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Role of International Financial reporting Standards adoption on the Board Diversity and Accounting Quality relationships among firms listed in the East African Community Securities Exchanges

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Abstract

The study sought to analyze the impact of adopting IFRS on the association between board diversity and the quality of accounting for companies listed at the EAC securities exchanges. The study analyzed data from 53 listed firms in the EAC from 2013 to 2020. Primary and secondary data were used to analyze the study's research hypothesis. Data was analyzed using multiple regression analysis as guided by the Baron and Kenny (1986) approach to test the study's hypothesis. Board diversity data was obtained from director profiles, IFRS adoption was assessed using an IFRS disclosure index developed from the IASB disclosure checklist while accounting quality was assessed by use of the indicators of discretionary accruals, value relevance and the fundamental qualitative attributes. The findings of the study reveal that adopting IFRS does not affect the relation between diversity of boards and management of earnings and financial information value relevance, an intervening effect of adopting IFRS on the association between board's diversity and the fundamental qualitative attributes of accounting information was established. The study however only utilized listed firms in EAC thus the findings may not be generalizable to firms which are not listed. The findings contribute to the extant knowledge on IFRS adoption, diversity in boards attributes and quality of financial reports by documenting findings for EAC listed firms. Future scholars should explore analyzing accounting quality using other indicators not considered in the current study as the findings vary depending on the quality indicator adopted in the study.

Keywords*: Board diversity, IFRS adoption, accounting quality*

Introduction

Diversity relates to the dispersion, variations and differences of members of a unit, it can further be looked at in relation to differing opinions and positions due to attitudes and differences in personal values (Harrison & Klein, 2007). Diversity can be defined in terms of variances in individual traits and character of independent members in a unit (Jackson et al., 2003).

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Diversity, as a variety is represented by differences in relation to category or kind in relation to knowledge, experience and information among the members of an entity or unit. Finkelstein et al. (2008) defined diversity as distribution of individual characteristics and traits of the independent member of a unit of work. Diversity of boards therefore relates to boards having heterogenous membership in respect to: gender; age; race; nationality among other traits. Diversity can mainly be generalized into two namely; demographic and cognitive. Demographic diversity are the observable traits defined as per ethnicity, race, age, religion, education level, functional background, director tenure and gender while cognitive diversity relates to variations in personality and style of thinking. The current study analyzes demographic traits of the board.

Empirically, demographic diversity has been analyzed using observable traits like age and gender among others while cognitive diversity has been analyzed in respect to personality traits (Hambrick & Mason, 1984). Based on the Upper Echelons Theory, firm outcomes are a reflection of its board and senior management attributes (Finkelstein et al., 2008; Hambrick & Mason, 1984). Board's experience, expertise and skills significantly affect the financial information quality reported by firms (Dechow et al., 1995; Davidson et al., 2005; Klein, 2002).

The International Financial Reporting Standards (IFRS) relates to a set of higher quality accounting standards which are globally accepted and specify how financial statements and transactions should be prepared. IFRS adoption is the application of IFRS as a base for preparing financial reports, and it can be done early or mandatorily. It can either be mandatory adoption or voluntary. Mandatory adoption gives no choice to firms since the local accounting body has issued guidelines making the standards applicable, thus a legal requirement. Voluntary adoption refers to a situation where a firm elect to apply accounting standards after issuance but before their mandatory effective date (King'wara, 2015). Accounting Standards prescribe: recognition criteria for expenses, liabilities, assets and incomes; how to measure such items; their presentation in financial reports; and related disclosures. The IASB requires firms to present the following components: the statement of comprehensive incomes, the balance sheet, statement of changes in equity, the cashflow statement, and the notes to the above statements, which detail the accounting policies that formed the basis of preparing the financial statements, among other things (Pacter, 2015).

The need for accounting standard convergence arose in the 1950s as a result of increased cross-border activity. The formative efforts focused on unification upto the 1990s, when standards harmonization was changed by the consolidation approach, which entailed developing standards that are of high-quality that are anticipated to be beneficial for financial markets worldwide (King'wara, 2015). The International Accounting Standards Committee (IASC), founded in 1973, produced the first international accounting standards in 1975. The IASC was restructured in 2001 into the current International Accounting Standards Board (IASB) that was entrusted with producing new standards among other things. International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB) signed up the Norwalk Agreement in September 2002, providing much needed boost to IFRS implementation. The two organizations agreed to collaborate on creating high-quality standards of accounting which are applicable to both domestic and overseas reporting. As a consequence, the collaborative operation was expanded to include both IFRS, which is based on principles, and US GAAP, which is more rules-based. As a result, the boards agreed to build a new unified Conceptual Framework on which accounting standards would be developed (IASB, 2010). International accounting standards (IAS) experienced a significant evolution leading to harmonization of accounting standards, release and adoption of broad based IFRS which replaced the IAS, which had several shortcomings, from start of the millennium (Capkum et al., 2016).

