produces mixed results, therefore it is not surprising that the benefits are either implicitly or explicitly attributed to the adoption of IAS /IFRS (Christensen et al. 2013).

Conceptually there are reasons to be skeptical that the benefits documented around voluntary /mandatory IAS/ IFRS adoption can be attributed to the change in accounting regulations. The early IAS/IFRS, which voluntary adopters complied with, prior to mandatory adoption settings comprised of delegations from up to 14 countries. The delegation for the most part of the policy included free choice in IAS among the various national accounting rules that existed at that time (Zeff, 2012). The choices gave firms the opportunity to continue using local accounting practices after adopting IAS/ IFRS, for example IAS 16 (Christensen et al. 2013). The debating question is how effective are the accounting standards in promoting accounting quality? It also seems self-evident that it must depend on the reporting incentives or regulatory framework in which the firm operates from. Therefore this theoretical study wanted to establish how IAS/IFRS influence quality of financial reporting of listed companies in a regulatory capital market like Zimbabwe Stock Exchange.

2.1.1. Financial reporting quality changes around voluntary IAS/IFRS adoption

In spite of the conceptual reasons to doubt the ability of IAS/IFRS to improve the financial reporting quality, Daske et al (2009) pointed out that the decision to voluntarily adopt IAS/ IFRS reporting is one element of broader strategy that increases a firm's overall commitment to quality financial reporting. In this context, (Barth et al 2008; Hung & Subramanyam, 2007) document financial reporting quality improvements around voluntary IAS/IFRS adoption and both Gassen and Sellhorn (2006) and Hung and Subramanyam (2007) reached similar

conclusions. In this context Christensen, (2012), Daske et al (2009) found an improvement in quality of financial reporting following voluntary IAS/IFRS adoption. Correspondingly Pascan & Turcas (2012) assert that the impact of IAS/IFRS adoption on listed companies depend on the condition of adoption—voluntary or mandatory, with an increased financial reporting quality on voluntary and vice-versa on mandatory. In the same vein, Christensen et al (2013) found an improvement in the quality of financial reporting for German listed companies following voluntary adoption of IAS/IFRS.

More recently, Christensen et al (2013) pointed out that since IAS/IFRS limit the options available to managers, the adoption of IAS/ IFRS could positively impact the quality of financial reporting. In line with this reasoning, IASC and its later IASB have eliminated alternatives available to management under IAS/IFRS regime since the beginning of Comparability and Improvements project in 1989 (Christensen et al 2013). They concluded that many of the accounting principle changes that occurred upon IAS/IFRS adoption are voluntary in the sense that IFRS do not require the changes therefore voluntary adoption of IFRS just correlates with management motives of increased quality. Following (Daske et al. 2009; Li 2010, Byard et al, 2011)'s findings that IAS/IFRS eliminate accounting alternatives that were opportunistically used by managers, elimination of these alternatives would improve the quality of financial reporting. Consistently Chen et al (2010) evidenced improved financial reporting quality in Europe.

In the middle of the debate, Li (2010) asserts that IAS/IFRS is not a considerable factor in the determination of financial reporting quality, as other aggressive factors come into play. This was after the examination of the impact of IAS/ IFRS voluntary adoption on the financial reporting quality of listed companies in Kenya between 1995-2004. These findings were mixed with 3 out of 8 metrics of qualitative results indicating that quality has marginally improved while 5 out of 8 indicated that quality declined slightly. In the same vein, Paananen (2008) did a similar study in Sweden and went on to advise that it is dangerous to draw conclusions using this kind of measure. Further, Paananen and Lin (2008) pointed out that IFRS adoption does not necessarily lead to improved financial reporting quality. Subsequent, Chen et al (2010) also argue that IAS/IFRS adoption would not generate accounting information with same quality across countries as other factors come into play. In the same way (Godwin et al 2008) assert that it is difficult to draw general conclusions from voluntary IFRS adoption since it is being affected by several factors. Equally, Daas (2014) also concluded that voluntary adoption is influenced by several factors; therefore it is biased to draw conclusions on how it affects reporting quality.

