ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

DETERMINANTS OF FINANCIAL REPORTING QUALITY IN ETHIOPIA PRIVATE BANKING SECTOR

BY: HENOK TADDESSE ASTATKE
ID: SGS/0070/2011B

Advisor: Asmamaw Getie(Asst.Prof.)

DECEMBER, 2020
ADDIS ABABA, ETHIOPIA

DETERMINANTS OF FINANCIAL REPORTING QUALITY IN ETHIOPIA PRIVATE BANKING SECTOR

BY: HENOK TADDESSE ASTATKE
ID: SGS/0070/2011B

A THESSIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

DECEMBER, 2020
ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

DETERMINANTS OF FINANCIAL REPORTING QUALITY IN ETHIOPIA PRIVATE BANKING SECTOR

BY: HENOK TADDESSE ASTATKE

APPROVED BY BOARD OF EXAMINERS

_____	_____
Dean, Graduate Studies	**Signature**
Asmamaw Getie(Asst.Prof.)	_____
Advisor	**Signature**
_____	_____
External examiner	**Signature**
_____	_____
Internal examiner	**Signature**

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of regulations of the University. All sources of materials used for the thesis have been duly acknowledged. I farther confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning degree.

Henok Taddesse	Signature
St. Mary's University, Addis Ababa	December, 2020

Table of Content

ACKNOWLEDGEMENTS

I would like to express my heartfelt gratitude for every living, lord of the lord, the almighty God, the most gracious and the most merciful; without him nothing can be done or accomplished, who has helped me in each step of my endeavor until now and I hope he will help me to achieve my purpose. Next to this, I would like to thank my adviser Asmamaw Getie (Asst.Prof.) who has guided me and provided me his valuable comments up on preparation of this paper.

List of Abbreviations and Acronyms used

ABLL	Abnormal Loan Loss Provision
AUDCH	Auditor Change
BAGE	Bank Age
CLRM	Classical Linear Regression Model
DW	Durbin Watson
FASB	Financial Accounting Standard Board
FRQ	Financial Reporting Quality
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standard
JB	Jarque- Bera
LEV	Leverage
LLAB	Loan Loss Allowance at the Beginning
LLP	Loan Loss Provision
LIQ	Liquidity
NBE	National Bank of Ethiopia
NBLW	Net Bad Loans Written off
NPL	Non-Performing Loan
ΔNPL	Change in Non-Performing Loan
ROA	Return on Asset
ΔTOTL	Change in Total Loan

List of Tables

List of Figures

Abstract

The main purpose of the study was to examine the determinants of financial reporting quality in Ethiopian private banks. Ten years data from 2010 to 2019 were collected from National bank of Ethiopia and banks audited financial statements of ten sampled banks with total of 100 observations by using simple random sampling method,. The study used financial reporting quality as a dependent variable and eight firm specific attributes as independent variables; they are profitability, liquidity, leverage, non-performing loan, bank size, bank age, auditor change and IFRS adoption. Based on empirical evidence obtained the quality of accounting information of Ethiopian private banks can be influence by liquidity, bank size and IFRS adoption positively and leverage, profitability, non-performing loan and bank age negatively. Therefore, the above variables have a significant impact on financial reporting quality of Ethiopian private banks and board of directors of banks need to consider these variables while designing their financial reporting system; on the same token investors need to consider these variables in their investment decisions when they want to make an investment in Ethiopian private banks. But auditor change does not have significant impact on financial reporting quality.

Keywords: financial reporting quality, firm specific attributes

CHAPTER ONE
INTRODUCTION

This chapter introduces briefly about background of the study, statement of the problem, research objectives & hypothesis development next to this; the significance of the study, scope and limitation of the study will follow.

1.1. Background of the Study

One of the foremost significant aspects of the knowledge system of business enterprises in an economy is that which deals with the communication of monetary data, especially in describing business profitability and financial position. This information is vital because it attempts to partial the economic resources of the enterprises and therefore the financial results, which are achieved by its management when those resources have been put to use. It attempts to reveal how effective management has been in resources utilization also because the financial reward available to catch up on risk taken by various suppliers of capital.

Likewise a major managerial function is decision making. Management takes decision on the appropriate accounting policies that underlies the preparation of financial reports. Appropriate measures and values are given to items that make up the financial statements. Management could be subjective in the way it recognizes, measure and allocate values to certain items of expenditure and revenues in the financial report. Pattaraporn (2016) observes that investors give more attention to earnings in the financial reports more than other accounting information; therefore, management becomes prone to influencing accounting earnings in order to meet investors' expectations.

For instance according to Shehu (2013) due to income smoothening activities, management can manipulate certain items in the financials to achieve a desired result. Manipulation of earnings impairs on the quality of financial reports and diminishes investors' confidence (Shehu & Abubakar, 2012).

Earnings management is a fundamental aspect of financial reporting quality. How earnings are recognized and measured is essential to the quality of financial reporting.

Moreover increasing the quality of financial information reduces information asymmetries and hence lowers the cost of capital (Easley & O'Hara, 2003). A firm can reduce information asymmetries between itself and market participants and between informed and uninformed investors by providing information that help investors in their decision making process.

Particularly according to FASB the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve; buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system that is, information about an enterprise's resources, obligations, earnings, etc. (Belkaoui, 2004)

Consequently; today, the necessity for producing quality financial report has received great attention over the world. Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2013).

In other words in modern conditions, financial statements are the foremost complete, objective and reliable information base, supported which one can form an opinion on the property and financial position of a company (Thalassinos & Liapis, 2014). In accordance with the legislation, the accounting financial statements are an open source of information, and its composition, content and presentation forms are unified by basic parameters, it becomes

possible to develop standard methods to read and analyze it (Suryanto & Thalassinos, 2017).

To summarize reporting is used by a company's management as the basis for making managerial decisions. Its data are necessary for the analysis of organization's activities. It is also possible to identify the causes of deviations from the previously established parameters and uncover unused reserves of production. Statistical bodies widely use the annual reports of many companies for various developments that allow determining the direction and level of production's development. The financial accounting data, obtained in the annual report, provide information which is necessary for top managers to finance investment projects.

Consequently a company must prepare financial information with higher quality. Financial reporting quality (FRQ) is the faithfulness of the information conveyed by the financial reporting process. It is generally accepted that certain characteristics of the company have an impact on the level and the quality of financial information disclosed. However, what firm-specific characteristic is supposed to influence the level and the quality of financial information disclosed?

Above all many financial and accounting researchers have confirmed on the benefits and role of the quality of financial reporting Jaballah et al., 2014, Chan-Jane & Chae-Jung (2015), they also indicated that inadequate quality of financial reporting might negatively influence the business performance and economic decisions. This means that the financial reporting quality might determine managers' willingness for engaging in activities that are not valuable. For example, the financial reporting quality may facilitate better contracts to avoid investment efficiency. Furthermore, it can increase investors' ability to control the investment decisions. Therefore, it is expected that high-quality financial reporting reduce excessive and wasting investments (Biddle et al., 2009).

By having the above concepts the banking system may be a vital sector of the economy. This is because banks can determine the direction of growth or development of the economy through the financial service rendered by banks. The financial services which incorporates, funds mobilization, safekeeping and custodianship, funds transfer, exchange transaction equipment leasing, extension of loans and advances, investment in securities, bill discounting etc. Investment key sector of the economy of which the banking system is one becomes a goal-getters priority. Owing to this, it becomes necessary that financial reports presented by banks satisfy the necessity of the users of the reports.

As well as in the banking system, financial reports are of great interest to the overall public because the banks directly or indirectly interact with people. This public interest has caused companies (including banks) to simply accept social also as economic, financial and legal responsibilities and has created a consequence, a growing need for the communication of information to account for the results which are of considerable interest a wide range of individuals and organizations.

Therefore, it is crucial to investigate the factors that determine financial reporting quality and its implication in the Ethiopian private banks' context. Considering the need for high quality financial statements in the Ethiopian economy, the determinants of FRQ of Ethiopian private banks need to be investigated very well. So, the study will focus on examining whether FRQ of Ethiopian private banks is likely to be influenced by such firm-specific factors. Results of the study will provide practical information to stakeholders in understanding what determines FRQ and how it is related to firm specific factors.

1.2. Statement of the Problem

The goal of investors in profit seeking firms is to maximize wealth which means maximizing the Present value of future cash flows. To achieve this goal, investors need information that would enable them to predict future cash

flows from their investments and the associated risks (Grace & Ambrose, 2013). Investors often obtain such information from the firms' financial reports. The quality of these reports will strongly influence the decision made by the investors.

The genuineness or other wise of monetary reports has attracted diverse opinions from different quarters, such opinions can come from the overall public, tax authorities, shareholders, creditors with long or short term interest, securities analyst and potential investors. They argue that the financial reports do not usually give an accurate data about the action ties of such business concerns, for example, the idea of stating assets at their historical cost do not favors most investors as they argue that inflation is not usually taken care of, though the real value of such assets might have been eroded. Again since the financial reports prepared by managements, the shareholders and others argue that there would usually be some elements of bias on the part of management in the disclosure of management's financial attitude.

In spite of its flourishing in the western context, FRQ research is still in its infancy in developing countries (Monday & Nancy, 2016). The dearth of research in this area is even more evident in the banking industry (Haji & Ghazali, 2013). Specially in Ethiopia context as far as the researcher knowledge concerned only two quantitative research conducted on FRQ; the first one conducted by (Kirubel, 2016); by focused on large manufacturing share companies of Addis Ababa. The Second one is conducted by (Eden, 2017) with similar focusing area of this research. Meanwhile, empirical FRQ studies for banks yet considered little as compared to FRQ study on other sectors (Abdulmajid & Ismail, 2008). Consequently, a research to convey insights regarding this spring of research specifically in the banking industry of developing countries is needed. (Denisova et al., 2017).

The findings of two previous papers done in Ethiopia by (Kirubel, 2016) & (Eden, 2017) are not similar; even similar determinants affect FRQ oppositely due to this reason this paper can serve as mediator of conflicting results. One determinant should affect FRQ positively or negatively consistently

when it is checked by other research but it's not happened here or opposite result may show us different sector such us manufacturing sector & banking sector has deferent effect on FRQ even if the determinants are similar. To identify this type of deference we need to conduct more study. That is why, this aspect is intensively studied and the results are still very different, causing diverse points of view upon this subject. We will try to clarify what are the characteristics of financial accounting information that makes it of good quality.

Therefore, this study aims to investigate the potential determinants that may influence the quality of financial reporting by Ethiopian banks for the period 2010-2019 sampling period and with additional variable not considered by (Eden, 2017). These determinants precisely pertain to bank specific characteristics and corporate governance variables. Thus, a study of this nature is justified (Menassa, 2010).

1.3. Research Objective

1.3.1. General Objective

The General Objective of the research is to investigate the potential determinants that may influence the quality of financial reporting.

1.3.2. Specific Objectives

Specific objective of the study are:

1. To examine the effect of leverage on financial reporting quality.
2. To determine the effect of bank profitability on financial reporting quality.
3. To investigate the effect of liquidity on financial reporting quality.
4. To explore the effect of bank size on financial reporting quality.
5. To identify the effect of auditor change on financial reporting quality.
6. To evaluate the effect of nonperforming loan on financial reporting quality.
7. To examine the effect of bank age on financial reporting quality.
8. To determine the effect of IFRS Adoption on financial reporting quality.

1.4. Hypothesis Development

To achieve the objectives of this study the following hypotheses are derived from the literature to give comprehensive factors that explain the variations of financial reporting quality in Ethiopian commercial banks.

1.*4.1 Leverage*

Many studies have indicated that there is a positive relation between financial leverage and FRQ (Ferguson et al., 2002; Raffournir, 2006; Dedman et al., 2008; Deumes & Knechel, 2008; Lau et al., 2009; Taylor et al., 2010; Elshandidy et al., 2011; Takhtaei et al., 2014; Uyar et al., 2013). These results demonstrated that companies with huge debts are enforced to disclose more information to satisfy their creditors (Zare et al., 2013). Thus, companies with higher financial leverage are likely subjected to more agency costs; hence, it may presume that there is a direct association between financial leverage and FRQ (Murcia, 2010). But, as per research conducted by (Kirubel, 2016) and (Eden, 2017) leverage had statistically insignificant negative relationship with FRQ.

Ho1: There is a positive relationship between leverage and FRQ in Ethiopia banks.

1.4.2 Profitability

Company's profitability showed mixed evidence on its association with FRQ. For instance, Raffournir (2006), Dedman et al. (2008), Fathi (2013), Uyar et al. (2013), Takhtaei et al. (2014) and Al-Asiry (2017) found a big positive relation between profitability and FRQ. The quality of information is more for a firm with a higher performance. This result indicated that profitable companies

have growth opportunities they may disclose better information to show the reliability of their earnings and the projects that they presume to attain; this will spread their reputations and keep away from under-estimation of their actions (Fathi, 2013). Profitability on the financial reporting quality of large manufacturing share companies in this study, the result shows that there was positive and statistically significant relationship with FRQ (Kirubel, 2016).

Ho2: There is a positive relationship between profitability and FRQ in Ethiopia banks.

1.4.3 Liquidity

Liquidity related with companies' ability to pay their short term debt. Liquidity related closely with the creditor because if the company condition was not liquid then it means there is delay in interest and principal collection so the creditor will consider which company that will be given credit. Economic theory suggests that voluntary disclosures and increased information quality reduce information asymmetries. This reduction in information asymmetries increases the firm's liquidity (Hassan & Bello, 2013); (Easley & O'Hara, 2004). Overall, the empirical evidence suggests that disclosures and accounting information of higher quality are related to improved liquidity. This variable, which is widely associated with the accounting result, allows companies to enjoy a higher liquidity when better financial performance is achieved. (Eden, 2017) also result shows that there was positive and statistically significant relationship between liquidity & FRQ. Based on the consideration, the liquidity hypothesis was formulated as follows:

Ho3: There is a positive relationship between Liquidity and FRQ in Ethiopia banks.