The accounting standards provide great flexibility on accounting choices resulting to subjective estimates. The lack of a clear guide and the great flexibility granted by the accounting standards has resulted to higher levels of management of earnings (smoothing) which diminish the financial reporting quality (Capkum et al., 2016). While adoption of IFRS is anticipated to have significant benefits to financial reporting, the IASB has no control on the enforcement of standards and therefore the expected benefits have been minimal. Until country-specific factors which vary across countries are addressed the full benefits of IFRS adoption may not be realized (Soderstrom & Sun, 2007). Empirically, IFRS adoption has mainly been measured using a dummy variable such that IFRS adopters are assigned a value of one and zero if firm is a non-adopter, however the IASB issues a checklist to assess compliance with IFRS, the study adopted the IFRS disclosure checklist to develop the IFRS compliance index that was utilized in the current study to assess IFRS adoption.

Research Problem

Historic failures by companies such as the Marconi, Royal Ahold and Enron resulted in doubts as to the quality of financial reporting information indicative of the prevalence of weak governance in corporate companies (Bowen et al., 2008). In kenya, suspicion of financial reporting improprieties have been identified in CMC Kenya, Mumias Sugar and Kenya Airways which have witnessed erosion of shareholder wealth and consequent suspension or delisting from the bourse (Iraya et al., 2015). In responding to the financial improprieties emphasis has been put on the appointment of senior management by ensuring they are diverse in relation to skills, age, experience and education. The effect of such diversity on the outcomes of firms has led to mixed findings due to economic environment, approach of research and company type.

Adopting IFRS has been related to lower incidences of management of earnings in comparison to the use of local GAAPs. Van Tendeloo and VanStream (2005) studied 636 listed firms in Germany and establish that use of IFRS results to lower cases of managing earnings. The effect of adoption of IFRS on share prices for European banks by use of a sample of 221 banks for years 2000 to 2006 was analyzed by Agostino, et al. (2011). They observe that share prices were responsive to IFRS reporting with the highest responsiveness in Germany and Italy while the lowest effect was realized in the UK due to its high-quality GAAPs. An examination of the IAS/IFRS application effects in 29 countries between 1994 to 2009 was analyzed by Capkum et al. (2016), they establish that adopting IFRS for nations with a weak enforcement mechanism gives managers flexibility in financial reporting leading to higher cases of managing earnings. The above studies were however undertaken in Europe which has a different regulatory framework to East Africa, in addition the impact of board diversity was not considered in the studies.

The impact of directors' personal traits impact on value relevance of IFRS 13 was analyzed by Siekkinen (2017) using 848 firms in Europe for the years 2012 to 2013, the author established that gender diversity and independence of the board positively influenced value relevance of fair values, it was also observed that adopting IFRS leads to lower information asymmetry. The impact of adopting IFRS and directors' traits on management of earnings in China was analyzed Albitar, Alqatan and Huang (2019) the study's results indicate high management of earnings instances post IFRS adoption, the study did not establish any relation between size of the board and management of earnings. An independent board significantly lowers management of earnings after IFRS adoption. Aspects of board diversity attributes, further the study was conducted in China which has a different institutional set up from that of the EAC countries.

Regionally, in South Africa, mandatory effect of transiting to IFRS on managing earnings was studied by Sellami and Slimi (2016) using discretionary accruals and the quality of accruals were adopted in assessing accounting quality by comparing the pre-IFRS and post-IFRS adoption period which was between 2002 and 2012. Evaluation of the impact of adopting IFRS on quality of financial reporting in Nigeria was conducted by Yekini et al. (2022), the author evaluated if quality of financial reporting was enhanced post IFRS adoption for 10 years between 2007 – 2016. It was revealed that mandatorily adopting IFRS leads to fewer cases of managing earnings by firms in Nigeria. The study reports that mandatorily adopting IFRS leads to less incidences of managing earnings. The two studies however did not consider various attributes of diversity in boards and influence of legal mechanisms in a county.

Arising from the above studies reviewed, it can be deduced that the quality of accounting research has returned mixed findings dependent on indicators used, consequently the results are not generalizable due to the fact that there is no acceptable quality indicator. Further, most of the studies reviewed relating to diversity of boards and the quality of accounting were mainly done in the developed countries that are associated with a high legal enforcement than East African countries. Management of earnings, accounting information value relevance, and the qualitative aspects of financial information were adopted by the current study to assess the quality of accounting. Furthermore, no study, has examined the effect of adopting IFRS on diversity of boards and accounting quality for EAC countries. The study's goal was to answer: what effect does IFRS adoption have on the link between board diversity and accounting quality of listed companies on East African Community stock exchanges?

Research Objective

The study’s main objective was to evaluate the effect of adopting International Financial Reporting Standards on the relationship between diversity in boards and accounting information quality of firms listed at the East African Community securities’ exchanges.