Contrary, Armstrong et al (2010) found that the pervasiveness of earnings management did not decline after the introduction of IFRS and in fact increased in France. Therefore they concluded that sharing rules is not sufficient in itself to create a common business language and to enhance improved financial reporting quality. In addition, Daske (2008) pointed out that voluntary adoption of IAS/IFRS lead to decrease in financial reporting

quality. On the same note, Christensen et al (2013) assert that although IAS/IFRS are higher quality standards, the effects of features of the financial reporting system other than the standard itself for example enforcements and litigations, can eliminate any improvement in financial reporting quality arising from IAS/IFRS adoption. The study by Ball (2006) analyses earnings management of German firms that have adopted IAS/IFRS voluntarily, providing evidence that firms audited by the Big four demonstrate large discretionary accruals and lower correlation between accruals and cash flow, which is an indicator of large earnings management and therefore decreased quality of financial reporting.

Zimbabwe had voluntarily adopted IFRS in 1993 and was legally put into practice in 1996 with the publication of legal instrument. Owing to the inconclusive/contrasting results on whether voluntary adoption of IFRS improves the quality of financial reporting, the different results could have been due to the different regulatory framework, economic, and political set up among the countries where the researches were done.

2.1.2. Financial reporting quality changes around mandatory IAS/IFRS adoption

Although prior studies on voluntary adopters provide contrasting facts about how IAS/IFRS impact on the quality of financial reporting, these results may not be generalized in the current mandatory settings (Daske et al. 2009). It is expected that the findings from IAS/IFRS mandatory adoption should be different from those documented for voluntary IAS/IFRS adopters (Hail et al 2010) since the former group is essentially forced to adopt IAS/IFRS compared to the latter that chooses to adopt. In this context, several recent studies document favorable economic consequences associated with mandatory IFRS adoption (Byard et al, 2011). These studies argue that these benefits of IFRS adoption could result from improved financial reporting quality. Nevertheless the study by Ahmed, Need (2013) argues that improved accounting quality is unlikely to be an explanation for these favorable economic consequences.

Kang (2013) examines the impact of mandatory adoption of IAS/IFRS on the reporting quality in 13 European countries by comparing the earning management in the pre-and post-IFRS mandatory adoption in 2005 and their conclusion is consistent with prior literature that concluded that mandatory IAS/IFRS improves the financial reporting quality. In the same way, Chua et al (2012) found less earnings management and improved financial reporting quality in Australia following the mandatory adoption of IAS/IFRS. Furthermore, Li (2010) found improved financial reporting quality in Peru from IAS period to early IFRS period (from 1999-2001 to 2002-2004 when the IASB took over the IASC, and worsened from the early IFRS period to the current IFRS period (from 2002-2004 to 2005-2007) when more accounting standards started to reflect IASB preferences. On the same grounds, Armstrong et al (2010) found evidence consistent with investors expecting increased financial reporting quality from mandatory IFRS adoption. In this context Chen et al (2010) show that after

mandatory IFRS adoption, the quality of the financial reporting increased significantly more for mandatory adopters relative to non-adopters and voluntary adopters.

While Armstrong et al. (2010) assert that even if the quality of financial reporting does not improve, it is possible that the financial information will become more useful with the mandatory adoption as it enhances comparability of financial data across firms from different markets or countries. It was also argued that movement towards IFRS may facilitate cross boarder investments and the integration of capital markets. Making foreign investments easier could also improve the liquidity of the capital markets and enlarge firm's investor base, which in turn could improve risk-sharing and lower the cost of capital. Similarly, Muller (2014) supports with evidence the increased quality in consolidated statements after the mandatory adoption of IFRS. Muller's claim tallies with that of Armstrong et al (2010), who also found that the mandatory standards enhance confidence of investors as they perceive the accounting information to have better quality reporting.