1.4.4 Non-Performing Loan (NPL)

Non-performing loans are those loan facilities which borrowers often have difficulties in repaying. Financial performance relating to banks is based on performances which are deeply rooted in the expectations of stakeholders

and which are, in turn, based on financial transparency. The high incidences of NPLs hinder the achievement of government objectives which affects the ability of banks to compete effectively in the international market. The pervasive incidence of non-performing loan is one among the prime causes of failure within the banking industry. The provision for bad and doubtful loans rises steadily when there are high nonperforming loans in banks' annual reports which send bad signals to the investors within the economy.

Luizis et al., (2012) found a negative relationship between profitability and non-performing loans for the Greek banking system. This implies that when non-performing loan is low bank performance will increase and vice versa. According to signaling theory bank's top management may be tempted to manipulate financial statements in order to project a positive image of the company to principals. This leads to a conclusion that when a banks' performance is bad which means when non-performing loan is high, bank managers may be tempted to manipulate financial reports produced that leads to low financial reporting quality. This leads the researcher to assume that quality of financial reporting increases when the company has an improved nonperforming loan. (Eden, 2017) also found significant negative relationship on her research. Based on the above explanation the study forecasts that non-performing loan hypothesis as follows:

Ho4: Non-performing loan has a negative and significant effect on financial reporting quality.

1.4.5 Bank Size

Many researchers studied the relation between firm size and FRQ and the results were mixed. (Naser & Al-Khatib, 2000), (Street & Bryant, 2000), (Alsaeed ,2006), (Mangena & Tauringana, 2007), (Haji & Ghazali, 2013), (Agyei-Mensah, 2013), (Ebrahimabadi & Asadi, 2016) and (Monday & Nancy, 2016) found a significant positive relation between firm size and FRQ. This result demonstrated that big companies have more propensities to disclose more high quality information because they are more under scrutiny (Uyaret, 2013).. Thus, this study develops the following hypothesis:

Ho5: There is a positive relationship between bank size and FRQ in Ethiopia banks.

1.4.6 Bank Age

The bank age is a major determinant of the strength of a firm's internal control, while a strong internal control is associated with financial reporting quality. It is believed that the internal control system of a firm becomes better structured as years pass by and a well-structured internal control should naturally guarantee the integrity of the financial report (Huang, Rose-Green & Lee, 2012). Moreover, with the passage of time, firms are more likely to improve their governance and are more likely to be exposed to political risk. This is because government may not pay attention to new firms while firms that have been around for some time are always on the radar of government agencies. These factors are likely to affect their reporting practices (Chalaki, Didar & Riahnezhad, 2012). (Eden, 2017) found significant positive effect of bank age on FRQ. Therefore the study forecast the hypothesis as follow:

H06: Bank age has a positive and significant effect on financial reporting quality.

1.4.7 Auditor Change

According to Dabor & Ibadin (2013) change in auditor will increase abnormal accruals. This implies that a change in auditor will aggravate earnings management. This suggests that a change in auditor should constrain fraudulent financial reporting. The thinking is that a change in auditor will improve audit quality as it removes the familiarity thrust threat. On the other side of the divide, the argument is that a change in auditor will imply learning by the new auditor and therefore provides opportunity for management to engage in earnings management because of the ignorance of the new auditor. Hence, management may be able to manipulate accounting numbers when switching between auditors (Nelson, Elliott & Tarpley, 2002; Kim & Kross, 1998).

All these studies point to the fact that the longer the auditor tenure or the auditor change, the higher the audit quality and in addition the lower the tendency for earnings management. The conclusion is that the presence of an auditor for long time in a given company is associated with less earnings management and accordingly enhances the quality of financial information produced. From these explanations, we expect that the change of an auditor has a positive effect on abnormal loan loss provision so based on the above standing the following hypothesis is developed:

Ho7: Auditor change has a negative and significant effect on financial reporting quality.

1.4.8 IFRS adoption

To improve the quality of financial reporting is one of the objectives of IFRS. The adoption of IFRS and the subsequent effects it has on the accounting quality of firms that adopt it has been investigated by so many researchers and in different countries. Barth et. al, (2007) did a comparative study comprising 21 European countries; Paananem, (2008), Sweden; Paglietti (2008) considered the case of Italy; Outa (2011), Kenya; Qu, Fong & Oliver (2012), China; Abdullah (2014), Jordan; Najeb (2014), Lybia; Indrawati (2012), Indonesia. They found out that accounting quality of US firms that apply US GAAP is of higher quality than those of non-US firms that apply IFRS.

But this study does not expect IFRS to have negative effect on financial reporting quality of Ethiopia banks because in Ethiopia US GAAP not implemented fully as expected. Because of this IFRS may have improvement to the quality of financial reporting. Therefore the following Hypothesis is formulated as follow:

Ho8: IFRS adoption has a Positive effect on financial reporting quality

1.5. Significance of the Study

As stated by Cornel and landsman (2003) there is no single measurement whose results consistent in the financial reporting quality, because of that it needs multiple measurements of financial reporting quality so as to that this research will contribute its own contributions.

- The research expected to able give indications for firm management to make quality reporting because it was expected influenced the economic consequence.

- Financial reporting quality measurement in the research gave benefits to investors and market analyst and investor candidate in future, especially in determining their investment decision related with financial reporting quality assessment that go public in Ethiopia.

- The study finding helps scholars to seek more knowledge about the reporting quality in many other industries in order to shot light on reporting quality for sound financial reporting.

- The policy makers and the government can use the study findings in building and widening the awareness of financial reporting quality.

1.6. Scope and Limitation of the Study

The study focused on banking industry because the industry is showing high growth and the government is giving special attention to the sector. The scope of this study was limited to the relationship between FRQ and firm specific determinants of FRQ of Ethiopian banks over the period 2010 to 2019. The scope of study was limited to ten sampled banks from total population of 18 banks; that were selected by using simple random sampling technique.

In addition, the results of the study may suffer from some limitations. First, this paper examines only firms-specific determinant factors (profitability, leverage, liquidity, non-performing loan, bank age, auditor change, bank size and IFRS adoption) that affect financial reporting quality of Ethiopian banks due to the nature of the research. However, the effect of various firm specific and macroeconomic characteristics of that could have a role in determining the financial reporting quality does not give due consideration in this study. Other limitations that hamper the study were unavailability of some data and unavailability of active secondary market to measure the dependent variable.

1.7. Organization of the Paper

The study is made up of five chapters. Chapter one presents introduction, background of the study, statement of the problem, research objectives and hypothesis development, significance of the study, scope and limitation of the study. The Second Chapter presents the literature review part of the study which includes the theoretical review in its first section followed by empirical review of previous studies related to the area, conclusion and knowledge gap and conceptual framework. Chapter Three discusses the methodology that is used by the researcher in order to achieve the objectives of the study. It describes the research approach, research design, the sample size, sampling technique, data sources and collection instruments, as well as methods of presenting, interpreting and analyzing the findings. Then Chapter Four presents results and analysis of the study and finally, Chapter Five presents' conclusions and possible recommendations.

CHAPTER TWO
LITRATURE REVIEW

Introduction

This chapter presents the synthesis of theoretical review, empirical review, conclusion and knowledge gap and conceptual framework. The theoretical review aims at giving the definition of basic terminologies and review theories that help in defining and understanding determinants of financial reporting quality. The empirical review section is a review of different literatures that are related to the study. The conclusion and knowledge gap show the knowledge gap will try to fill with this paper and last part is the conceptual framework which shows research variables by figure.

2.1. Theoretical Review

The theoretical review aims at giving the meaning of a basic terminologies, theories and creating a comprehensive theoretical framework for the study. The following sub sections will present definition of financial reporting quality, Elements of quality, objectives of financial reporting and review these theories that help in defining and understanding determinants of financial reporting quality.

2.1.1 Definition of Financial Reporting Quality

The term of financial reporting quality has no single, widely accepted definition. We can find a large amount of definitions, which vary significantly across individuals, projects, companies and organizations, depending also on the purpose for which the financial information is to be used.

According to IASB (2010), the two primary qualitative characteristics of information in financial statements are relevance and faithful representation. Information in financial statements is relevant when it is capable of making a difference to a financial statement user's decisions. Relevant information has confirmatory or

predictive value. Faithful representation means that the information reflects the real-world economic phenomena that it purports to represent. Relevance and faithful representation make financial statements useful to the reader. There are also some enhancing qualitative characteristics, which are complementary to the fundamental characteristics: comparability, verifiability, timeliness, and understandability. Enhancing qualitative characteristics distinguish more useful information from less useful information. They enhance the decision-usefulness of financial reporting information that is relevant and faithfully represented.

Usefulness of financial reporting underlies the all IASB's conceptual framework. IASB (2010 BC 1.16) states that the main objective of financial reporting is to provide information that is useful to investors, creditors, and others in making investment, credit, and similar resource allocation decisions. However, although financial reporting users include a large numbers of subjects, IASB focuses on the needs of participants in capital markets. More specifically, investors are considered those who are most in need of information from financial reports, given that they cannot usually request information directly from the firm. Moreover, as investors provide risk capital to firms, the financial statements which meet their needs also meet most of the needs of other users. Investors' needs are therefore considered as highly representative of the needs of a wide range of users (IASB 2010 BC 1.16)

According to FASB & IASB the FRQ is a financial reporting that produce useful information to users, complete, transparent and not misleading, and meets the characteristics of financial information quality that is relevant, reliable, comparable and understandable: FASB and IASB (2008) is explicitly explained his desire to build a comprehensive assessment tool for assessing the quality of financial reporting related to all qualitative characteristics decision because these characteristics determine the usefulness of financial reporting information (IASB, 2008). Usefulness decision paradigm explains the relationship between users of accounting information, accounting information relevance, understanding decision-makers regarding accounting information, and others that affect the use of information in decision making.

Financial reporting quality requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully

informed in order to make well-grounded decisions on investment, credit, etc. This high quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders' needs.

Financial reporting quality research can be conducted by two approaches Cohen, 2003 & Francis, 2004. The first Approach, research that relates with investigating what factors that leads to good quality financial reporting & the second approach, how far the financial reporting quality is responded by financial statement users. The first approach relates with determinants factors that produce good quality financial reporting. This research focus relates with internal factors of company that relate with firm specifics or firm characteristics terms.

The second approach relates with external factors, that are the responses of financial reporting information user responses, how far the financial reporting quality is responded by financial statement users. One of main users of financial statement is investor, for investor, the available information are expected able to decrease the information asymmetry Cohen (2003) & Francis (2004). The improvement of financial reporting information will decrease the information asymmetry (Easley & O'Hara, 2003).

In order to have a certain degree of quality, financial statements should meet certain qualitative criteria. These criteria are stated by both boards of IASB and FASB in their conceptual frameworks, where they conclude that high quality is achieved by adherence to the objective and the qualitative characteristics of financial reporting information (IASB, 2008).

2.1.2 Elements of Quality

According to IASB, the essential principle of assessing the financial reporting quality is related to the faithfulness of the objectives and quality of disclosed information in a company's financial reports. These qualitative characteristics enhance the facilitation of assessing the usefulness of financial reports, which will also lead to a high level of quality. To achieve this level, financial reports must be faithfully represented, comparable, verifiable, timely, and understandable. Thus, the emphasis is

on having transparent financial reports, and not having misleading financial reports to users; not to mention the importance of preciseness and predictability as indicators of a high financial reporting quality (Gajevszky, 2015).

As it is defined in the Conceptual Framework for Financial Reporting of the FASB and the IASB, there are agreed upon elements of high quality financial reporting. The qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness. They are divided into fundamental qualitative characteristics and enhancing qualitative characteristics. A theoretical explanation for each of these terms emphasizes their importance as qualitative characteristics, and also indicates what qualities are considered fundamental among different frameworks.

2.1.2.1. Relevance

Relevance is closely associated with the terms usefulness and materiality. Relevance illustrates the capability of making decisions by users. When information in financial reports influences users in their economic decisions, it is sad that this information has the quality of relevance. Also, when this information assists users to evaluate, correct, and confirm current and past events, it is useful.

The usefulness of making a decision an important part of relevance is consistent with the conceptual framework (Cheung & Wright, 2010). Fair value is considered one of the highly significant indicators of relevance. Using Fair Value in an entity, as a basis for measurement, is an indicator of a high level of relevance in financial reporting information (Beest et al., 2009). Annual reports have a crucial role in determining the level of relevance by disclosing forward-looking information, disclosing information about business opportunities and risks, and providing feedback on how major market events and significant transactions affected entities (Beest et al., 2009).

2.1.2.2 Reliability

Reliability is another critical factor of financial reporting quality. In financial reporting, information must have the quality of reliability in order to be useful. This

quality is achieved when information, which users depend upon, is free from bias and material mistakes. Reliability is analyzed based on the qualities of faithful, verifiable, and neutral information (Cheung & Wright, 2010).

2.1.2.3 Comparability

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other companies in the same period. As Cheung & Wright (2010) remarked: Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures different events will be reflected by different accounting facts and figures in a way which quantitatively reflects those differences in a comparable and easily interpretable manner.

To indicate this point, the notes in financial reports should disclose and explain all the changes in accounting policies and the implications of these changes, not to mention the importance of consistency in applying accounting policies and principles. Also, the current accounting period results can be compared with the ones from previous periods. Lastly, presenting financial index numbers and ratios contributes to the comparison with other organizations (Beest et al., 2009).

2.1.2.4 Understandability

Understandability is one of the essential qualities of information in financial reports. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved (Cheung & Wright, 2010). It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When annual reports are well organized, users can comprehend what their needs are (Beest et al., 2009). Usage of graphs and tables helps to present information clearly, and the usage of language and technical jargon can be followed easily.

2.1.2.5 Timeliness

Timeliness is another enhancing qualitative characteristic. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor‘s report—the period of days it took for the auditor to sign the report after the financial year-end (Beest et al., 2009).

2.1.2.6 Faithful Representation

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in the financial reporting. Moreover, this quality has neutrality as a sub notion which is about objectivity and balance.