Theoretical Review

The study was founded on the theories of upper echelons and the information asymmetry paradigm to explain the relation between diversity in boards and the quality of accounting information. The theories are explained in details in the section that follows.

Upper Echelons Theory

This theory explains the influence of the higher management levels personality traits influence on organizational performance. The basic idea being to analyze the top management team as opposed to individual traits so as to have better understanding of the results of an organization (Hambrick & Mason, 1984). These findings were validated by the study of Goel and Thakor (2008), which observed that the senior management personal traits impact on their choices. The heterogeneity of the top management teams is manifested through personality backgrounds and experience.

According to the UET; firm outcomes, strategy choice and performance can be predicted partially by the traits of its management (Hambrick & Mason, 1984). It is founded on the belief that top managers' act based on their personal interpretation of the strategic options available to them and the interpretations are based on the managers' professional experience, personal values and personality type (Hambrick, 2007). Earlier studies on UET analyzed the heterogeneity effect of the top management team using attributes like: age, career experience, functional background and education level on organizational outcomes.

The UET can be used to describe the role played by the team and individual factors functionality on the decision making by the executives (Nielsen, 2010). The UET can blend with other theories like the agency theory, therefore the several theoretical points of view can be jointly applied together with UET to document the effects of board diversity on the quality of accounting. Hambrick and Mason (1984) identified six observable attributes: functional background; career experience; level of education; financial position; social-economic status and age that contribute to their leadership experiences and heterogeneity.

Scholars have focused on the precise definition of the constitution of the top management teams. TMTs are identifiable from their formal titles obtained from formal publicly available documents (Finkelstein & Hambrick, 1996). According to Pitcher and Smith (2001) the authority in relation to decision making is not always with the formally defined TMT. Hambrick and Mason (1984) observed that two characteristics influence the executive decisions: observable characteristics and the psychological characteristics which are not easily quantifiable. This study is grounded on this theory since accounting quality is expected to be affected by the traits of its top managers. The current study adopts the observable features of the board to assess diversity. The UET criticism is that it only emphasizes on the traits of the top management of an organization ignoring other important factors like motivation of staff, emotional stability and other social factors which equally determine accounting quality. Guided on this theory, the current study analyzed the traits of the board and their impact on financial information quality, a more diverse board is expected to report high quality accounting information.

Information Asymmetry

This paradigm is founded from Akerlof's (1970) paper that examined market of lemons and quality for goods in trade. It was observed that the quality of goods traded reduces where there is information difference among sellers and buyers. This leads to a lemon problem, which refers to brand new cars which are faulty. It arises when buyers are unable to isolate a "lemon" and a high-quality car, consequently, buyers pay for what they think is a quality car yet the sellers are the ones with the correct information as to the quality of the car. This leads to adverse selection where customers make decisions with incomplete information.

Information asymmetry views markets as not being perfect and firms that desire to enter into contracts are expected to have incomplete information that is useful in order to conclude their own transactions (Mwangi et al., 2014). Financial reports provide the missing link between insiders and outsiders in relation to accessing the firm's financial information. Financial reports can thus be viewed as an intermediary of parties both external and internal to the organization. Lack of disclosure financial information results to asymmetry of information between parties inside and outside the organization. The prescription of the minimum financial disclosures requirements for firms is expected to lower incidences of information asymmetry. The minimum information disclosure enables the public, through financial statements, aids in making key decisions such as investment decisions. Harmonization of accounting standards is expected to lower incidences of information asymmetry. The firm's managers being insiders have access to key information about the firm including its state of financial affairs, such a privilege may not be available to the outsiders of the firm. In the event that investors rely on incorrect financial reports, then adverse selection is said to have occurred (Yu, 2010).

The information differences above, resulted in efforts to develop harmonized accounting standards in order to ease information asymmetry by prescribing minimum financial disclosures, however, this may not fully rid the challenge due to discretionary choices permitted by the standards. Accounting discretion my provide loopholes that management can explore in order to report what correct in their opinion resulting in poor quality financial reports (Yu, 2010). The theory can be criticized due to the fact that, it cannot be analyzed independent of regulations, due to the fact that regulations influence the amount and manner of disclosure of information. Further, the theory does not consider the possibility of buyers having their own means of ensuring that whatever they buy is of the quality they desire. Users of accounting information can obtain reports from regulators and stock brokers relating to the operations of a firm.

Empirical Review

An analysis to ascertain if IFRS adoption led to lower cases of managing earnings as compared to German GAAPS was undertaken by Van Tendeloo and VanStream (2005). They analyzed listed firms in Germany for the years from 1999 to 2001 utilizing 636 observations, they establish that adopting IFRS resulted in lower management of earnings incidences in relation to the German GAAPs. The duration of the study was small casting doubts as to the generalizability of the study’s findings, further Germany is associated with higher regulatory compliance incidences as compared to EAC countries.