Neutrally, Sun et al (2011) found no variations in the financial reporting quality from pre-to post IFRS period of listed companies in U.S following an analysis of the impact of mandatory IAS/IFRS on earnings management quality. More recent study by Christensen (2013) concurs with Sun et al., as they found no accounting quality improvements following mandatory IAS/IFRS adoption. Similarly, Christensen et al (2013) demonstrate that other simultaneous regulations, for example changes in the enforcement, are responsible for financial reporting quality. Further they pointed out that it is difficult to separate the effects of IAS/IFRS adoption on its stand-alone basis. In addition, they claim that as a result it is difficult to point out the effects of IAS/IFRS. It is therefore not clear whether the detected economic benefits resulted from the IFRS adoption or regulations for firms that resist IFRS reporting until it became mandatory in 2005. They concluded that the mandatory adoption of IFRS neither increase the quality of financial reporting nor decrease it. In the same way, DaasAbudula (2014) evidenced no systematic evidence that IAS/IFRS results in improved financial reporting quality for mandatory adopters from (2006-2014).

Conversely, Landsman et al (2011) suggests that financial reporting quality may decrease after mandatory IAS/IFRS adoption because principle-based standards are looser than local standards therefore they may be difficult to implement. In addition, Christen et al (2008) and Ahmed (2010) assert that the application of principle based accounting standards, like IFRS, involve considerable judgment and many measurements used in IFRS accounting are to a large extent, based on managers private information. Similarly Li (2010) found evidence that financial reporting quality has not increased but worsened after mandatory adoption using a sample of German listed companies. Similarly, Tsalavoutas et al (2010) also assert that earnings smoothing increased after mandatory adoption of IFRS. Also Ahmed et al (2010) found that mandatory adoption of IAS/IFRS results in smoother earnings and decreased in timelines of loss recognition, and concluded a decreased quality of

financial reporting. Consistently Christensen et al (2013) found a decrease in earnings management for the firms that voluntarily adopted IFRS but increase in earnings smoothing for those firms that waited until IFRS became mandatory in Germany.

In this context, Zeghal et al (2011) examined the impact of mandatory IAS/IFRS adoption on financial reporting quality in France and found that mandatory adoption of IAS/IFRS is linked with increased earnings management and therefore decreased accounting quality. Similarly Christensen et al (2013) investigated voluntary and mandatory adoption of IAS/IFRS in Germany where most firms were to voluntarily adopt IAS/IFRS before the mandatory regime and concluded that voluntary adoption is linked with an improved financial reporting quality, measured earnings management and timely loss recognition while such an increase was not observed in mandatory regime. Their research concluded that higher quality accounting standards like IAS/IFRS do not necessarily lead to increased financial reporting quality at least firms do not perceive net benefits from IAS/IFRS adoption. Daske et al (2009) were consistent with these findings; they also concluded that changes in the countries' regulations and incentives have an important bearing in the determination of quality of financial reporting. Tough firms which adopted the IAS/IFRS still have an important discretion on the implementation. Some of them make very few changes and adopt IAS/IFRS more in name than as a strategy to enhance the commitment to increase the financial reporting quality (Daske et al. 2009).

More recently, Zicke (2014) asserts that the mandatory adoption of IAS/IFRS lead to no improvement in quality of financial reporting. Christensen et al (2013) as well also analyzed whether the adoption of IAS/IFRS lead to increased financial reporting quality. Consistent with previous studies they found that voluntary adoption was associated with a reduced earnings smoothing and more timely loss recognition. In contrast, they found no evidence of such financial reporting quality improvements in the mandatory settings. Daske et al (2009) were also cautious to attribute the capital markets effects for mandatory adopters solely or even primarily to the IFRS mandate while Christensen (2013) found that improvements in earnings management and timely loss recognition behavior among IFRS adopting firms are confined to firms with incentives to adopt suggesting that incentives dominate IFRS in determining financial reporting quality. Wagenhofer & Ewert (2015) also concluded that mandatory adoption of accounting standards does not necessarily lead to an increase in financial reporting quality. The reason was that making accounting earnings more informative about the underlying events, on average reduces the smoothness of earnings across periods. Managers who are interested in smooth earnings engage in earnings management to mitigate this effect, though it is too costly to eliminate it completely.