2.1.3 The Objectives of Financial Reporting

The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity (FASB, 2010). These users of financial information want to make decisions about buying or selling both equity and debt instruments, they want to know how much interest or dividend to expect, they also want to know when to expect the payment of these interest and dividends. Other users that may also find general purpose financial reporting useful are regulators, customers, government agencies and general public (FASB, 2010).

According to **International Accounting Standard Board (IASB)**, the **objective** of **financial reporting** is “to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.”

The following points sum up the objectives & purposes of financial reporting

1. Providing information to the management of an organization which is used for the purpose of planning, analysis, benchmarking and decision making.
2. Providing information to investors, promoters, debt provider and creditors which is used to enable them to male rational and prudent decisions regarding investment, credit etc.
3. Providing information to shareholders & public at large in case of listed companies about various aspects of an organization.
4. Providing information about the economic resources of an organization claims to those resources (liabilities & owner's equity) and how these resources and claims have undergone change over a period of time.
5. Providing information as to how an organization is procuring & using various resources.
6. Providing information to various stakeholders regarding performance management of an organization as to how diligently & ethically they are discharging their fiduciary duties & responsibilities.
7. Providing information to the statutory auditors which in turn facilitates audit.
8. Enhancing social welfare by looking into the interest of employees, trade union & Government.

2.1.4 Related Theories

2.1.4.1 Agency Theory

Shareholders are the principal of an organization and manager are their agent and this relationship described as principal-agent relationship. "An agency relationship is defined as one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent (Hill &Jones, 1992)". Shareholders (principals) delegate tasks to be performed by management (agents) on their behalf to meet their objectives.

The divergence of interest between the owners and the managers, due to the separation of ownership from control, results in the agency costs. Dealing with the agency problem is not free. Unfortunately, there is an agency cost associated with

emerged with the agency problem. Agency costs usually fall under the category of operating expenses.

The existence of information asymmetry creates a supply and demand for financial reporting. Financial reporting is the preparation of information about the reporting entity and the transmission of that information from those who have it (supply) to those who need it (demand).Suppliers of accounting information refers to accountants and the body that produces the financial statements. Those who demand the information refers to internal/external users who require that information to make investment decisions. This is a situation in which one party has more or less information than another party.

Davidson et al., (2005) argue that when management provides inaccurate financial reporting information, it introduces earnings management as a type of agency cost. As a result, managers cannot be fully trusted. Therefore, strict monitoring of managers by the principals or external auditors is seen as fundamental to protecting shareholders' interest from being compromised when managers maximize their self-interest at the expense of the organization's profitability. Thus, the key predicament indicated by agency theory is ensuring that managers pursue the interests of shareholders and not only their own interests.

2.1.4.2 Signaling Theory

The word signal is generally defined to convey information or instructions by means of a gesture, action, or sound. In the world of finance, investors are looking for signs of performance, opportunity or weakness. What corporate management says and believes may not always align. Since actions speak louder than words; looking at their action often will give a clear indication about their belief or conviction. For example, I may say that a stock is overvalued or undervalued or any number of things. My actions however, will generally reflect my true conviction. If I buy a stock, it is safe to assume (I am signaling) that I believe that this stock is underpriced and it is likely to go up. The underlying assumption is that I am a rational investor and I would like to increase my profits/wealth so I would only buy when I expect the stock price to increase. In

corporate finance, we focus on the action of the management and try to read or interpret what information or management belief is being reflected by that action.

Disclosure literature identifies several variables as a proxy for signaling theory including profitability, liquidity and leverage. The theory argues that directors who believe their company can perform better than other companies will want to signal his to shareholders in order to attract more investments. Directors may do this in a sort of disclosure in excess of any information that is required by regulations.

Signaling theory suggests that when a corporation's performance is good, managers will signal companies' performance to their investors, stakeholders and the market by making disclosures that poorer companies cannot make. By enhancing disclosures, directors wish to receive more benefits: a better reputation and the firm's value will increase (Abdulla, 2011). In contrast, firms with poor performance may choose to keep silent rather than reveal unflavored performance. However, investors may misinterpret this silence as withholding the worst possible information (Verrecchia, 1983).

2.1.4.3 Legitimacy Theory

According to legitimacy theory, companies disclose social responsibility information to present a socially responsible image so that they can legitimize their behaviors to their stakeholder groups. Legitimacy theory is based on the idea that a social contract exists between business and society.

The theoretical reflection of corporate social responsibility and the disclosure of financial information is important not only because the theory of information asymmetry; one of the most important modern developments in accounting, economics, finance, management and other business studies, but also because the association between corporate social responsibility and the disclosure of financial information could have broad implications for financial markets.

Since the objective of accounting is providing users with information that help in decision-making, i.e., satisfy social interests, the theory has been integrated in accounting studies as a "means of explaining what, why, when and how certain items are addressed by corporate management in their communication with outside audiences" (Magness, 2006). Those external perceptions about companies could be ways by the management of corporate disclosure policies (Deegan, 2002). Then the companies could have a strategy legitimacy and choice and change their legitimacy status and consequently the external perceptions (Aerts & Cormier, 2009).

2.1.4.4 Proprietary Costs Theory

Verrecchia (1983, 1990); and Wagenhofer (1990) states that companies limit voluntary disclosure of information to the financial market because of the existence of disclosure related costs (proprietary costs). These costs include not only the costs of preparing and disseminating information but also the cost deriving from disclosing information which may be used by competitors and other parties in a way which is harmful for the reporting company. Proprietary Costs Theory is based on the assumption that, in the absence of these costs, companies are incentive to voluntarily disclose relevant information to the market in order to reduce information asymmetry and, consequently, the cost of capital (Verrecchia, 1983 & Diamond, 1985), as traditionally stated by Signaling Theory (Spence, 1973, Grossman, 1981; Milgrom, 1981; Morris, 1987).

The existence of proprietary costs introduces some noise in the equilibrium model. According to Verrecchia (1983), the higher the proprietary costs associated to the disclosure, the less negatively investors react to the withholding of relevant information, thus the less probably companies voluntarily disclose information.

2.1.4.5 Positive Accounting Theory

The term "Positive Accounting Theory" has come to practice to refer to the accounting theory developed and named by Watts and Zimmerman. The authors seek to appreciate and explain the concept of economic consequences of the interests of managers and financial accounting and reporting. In other words, their major aim is to

explain and predict why managers and accountants choose particular accounting methods in preference to others. Furthermore, they assert that firm's attributes, such as leverage and size, are predictive variables of the firm's accounting choice. (Watts & Zimmerman, 1978)

Given the non-ideal market that we live in today, it is only natural that management will take advantage of this information asymmetry. Although company perceptions are important, managers are often predominantly concerned with ways of maximizing their perks and their compensation and salary guides for jobs in corporate finance, investment banking, equity research, accounting, commercial banking graduates. This is commonly referred to as earnings management, and involves management's efforts to bias financial information in one way or another.

Therefore, there is a theory called positive accounting theory that tries to understand manager's motivations, accounting policy choices, and reactions to different accounting standards.

Some reasons why earnings management is done may include following example: Reasons for upward earnings management: may be bonuses are given out in relation to net income, for the purpose of meeting debt covenants or Enhancing the perception of the company. On the other hand reasons for downward earning managements are for the purpose of reduction in taxes; Increase the chances of obtaining government assistance.

2.2. Empirical Review

Eden (2017) studied by aiming to assess the impact of firm specific (profitability, liquidity, leverage, nonperforming loan, bank age and auditor change) determinants of financial reporting quality in Ethiopian private banks. Accordingly, the study used document review of banks' audited financial statements. Using purposive sampling method, the study selected a sample of six private banks from a total

population of sixteen private banks to conduct a study for the period of fifteen years (2002-2016) with the total of 90 observations.

To test the hypotheses, the study adopted the quantitative research approach. The secondary data were analyzed using descriptive statistics, correlation matrix and multiple linear regression analysis and data from document reviews were interpreted qualitatively.

The results of panel least square regression analysis show that profitability and non-performing loan have statistically significant and negative effect on Ethiopian private banks' financial reporting quality. On the other hand, liquidity and bank age have statistically significant and positive effect on Ethiopian private banks financial reporting quality. However, leverage and auditor change have statistically insignificant effect on financial reporting quality of Ethiopian private banks.

In addition, the results of the analysis indicate that signaling theory is pertinent theory in Ethiopian banking industry, whereas there is little evidence to support the agency theory. Therefore, banks should give consideration to profitability, liquidity, non-performing loan and bank age in order to have better financial reports.

R.Mahboub (2017) have studied aiming to investigate the potential determinants that may influence the quality of financial reporting of 88 annual reports of a sample of 22 Lebanese banks for the period 2012-2015.

Financial reporting quality index with 40 items was used as the dependent variable, while bank specific characteristics of leverage, size, and profitability as well as corporate governance features of board independence, ownership structure, and board size constitute the independent variables.

Using multivariate OLS model, the results indicate that financial leverage, ownership structure and board size has significant and positive relationship with financial reporting quality. On the other hand, bank size, profitability and board independence were found to be not statistically significant in explaining the quality of financial reporting of banking sector in Lebanon.

The results reveal that better financial reporting quality of the annual reports in banking sector can be achieved by having higher proportion of debts, higher ownership by the shareholders, and higher board size. These findings could be of interest to potential investors, management and regulators in the process of financial reporting quality enhancement.

Kirubel (2016) studied in order to assess the determinants of financial reporting quality of large manufacturing share companies in Addis Ababa. Accordingly, the study used documentary analysis of companies audited financial statements and in depth interview with directors/officials of manufacturing firms. Using simple random sampling method, the study selected a sample of fourteen (14) companies to study them for the period of five years (2010-2014) with the total of 70 observations.

The results of panel least square regression analysis show that: Firm Profitability, Type of Auditor and Share Dispersion, have statistically significant and positive relationship with manufacturing share companies financial reporting quality. On the other hand, Firm Size has a negative and statistically significant relationship with manufacturing share companies' financial reporting quality.

The study suggests, stakeholders to consider intensive investigation and internal control for low performance and large firm size respectively, further, employing large audit firms improve the quality of information produced.

Zaenal (2010) have studied by aiming of to prove empirically the determining factors that influence the quality of financial reporting and the economic consequences, and there were influence differences of quality attributes of financial reporting to the economic consequences. The research samples were taken by purposive sampling so it obtained141 listed manufacturing businesses from 2001 to 2006. The research used four data analysis technique: auxiliary regression R^2, confirmatory factor analysis, simple regression, and multiple regressions.

The results showed seven attributes, there were five attributes that gave contribution for financial reporting quality namely accrual quality, predictability,

smoothness, relevance value, and conservatism while the persistence and timeliness gave small contribution. The five attributes were also different each other. From the thirteen determining factors, it showed nine factors that produced significant influences namely operation cycle, sales volatility, firm size, firm age, loss proportion, leverage, environmental risk, institutional ownership, market concentration, and auditor quality, while the other three, they were liquidity, managerial ownership, and investment growth that were not significant. Testing results of economic consequences of quality of financial reporting showed that the quality of factorial financial reporting influenced negatively and significantly toward information asymmetry.

Daniel (2003) investigated the determinants and economic consequences associated with firms' financial reporting choices. Recognizing the endogeneity associated with these choices, he found evidence of a positive association between investors' demands for firm-specific information and financial reporting quality. He also get that higher proprietary costs are associated with a lower quality of financial information.

As for the economic consequences, the evidence suggests that firms with high quality financial reporting policies have reduced information asymmetries. However, after accounting for the endogeneity associated with the reporting quality choice, he found no significant evidence that firms choosing to provide financial information of higher quality enjoy a lower cost of equity capital. These results demonstrate the importance of explicitly modeling the endogeneity of financial reporting choices in investigating the associated economic consequences.

Tambingon, et al, (2018) have studied to determine factors influencing the quality of financial reporting local government in Indonesia. The factors studied consist of commitment apparatus, role of internal audit, and accounting information system. The sample is picked up randomly by a random sample technique. The data collected is then tested for its validity and reliability so that the data is valid to be processed. The unit of analysis in the study was 66 unit tool of city Indonesian local government.

The results showed that the commitment apparatus, role of internal audit have a significant effect on the quality of accounting information systems. Furthermore it was

found that the quality of accounting information system has implications for the quality of financial reporting.

Atanasko (2014) have studied determinants of financial reporting quality for listed entities in Macedonia. The paper examines the degree and quality of disclosures of financial information related to fair value by Macedonian listed entities and associations with several corporate attributes. An unweighted disclosure index comprising 51 disclosed information in audited financial statements of 32 listed entities for 2010 was composed.

The association between the disclosure index of each company and various corporate characteristics (size, industry, ownership concentration, type of auditor, internationalization, leverage) was examined through multiple regression analysis.

It was concluded that the size of the listed company, type of engaged audit firm and the leverage of the company are associated with the degree and quality of disclosed information on fair value. The research also reveals areas of improvement for listed companies reporting of fair value information in financial statements.

John (2017). Have investigates the determinants of financial reporting quality in listed Agriculture and Natural Resources firms in Nigeria. Owing to the widespread advocacy to diversify the Nigerian economy, the choice of the Agriculture and Natural Resources sectors, being a prospective mainstay of the economy is necessary, so that investors and other stakeholders will understand the financial reporting practices in the sectors. The sectors comprise of 9 listed Agriculture and Natural Resources Firms, made up of 5 Agriculture and 4 Natural Resources firms. A sample of 7 firms was drawn from the population. Data was collected through secondary sources from annual financial reports of the firms from 2008-2015. The study adopted the correlation and ex-post factor research designs and employed the use regression as a tool for data analysis.

The results showed a positive significant relationship between leverage, liquidity, board size and financial reporting quality, measured using residuals from the modified Jones model by (Dechow et al., 1995).

It is recommended among others that managers of firms in the Agriculture and Natural Resources sectors maintain an optimum liquidity level and finance their operations from more of debt instruments, so as to ensure quality of reported accounting numbers. Emphasis should not be placed on the number of independent members of the audit committee, but on their ability to checkmate management tendencies to manipulate the financials. The Nigeria Stock Exchange (NSE) should review its monitoring rules to ensure specific rules for the prevention of window dressing activities by management in financial reporting.