The effect of adopting IFRS on European banks share prices was undertaken by Agostino, et al. (2011) utilizing panel data sampled from 221 European banks for the years 2000 to 2006. Ohlson (1995) model was utilized in testing for responsiveness of share prices. The study observed that adopting IFRS led to higher prices of stocks with the highest earnings responsiveness effect reported in Germany and Italy, the lowest effect was reported in the UK as a result of the high quality of UK GAAPs. The study however only analyzed IFRS adoption effect for banks ignoring other industries casting doubts as to the generalizability of study’s results.

The IAS/IFRS has empirically been found to affect the management of earnings. Capkum et al. (2016) examined IAS/IFRS effects on the management of earnings pre-2005 and post-2005. The authors sampled 3,853 firms drawn from 29 countries which had transitioned to IFRS from the period 1994 to 2009. They classified firms as: early adopter (adopted IAS prior to 2004); late adopters (firms from countries which permitted the early adoption of IAS, but chose to wait till the start of 2005 to adopt IFRS) and mandatory IFRS adopters. The authors observe that the adopting IFRS/IAS, for nations having weak enforcement, presents firms with flexibility for its managers on financial reporting which results to increased incidences of management of earnings. This is attributed to weak mechanisms of enforcement are not prohibitive enough to restrict management of earnings. The effect of auditing and board attributes which affect both IFRS/IAS and management of earnings were however not considered by the study.

In South Africa, the mandatory effect of transition to IFRS on management of earnings was analyzed by Sellami and Slimi (2016). Discretional accruals and accruals quality were used to assess accounting quality by comparing the pre-IFRS (between 2002 and 2004) and post-IFRS adoption period which was between 2010 and 2012. The study considered 276 firm-year observations obtained from 46 listed South African firms. Regression analysis was utilized to study the effect mandatorily adopting IFRS, mechanisms of corporate governance and management of earnings while controlling other important determinants that affect management of earnings. The study's results reveal that mandatorily adopting IFRS results to lower incidences of earnings management. Further, it was established that the CEO and board chair role separation, company size and board's independence significantly affect management of earnings. The study however did not consider various attributes of diversity in boards and influence of legal mechanisms in a county.

A study to evaluate whether directors' traits influence value relevance of financial information fair values as per IFRS 13 was conducted by Siekkinen (2017). The study obtained data from 848 listed firms drawn from the EU, Norway, Iceland, Liechtenstein and Switzerland covering the financial years 2012 and 2013. The study utilized regression analysis and the Olson model in testing research hypothesis. The author observes that, board's independence and gender diversity positively influence value relevance of fair values. Further, firms with large boards were associated with lower quality of the company generated estimates of fair values. The study reinforces the influence of director traits on firm outcomes. It was also established that the study established that adopting IFRS 13 results in lower information asymmetry instances relating to the reporting of the estimates of fair values. The study sample was however drawn to cover a shorter duration of time and at the same time did not consider the effect of the legal set ups and enforcement mechanisms for the countries analyzed. In addition, the study was done predominantly in the EU which is associated with strong legal mechanisms as compared to the East African countries.

The effect of adoption IFRS and traits of the directors on earnings management in China were analyzed by Albitar, Alqatan and Huang (2019). The study analyzed Chinese listed firms from the years 2003 to 2013 with the exclusion of 2007 the mandatory year of adoption. Multivariate and univariate analysis were utilized in testing of the research hypothesis. Results of the study revealed higher instances of management of earnings after IFRS has been adopted, no relationship was found to exist between the board's size and management of earnings while board's independence significantly lowered the management of earnings after IFRS adoption. The study however, did not consider the aspects of the board diversity traits and the effect of legal enforcement mechanisms.

An examination of the effect of adopting IFRS on financial reporting quality in Nigeria through enhanced reporting information required for reporting was done by Yekini et al. (2022). Specifically, it evaluated whether quality of financial reporting increased post IFRS adoption utilizing 87 non-financial firms' reports covering 10 years between 2007 – 2016. Longitudinal design of research was applied utilizing the Olsson (1995) model in test of the study's hypothesis. The analysis of the trend covering the pre and post adoption periods, adjusted R^2 indicate that the public financial reports value relevance enhanced post adoption of IFRS in Nigeria. They further observed that adoption of accounting standards is aligned to investment and to channel funds. The study however, failed to consider the effect of board attributes and the legal enforcement mechanisms which may impact on the value relevance of the financial reporting.

Conceptual Framework

From the review of literature above, it can be expected that a board which is more diverse, independent and highly skilled as a result it sufficiently checks the activities of management due to its divergent interests represented in the board which ensure low levels of managing earnings by firms which enhances the quality of accounting information. Diversity in boards helps the board in serving their role of monitoring attributed to self-checking of diverse interests represented by the directors.