The focus on Zimbabwe is motivated by the fact that there are comparable differences in legal and political settings between Zimbabwe and the countries already studied and prior studies had generated contrasting and interesting on-going results. The contrasting results are due to the differences in the legal and regulatory framework

between countries. Since both regulatory framework and IFRS impact the quality of financial reporting in either way, this study tie them together in order to determine how they all impact the quality of financial reporting.

2.1.3. Financial reporting quality changes around IFRS convergence

There are a number of studies that show strong evidence of an improvement in the quality of financial reporting following IFRS convergence. (Barth et al. 2008) assert that significant improvement has been done via less earnings management, more timely loss recognition and more value relevant accounting information of specific accounting items such as goodwill, research and development expenses and asset revaluation. Li (2010) also conducted a research on Chinese listed companies mandated to report with substantially IFRS convergent accounting standards, they also support that the quality of financial reporting, in particular reported earnings, substantially improves with the compulsory adoption of IFRS convergent standards. Similarly Dimitropoulos et al (2013) concluded that adoption of IFRS results to less earnings management as compared to Greek accounting standards. In this context Hung et al (2007) found that the adoption of IAS/IFRS has resulted in decreased levels of earnings smoothing compared to what occurred to Greek GAAP.

Wen Qu (2012) used a sample of 309 listed companies in China on determining whether IFRS convergence improves the financial reporting quality, they found that earnings per share, relative to book value of equity is a strong explanatory factor of market return in both the pre-and post-IFRS convergence periods, suggesting that investors rely heavily upon earnings released by listed companies when making security price decisions in the capital market. The results also suggest that investors' reliance on the financial information for investment decisions becomes greater in the post-IFRS convergence period. These findings were consistent with (Chalmers et al. 2011) who found that IFRS adoption and convergence increase the information usefulness of earnings. Gordon (2012) also found less in earnings smoothing in the post-convergence than in the pre-convergence period for Chinese listed entities indicating a positive impact of the IFRS on the quality of financial reporting.

Barth et al (2008) as well, examined accounting quality before and after the mandatory introduction of IFRS for a sample of 327 companies that voluntarily adopted IAS from 1994-2003. They found evidence of lower earnings management, higher value relevance and more timely recognition of losses after the mandatory introduction of IFRS, compared to the pre-transition local GAAP accounting. Their results are consistent with higher financial reporting quality after the IFRS introduction across countries. It is also expected that the IFRS convergence will increase disclosure and adoption of more internationally accepted accounting practices, assist in reducing a significant amount of risk in foreign investment and eliminating a major source of uncertainty associated with the comparison of financial reporting from China and other countries (Ryan, 2008)

Nevertheless in comparing domestic standards to IFRS, some studies have shown that there are no significant differences in accounting results with the implication that the adoption of IFRS does not result in better accounting quality. Studies in Germany by Tendeloo and Vanstraelen (2010) and Hung and Hung Subramanyam (2007) did find similarities in earnings management and value in comparing results of the national and international standards. Paananen (2008) reports no quality increases in Swedish case and Elbannan (2011) reports mixed findings in Egypt.

In contrast, other studies such as Lin et al. (2012) found evidence that adoption of IAS/IFRS resulted in reduced financial reporting quality as compared with the U.S GAAP. Similarly Wang and Campbell (2012) concluded that IFRS implementation does not result in decreased in earnings management for the Chinese listed companies. Following, Bartov et al (2005), Paananen and Lin (2009), Karampinis and Heva (2011) reported a decreased value relevance of IFRS over German GAAP. In regards to studies comparing accounting information prepared under Australia GAAP and IFRS by companies listed on the Australian Capital market during the periods before and after the adoption of IFRS, Chalmers et al (2008), Goodwill et al (2008) and Clarkson et al (2011) report that the adoption does not enhance the quality of financial reporting and firm value. Chalmers et al (2011) later extends their investigations by adopting a longitudinal study that differentiates pre-IFRS, transition and post-IFRS periods to track changes in value relevance of accounting information as a result of IFRS adoption from 1990-2008. The findings suggests that earnings become more value-relevant at the adoption of IFRS and suggest that even for a country characterized by strong investor protection, high-quality financial reporting and strict regulatory. Bruggerman (2012) also asserts that the mandatory adoption of IAS / IFRS is not a guarantee for improved quality of financial reporting for listed companies.

