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The Impact Of Convergence Of International Accounting Standards (IFRS) On The Quality Of Financial Reports: Meta-Analysis

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Abstract *This research uses qualitative meta-analysis to examine the impact of implementing International Financial Reporting Standards (IFRS) on the financial quality of companies. This meta-analysis examines 6 empirical studies that examine the relationship between IFRS and financial reporting quality. The meta-analysis results show that the implementation of IFRS has a significantly improves the quality of financial reporting, promoting transparency, accountability and better decision making.*

Keywords: *Impact, Convergence, IFRS, Financial Reporting Quality, Meta-Analysis*

INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) has become a significant global phenomenon in recent decades. The aim of IFRS is to produce high quality financial reports that are useful for decision making. IFRS aims to increase transparency and accountability in financial reporting, thereby increasing investor confidence and making it easier to compare financial reports between companies (International Accounting Standards Committee (IASB), 2018). The impact of IFRS on corporate financial quality has become an interesting research topic for academics and business practitioners. Although many studies have been conducted to examine the impact of IFRS on corporate financial quality, the findings are still mixed and inconclusive. This can be caused by various factors, such as differences in research methodology, different research samples, and different business contexts. Therefore, meta-analysis is needed to combine findings from various studies and produce more robust and generalizable conclusions.

Epidemiological and clinical data show that financial quality has a significant impact on various stakeholders. Investors for example depend on accurate and reliable financial information to make informed investment decisions. Creditors, on the other hand, use financial information to assess a company's credit risk. Good financial quality can also improve a company's reputation and attract the best talent. Poor financial quality, on the other hand, can have significant negative consequences. Companies with poor financial quality may have difficulty accessing capital, increasing the risk of bankruptcy, and damaging their public image. This can have a negative impact on employees, shareholders and the economy as a whole.

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This meta-analysis aims to provide a more comprehensive understanding of the impact of IFRS on the quality of corporate financial reports. By combining findings from multiple studies, this meta-analysis can provide more robust and generalizable evidence about the effects of IFRS on financial reporting quality. These findings can be useful for investors, creditors, policy makers, and researchers interested in the impact of IFRS on corporate financial performance.

METHODS

This research uses a qualitative meta-analysis method by reviewing several articles in international journals. The primary study described is concerned with the impact of convergence of international accounting standards (IFRS) on the quality of financial reports of companies. This meta-analysis aims to combine findings from various empirical studies and produce more robust and generalizable conclusions about the effects of IFRS on financial reporting quality. In line with Borenstein et al. (2009), this meta-analysis prioritizes two key steps: (1) establishing rigorous inclusion criteria to ensure relevant studies are selected, and (2) implementing procedures for collecting the necessary empirical data from the chosen studies. While this work adheres to these initial stages, it avoids employing coding schemes for research variables in the data collection process.

Inclusion Criteria

All study articles in the initial search were reviewed and assessed for inclusion in the meta-analysis using the following inclusion criteria:

1. Publication range 2020 to 2024.
2. Articles published in international journals.

Data collection

Empirical data obtained from the Google Scholar database was examined to achieve relevant research within the scope of the study with keywords used in the search including “Impact”, “convergence”, "IFRS" and "financial reporting quality". The search yielded 7,920 articles published between 2020 and 2024. We found 6 articles that met the inclusion criteria for analysis in this meta-analysis. Detailed information about the 6 articles is presented in Table 1.

No	Journal Name	URL
1	Economic Research-Ekonomska Istraživanja	https://www.tandfonline.com/loi/rero20

2	Global Journal of Finance and Business Review	https://airjournal.org/gjfbr
3	Journal of Accounting and Investment	http://journal.umy.ac.id/index.php/ai
4	Journal of Commerce & Accounting Research	http://publishingindia.com/jcar/
5	International Journal of Managerial and Financial Accounting	https://inderscience.com/jhome.php?jcode=ijmfa
6	International Journal of Finance and Managerial Accounting	http://www.ijfma.ir/

Table 1. List of journals that have published the impact of IFRS on the quality of company financial reports.