Adopting IFRS stipulated the minimum financial disclosures by firms, through provision of minimum disclosure requirements. Adopting IFRS reduces the management's discretion financial reporting as a result guaranteeing higher quality of financial information. This is depicted in Figure 2.1 below.

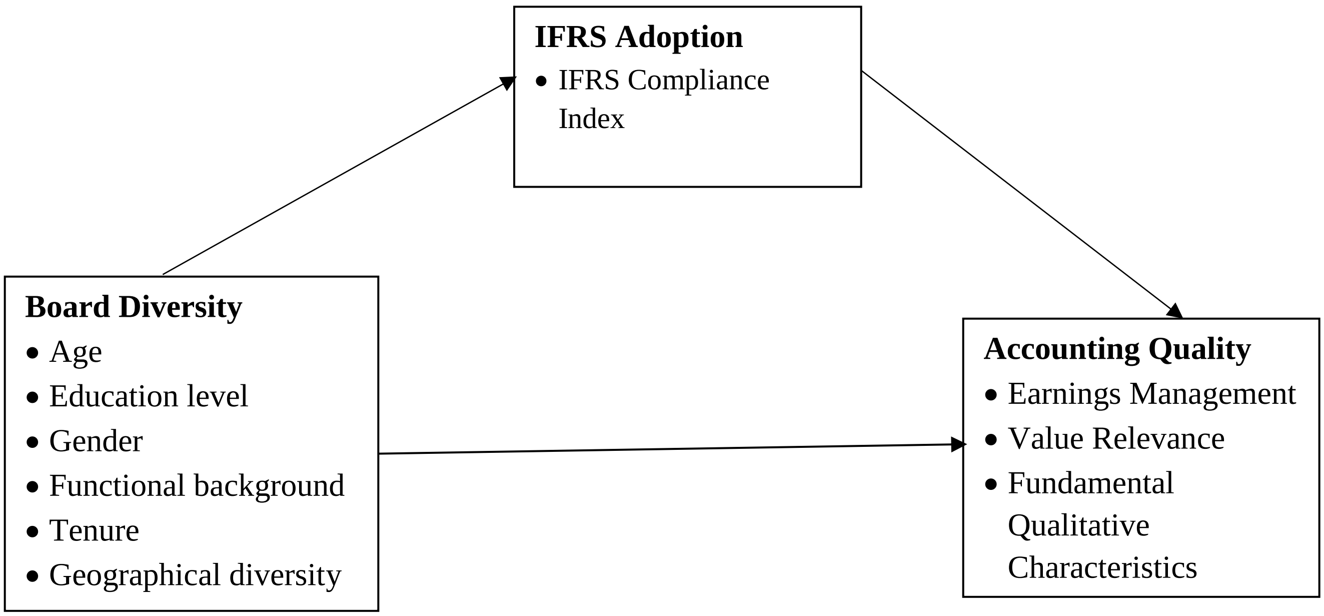

Figure 2.1 Conceptual Framework

Research Methodology

Positivist research aims at generating either causal or explanatory relationships resulting in prediction of the phenomena under investigation, it is founded on objective inquiry, evidence-backed truth obtained from clearly documented approach (Blumberg et al., 2005). The study adopted positivism philosophy of research because the study was founded on an existing body of knowledge (theories), after which relevant literature was reviewed, a conceptual framework was developed and scientifically formulated hypothesis from which observations were deduced in order to falsify the stated hypothesis which was verified by use of empirical testing.

A research design is the basis for undertaking research. There are three types of study designs: exploratory, descriptive, and causal. Because the object of the current study was to analyze the link between diversity of boards, IFRS adoption, legal enforcement, and financial reporting quality, it used a descriptive research approach (Sanders et al., 2007). The study's target population consisted of all the companies quoted in East Africa Securities' exchanges, totaling to one hundred and thirteen (113) firms as at 31st December, 2019. The study analyzed 53 firms listed in EAC after eliminating 20 cross-listed companies and those firms whose financial reports were not consistently available for the eight years of the study.

From the quoted firms' annual financial reports in East African Community companies for the years 2013 to 2020, the study acquired secondary data on: the directors; IFRS implementation; qualitative attributes of financial accounting; management of earnings; and value relevance of reported financial results. Primary data was gathered from the CFOs and senior finance staff of the listed companies and was used to check and validate secondary data on the qualitative aspects of accounting information. IFRS compliance index, evaluating compliance to IFRS, was developed based on IASB's IFRS disclosure checklist, a percentage score was given for each firm. Annual reports were obtained from the respective companies; questionnaires were administered to finance officers of the listed firms to validate data on the qualitative characteristics of accounting information.

Data Analysis

In testing for mediation, regression analysis was performed on the quality of accounting and board diversity; next a regression on IFRS adoption and accounting quality; thirdly, regression analysis in order to test the association of adopting IFRS and accounting quality; lastly, a regression analysis to test the effect of adopting IFRS on BOD diversity and financial information quality. If the independent predicts the dependent, the independent explains the intervening, and the intervening explains the dependent while also still predicts the dependent once the mediating variable is included, mediation exists.