This study contributes to the literature above by examining whether the findings from the prior literature are applicable in Zimbabwe context. Since past research yielded conflicting results, this study then attempts to build recent advances in comparative in accounting literature and extend such literature by studying where IAS evidence acceptable benefit in the regulated market.

2.2. Regulatory Framework and Financial Reporting Quality

In Zimbabwe like any other country the corporate world is governed by the various regulations that oversee the general operations and financial reporting of firms. Public listed companies on the Zimbabwe Stock Exchange are governed by the Companies Act (Chapter 24:03) and are required by Section 140 to keep proper books of accounts and to have them audited according to Audit Office Act. The listed companies are also required to comply with Securities Act (Chapter 24:25) that promulgated in 2004 and operationalized in 2008, repealed the Zimbabwe Stock Exchange Act (Chapter 24; 18) thereby demarcating an end of self-regulation in capital market. At the helm of Zimbabwe's capital

markets regulation is the Securities and Exchange Commission (SECZ) as the apex regulator.

In line with the Securities Act, the Zimbabwe Accounting Board (ZAPB) which is the national standard setting body and the Public Accountants and Auditors Board (PAAB), which is the statutory regulatory and oversight board for the accounting profession in Zimbabwe, formally adopted IFRS for listed companies in Zimbabwe as the second accounting reporting framework in the country (Institute of Chartered Accountancy Zimbabwe (ICAZ, 2011) with the intention to enhance the financial reporting quality. Lalin and Sabir (2010) conclude that regulations are the main drivers why firms prepare financial statements. The association of all the above pieces of regulations works together with an objective to enhance the quality financial reporting of listed firms at the capital market.

Gordon (2012) evidenced that regulatory framework influences earnings management practices as firms from strong and stricter regulatory environments are seen to be tolerant to certain earnings manipulations suggesting that regulations are the key determinant of the financial reporting quality. Therefore the association of the above national regulations to a greater extent determines the contents and disclosure requirements of the financial statements. This is supported by Bruggermann, Hitz & Sellhorn (2012), who concluded that accounting regulations have a 'supranational nature' and seen as a higher-level of regulation (Leuz 2010) that will add value in channeling information to externalities as investors. The impact of the financial regulations is therefore assessed based on the flow on effects to investors as the major player in capital markets. Therefore, the impact of financial regulations on overall market reaction with positive reaction indicates that investors have more confidence in financial reports quality and therefore put more investments to fund the capital markets.

Horton, Sarafeim & Sarafeim (2012) also assert that and have future confidence that financial regulations can inevitably improve the quality of financial reporting and will continue in the capital market. Their measures of the quality like forecast accuracy indicated improvements in the information environment due to mandatory standards. They also found the slim gap between the Local GAAP and IFRS, the more improvements for forecast accuracy which indicates common impacts on the quality of financial reporting. Bruggerman, Hitz and Sellhorn (2012) also acknowledged the fact that there is vast amount of common evidence that financial regulations correspond with capital market and other flow on economic benefits proving that financial regulations generate overall higher quality of financial information. They also argued that the role of legal settings and firms incentives vary the impact of financial regulations on the quality of reporting. However recent research by Ahio (2015) concluded that there is conflicting evidence on the impact of financial regulations on the value of financial reporting quality and its impacts may varies according to the influences of firm's overall institution settings.