Evada et al., (2016) have studied determinants of FRQ and its implications on the financial performance of state owned enterprises. This research aimed at analyzing the influence of the size of the board of directors, the composition of the independent commissioners, the effectiveness of audit committee and government ownership of the financial reporting quality and its implications on the financial performance of state-owned enterprises. Research population is state-owned enterprises listed on the Indonesia Stock Exchange from 2010-2014. There were 50 companies assigned as the sample of this research by using purposive sampling method.

The results showed that partially, the size of the board of director, the composition of the independent commissioners and government ownership did not have the significant influence on financial reporting quality. The effectiveness of audit committee positively and significantly influenced financial reporting quality. The size of the board of directors, the effectiveness of the audit committee and financial reporting quality positively and significantly influenced financial performance. The composition of an independent commissioner and government ownership negatively and significantly influenced financial performance.

2.3 Conclusions and Knowledge Gap

Several studies have been conducted on the quality of financial reporting in relation to specific firm characteristics of western context. The outcomes of these studies have documented varying and conflicting results, thereby pointing to the inconclusiveness of the subject matter. Besides, though some studies have been carried out in the nonfinancial sectors, however very few researches are conducted in developing countries Monday & Nancy (2016). Since in Ethiopia FRQ is less discussed or less represented in literature, to fill this knowledge gap this research is needed.

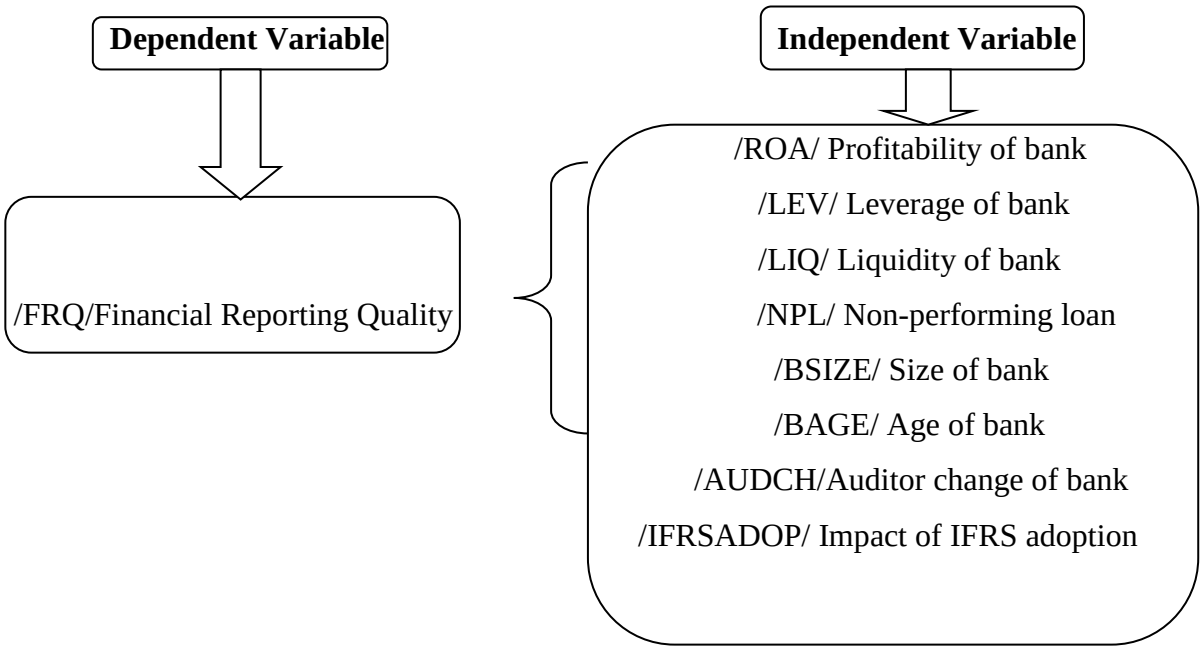
As far as researcher knowledge concerned in Ethiopia context only two researches are conducted on FRQ by using quantitative research method; the first one conducted by Kirubel (2016); by focused on large manufacturing share companies of Addis Ababa with seven independent variables and 70 observations. The Second one is conducted by Eden (2017) by focusing on Ethiopian privet banks with five independent variables and 90 observations. Consequently, a research to convey insights regarding this spring of research specifically in the banking industry of developing countries is needed. (Denisova et al., 2017) Therefore this research is conducting with eight independent variable & 100 latest observations. With more independent variable & more observation compared to previous researches conducted in Ethiopia.

Researches in this area are very useful in giving an insight for both managers and company stakeholders as to knowing the determinant factors affecting financial reporting quality. It will also help regulatory and professional bodies to properly monitor the accounting profession and to maintain trust among the various stakeholders. Therefore; it would be worthwhile to ask the firm related attributes that are considered to be the determinant factors affecting financial reporting quality in Ethiopia.

2.4. Conceptual Framework

To achieve part of the research objective and to test the research hypotheses, this study developed conceptual framework. Since the banks financial reporting quality is influenced by various factors, Ethiopian private banks need to understand what influences their FRQ to reach optimal level of financial reporting.

Figure 2.1: Conceptual Framework: Relation between Financial Reporting Quality (FRQ) and its determinants.



Source: Empirical Literatures

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

Introduction

The purpose of this chapter is to discuss the research methodology along with the detailed methods planned to be used in the study. The chapter is organized in seven sections. The first section 3.1 presents Research design. The second section 3.2 presents nature of data. Section 3.3 presents the data source and collection method. Section 3.4 presents sampling design. 3.5 Data analysis and presentation is presented in section 3.5. Finally, model specification and model validity are presented in section 3.6 and 3.7 respectively.

3.1. Research Design

To achieve the objective of the study a base for determining the research approach for the study is since identified determinants are factors affecting the outcome having numeric value, it is quantitative approach. Therefore, the researcher employed quantitative research approach to see the regression result analysis with respective empirical literatures on the determinants of financial reporting quality. Thus, the researcher used a panel data from 2010 to 2019 periods.

The research problem tends to be explanatory which seeks to explain the relationship between financial reporting quality and firm level factors. The research approach of the study was quantitative research approach in order to understand the research problem. The study followed explanatory research design. Explanatory research aims at establishing the cause and effect relationship between variables. The researcher used the facts or information's already available to analyze and make a critical evaluation of the data. These research designs were appealing for this study to achieve the objectives of the study and to test the hypotheses. The study employed strategies of inquiry that involve collecting data sequentially to best understand

research problem. The data collection involved gathering numeric information (document review) and finally the database represented quantitative information.

3.2. Nature of Data

This study used panel data. The researcher prefers to use panel data since panel data can take heterogeneity among different units into account over time by allowing for individual-specific variables. Besides, by combining time series and cross-section observations, it gives more informative data. Furthermore, panel data can better detect and measure effects that simply cannot be observed in pure cross-section or pure time series data (Gujarati, 2004).

3.3. Data Source and Collection Method

In this study secondary data was used. The secondary data was obtained from audited annual reports of the banks and National Bank of Ethiopia (NBE). The researcher was considered ten years (2010-2019) secondary data for the study. Since the nature of the data obtained from secondary sources and because of COVID19 /Corona virus/ physical meeting is not advisable; only primary source of data was used by researcher. Accordingly, the secondary data collection was carried out by means of a document review. The data related to a documentary analysis which is necessary to undertake this study was gathered from the annual reports and financial statements of ten commercial banks and NBE for Ten consecutive years (2010-2019).

3.4. Sampling Design

As of 2020, there are eighteen banks in Ethiopia. These are Abay Bank S.C, Addis International Bank S.C, Awash International Bank, Bank of Abyssinia, Berhan Bank, Buna International Bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia, Dashen Bank, Debub Global Bank S.C, Development Bank of Ethiopia, Enat Bank, Lion International Bank, Nib International Bank, Oromia International Bank, United Bank, Wegagen Bank, and Zemen Bank.(www.nbe.et).

However, from all the above listed banks, Development Bank of Ethiopia and Commercial Bank of Ethiopia are not private banks if they included as sample they might be outlier because the size and profit of these banks are not comparable with privet banks. Therefore the population of this study includes only private banks operating in Ethiopia. According to the record shelf by NBE, there are 16 private banks in the country. The study was employ simple random sampling technique to select the required sample of banks from the above total population of private banks.

Since probability sampling gives each element in the population an equal opportunity of getting in to the sample and since it gives each possible sample combination an equal probability of being chosen these tests are important for establishing conclusive correlations. From probability sampling; simple random sampling technique was selected because the population is relatively homogenous for issue studying and since I have sampling frame in addition to this it's easy to analyze data.

The selection procedures are as follows: researcher was assigned each member of sampling frame a number; selects sample units by random method. The lottery system was applied to select a set of cards equal to the number of the population to be prepared then placing the names in a hat and drawing the sample. Cards would be thoroughly mixed up and then from sixteen cards would be drawn one by one until the number of slips selected equals the ten banks which is decided size of the sample.

Therefore out of the sixteen private banks, the researcher randomly selected ten private banks; those private banks being studied fit a specific purpose or description that was necessary to conduct the research. Those private banks selected as a sample size are Anbesa Bank S.C, Awash Bank, Bank of Abyssinia, Buna International Bank, Dashen Bank, Cooperative Bank of Oromia, Nib International Bank, United Bank, and Wegagen Bank, Zemen Bank.

This is due to the fact that since the primary aim of this study is to examine the determinants of financial reporting quality of private banks in Ethiopia, it is better to make generalization for the banking sector of the country based on data drawn from sample banks.

3.5. Data Analysis and Presentation

Thus, this study was utilized both descriptive and inferential statistics based on a panel data from 2010 -2019 to examine the relationship between financial reporting quality and its determinant factors in private banks of Ethiopia. The financial statements of sampled private banks for the period of 2010 – 2019 were analyzed using panel data model. As noted on Brooks (2008) panel data embody information across both time and space. Importantly, a panel keeps the same individuals or objects and measures some quantity about them over time. The quantitative data analysis was undertaken by using EVeiws8 statistical package and it was include the descriptive statistics, correlation matrix analysis and panel data regression.

3.6. Definition of Variables

I. Dependent Variable: Financial reporting quality /FRQ/

In order to test the determinants of FRQ, researcher used a model in which the dependent variable is the disclosure index constructed on the basis on relevant requirements of IFRS for disclosure of information on fair values of different assets and liabilities. Due to currently our country adopt IFRS; relevant IFRS disclosure requirements selected as index. The index is composed of 43 disclosures connected to fair value according to the accounting standard. The structure of the index is presented in the following table.

Table 3.1: disclosure index

Standard	Name of the Standard	Number of Disclosures
IFRS 2	Share-based Payment	5
IFRS 3	Business Combinations	4
IFRS 7	Financial instruments: disclosures	16
IAS 1	Presentation of Financial Statements	1
IAS 16	Property, Plant and Equipment	2
IAS 19	Employee benefits	2
IAS 28	Investments in Associates	1
IAS 36	Impairment of Assets	2
IAS 38	Intangible assets	3
IAS 40	Investment property	7
Maximum number of Disclosures		**43**

The constructed disclosure index is a dichotomous, unweighted and adjusted for disclosures which are not applicable for banking industry financial statements. Dichotomous means that each disclosure included in the financial statements or in the notes is assigned with the score 1 in the total sum for the index, otherwise the absence of applicable disclosure is scored 0. The total of the index for a certain company is calculated as:

$$T = \sum_{i=1}^{m} d_i$$

Where *di* is1, if the information *i* is disclosed, otherwise 0; *m* being the maximum number of disclosures (*m*=43).

Since resulting bias is smaller than the one that would result from assigning subjective weights to the items; and because of the majority of disclosure studies use this approach of unweighted indices (Chalmers & Godfrey, 2004; Patel et al., 2002; Ali et al., 2007; Hope, 2003a; 2003b; Bushman et al., 2004; Richardson & Welker, 2001; Cooke, 1989; Meek, et al., 1995; Raffournier, 1997) this method is preferred.

The main argument for using this type of indices is related to the insignificance of the weighting, since different users of financial statements will determine different weighting factors for different disclosures dependent on their different needs. The end result, if different requirements of different users are respected, will be netting of different weighting factors and their opposite effects.

The disclosure index specifies the maximum number of individual fair value information to be included in financial statements, if the bank is involved in transactions with all possible assets and liabilities. As a result, when valuing disclosures and determining disclosure index of each bank, importance should be given to the applicability of disclosures in order not to decrease the result of the bank for items that are not disclosed, and are irrelevant.

Therefore, the maximum result for each bank is determinable by the formula:

$$M = \sum_{i=1}^{n} d_i$$

Where d_i is disclosed information; n is the number of disclosures applicable for the bank n ≤ 43). The procedure for adjustment of the index has been applied in other relevant research papers (Cooke, 1989; Meek et al., 1995; Raffournier, 1997). The result for the index at each bank as dependent variable is described through the following formula:

$$IndexOb = \frac{actual\ result\ in\ disclosures\ of\ the\ company}{maximum\ result\ of\ applicable\ results\ for\ the\ company}$$

II. Independent Variables

Bank Profitability: Profitability of the bank is measured by return on asset ratio.
Bank Leverage: Leverage is measured as the ratio of total liabilities to total asset.
Bank Liquidity: Liquidity is measured by loan to deposit ratio.
Non-Performing Loan: Non-performing loan is measured by total non-performing loan amount.

Bank Size: Bank size is measured by natural logarithm of total asset

Bank Age: The age of the bank is measured by deducting year of incorporation from now.

Auditor Change: Auditor change is measured by dummy variable, 1 if auditor was changed in
the year and 0 otherwise.

IFRS Adoption: Impact of IFRS adoption is measured by dummy variable; 1 if IFRS has positive impact on FRQ and 0 otherwise.

3.7. Model Specification

The researcher will collect the data that include financial statements of Ethiopian private banks from 2010 to 2019 for analysis. The nature of data that will use in this study enabled the researcher to use panel data, which is deemed to have advantages over cross sectional and time series data.