The mediation was analyzed as follows:

i) $AQ_2 = \beta_0 + \beta_1 BDIV + \varepsilon_1$ equation i

ii) $IFRS = \beta_0 + \beta_1 BDIV + \varepsilon_2$ equation ii

iii) $AQ_3 = \beta_0 + \beta_1 IFRS + \varepsilon_1$ equation iii

iv) $AQ_4 = \beta_0 + \beta_1 BDIV + \beta_2 IFRS + \varepsilon_2$ equation iv

3.3 Operationalization of Study Variables

The study variables were operationalized as was guided by empirical studies analyzed and conceptual framework developed arising from the reviewed literature as presented in Table 1 below.

Table 1: Operationalization of Study Variables

Variable	Proxy for Variable	Measurement
Independent Variable Board Diversity of the board	Functional background (FUNC), Geographical diversity (GEOG), Gender (GEN), Education (EDU)	Blau Index (BI) $= 1 - \sum P_{ij}^2$ Functional background is categorized as: marketing, disciplined forces, HR, accounting & finance, public administration, academia, entrepreneurship, procurement, economics, law and banking, engineering and others Geographical diversity categorized as: Proportion of Kenyans or non-Kenyans Gender diversity categorized as proportion of either male or female Education diversity categorized as per education level of directors (O-level, Certificate, Diploma, Bachelors, masters and PhD)
	Age (AGE) and Tenure (TEN)	Coefficient of variation $(\mathrm{CV}) = {}^{\delta}/_{\mu}$ (age and tenure were separately analyzed) Director age was determined by the natural log of the years from birth & Director tenure was evaluated by the number of years from 1st appointment to boards
Mediating Variable IFRS Adoption	IFRS Adoption index	IFRS disclosure index obtained from the disclosure checklist.
Dependent Variable Accounting quality	Earnings management (Discretionary Accruals)	To determine discretionary accruals, the study used Modified Jones (1991) model, as employed by Dechow et al. (2006): $\mathrm{DAC}_t = \frac{\mathrm{TACC}_t}{A_{t-1}} - \mathrm{NDAC}_t$ (DAC – Discretionary Accruals: NDAC – Non-discretionary Accruals & TACC – Total Accruals)
	Qualitative Characteristics	Use of data capture form to collect data on qualities of: Understandability, Relevance, Faithful representation, Understandability, Timeliness
	Value relevance	Olsson Model $P_{it} = \beta_0 + \beta_1 \mathrm{BVPS} + \beta_2 \mathrm{EPS} + \varepsilon$ P – Share six months following the end of the fiscal year: BVPS – Book value per share: EPS – Earnings per share

Descriptive Statistics

Blau index was used to determine diversity of directors in quoted companies in EAC, diversity aspects of: gender; tenure; educational background; functional background; age; educational background and geographical attributes of the directors. The most diverse aspects of the board were tenure of directors (index of 0.72), functional diversity aspect (index of 0.68) and the level of education (index of 0.57), the board attributes of: age; gender and geographical diversities had indices below 0.5 confirming low diversity levels. In relation to skewness: tenure; education; gender; geographical and functional diversities were skewed negatively (-0.391; -1.170; -0.743; -0.187 and -0.731 respectively), indicating that the mean value was less than the median values. Age; education and functional diversities reported positive kurtosis value of (2.2; 1.09; and 0.32 respectively) indicative of a distribution that is highly peaked more than a normal distribution consequently, standardization was performed before test of hypothesis. Table 2 below summarizes the above findings.

Table 2: Descriptive Statistics for Board Diversity of Listed Firms in Securities Exchanges in East African Community

	N	Min	Max	Mean	Std. Deviation	CV	Variance	Skewness		Kurtosis	
							Statistic	Statistic	Std. Error	Statistic	Std. Error
FUNC	424	0.38	0.84	0.68	0.09	0.13	0.01	-0.73	0.12	0.32	0.24
GEOG	424	0.00	0.50	0.25	0.20	0.79	0.04	-0.19	0.12	-1.58	0.24
GEN	424	0.00	0.50	0.30	0.14	0.45	0.02	-0.74	0.12	-0.12	0.24
EDUC	424	0.00	0.80	0.57	0.15	0.27	0.02	-1.17	0.12	1.09	0.24
AGE	424	0.00	0.44	0.18	0.06	0.33	0.00	0.71	0.12	2.20	0.24
TEN	424	0.07	1.00	0.72	0.20	0.27	0.04	-0.39	0.12	-0.72	0.24
Valid N (listwise)	424										

The intervening variable was International Financial Reporting Standards (IFRS) that was evaluated by use of an IFRS compliance index. The findings reveal that IFRS standards compliance had 78 percent as mean, attributable to high reporting requirements for companies quoted in the EAC countries. The minimum compliance score was 46% and the high score was 93%. IFRS data variance (0.006) and the standard deviation (0.07) are indicative of generally low variance levels. The study's COV reveal variability of 9% from mean, revealing low levels of variability in relation to the application of IFRS based-reporting templates. The IFRS descriptive statistics are outlined in Table 3 below.