As explained in Table 1, the list of journals that publish studies of the impact of IFRS on the quality of company financial reports is 6. Following the inclusion criteria, the research used in the analysis is 6 articles.

RESULT

According to Emmanuel Mensah in the article The effect of IFRS adoption on the quality of financial reporting: evidence from listed manufacturing companies in Ghana shows that earnings management practices have existed in both the pre-IFRS and post-IFRS adoption periods. The level of earnings management practices was higher in the pre-IFRS adoption period compared to the post-IFRS adoption period, indicating that IFRS adoption tends to reduce earnings management practices, as a result increasing FRQ by reducing the level of corporate income smoothing. Therefore, researchers conclude that the implementation of IFRS is effective in improving financial quality. Although IFRS adoption has proven effective in reducing or minimizing corporate earnings management practices, this has been slow. This study therefore recommends tightening the loopholes in the IFRS Framework to allow more subjective judgment in the making of estimates by preparers of financial statements. Given that effective corporate governance regulations aim to curb illegal earnings management practices within the corporate and business landscape, it will be enlightening to look at the moderating role that corporate governance regulations can play in helping to curb corporate earnings management practices, as well as their other impacts. That accompanies it.

According to Egiyi, Modesta Amaka in an article entitled The Role of International Reporting Standards (IFRS) in Financial Reporting Quality: Evidence from Nigeria. A study evaluates the impact of implementing International Financial Reporting Standards (IFRS) on the quality of commercial bank financial reporting. This research uses a panel design, analyzing data from annual reports and bank accounts over ten years. The pre-IFRS period covers 2003 to 2011, while the post-IFRS period covers 2013 to 2021. Content analysis was used to evaluate the data, with the Mann-Whitney test applied to assess statistical significance. The main findings of this research indicate that the implementation of IFRS improves the quality of commercial bank financial reporting. This is evidenced by the increasing relevance of financial information, which is one of the main qualitative characteristics. In addition, research finds a significant positive relationship between the implementation of IFRS and the timeliness and reliability of financial reports. Based on these findings, the study recommends that financial reporting boards and global accounting standard-setting bodies prioritize efforts to improve compliance with IFRS. One of the recommended policies is to implement mandatory training and retraining programs for management and staff in various organizations. This research makes an important contribution to the understanding of the impact of IFRS implementation on the quality of commercial bank financial reporting. The findings suggest that IFRS can help improve bank transparency and accountability, which is beneficial for investors, lenders and other stakeholders.

According to Ersa Tri Wahyuni, Gina Puspitasari, dan Evita Puspitasari in an article entitled Has IFRS improved Accounting Quality in Indonesia? A Systematic Literature Review of 2010-2016. result show that the company analysis unit, positivism paradigm, empirical-quantitative method, and secondary data analysis approach are the most dominantly used in IFRS convergence studies in Indonesia. Classified into three categories, the published research articles on the effect of IFRS convergence studies in Indonesia are more dominant (53.66%), compared to the studies on IFRS implementation and issues (23.17%) and IFRS convergence development in Indonesia (23.17%). Out of the 193 frequency found in the studies on the effect of IFRS convergence in Indonesia, the concept of value-relevance (25.39%) and profit management (24.35%) are the most commonly found categories. In general, IFRS convergence has an implication on financial reporting quality increase, as shown by the increase of valuerelevance, earnings management, accounting information quality, earnings quality, and financial institution performance, as well as the decrease in information asymmetry, shares risk, and cost of capital. The varied results on IFRS convergence effect may be caused by several factors, such as the use of IFRS measurement variables, period of research, or number of sample. From several articles that discuss policies, future researches should delve in-depth in undiscussed PSAK (beside PSAK 5, PSAK 13, PSAK 16, PSAK 19, PSAK 22, PSAK 30, PSAK 46, PSAK 50, PSAK 55), PSAK that are discussed during the convergence process that it is relevant to review them today (PSAK 14, PSAK 26, PSAK 38, PSAK 51), or PSAK that are revised and newly implemented, such as PSAK 3, PSAK 24, PSAK 58, and PSAK 60 which are effective since 28 September 2016. The implication of this study is that the implementation of fair value concept in IFRS standards has been utilized very well by companies in Indonesia. By selecting appropriate recording method with fair value concept that suits the company, the generated information becomes better and the stakeholders will have higher quality information. The limitation of this study has to do with the difficulties of obtaining complete research articles, which affect the total number of final sample. Not all required information can be obtained from the abstract, which means that the complete research article is needed for the analysis. Future researches are expected to use greater number of sample so that the conclusion can be generalized more. Another limitation of the study is the inconsistency of using SNA conference proceedings instead of just academic journal publications. As the conference proceedings often perceived as less rigorous than the journals, however the use of SNA conference proceedings in this paper has improved the quantity of the sample. SNA is also one of most competitive accounting conference in Indonesia, thus every year the conference invites good quality paper in par with many national journal publications.