FRQit=ß0it+ß1(ROAit)+ß2(LEVit)+ß3(LIQit)+ß4(NPLit)+ß5(BSIZEit)+ß6(BAGEit)+ ß7(AUDCHit)+ß8(IFRSADOPit)+eit

Where;
FRQit= Financial Reporting Quality of bank i at time t

B0= Is the Intercept
ROAit= Profitability of bank i at time t
LEVit= Leverage of bank i at time t
LIQit= Liquidity of bank i at time t
NPLit= Non-performing loan of bank i at time t
BSIZEit= Sizeof bank i at time t
BAGEit= Age of bank i at time t
AUDCHit= Auditor change of bank i at time t
IFRSADOPit= Impact of IFRS adoption of bank i at time t
ß1-8= is the coefficient parameter of the independent variables,
eit= error term; where i is bank and t is year

3.8. Model Validity

Diagnostic test was made to make sure that the classical linear regression model assumption is violated or not and to get reliable output from the study. In this study an attempt was made to test heteroscedasticity, autocorrelation, normality and multicollinearity assumptions are violated or not. Hausman test is also was performed to choose the appropriate model for the study and random effect model was more appropriate than the fixed effect model. Random Effect Ordinary Least Square regression method is applied to determine the significance of the effect of the explanatory variables on the dependent variable.

CHAPTER FOUR
RESULTS AND DISCUSSIONS

This chapter deals with the results and analysis of the findings. Section 4.1 deals with descriptive statistics of the variables, section 4.2 presents the result of the fulfillment of the classical linear regression model (CLRM) assumptions, 4.3 presents the regression results and discusses the findings.

4.1. Descriptive statistics

Table 4.1 provides a summary of the descriptive statistics of the dependent and independent variables for ten private banks from year 2010 to 2019 with a total of 100 observations. The table includes the mean, median, standard deviation, number of observations, minimum and maximum for the independent and dependent variables used in this research. It shows the average indicators of variables computed from the financial statements.

Table 4.1 Descriptive statistics

	FRQ	ROA	LIQ	LEV	NPL	BSIZE	BAGE	AUDCH	IFRS ADOP
Mean	0.300000	0.027549	0.609847	0.859501	43502800	23.05928	14.80000	0.210000	0.250000
Median	0.000000	0.027429	0.606656	0.864450	27110712	23.15414	15.50000	0.000000	0.000000
Maximum	1.000000	0.046807	0.891156	0.921285	1.78E+08	25.03588	26.00000	1.000000	1.000000
Minimum	0.000000	0.015739	0.430135	0.804806	0.000000	21.03340	2.000000	0.000000	0.000000
Std. Dev.	0.460566	0.006163	0.087548	0.027259	44030669	0.857193	6.151291	0.409360	0.435194
Observations	100	100	100	100	100	100	100	100	100

Source: E-view output

Table 4.1 shows a mean value of 30% for FRQ indicating that the financial reporting of private banks in Ethiopia has only 30% of quality with 46% variability ups and downs for the period from year 2010 to 2019. As stated in chapter three, this study used dummy variable of 0 &1 to show the quality of financial reporting. Based on the data obtained from annual report of sample banks 70% of their financial reporting doesn't had sufficient disclosure.

Profit measured by return on asset shows the banks productivity to generate income using the available asset. The figure shows that Ethiopian private banks have generated on average 2.75% profit for a one birr investment on asset, the most profitable banks have generated 4.68% profit and the least profitable banks have generated 1.57% profit for each birr investment. The variability is below one percent.

Ethiopian private banks have on average 60.98% liquidity position measured by loan to deposit ratio. This means that for a one birr deposit there is an available 61 cents loan on average, a maximum liquidity position of 89.1% and minimum of 43 % with a dispersion of 8.75% ups and downs. Because of the nature of the banking industry is highly dependent on deposit, which is a debt, to finance their operation, where they receive deposit from the public, mainly has a nature of short term, and extend loan to borrowers both for short and long period of time. Receiving short term deposit and providing long term loan, create a gap on banks liquidity management but evaluating the above figure based on National bank of Ethiopia liquidity requirement of a minimum of 15% shows Ethiopian private banks have maintained a liquidity position of 4 times above the minimum requirement and it can be said they are solvent.

Ethiopian private banks have on average 85.95% debt in their asset composition with 2.7% variability ups and downs. A maximum total debt to total asset ratio of 92.13% which is an equity contribution of 8.87% which is as per the national bank of Ethiopians requirement of a minimum of 8% equity to all banks to maintain in their capital structure. This condition shows banking industry is highly levered due to their main source of fund is from deposit, which is a liability.

The non-performing loan, another explanatory variable of the study, as shown on the Table 4.1 has an average value of non-performing loans 43,503,800. The maximum nonperforming loan value for these private banks is reported to be 178,168,390. With standard deviation value of 44,030,669 reveals the average spread from the mean value of the private banks non-performing loan.

As shown in table 4.1 above, the independent variable, bank size has a mean value of 23.06 and standard deviation of 8.6%. This implies that during the study period the sampled banks have total asset, on average, with ln value of 23.06. On the other hand, the minimum and maximum value of 21.03 and 25.04 respectively indicate that form the sampled private banks with 25.04 have the highest total asset while a private bank with 21.03 have a minimum total asset. The entire figure shows that the Ethiopian private banks have averagely ln of23.06 total assets that implicate size of the banks.

As shown in Table 4.1 above, the independent variable bank age has a mean value of 14.8 and standard deviation of 6.15. The mean value implies that the sampled private banks have average age of 15 years. On the other hand, the sampled private banks have the minimum and maximum value of 2 and 26 indicate that from the sampled private banks there is a private bank with minimum 3 years of incorporation at the time of the starting of the sample period and there is a private bank from the sampled banks with a maximum 26 years of operation.

The auditor change shows the change of an audit firm for a given bank in a given year while providing external audit service. The mean of this variable for the selected private banks stands at 0.21 which implies that the average period of a given bank changes its audit firm. The minimum and maximum value for the variable is 0 and 1 respectively with a standard deviation of 40.94. The minimum value implies that there is a private bank which did not change an audit firm within the study period and the maximum value indicates that there is a private bank which changed its audit firm within the study period.

Another explanatory variable of the study IFRS adoption shows the adoption of IFRS for a given bank in a given year. The mean of this variable for the selected private banks stands at 0.25 which implies that the average period of a given bank changes their reporting from local GAAP to IFRS. The minimum and maximum value for the variable is 0 and 1 respectively with a standard deviation of 43.5% The minimum value implies that they were not adopted IFRS for past 7.5/ 8/ years within the study period and the maximum value indicates that last 2.5 /3/ years all banks adopted IFRS which can enhance the financial reporting quality.

4.1.2 Correlation Analysis

The purpose of correlation matrix in this particular study was to show the linear association between the dependent and independent variables. As noted in Brooks (2008), correlation between two variables measures the degree of linear association between them. Values of the correlation coefficient are always range between positive one and negative one.

A correlation coefficient of positive one indicates that a perfect positive association between the two variables; while a correlation coefficient of negative one indicates that a perfect negative association between the two variables. A correlation coefficient of zero, on the other hand, indicates that there is no linear relationship between the two variables.

Table 4.2 Correlation matrix of dependent and independent variables

Correlation	FRQ	ROA	LIQ	LEV	NPL	BAGE	BSIZE	AUDCH	IFRS ADOP
FRQ	1								
ROA	-0.389	1							
LIQ	0.421	-0.228	1						
LEV	0.177	-0.403	0.00396	1					
NPL	0.252	-0.158	0.26257	-0.0582	1				
BAGE	0.374	-0.349	0.29015	0.34382	0.26271	1			
BSIZE	0.452	-0.455	0.42506	0.55667	0.2275	0.89621	1		
AUDCH	0.091	-0.022	-0.0392	-0.064	-0.0988	0.07702	0.06017	1	
IFRSADOP	0.629	-0.374	0.243	0.20005	0.08729	0.36978	0.44313	0.21262	1

Source: E-view output

Table 4.2 shows the degree of correlation/association between the dependent, financial reporting quality and the eight independent variables.

Among the variables IFRS adoption has a strong positive relationship with FRQ with a coefficient value of 0.63. IFRS adoptions have a positive impact on financial reporting quality by providing additional information to users and lead to make informed decision. Bank size has the next strong relationship with financial reporting quality with a coefficient value of 0.45. Meaning that bank size has a positive association of 0.45 with FRQ therefore an increase in bank size will increase FRQ. Liquidity has a positive relationship with financial reporting quality with the coefficient value of 0.42 which is the third strong association. An increase in liquidity will lead to an increase in FRQ. Profitability has a negative relationship with financial reporting quality with the coefficient value of -0.39 meaning that an increase in profitability will lead to decrease financial reporting quality. Bank age & nonperforming loan have a positive relationship with financial reporting quality with a coefficient value of 0.37 and 0.25 respectively. Leverage and auditor change have also a positive relationship with financial reporting quality with a coefficient value of .18 and 0.09 respectively. Since those independent variable associations with FRQ is positive they increase and decrease to similar direction.

Among the independent variables, as exhibited in table 4.2, almost all the variables correlated with financial reporting quality except profitability with the coefficient of -0.39.

4.2. Tests for the Classical Linear Regression Model (CLRM) Assumptions

In this study as mentioned in chapter three diagnostic tests were carried out to ensure that the data fits the basic assumptions of classical linear regression model. Consequently, the results for the model assumption tests are presented as follows:

4.2.1 Assumption one: The errors have zero mean ($\epsilon = 0$)

According to Brooks (2008), if a constant term is included in the regression equation, this assumption will never be violated. Thus, since the regression model used in this study included a constant term, this assumption is not violated.

4.2.2 Assumption two: Test for Homoscedasticity

The assumption of homoscedasticity is that the residuals are approximately equal for all predicted dependent variable scores the variance of the errors is constant, if the assumption are met the pattern of the residuals will have about the same spread on either side of a horizontal line drawn through the average residual (Wooldridge, 2006). Otherwise if the errors do not have a constant variance, it is said that the assumption of homoscedasticity has been violated. This violation is termed as heteroscedasticity. In this study white test was used to test for existence of heteroscedasticity across the range of explanatory variables.

Table 4.3 : Heteroskedasticity Test: White

F-statistic	0.71478	Prob. F(8,91)	0.6779
Obs*R-squared	5.91227	Prob. Chi-Square(8)	0.6571
Scaled explained SS	8.55867	Prob. Chi-Square(8)	0.3809

Source: E-view output

The result in table 4.3 shows, the F-stat, X2, and scaled explained SS versions of the test statistic give the same conclusion that reveals the absence of heteroscedasticity, because the p-values are greater than 0.05.

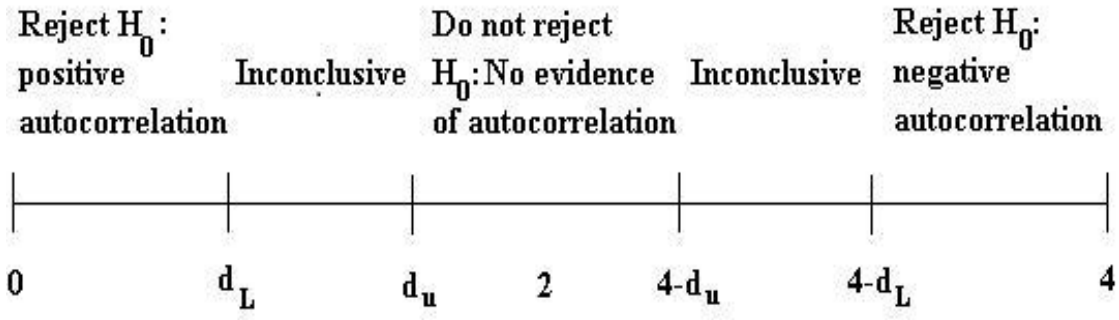
4.2.3 Assumption three: Tests of Autocorrelation

This assumption indicates that the covariance between the error terms over time is zero; it assumed that the errors are uncorrelated with one another. If the errors are not

uncorrelated with one another, it would be stated that they are serially correlated. Usually, Durbin-Watson (DW) value in the main regression table is considered and used to test the presence of autocorrelation.

According to (Brooks, 2008), DW has two critical values: an upper critical value (dU) and a lower critical value (dL), and there is also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected.

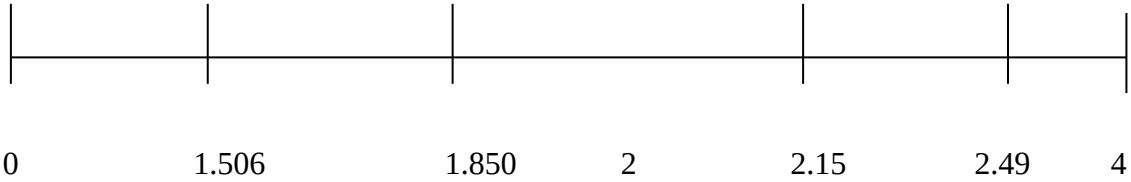
Figure 4.1 Rejection and Non-Rejection Regions for DW Test



The rejection, non-rejection, and inconclusive regions are shown on the number line in figure 4.1. So, the null hypothesis is rejected and the existence of positive autocorrelation presumed if DW is less than the lower critical value; the null hypothesis is rejected and the existence of negative autocorrelation presumed if DW is greater than 4 minus the lower critical value; the null hypothesis is not rejected and no significant residual autocorrelation is presumed if DW is between the upper and 4 minus the upper limits; the null hypothesis is neither rejected nor not rejected if DW is between the lower and the upper limits, and between 4 minus the upper and 4 minus the lower limits.

This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). If the errors are correlated with one another, it would be stated that they are auto correlated. The DW test statistic value from the regression result is 2.48. There are 100 yearly observations in the regression and 8 regressors. According to DW statistics table, the relevant critical values for the test at 5% significance level were dL, dU, 4-dU and 4-dL at N 100, and K 8 for this study is presented graphically below in Figure 4.2.