Table 3: IFRS Descriptive Statistics

	N	Min	Max	Mean	Std. Dev	CV	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic		Statistic	Std. Error	Statistic	Std. Error
IFRS	424	0.46	0.93	0.78	0.07	9%	-0.623	0.12	0.72	0.24
Valid N (listwise)	424									

Research Findings and Discussions

The study analyzed the mediating role of adopting IFRS on the relation between diversity of boards and the quality of accounting information for listed EAC firms. Baron and Kenny (1986) mediation criteria was utilized to test for intervening impact of IFRS. Mediation exists if: First, independent variable is significantly related to dependent variable without the intervening variables. Secondly, independent variable to be associated significantly to intervening variable. Thirdly, intervening variable should be significantly related to dependent variables. Lastly, whereas controlling for the intervening impact of intervening variables on the dependent variables, the independent variable impact on dependent variables become significant when the intervening variable. Mediation was tested for the three indicators of the accounting information quality of discretionary accruals; fundamental qualitative aspects of financial information and value relevance of financial information.

Board Diversity, IFRS Adoption and Discretionary Accruals

The impact of adoption of IFRS on the relation between diversity of boards and the financial information quality as proxied by discretionary accruals was analyzed as per the Baron and Kenny (1986) mediation criteria. The results for the mediation tests are presented in the Table 4 below.

Table 4: Regression Results of Board Diversity, IFRS adoption and Discretionary Accruals

Variables	β	SE	Std β	t	Sig	R	R^2	Adj R^2	F
Model 1[a]					0.000	.183[a]	0.033	0.031	14.581
Constant	-22.774	5.55		-4.103	0.000				
BDIV	46.65	12.217	0.183	3.818	0.000				
Model 2[b]					0.000	.208[b]	0.043	0.041	19.007
Constant	0.900	0.027		33.655	0.000				
BDIV	-0.257	0.059	-0.208	-4.360	0.000				
Model 3[c]					0.581	.027[a]	0.001	-0.002	0.306
Constant	2.592	7.917		0.327	0.744				
IFRS	-5.555	10.044	-0.027	-0.553	0.581				
Model 4[d]					0.001	.183[a]	0.034	0.029	7.302
Constant	-24.915	10.664		-2.336	0.020				
IFRS	2.378	10.109	0.012	0.235	0.814				
BDIV	47.261	12.503	0.185	3.78	0.000				

a, c, d - Dependent Variable - Discretionary Accruals
b - Dependent Variable - IFRS adoption

The analysis of the 1st, 2nd and 4th models were significant (sig = 0.000, 0.000 & 0.001 respectively) while the 3rd model was insignificant (sig = 0.581), this therefore implies that the Baron and Kenny (1986) approach 3rd mediation requirement was not fulfilled. Consequently, the hypothesis that adopting IFRS does not have a significant mediating impact on the relation between a board's diversity and management of earnings for EAC listed firms' is confirmed. This is relatable to low levels of quality of regulations and low indices of adherence to the rule of law indicators for the EAC countries. The findings contradict those of Van Tendeloo and Van Stream (2005) who studied the effect of adopting IFRS on management of earnings and reports that adopting IFRS leads to lower cases of managing earnings. The results are further inconsistent to Capkum et al. (2016) findings which examined the impact of adopting IFRS on management of earnings in 29 countries and established that weak legal enforcement mechanisms and adoption of IFRS allows for flexibility in reporting providing incentives for managing earnings in firms.

Board Diversity, IFRS Adoption and Value Relevance

The impact of adopting IFRS on the relation between diversity of boards and quality of accounting information as measured by the value relevance of financial reporting was analyzed through the use of Baron and Kenny's (1986) approach to examine the intervening effect and the results are presented in Table 5 below.

Table 5: Regression Results of Board Diversity, IFRS adoption and Value Relevance

Variables	β	SE	Std β	t	Sig	R	R²	Adj R²	F
Model 1[a]					0.000	.178[a]	0.032	0.029	13.796
Constant	-6.941	2.944		-2.358	0.019				
BDIV	24.070	6.480	0.178	3.714	0.000				
Model 2[b]					0.000	.208[b]	0.043	0.041	19.007
Constant	0.900	0.027		33.655	0.000				
BDIV	-0.257	0.059	-0.208	-4.360	0.000				
Model 3[c]					0.873	0.008	0.000	-0.002	0.026
Constant	4.565	4.197		1.088	0.277				
IFRS	-0.851	5.324	-0.008	-0.160	0.873				
Model 4[d]					0.001	.0180[a]	0.033	0.028	7.081
Constant	-9.942	5.654		-1.758	0.079				
IFRS	3.333	5.360	0.030	0.622	0.534				
BDIV	24.296	6.629	0.184	3.763	0.000				

a, c, d – Dependent Variable – Value Relevance
b - Dependent Variable – IFRS adoption