According to Nageshwar Rao, D.D. Bedi, and Kshema Shrivastava in an article entitled Effect of IFRS and Ind AS on the Financial Statement of Listed Indian Companies a Comperative Assessment. A study evaluating the impact of IFRS and Ind AS on the financial statements of listed companies in India. Researchers analyze the influence of these accounting standards on financial numbers and ratios, as well as the relevance of financial reporting as a whole. The main findings show that a company's financial picture differs depending on the accounting standards used (IFRS, Ind AS, or Indian GAAP). Compared to Indian GAAP, IFRS and Ind AS result in increased liquidity and profitability as well as reduced liabilities and leverage. This shows that IFRS and Ind AS can improve a company's financial health and its attractiveness to investors. Certain IFRS and Ind AS requirements, such as fair value measurement and lease accounting, were identified as key drivers of this change. Financial reporting has become more relevant under IFRS and Ind AS, as evidenced by the narrowing of the gap between book value and market value of companies. The findings of this study are important for policy makers considering full implementation of Ind AS across all types of companies in India. Currently, only companies that exceed a certain net worth or are listed entities are required to use Ind AS. Research shows that applying Ind AS to all companies can benefit stakeholders and reduce complexity by eliminating the need for parallel accounting standards. This study has several limitations, including a small sample size (mostly IT companies) and the inability to isolate the impact of individual IFRS/Ind AS standards. Future research could address these limitations by, covers a wider range of companies from various sectors, analyze the impact of Ind AS on the company before and after implementation, examine the relationship between Ind AS implementation and factors such as company scale and reporting costs. This research provides valuable insights into the impact of IFRS and Ind AS implementation on Indian companies. The findings suggest that these accounting standards can improve financial reporting quality and transparency, benefiting investors, lenders and other stakeholders.

According to Sushma Vishnani, Hemendra Gupta and Saumya Gupta in the article entitled Convergence of Indian accounting standards to IFRS: impact on quality of financial reporting of Indian industries, the results show an increase in the quality of financial reporting in the post-IndAS phase. In particular, it was found that listed companies in India showed an improvement in the financial quality reported in the market-based model, which was not clearly demonstrated by the accounting-based model after the implementation of IndAS. This study provides evidence of a major improvement in the quality of financial reporting, as demonstrated by better VR of financial reporting post implementation of IndAS in India. The EP also reflects a marked improvement following the implementation of IndAS. However, as a very important measure of revenue quality, developing countries did not see any decline post IndAS implementation in terms of the total sample, although two of the nine industries studied showed an increase in developing countries. Healthcare and metals industries reported significant decline in EM metrics post implementation of IndAS. EMs evaluated based on ADA, PMADA, or small positive returns do not vary between the pre- and post-IndAS phases. The results of this research support the decision of the accounting profession regulator (ICAI) in the country because the quality of financial reports has improved after the implementation of IndAS. Additionally, the IASB's push to have uniform accounting standards across countries gets a boost from this research. This study also has several limitations that offer room for further research in this area. First, this study was conducted based on the post-IndAS phase, which is quite small in number. Therefore, testing the impact of mandatory reporting of IndAS by extending the sample time period to a later date when sufficient time has passed since the date of implementation of IndAS in India may provide additional and relevant insights. Second, this study only used three measures of reporting quality: EM, EP and VR. There is scope to strengthen the literature on IndAS by conducting studies that cover additional aspects of earnings quality in the literature, such as predictability, timeliness, comparability and verifiability. Third, this research is completely based on financial data to assess the quality of financial reporting. However, in addition to financials, companies also report and disclose many other aspects of reporting practices in their quarterly and annual reports. An assessment of the quality of such disclosures at the post-adoption stage could add further value to the literature in this context, and also enable regulators and standard setters to map out a roadmap for improving the quality of reporting.