With the ongoing liberation of the Zimbabwe economy and the increasing competitive business

Environment around the world, the need for Zimbabwean firms to ensure greater efficiency and improve the quality of financial reporting have become understandable very high (SECZ, 2013). Though prior literature gives inconclusive evidence on how regulations impact the financial reporting quality, it is evidenced that they affect the reporting quality in either way.

2.3. Relationship Of IAS/IFRS, Regulations and Financial Reporting

A number of previous researches have analyzed the relationship between the enforcement, use or compliance with international accounting standards, regulations and the quality of financial reporting (Hope, 2003; Burgstahler et al, 2004; Ewert and Wagenhofer, 2005, Barth et al 2008). The main question for the suggestion of a link between the accounting standards, regulations and quality of financial reporting is that more enforcements and prosecution of companies that do not comply should lead to more compliance which then leads to the provision of better financial reporting quality information (Sunder, 1997; Kothari, 2000). Hope (2003) used a sample of firms from 22 countries to investigate whether enforcement of accounting standards is associated with higher forecast accuracy by financial analysts. He found evidence consistent with the hypothesis that enforcement encourages managers to follow prescribed accounting rules, which in turn, reduces analysts' uncertainty about future earnings.

Inchausti (2007) investigated the influence of the regulations on the quality of financial reporting in Spain. His sample consisted of 49 companies over a three year period from 1989 to 1991. The results of the panel data analysis indicated a strong influence of the legal framework in the disclosure of information even before being compulsory. Nkundabanyanga and Korutaro (2013) also suggested a positive association between perceived compliance with the regulatory framework and the quality of financial reporting. Their results were consistent with the reasoning that quality of financial reporting should be enhanced by the extent to which IAS /IFRS and regulations are enforced and prosecuted (Hope, 2003; 2005)

On the contrary to the results showing a significant relationship between the standards, regulations and quality financial reporting, Larrinaga et al's (2002; 2007) results indicated that approximately 80 percent of the companies examined did not disclose any environmental information at all despite a requirement. They found that companies that included some environmental information disclosed a mean of 1.8 items, for a total of seven possible items. This evidence seems to suggest no direct link between a legal requirement and information reported.

It is evident from the preceding literature review that the results of the association between accounting standards, regulation and the financial reporting quality are mixed. The review also shows that the relationship between accounting standards, regulations and financial reporting is generalized to the whole private sector with many studies from the developed countries.

CONCLUSION AND RECOMMENDATIONS

Considering the results from literature review, it has emerged that this area is a well researched area, however the debate is still unresolved, and many organizations, regulators and policy makers are yet to get answers on how IAS/IFRS and regulations impact on their quality of financial reporting. The poor quality of financial reporting by Zimbabwean listed companies encouraged the researchers to analyse the existing literature and evaluate it. It would therefore appear that many public trading entities will continue to suffer poor quality of financial reporting. As indicated in literature review, quality of financial reporting depends on variety of factors such as IAS/IFRS and regulations.

Conversely to the expectations, this desktop study was unable to find systematic evidence that mere adoption of IFRS results in improved financial reporting quality for mandatory adopters. However, the study found evidence of increased earnings management for firms that mandatorily adopted IFRS and decreased quality of financial reporting for firms that mandatorily adopted IFRS compared to firms that voluntarily adopted IFRS. The study did not find any change in meeting earnings expectations for firms that converge IFRS with local standards. The results consistently indicate decreased quality of financial reporting over time for firms that mandatorily adopted IFRS and consistent less earnings management for firms that voluntarily adopted IFRS. However it is also possible that a strong regulatory framework compensate for higher quality of financial reporting. The study also acknowledges that IFRS may not be superior to local standards. With these concluding remarks, it is recommended that:

Top management, external auditors and regulators being the key players in standards, need to work together and tighten compliance so that impact of IFRS could be felt more.

The policy makers should also consider communicating the objectives of IFRS to all stakeholders.

They should also carry out the awareness campaign to ensure that the corporate world fully implement IFRS.

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