The analysis of the 1st, 2nd and 4th models were significant (sig = 0.000, 0.000 & 0.001 respectively) while the 3rd model was insignificant (sig = 0.873), this therefore implies that the Baron and Kenny (1986) approach 3rd mediation requirement was not fulfilled. Consequently, the hypothesis that adopting IFRS does not have significantly mediate the relation between a board's diversity and value relevance of earnings for EAC listed firms' is confirmed. This is relatable to low levels of quality of regulations and low indices of adherence to the rule of law indicators for the EAC countries.

The results imply that adopting IFRS in East Africa do not affect financial information value relevance. The results contradict the findings of Agostino et al. (2011) which evaluated the impact of adoption of IFRS on share price for European banks, results reveal that value relevance of financial information for European banks increased in the context of mandatorily adopting IFRS. Further, the current results are inconsistent to that of Van Tendeloo and Van Stream (2005) which establish significant effect of adopting IFRS on financial reporting quality.

Board Diversity, IFRS Adoption and Qualitative Characteristics

The adoption of IFRS impact on the relation between diversity of boards and financial information quality as indicated by the fundamental qualitative aspects of financial information was examined using the Baron and Kenny (1986) approach. The findings are summarized in Table 6 below.

Table 6: Regression Results of Board Diversity, IFRS adoption and Qualitative Characteristics

Variables	β	SE	Std β	t	Sig	R	R^2	Adj R^2	F
Model 1[a]					0.039	.100[a]	0.010	0.008	4.290
Constant	0.581	0.019		30.668	0.000				
BDIV	0.086	0.042	0.100	2.071	0.039				
Model 2[b]					0.000	.208[b]	0.043	0.041	19.007
Constant	0.900	0.027		33.655	0.000				
BDIV	-0.257	0.059	-0.208	-4.360	0.000				
Model 3[c]					0.000	0.437	0.191	0.189	99.416
Constant	0.381	0.024		15.867	0.000				
IFRS	0.304	0.03	0.437	9.971	0.000				
Model 4[d]					0.000	.478[a]	0.229	0.225	62.443
Constant	0.281	0.032		8.755	0.000				
IFRS	0.333	0.03	0.478	10.927	0.000				
BDIV	0.172	0.038	0.2	4.561	0.000				

a, c, d – Dependent Variable – Qualitative Characteristics
b - Dependent Variable – IFRS adoption

From the above analysis, models 1, 2, 3 and 4 models were all significant (sig = 0.000, sig=0.000, sig=0.000, and sig = 0.000 respectively), this confirmed that all the conditions of mediation were met. Consequently, the hypothesis that adoption of IFRS does not significantly intervene the relation between diversity of boards and the qualitative attributes of accounting for firms that are listed in the EAC is not confirmed.

Conclusions, Limitations and Areas for Further Study

The study hypothesized that the adopting IFRS does not significantly mediate the association of board diversity and the quality of financial information for listed firms in East Africa. The analysis confirmed this hypothesis for discretionary accruals and value relevance while the fundamental qualitative attributes of financial information results revealed a mediating role of IFRS adoption on the association of board diversity and fundamental qualitative characteristics. It can therefore be concluded that adopting IFRS does not mediate the association of board diversity and the accounting quality (discretionary accruals and value relevance) for listed companies in East African community securities exchanges. This can be attributed to the low levels of legal enforcement in the East African countries, this founded on the fact the benefits of IFRS adoption are dependent on country specific factors in addition to firm specific determinants.

The Institutes of Certified Public Accountants and other regulators of the accountancy profession within the East African community which are responsible for issuance of accounting standards and regulating the accounting profession should closely work with the capital market regulators to develop measures geared towards reducing the current asymmetry of information between company executives and outsiders, primarily owners and potential investors. This will enhance quality of reported accounting information by public companies.

Current study analyzed companies listed in EAC exchanges to document the relationship between board diversity, adoption of IFRS, legal enforcement and reporting quality. The choice of companies listed in the East Africa means that results of the study may not be generalizable for other jurisdictions due to the low level of diversity. Further, there are many cross listed firms mainly from Kenya which limits the number of firms to be analyzed. In addition, the East African community listed firms vary in number across the countries with Burundi having no formal market yet. This further affects the generalization of the study's results.

Accounting quality in the current study was measured by indicators of reporting quality such as: value relevance; discretionary accruals and the qualitative attributes of financial information. The use of other indicators of accounting quality such as earnings response coefficient and timelines may help broaden the resulted in better results if a similar study was to be replicated by future scholars analyzing the influence of diversity of boards on the quality of financial information.

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