Good Quality Financial Reporting

Dr Qingliang Tang from the School of Accounting is examining whether differences in financial reporting quality are related to differences in financial institutional structures in countries across the globe. This research has been funded by the Accounting & Finance Association of Australia and New Zealand.

'The rapid growth of international business and the globalisation of capital markets make it necessary to measure the truth and accuracy of financial statements and performance of financial reporting quality in different countries, not just across financial firms’ says Dr Tang. ‘Many countries have made reforms in the past few decades with the introduction of International Financial Reporting Standards to their business and accounting communities. It is not clear if these reforms have improved the financial reporting quality in countries, with different accounting standards and enforcement, investor protection and legislation. We will look at the effects of these reforms as well as examine whether countries with stronger investor protection institutions have a higher financial reporting quality.’

Financial reporting quality is inherently difficult to measure, so this study will use six indicators, including earnings management and external audit quality measures to examine the financial reporting quality in 38 countries over the years 1998-2007. These particular indicators are designed to give a more accurate and true measure of economic performance. Using an overall quality method, an average financial reporting quality score per country will be determined, along with an overall financial reporting quality score which will establish the country’s rank among other countries.

Before making investment decisions, Australian investors participating in the foreign capital market need to know the level of credibility of the financial reporting quality of a country and not just the financial reporting quality of the financial institution or company they are dealing with. It is also useful for businesses and investors to know which countries have improved their financial reporting quality since the introduction of International Financial Reporting Standards over a decade ago.


Funding has been set at: $3,595

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August 2009