Figure 4.2: DW Test Result



The Durbin-Watson test statistic value is 2.48. With 100 number of observations and 8 explanatory variables excluding the constant term, the relevant lower and upper critical values for the test are dL=1.506, dU=1.850, 4 - dU = 4-1.85=2.15 and 4 – DL= 4-1.506= 2.494, respectively. Thus the Durbin-Watson test statistic value of 2.48 is clearly between4 - dU& 4-dL reign which indicating that the null hypothesis of no autocorrelation is within the inconclusive region. Therefore, there is no significance evidence for the existence of autocorrelation in the study. Thus the null hypothesis is neither rejected nor not rejected.

4.2.4 Assumption Four: Test for Multicollinearity

This assumption of multicollinearity is that explanatory variables are not correlated with one another. But, if the variables are not uncorrelated with one another, it will be the violation of the CLRM assumption of multicollinearity. To test the independence of the explanatory variables or to detect any multicollinearity problem in the regression model the study used a correlation matrix of independent variables. The problem of multicollinearity usually arises when certain explanatory variables are highly correlated. Malhotra, (2007) stated that multicollinearity problems exists when the correlation coefficient among variables are greater than 0.75. Table 4.4 of correlation matrix has shown that the correlations among the independent variables are well below 0.75. Therefore, the risk of multicollinearity will not affect our regression analysis.

Table 4.4: Correlation Matrix between independent variables

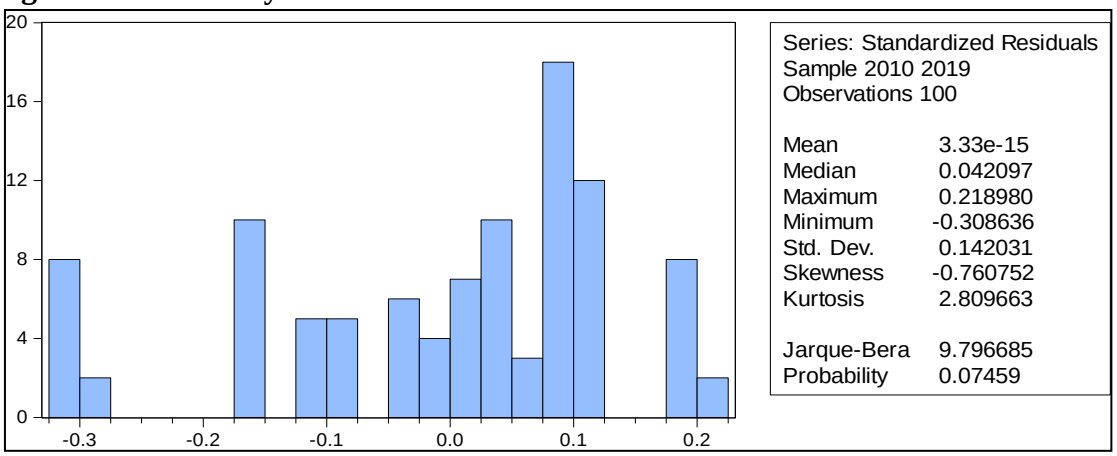
Correlation	ROA	LIQ	LEV	NPL	BAGE	BSIZE	AUDCH	IFRS ADOP
ROA	1.000000							
LIQ	-0.228218	1.000000						
LEV	-0.403565	0.003962	1.000000					
NPL	-0.158621	0.262573	-0.058209	1.000000				
BAGE	-0.349905	0.290148	0.343824	0.262707	1.000000			
BSIZE	-0.455928	0.425056	0.556667	0.227501	0.726212	1.000000		
AUDCH	-0.022874	-0.039169	-0.063983	-0.098771	0.077018	0.060170	1.000000	
IFRSADOP	-0.374525	0.243001	0.200051	0.087293	0.369778	0.443128	0.212622	1.000000

Source: E-view output

4.2.5 Assumption Five: Test for Normality

According to Brooks (2008), if the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be greater than 0.05 to support the null hypothesis that the distribution is normal at the 5% significance level.

Figure 4.3 Normality test



Source: E-view output

The normality tests for this study as shown in figure 4.3, the coefficient of kurtosis is close to 3, skewness is close to zero and the Bera-Jarque figure is not significant and the P-value is 7.5%, which is greater than 5% implying that the data were consistent with a normal distribution assumption.

4.3.1. Model Selection Test: Random Verses Fixed Effect Model

The results so far indicated that all CLRM assumptions are not violated, so the ordinary least square regression can be safely applied. However, In order to achieve the objective of the study the researcher-employed panel Data model. As far as the Data is concerned, comprising both time series and cross-sectional elements panel model is appropriate. In order, achieve the objective of the study the researcher-employed panel Data model. The choice of this methods are comparing time series and cross-sectional units and by using Hausman specification test. As noted by Gujarati (2004) if T (the number of time series data) is large and N (the number of cross-sectional units) is small, there is likely to be little difference in the values of the parameters estimated by fixed effect model and random effect model.

The best alternative to make a choice between fixed effects and random effects model is conducting Hausman specification test. In this study the Hausman specification tests is utilized to decide which model is appropriate to fit the sample data. Hausman specification test is the classical test of whether the fixed or random effects model should have used. Running a Hausman specification test at five percent level enables the researcher to choose between fixed effects and random effects models (Hausman, 1978). The hypothesis for Hausman specification test is:

H0: Random- effect model is more appropriate
H1: Fixed-effect model is more appropriate

Decision rule: if the P-value from the Hausman test is statistically significant (less than five percent) the fixed-effect model is preferred in favor of random effect, otherwise the random effect model is selected.

The result from Hausman test in table 4.5 allow as to not reject the null hypothesis that random model is better in this regression analysis. This implies that a random effect model is more appropriate than fixed effect model to undertake the panel regression estimation for this study.

Table 4.5: Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	0	8	1

Source: E-views output

4.3.2. Regression Results

This section presents the regression result of random effect model used to examine the determinants of financial reporting quality decisions of the private commercial banks in Ethiopia Accordingly, the regression result was done and coefficients of the variables were estimated via EVIEWS 8 software.

Accordingly, table 4.6 below presents the result of Random Effect Regression model made to examine the impact of explanatory variables on FRQ of private Commercial banks in Ethiopia. Financial reporting quality (FRQ) is dependent variable whereas Profitability, liquidity, leverage, Nonperforming loan, Bank size, Bank age, Auditor change and IFRS Adoption are explanatory variables. Thus, the regression result in the following table demonstrates both coefficients of explanatory variables and corresponding p-values as follows:

Table 4.6 Results of Random effect regression model

Dependent Variable: FRQ
Method: Panel Least Squares
Date: 12/05/20 Time: 03:57
Sample: 2010 2019
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	-55.48197	6.908706	-8.030733	0.0000
ROA	-60.07194	7.656844	-7.845522	0.0000
LIQ	6.813285	1.460920	4.663696	0.0000
LEV	-7.414567	2.227269	-3.328996	0.0013
BSIZE	3.003382	0.395244	7.598815	0.0000
BAGE	-0.741968	0.107009	-6.933682	0.0000
NPL	-2.16E-08	2.88E-09	-7.517145	0.0000
AUDCH	-0.024087	0.039075	-0.616426	0.5392
IFRSADOP	0.879155	0.097247	9.040404	0.0000

R-squared	0.904900	Mean dependent var	0.300000
Adjusted R-squared	0.896539	S.D. dependent var	0.460566
S.E. of regression	0.148142	Akaike info criterion	-0.895595
Sum squared resid	1.997104	Schwarz criterion	-0.661130
Log likelihood	53.77975	Hannan-Quinn criter.	-0.800703
F-statistic	108.2357	Durbin-Watson stat	2.489397
Prob(F-statistic)	0.000000		

Source: E-views output

The estimation result of the operational panel regression model used in this study is presented in table 4.6. From the table, the R-squared statistics and the adjusted-R squared statistics of the model are 90.5% and 89.7% respectively. The result indicates that the changes in the independent variables explain 90% of the changes in the dependent variable. Profitability (ROA), liquidity, leverage, Nonperforming loan (NPL), Bank size, Bank age, Auditor change and IFRS Adoption collectively explain 90% of the changes in financial reporting quality. The remaining 10% of changes was explained by other factors which are not included in the model. Thus these variables collectively, are good explanatory variables of the financial reporting quality of private commercial banks in Ethiopia. The null hypothesis of F-statistic (the overall test of significance) that the R^2 is equal to zero was rejected at 1% as the p-value was sufficiently low. F value of 0.000 indicates strong statistical significance, which enhanced the reliability and validity of the model.

Based on the result, all bank-specific independent variables except Auditor change have statistically significant impact on financial reporting quality at 1% significance level since the p-value for thus variables were 0.000 and 0.0013. Finally Auditor change was not significant determinant of financial reporting quality of commercial banks in Ethiopia.

The regression result also shows that the coefficient of, liquidity, bank size & IFRS adoption have positive relationship with financial reporting quality with coefficients 6.81, 3.00 and 0.879 respectively. This shows that there was a direct relationship between these three independent variables and financial reporting quality of private commercial banks of Ethiopia.

On the other hand, Profitability (ROA), leverage, Nonperforming loan (NPL), Bank age, Auditor change have negative relationship with financial reporting quality with their respective coefficients -60.07,-7.41,-0.74,-2.16 and -0.02 respectively. This indicates that there was an inverse relationship between these five independent variables and financial reporting quality.

4.4 Discussion of the results

Based on previous studies and the finding of this study, this section discusses the general result obtained via Random Effect Regression Model as shown in table 4.6. Referring the literature, the result of each explanatory variable including their influence on the level of financial reporting quality of commercial banks in Ethiopia was discussed. Thus, result of the finding is discussed in relation to the previous empirical and theoretical evidences. Since the main objective of this study was to examine the determinants of financial reporting qulity in private commercial banks of Ethiopia based on panel data analysis on the time period from 2010 to 2019. The data was analyzed by using Random Effect Model.

Determinants of financial reporting quality

Taking into consideration that the basic aim of this study, to examine the determinants of financial reporting quality of private commercial banks in Ethiopia, the estimation results of Random Effect Model that presents the impact of explanatory variables on financial reporting quality is discussed as follows:

4.4.1Leverage and financial reporting quality

Ho1: There is a positive relationship between leverage and FRQ in Ethiopia banks

The regression result of a random effect model is inconsistent with the hypothesis developed by the researcher. The study hypothesized that there is a positive association between debt to asset ratio or leverage and financial reporting quality of private commercial banks. Contrary to the hypothesis, the estimated coefficients and test statistics of leverage (LEV) were -7.414 and -3.328 respectively. This shows that leverage has negative and statistically significant at 1% level of significance on the amount of financial reporting quality and implies that for a unit change in banks leverage measured in terms of debt to asset, keeping the other thing constant had resulted 7.414 unit changes on the financial reporting quality in the opposite direction. Therefore, this data supports to reject the null hypothesis and to accept the alternative hypothesis that there is not relationship between leverage and financial reporting quality, which is negatively and statistically significant at 1% significance level.

The empirical evidence regarding the relationship of leverage with financial reporting quality is mixed, findings like; a study by Camfferman & Cooke (2002), Ali, Ahmed & Henry(2004), AlSaeed, (2006) and Fathi ,(2013) have revealed that financial leverage as represented by the ratio of long term debt to long term finance has no significant impact on financial reporting quality. On the other hand thus, companies with higher financial leverage are likely subjected to more agency costs; hence, it may presume that there is a direct association between financial leverage and FRQ (Murcia, 2010).

Therefore the existence of Negative and significant association of leverage and FRQ in the banking sector of Ethiopia indicates that banks with higher financial leverage ratio not provide higher quality of financial reporting in order to hide some information to the various stakeholders.

4.4.2. Profitability and financial reporting quality

Ho2: There is a positive relationship between profitability and FRQ in Ethiopia banks.

The regression result of a random effect model in the above table 4.6 is inconsistent with the hypothesis developed by the researcher. The study hypothesized that there is a relation between ROA and financial reporting quality of private commercial banks. Contrary to the hypothesis, the estimated coefficients and test statistics of ROA was -60.072 and -7.846 respectively. This shows that there is negative and statistically significant impact of ROA on the financial reporting quality and implies that for a unit change in banks profitability measured in terms of ROA, keeping the other thing constant had resulted -60.072 unit changes on the financial reporting quality in the opposite direction. Therefore, this data shows to reject the null hypothesis and to accept the alternative hypothesis that there is negative relationship between leverage and financial reporting quality, which is statistically significant at 1% significance level.

The empirical evidence regarding the company's profitability showed mixed evidence on its association with FRQ. Camfferman & Cooke, 2002), (Vandemele et al., 2009), (Monday and Nancy, 2016) & (Ebrahimabadi & Asadi, 2016) concluded that there's a negative relation between profitability and quality of the knowledge disclosure. (Eden, 2017) also found profitability had statistically significant negative effect on FRQ. Conversely, the quality of information is more for a firm with a higher performance. This result indicated that profitable companies have growth opportunities they may disclose better information to show the reliability of their earnings and the projects that they presume to attain; this will spread their reputations and keep away from under-estimation of their actions (Fathi, 2013)

This finding can be explained by the fact that competitive costs of disclosure increase when the firm is highly profitable; thus, companies do not want to utilize their advantage to competitors and therefore the quality of information disclosed could decrease (Prencipe, 2004).

4.4.3. Liquidity and financial reporting quality

Ho3: There is a positive relationship between Liquidity and FRQ in Ethiopia banks.

The relationship between liquidity and financial reporting quality as shown in the regression result of a random effect model in the above table 4.6 as expected, the coefficient of liquidity has a positive sign and is highly significant at 1%. The study hypothesized that there is a relation between liquidity and financial reporting quality of private commercial banks. As per the hypothesis, the estimated coefficients and test statistics of ROA was 6.813 and 4.664 respectively. This shows that there is positive and statistically significant impact of liquidity on the financial reporting quality and implies that for a unit change in banks liquidity measured in terms of loan to deposit ratio, keeping the other thing constant had resulted 6.813 unit changes on the financial reporting quality in the similar direction. Therefore, this data shows to accept the null hypothesis.