According to Mohammad Ahadzadeh and Mohammadreza Vakilifard in a journal entitled Review of International Financial Reporting Standards in Iran and Their Influence on the Quality of Financial Accounting Reports, based on research conducted to test the reliability of research variables, the Cronbach's alpha test was used, which shows that these variables have good reliability. Apart from that, in this research, the Fornell-Larker test is used to measure the validity of variables. The results of this test show that the validity of the research variables is appropriate. In this study, to check the goodness of fit, the researcher paired the research variables, which is acceptable considering the calculated value is higher than 0.9. In addition, the aim of this problem is to compare the expected frequency with the research frequency to find out whether there is a significant difference between the two frequencies or not. The chi-square test was used with the results showing that all variables were lower than 0.5, so this is acceptable. Finally, in this study, researchers tested the research hypothesis using structural equation models, the results of which show that the relationship between the influence of IFRS adoption and clear variables is significant.

DISCUSSION

Based on existing theory, research by Santy et al. (2013) show that the implementation of IFRS has a positive impact on the quality of financial reports, especially in terms of reducing earnings management practices. IFRS is expected to provide more accurate and transparent information about company performance, thereby increasing the confidence of investors and other stakeholders. According to Eka (2014), his research found that IFRS had a positive effect on the value of company shares. This is especially true for companies that have a large scale and a stable capital structure. The application of IFRS to these companies increases investor confidence in the financial information presented, thereby having a positive impact on share value. Meanwhile, according to Kristanto et al. (2016) in their research found that IFRS has a negative effect on earnings management. However, this effect can be dampened by companies with larger hood sizes. This shows that companies with greater capital have the ability to reduce earnings manipulation practices when implementing IFRS.

Based on the results and our analysis of a meta-analysis that combines findings from various studies, that IFRS adoption has a positive impact on the quality of financial reporting. This is demonstrated by increasing value relevance, effectiveness of earnings management, information quality and financial performance. In addition, there was a reduction in information asymmetry, stock risk and cost of capital.

Several studies show that IFRS adoption can reduce earnings management practices, as shown by Mensah (Ghana) and Vishnani et al. (India). Egiyi (Nigeria) highlighted the role of IFRS in enhancing transparency and accountability in commercial bank reporting, which benefits investors and lenders. Rao et al. (India) also found that IFRS improves the perception of a company's financial health for investors.

Vishnani et al. (India) emphasized the benefits of uniform accounting standards across countries facilitated by IFRS. This allows better comparison of financial statements between companies in different jurisdictions.

Some studies also acknowledge their limitations. Wahyuni et al. (Indonesia) calls for a deeper exploration of the less discussed Indonesian Financial Accounting Standards (PSAK) and the impact of revised PSAK standards. Rao et al. (India) suggested expanding the research to various companies and analyzing the impact of individual IFRS standards. Additionally, Vishnani et al. (India) proposes to include more measures of reporting quality beyond earnings management, earnings predictability and value relevance.

Overall, this meta-analysis strengthens the argument that IFRS adoption contributes to improving the quality of financial reporting. However, further research could provide a more nuanced understanding of the specific effects across industries, company sizes, and implementation stages.

CONCLUSION

IFRS adoption significantly improves the quality of financial reporting, promoting transparency, accountability and better decision making. Further research is needed to understand the impact of IFRS in more depth in various contexts.

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