Overall, the empirical evidence suggests that disclosures and accounting information of higher quality are related to improved liquidity. This variable, which is widely associated with the accounting result, allows companies to enjoy a higher liquidity when better financial performance is achieved. Signaling theory suggests that when a corporation's performance is good, managers will signal companies' performance to their investors, stakeholders and the market by making disclosures that poorer companies cannot make. By enhancing disclosures, directors wish to receive more benefits: a better reputation and the firm's value will increase (Abdulla, 2011). In contrast, firms with poor performance may choose to keep silent rather than reveal unflavored performance. However, investors may misinterpret this silence as withholding the worst possible information (Verrecchia, 1983).

4.4.4. Non- performing loan and financial reporting quality

Ho4 Non-performing loan has a negative and significant effect on financial reporting quality.

The regression result in this study is consistent with the hypothesis developed by the researcher. The study hypothesized that there is a no inverse & significant relationship between nonperforming loan (NPL) and financial reporting quality of private commercial banks in Ethiopia. Just like the hypothesis, the estimated coefficients and test statistics of NPL were -2.16and -7.517 respectively. This shows a negative and statistically significant at 1% level of significance impact of NPL on the financial reporting quality. It implies that for a unit change in banks NPL, keeping all other things constant has resulted 2.16 unit changes on the financial reporting quality in the opposite direction. Therefore, this data supports to not reject the null hypothesis since there is a significant negative relationship between NPL and FRQ, at 1% significance level.

This result supports the findings of Luizis et al., (2012) who found a negative relationship between profitability and non-performing loans for the Greek banking system. This implies that when non-performing loan is low bank performance will increase and vice versa. According to signaling theory bank's top management may be tempted to manipulate financial statements in order to project a positive image of the company to principals. (Eden, 2017) also found significant negative relationship on her research.

This leads to a conclusion that when a banks' performance is bad which means when non-performing loan is high, bank managers may be tempted to manipulate financial reports produced that leads to low financial reporting quality. This leads the researcher to assume that quality of financial reporting increases when the company has an improved nonperforming loan.

4.4.5. Bank size and financial reporting quality

Ho5: There is a positive relationship between bank size and FRQ in Ethiopia banks

Bank size (BSIZE) is measured as the natural logarithm of total assets for the study. The null hypothesis was there is a positive relationship between the size of banks and financial reporting quality in private commercial banks of Ethiopia; therefore, the null hypothesis is not rejected based on the regression result of a random effect model. The result shows similarity to the hypothesis; the estimated coefficients and test statistics of bank size (BSIZE) were 3.003 and 7.599 respectively. This shows that there is a positive and statistically significant at 1% significance of (BSIZE) on the financial reporting quality. It implies, keeping all other things constant that for a unit change in banks size measured in terms of natural logarithms of total assets has resulted 3 unit changes on the financial reporting quality in the same direction. Therefore, the data supports to not reject the null hypothesis since there is a relationship between bank size and financial reporting quality, which is positively and statistically significant at 1% level**.**

This result supports the findings of Naser & Al-Khatib, (2000), Street & Bryant, (2000), Alsaeed, (2006), Mangena &Tauringana, (2007), Haji & Ghazali, (2013), Agyei, (2013), Ebrahimabadi & Asadi(2016) and Monday & Nancy, (2016) found a significant positive relation between firm size and FRQ. This result demonstrated that big companies have more propensities to disclose more high quality information because they are more under scrutiny (Uyar *et al.*, 2013).

Signaling theory argues that directors who believe their bank size better than other companies will want to signal this to shareholders in order to attract more investments. Directors may do this in a sort of disclosure in excess of any information that is required by regulations.

4.4.6. Bank age and financial reporting quality.

Ho6: Bank age has a positive and significant effect on financial reporting quality.

The regression result does not support the hypothesis developed by the researcher. The study hypothesized that there is a significant relation between bank age (BAGE) and financial reporting quality of private commercial banks. Contrary to the hypothesis, the estimated coefficients and test statistics of bank age (BAGE) were -0.742 and -6.933 respectively. This shows that, there is a negative and statistically high significant at 1% significance level of BAGE on the financial reporting quality. It implies that for unit a change in banks age, keeping all other things constant has resulted 0.742 unit changes on the financial reporting quality in the opposite direction. Therefore, this data supports to reject the null hypothesis since there is a significant negative relationship between BAGE and FRQ, which is statistically significant at 1%.

The result is in line with Dechow, (1994), Gu, et al.,(2002). The Bank age influenced negatively and significantly toward financial reporting quality because the older company will decrease discretions in the financial reporting quality beside that the lower their accrual variability but not agreed with (pagalund, 2006.)

4.4.7. Auditor change and financial reporting quality.

Ho7: Auditor change has a negative and significant effect on financial reporting quality.

The coefficient of the Auditor change (AUDCH) variable has the negative as expected sign but it is insignificant (54%). This demonstrates that auditor change does not affect the quality of financial reporting. Therefore, null hypothesis is rejected.

This result is not in line with the findings of Dabor & Ibadin, (2013) change in auditor will increase abnormal accruals. This implies that a change in auditor will aggravate earnings management. This suggests that a change in auditor should constrain fraudulent financial reporting. The thinking is that a change in auditor will improve audit quality as it removes the familiarity thrust threat. On the other side of the

divide, the argument is that a change in auditor will imply learning by the new auditor and therefore provides opportunity for management to engage in earnings management because of the ignorance of the new auditor. Hence, management may be able to manipulate accounting numbers when switching between auditors Nelson et al., (2002); Kim and Kross, (1998). Dabor and Ibadin (2013) found a positive relationship between auditor change and earnings management.

4.4.8. IFRS adoption and financial reporting quality

Ho8: IFRS adoption has a Positive effect on financial reporting quality

The relationship between IFRS adoption (IFRSADOP) and financial reporting quality as shown in the regression result of a random effect model in the above table 4.6 as expected, the coefficient of liquidity has a positive sign and is highly significant at 1%. The study hypothesized that there is a relation between IFRS adoption and financial reporting quality of private commercial banks. As per the hypothesis, the estimated coefficients and test statistics of IFRS adoption was 0.879 and 9.04 respectively. This shows that there is positive and statistically significant impact of IFRS adoption on the financial reporting quality and implies that for a unit change in banks IFRS adoption keeping the other thing constant had resulted 0.879 unit changes on the financial reporting quality in the similar direction. Therefore, this data shows to accept the null hypothesis.

This result supports the findings of empirical evidence Arum, (2010); Chebaane & Othman, (2013); Yurt & Ergun, (2015). IFRS consist of a set of high-quality accounting standards that provides transparent, comparable and understandable financial reports to users in making economic decisions (Accounting quality shows how much information disclosed in the financial statement reflect the true and fair position/performance of the firms. In contrary to this such as Germany by Paananen and Lin (2008), Clarkson et al. (2009), Houque et al. (2010) and many others where they all reported that IFRS adoption does not necessarily lead to improved quality in financial reporting. Paananen. (2008) in a similar study in Sweden stated that IFRS adoption did not improve the quality of accounting in Sweden and went on to advise that it is dangerous to draw conclusions on using this kind of measures. These results

should therefore be seen as part of the evidence vetting IFRS. Notwithstanding the mixed outcome, these results can also be used to explain that accounting quality can improve from IFRS adoption rather than changes in managerial incentives.

4.6 Summary of the analysis

Table4.7: Comparison of the Test Result with the Hypothesis.

Hypothesis	Independent Variable	Expected Result	Actual result	Status
Hypothesis 1	leverage	+ Significant	-Significant	reject
Hypothesis 2	Profitability/ROA/	+ Significant	-Significant	reject
Hypothesis 3	Liquidity	+ Significant	+ Significant	Not reject
Hypothesis 4	Nonperforming Loan/NPL/	- Significant	- Significant	Not reject
Hypothesis 5	Bank Size	+ Significant	+Significant	Not reject
Hypothesis 6	Bank Age	+ Significant	-Significant	reject
Hypothesis 7	Auditor Change	- Significant	- Insignificant	reject
Hypothesis 8	IFRS Adoption	+ Significant	+ Significant	Not reject

CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

Introduction

The preceding chapter presented the results and discussion, while this chapter deals with conclusions and recommendations based on the findings of the study. Accordingly this chapter is organized into two subsections. Section 5.1 presents the conclusions and section 5.2 presents the recommendations.

5. 1. Conclusions

The main aim of financial accounting is to provide financial information for interested user thus interested user might be potential investor, government, policy maker, shareholders, etc. Based on financial reporting all internal & external users of financial information will make various decisions. The main difficulty of this process is the quality of financial reporting; since there are various interests the financial report may have manipulation and mislead the users of financial information to the wrong decision. In order to avoid this problem financial reporting should keep its quality. Comprehensive assessment of the quality of financial reports is vital as it may enhance users' quality of economic decision making and improve overall market efficiency, thereby decreasing the cost of capital.

The objective of this study to identify the determinants of financial reporting quality since it's not well studied topic in developing countries especially in Ethiopia. The basic question is can we measure financial reporting quality and identify its determinants. Various researches has attempted to identify these factors; however, the findings of prior empirical studies have provided varying evidence related to the impact of these factors on financial reporting quality .By having the objective of examining the relationship between financial reporting and firms specific determinants of financial reporting quality in Ethiopian private banks. To achieve the intended objective, the

study used quantitative research method. The quantitative data were collected through survey of document reviews from a sample of ten private banks over the time period from 2010-2019. The collected data were analyzed by employing panel least square using statistical package EViews8.

In order to conduct the empirical analysis, one dependent variable (FRQ), and eight independent variables were selected from prominent previous research works on financial reporting quality; namely; Leverage, Profitability, Liquidity, Nonperforming loan, Bank Size, Bank age, Auditor Change, IFRS Adoption. The results of the random effect model showed the existence of the following relationship between FRQ and independent variables;

Leverage had statistically significant negative effect on FRQ, which was not in line with prior expectation. The finding is inconsistent with agency theory that a company with a higher debt ratio has an incentive to disclose more information. Similarly, profitability had statistically significant negative effect on FRQ, which was not in line with prior expectation and inconsistent with the signaling theory.

Regarding the effect of liquidity on the financial reporting quality of private banks in this study, the result shows that there was positive and statistically significant relationship with FRQ, which is in line with signaling theory and in line with prior expectation. Besides, the results of different studies indicated that liquidity had statistically significant and positive effect on FRQ.

The relationship between non- performing loan and financial reporting quality in Ethiopian private banks is negative and statistically significant. This result is also consistent and in line with prior expectation and other studies which revealed significant impact.

Bank size had a positive relationship with financial reporting quality, and statistically significant. This result is consistent with prior expectation and signaling theory. The relationship between financial reporting quality and bank age are negative and statistically significant in private banks of Ethiopia.

The relationship between financial reporting quality and IFRS adoption is positive and statistically significant in private banks of Ethiopia. This result was also consistent with prior expectation. The results of the random effect model showed the there is no significant effect on auditor change and financial reporting quality.

In conclusion, the finding of the study suggests that liquidity, bank size and IFRS adoption positively affect Ethiopian banks' financial reporting quality. However, Leverage, Profitability, Non-performing loan and Bank age negatively affect financial reporting quality of Ethiopian private banks. But auditor change had no effect on financial reporting quality of private banks in
Ethiopia.

5.2. Recommendations

Numerous advantages of providing high quality information have been obtained: FRQ reduces information risk and prevents managers from using discretionary powers for their own benefit and helps them make efficient investment decisions. Based on empirical evidence the quality of accounting information of Ethiopian private banks can be influence by liquidity, bank size and IFRS adoption positively and leverage, profitability, nonperforming loan and bank age negatively. Thus, these determinants should be given more attention by Ethiopian private banks. The following recommendations are made based on results of this study.

- Leverage has a significant negative effect on the financial reporting quality of Ethiopian private banks. The study therefore recommends that the banks will increase their leverage levels, since their major portion of total asset obtained from deposit which is liability; at the same time they are enjoying the benefits of debt financing such as tax shield, but thus benefits should not obtained by the expense of financial reporting quality and they have to provide sufficient financial information to the users in order to make informed decision.

- As we know liquidity is the main variable in banking industry so as to that more liquid banks show their good signal by providing more disclosure because of

this and other reasons liquidity positively affects the financial reporting quality of private banks in Ethiopia, therefore it is recommended that private banks to keep their good liquidity position by facilitating various encouragements and modernized their system in order to motivate depositors. A good liquidity position should be maintained as it has been found not only to preserve the going concern of the bank but also a strong feature for enhancing the quality of financial reporting

- As per obtained result highly profitable banks may have lower quality financial reports than lower performing banks. Because of increased incentives to minimize earning for tax avoidance purpose and to pay fewer dividends to their shareholders since this kind of manipulation reduce their liquidity problem. This information asymmetry between management, Investors, regulatory agencies, society and other stakeholders leads to low financial reporting quality of the banks. It is therefore recommended that auditors, analysts and regulators should consider intensive investigation on the financial information conveyed by low performing private banks. NBE should also set defined accounting standards in the Commercial Code in order to prevent manipulation of accounting figures by managers.

- Non-performing loans have a significant negative effect on the financial reporting quality of Ethiopian private banks. A high rate of NPLs problem not affects FRQ only it also worsens market confidence and slow economic growth. Therefore it's suggested that strengthening key aspects of the bank's lending procedures and developing a standardized recovery methodology. In addition a bank with limited experience in effectively minimizing NPLs should develop the specialized expertise needed to administer the problem loans & NPLs. In addition to that using robust internal risk rating model and to try to put all low rated loans on declining exposure. Getting aggressive on collections also be considered as few of minimizing NPL techniques.

- This study implies that large banks tend to produce high quality financial reports since they are well organized and vice versa therefore small banks should have to regulate to produce their financial reporting by setting standards

in which they have to address the listed information on their financial reports. Furthermore, banks should have a well-structured and strong internal control as soon as they start operation in order to maintain the quality of their financial reports.

- The bank age influenced negatively and significantly toward financial reporting quality because the older company will decrease discretion in the financial reporting quality beside that the lower their accrual variability. In order to avoid these problem commercial banks should consistently apply providing relevant information to interested users.

- IFRS Adoption has significant positive effect on financial reporting quality of private commercial banks in Ethiopia. Since it require adequate disclosure in financial reporting almost all sampled banks financial report provide sufficient information to users of financial reporting. Therefore it has to be encouraged and consistently follow-up should be made in order to get advantages of adopting IFRS. It meant that when the financial report was high quality then the imbalance information between management as information provider and shareholders and stakeholders in general as the information user will decrease.

Suggestions for further research

Since limited studies conducted about Ethiopian private banks financial reporting quality; it is suggested that further similar study be conducted covering other firm specific and macroeconomic factors. Due to resource and time limitation, this study examined only firm specific determinants of financial reporting quality of private banks in Ethiopia. Therefore, future researchers may address these deficiencies conducting more qualitative and quantitative investigation of each bank.

REFERENCE

Abdul Majid, N.H. & Ismail, A.G. 2008. Determinants of Disclosure Quality in Islamic Banks.Working Paper, Islamic Economics and Finance No. 0803 - University Kebangsaan Malaysia, 1-14.

Aerts, W & Cormier, D 2009, 'Media legitimacy and corporate environmental communication,Accounting, Organizations and Society, 34, 1–27.

Agyei-Mensah, B.K. 2013.Adoption of International Financial Reporting Standards (IFRS) in Ghana and the Quality of Financial Statement Disclosures. International Journal of Accounting and Financial Reporting, 3(2), 269-286.

Al-Asiry, M. 2017. Determinants of Quality of Corporate Voluntary Disclosure in Emerging Countries: A Cross National Study. Doctoral Thesis- University of Southampton, 1-215.

Ali, A., Chen, T., & Radhakrishnan, S. (2007). Corporate Disclosures by Family Firms. Journal of Accounting and Economics, 44 (1-2) (September), 238-286.

Alsaeed, K. 2006. The Association between Firm-Specific Characteristics and Disclosure: The Case of Saudi Arabia. Managerial Auditing Journal, 21(5), 476-496. and Economics, 12: 365-80.

Atanasko. A, 2014: Determinants of financial reporting quality for listed entities in Macedonia CEA Journal of Economics,23-37Banking and Management, Vol. 1, No. 6, November 2013, P: 47 – 63.

Beest, F., Braam, G., &Boelens, S. (2009). Quality of Financial Reporting: Measuring qualitative characteristics. NICE.

Belkaoui, A. (2004), Accounting Theory. Jakarta: SalembaEmpat.

Biddle, Hilary, Rodrigo, S. & Verdi, C. (2009). How does financial reporting quality relate to Investment efficiency? Journal of Accounting and Economics, 48, 112-131; Business Research, 18 (Winter): 47-56.

Bushman, R.M., Piotroski, J., & Smith, A. (2004). What determines corporate transparency? Journal of Accounting Research, 42 (20), 207-252.

Camfferman, K. & Cooke, T. 2002.An Analysis of Disclosure in the Annual Reports of UK and Dutch Companies. Journal of International Accounting, 1(1), 1-28.

Chalmers, K., & Godfrey, J. M. (2004). Reputation costs: the impetus for voluntary derivative financial instrument reporting. Accounting, Organizations & Society, 29(2), 95. doi:10.1016/S0361-3682(02)00034-X

Chan-Jane, L., Tawei, W. &Chae-Jung, P. (2015).Financial reporting quality and investment decisions for family firms. Asia Pacific Journal of Management, 1-34.

Cheung, E., Evans, E., & Wright, S. (2010). An historical review of quality in financial reporting in Australia. Pacific Accounting Review, (0114-0582).

Cohen, D.A.2003: Quality of Financial reporting choice: determinants & Economic Consequences. Working paper Northewesternuniversity Collins. consumer loan portfolios. Journal of banking and finance. 36(4), 1012-1027.

Cooke, T. E. (1989). Voluntary Corporate Disclosure by Swedish Companies. Journal of International Financial Management & Accounting, 1(2), 171–195.

Daniel A.& Cohen, 2003. Quality of Financial Reporting Choice: Determinants and Economic Consequences Northwestern University

Dedman, E., Lin Stephen, W.J., Arun, P. &Hao, C.C. 2008. Voluntary Disclosure and Its Impact on Share Prices: Evidence from the UK Biotechnology Sector. Journal of Accounting and Public Policy, 27(3), 195-216.

Deegan, C., 2002 'The legitimising effect of social and environmental disclosures –a theoretical foundation', Accounting, Auditing & Accountability Journal, 15(3), 282-311.

Denisova, P.I., Rukina, N.S., Samoylova, N.K., Takmazyan, S.A. 2017.Financial Instruments of the Socially Responsible Economy. European Research Studies Journal, 20(1), 284-293.

Deumes, R. &Knechel, W.R. 2008.Economic Incentives for Voluntary Reporting on Internal Risk Management and Control Systems.Auditing: A Journal of Practice and Theory, 27(1), 35-66.

Ebrahimabadi, Z. &Asadi, A. 2016.The Study of Relationship between Corporate Characteristics & Voluntary Disclosure in Tehran Stock Exchange. International Business Management, 10(7), 1170-1176.

Eden S., (2017) Determinants of Financial Reporting Quality: Evidence from Ethiopian private banks. Addis Ababa University.

Elshandidy, T., Fraser, I. and Hussainey, K. 2011.Aggregated, Voluntary and Mandatory Risk Disclosures Incentives: Evidence from UK FTSE All Share Companies. International Review of Financial Analysis, 30, 320-333.

Evada D,H& H, 2016 :determinants of FRQ and its implications on the financial performance of state owned enterprises; Risk governance & control: financial markets & institutions / Volume 6, Issue 4, Fall 2016 Special issue "Macroeconomic Risks and State Governance"

Fathi, J., 2013. The Determinants of the Quality of Financial Information Disclosed by French Listed Companies. Mediterranean Journal of Social Sciences, 4(2), 319-336.

Ferguson, M., Lam, K. & Lee, M. 2002. Voluntary Disclosure by State-Owned Enterprises Listed on the Stock Exchange of Hong Kong. Journal of International Financial Management and Accounting,13(2), 125−152.

Francis, J.R., LaFond, R., &Schipper, k. 2004 Costs of Equity & Earnings Attributes. The Accounting Review.79(4):967-1010.

Gajevszky, A. (2015). Assessing financial Reporting Quality: Evidence from Romania. Audit Financiar, (1583- 5812;).

Grace, K. & Ambrose, J. (2013) Institutional investors' perceptions on quality of financial

Haji, A.A. &Ghazali, N.A.M. 2013.The Quality and Determinants of Voluntary Disclosures in Annual Reports of Shari'ah Compliant Companies in Malaysia.Humanomics, 29(1), 24-42.

Hassan, S & Bello, A 2013, 'firm characteristics and financial reporting quality

Hill, W.L. & Jones, T.M. (1992) Stakeholder Agency-Theory.Journal of Management

Hope, O.-K. (2003a). Disclosure practices, enforcement of accounting standards and analysts' forecast accuracy: an international study. Journal of Accounting Research, 41 (2) (May), 235-272.

Hope, O.-K. (2003b). Accounting policy disclosures and analysts' forecasts. Contemporary Accounting Research, 20 (2), 295–321.

Hosseinzadeh, G., Kangarlouei, S.J. &Morteza, M. 2014. Firms Characteristic and Firms Disclosure Quality in Firms Listed in Tehran Stock Exchange. International Journal of Marketing and Business Communication, 3(1), 20-28. ISSN 2220-8488.

Jaballah, E., Yousfi, W. & Ali, Z.M. (2014). Quality of financial reports: Evidence from the Tunisian firms. E3 Journal of Business Management and Economics, 5(2), 30-38.

John E,N& L, 2017.: Determinants of financial reporting quality in listed Agriculture and Natural Resources firms in Nigeria.International Journal of Accounting Research Vol. 3 (3), 2017. 20-33Journal of Economics, 12: 380-91

Kirubel, A. (2016) Determinants of Financial Reporting Quality: Evidence from LargeManufacturing Share Companies of Addis Ababa. Addis Ababa University.

Lau, J., Sinnadurai, P. & Wright, S. 2009. Corporate Governance and Chief Executive Officer Dismissal Following Poor Performance: Australian Evidence. Accounting and Finance, 49(1), 161-82.

Louzis, D. P., Vouldis, A. T. & Metaxas, V. (2012) Macroeconomic and bank-specific determinants of nonperforming loans in Greece: a comparative study of mortgage, business and

Magness, V 2006, 'Strategic posture, financial performance and environmental disclosure: an empirical test of legitimacy theory', Accounting, Auditing and Accountability Journal, 19(4), pp. 540–563.

Mangena, M. &Tauringana, V. 2007.Disclosure, Corporate Governance and Foreign Share Ownership on the Zimbabwe Stock Exchange. Journal of International Financial Management and Accounting,18(2), 53-85.

Menassa, E. 2010. Corporate social responsibility: An Exploratory Study of the Quality and Extent of Social Disclosures by Lebanese Commercial Banks. Journal of Applied Accounting Research, 11(1), 4-23.

Meek, G. K., Roberts, C. B., & Gray, S. J. (1995). Factors Influencing Voluntary Annual Report Disclosures by U.s., U.k. and Continental European multinational Corporations. Journal of International Business Studies, 26(3), 555–572.

Milgrom, P. (1981) 'Good news and bad news: Representation theorems and applications', Bell

Monday,I.I. & Nancy,A.2016. Determinants of Voluntary Disclosure Quality in Emerging Economies: Evidence from Firms Listed in Nigeria Stock Exchange. International Journal of Research in Engineering and Technology, 4(6), 37-50.

Morris, R.D. (1987) 'Signaling, agency theory and accounting policy choice', Accounting

Murcia, F. 2010. Determinants of Corporate Voluntary Disclosure in Brazil.Electronic Copy, available at http://ssrn.com.

Naser, K. & AL-Khatib, K. 2000.Determination of the depth of information disclosure in the board of director's statements of a sample of Jordanian listed companies. Advances in International Accounting, 13, 99-118.

Pattaraporn, P. (2016). Ownership structure and the quality of financial reporting in Thailand: The empirical evidence from accounting restatement perspective. I J A B E R, 14(10), 6799-6810

Patel, S.A., Balic, A., & Bwakira, L. (2002). Measuring transparency and disclosure at firm-level in emerging markets. Emerging Markets Review, 3 (4) (December), 325- 337.

Prencipe, A. 2004. Proprietary Costs & Determinants of Voluntary Segment Disclosure: Evidence from Italian Listed Companies. European Accounting Review, 13(2), 319–340.

R.Mahboub, 2017 :European Research Studies Journal Volume XX, Issue 4B, 2017 pp. 706-726

Raffournier, B. (1997). The determinants of voluntary financial disclosure by Swiss listed companies: a reply. European Accounting Review, 6(3), 493–496.

Raffournier, A. 2006. The Determinants of Voluntary Financial Disclosure by Swiss Non-financial listed Firms. European Accounting Review, 4(2), 261-280. Reporting in Kenya. International journal of Humanities and social science, vol. 3, No. 21,

Richardson, A.J., & Welker, M. (2001). Social disclosure, financial disclosure and the cost of equity capital. Accounting, Organizations and Society, 26 (7-8) (October- November), 597-616.

Shehu, U.H. (2013). Financial reporting quality, does monitoring characteristics matter? Anempirical analysis of Nigerian manufacturing sector. The Business & Management Review, 3(2), 147-158

Street, D. L. & Bryant, S.M. 2000. Disclosure Level and Compliance with IASs: A Comparison of Companies with and Without US Listings and Filings. International Journal of Accounting, 35(3), 305-329.Studies, 29 (2), pp. 131-154.

Suryanto, T., Thalassinos, I.E. 2017. Cultural ethics and consequences in whistle-blowing among professional accountants: An empirical analysis. Journal of Applied Economic Sciences, 12(6), 1725-1731.

Takhtaei, N., Mousavi, Z., Tamimi, M. &Farahbakhsh, I. 2014. Determinants of Disclosure Quality: Empirical Evidence from Iran. Asian Journal of Finance and Accounting, 6(2), 422-438.

Tambingon, et al,:Determinant Factors Influencing the Quality of Financial Reporting Local Government in Indonesia International Journal of Economics and Financial Issues, 2018, 8(2), 262-268.

Taylor, G., Tower, G. & Neilson, J. 2010.Corporate Communication of Financial Risk. Accounting & Finance, 50(2), 417-446.

Thalassinos, I.E. &Liapis, K. 2014.Segmental financial reporting and the internationalization of the banking sector. Chapter book in, Risk Management: Strategies for Economic Development and Challenges in the Financial System, (eds), D. Milos Sprcic, Nova Publishers, 221-255, ISBN: 978-163321539-9; 978-163321496-5.

Uyar, A., Kilic, M. &Bayyurt, N. 2013.Association between Firm Characteristics and Corporate Voluntary Disclosures: Evidence from Turkish Non-financial listed Firms. Journal of Intangible Capital, 9(4), 1080-1112.

Vandemaele, S., Vergauwen, P. &Michels, A. 2009. Management Risk Reporting Practices & their Determinants: A Study of Belgian Listed Firms. Working Paper- Hasselt University, 1-24.

Verrecchia, R 1983, 'Discretionary Disclosure', Journal of Accounting and Economics,

Verrecchia, R. (1990) 'Information quality & discretionary disclosure', Journal of Accounting Vol. 5, 3, 179-194.

Wagenhofer, A. (1990) 'Voluntary disclosure with a strategic opponent', Journal of Accounting & Economics, 12 (4): 341-63.

Watts and Zimmerman founded Journal of Accounting and Economics, 1978

ZaenalFanani, 2010 JurnalKeuangandanPerbankan, Vol.15, No.1 Januari 2011, hlm. 23–39

Zare, R., Kiafar, H., Rasouli, F., Sadeghi, L. &Behbahani, S. 2013. Examining Financial

ENDORSEMENT

This thesis has been submitted to St. Mary's University of Graduate Studies for examination with my approval as a university advisor.

Asmamaw Getie(Asst.Prof.) _____

Advisor **Signature**

St. Mary's University, Addis Ababa **December, 2020**